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MEMORANDUM

DATE: January 4, 2007
TO: Brad Kranz
FROM: Mike Cadwalader
RE: Long-Term TCC Proposal

REDUCING THE NUMBER OF TCC AUCTION ROUNDS

At the last Market Structures Working Group (MSWG) meeting, the ISO asked market participants for suggestions regarding how it should reduce the 32 TCC auction rounds that it conducts each year¹ to 24 rounds on an interim basis, to permit it to reallocate resources to perform the manual processing that will be required under its long-term TCC proposal.

The TOs have authorized me to present this proposal to the ISO as to how the ISO should accomplish this reduction in auction rounds. It is conditioned on the following assumptions:

- The ISO will continue to make one-year TCCs available in the fall auction as well as in the spring auction. This would be consistent with the ISO's current practice, and would conform to the preferences that a number of market participants have expressed in MSWG meetings.
- This reduction in the number of auction rounds would be temporary, intended to last until the ISO has completed the automation of the TCC auctions, which would reduce the workload associated with conducting each of these auction rounds. The ISO will include in its compliance filing language that limits the time for which this reduction in the number of rounds is effective to a reasonable period, and that places upon the ISO the burden of proof for the need for an extension of that period of effectiveness.

My illustration of the proposal is based on assumptions on how the ISO would allocate capacity between the various sub-auctions it conducts. Recently, the ISO has been using the following rule:

¹ Twelve of these rounds are included in the monthly reconfiguration auctions the ISO conducts each month. In addition, the ISO conducts 10 rounds in both the spring and fall TCC auctions, each of which currently consists of four Stage 1 one-year TCC auction rounds, four Stage 1 six-month TCC auction rounds, one Stage 2 one-year TCC auction round, and one Stage 2 six-month TCC auction round.

- Half of the available transfer capacity is used to support six-month TCCs sold in each auction, with the other half used to support the sale of one-year TCCs.
- Of the transfer capacity that is used to support the sale of one-year TCCs, half is allocated to the spring auction, and the other half is allocated to the fall auction.

If the ISO continues to follow that approach, then under this proposal, the 24 auction rounds would be allocated as follows:

- 12 rounds would continue to be allocated to monthly reconfiguration auctions.
- Six rounds—i.e., half of the 12 rounds that remain available after subtracting the rounds needed to perform the monthly reconfiguration auctions—would be allocated to one-year TCC sub-auctions, since half of the available transfer capacity has been allocated to those sub-auctions.
- Similarly, six rounds would be allocated to the six-month TCC sub-auctions.

The rationale for this proposal is that, since half of the available transfer capability is used to support one-year TCCs while the other half is used to support six-month TCCs, half of the 12 rounds available should be allocated to one-year TCCs and half should be allocated among six-month TCCs, since price discovery will be equally important for one-year and for six-month TCCs.

Similarly, since the available transfer capability allocated to one-year TCCs is split evenly between the spring and the fall, the six rounds that have been allocated to one-year sub-auctions should also be divided equally between the spring and the fall, so the spring and fall one-year sub-auctions each should consist of three Stage 1 rounds.²

However, different factors come into play when allocating the rounds allocated to six-month sub-auctions between the spring and the fall, because the six-month TCCs sold in the spring are likely to be considerably more valuable than those sold in the fall, making price discovery more important during the spring than in the fall. Therefore, the spring six-month sub-auction should consist of four Stage 1 rounds, with only two Stage 1 rounds allocated to the fall six-month sub-auction.³

To summarize, the spring and fall TCC auctions would be conducted as follows:

- The spring TCC auction would consist of seven rounds, including:
 - Three Stage 1 one-year TCC auction rounds.

² All Stage 2 rounds have been eliminated.

³ Again, all Stage 2 rounds have been eliminated.

- Four Stage 1 six-month TCC auction rounds.
- The fall TCC auction would consist of five rounds, including:
 - Three Stage 1 one-year TCC auction rounds.
 - Two Stage 1 six-month TCC auction rounds.

If the ISO were to change the proportion of available transfer capability that is allocated to support one-year TCCs as compared to six-month TCCs, or if it were to change the proportion of available transfer capability that is allocated to support one-year TCCs sold in the fall auction as compared to the proportion allocated to support one-year TCCs sold in the spring auction, changes to this proposal would be necessary to ensure that the number of rounds allocated to each sub-auction reflects the amount of available transfer capacity allocated to each sub-auction, while also considering seasonal differences in the prices of six-month TCCs.

PROCEDURES FOR IDENTIFYING EXPANSION TCCs

In addition, I have been asked to convey the TOs' view that the ISO's compliance filing should contain a timetable describing how it plans to move forward in developing detailed procedures for awarding expansion TCCs to developers of transmission expansions. In that regard, please recall that on Sept. 18, 2006, I sent you a strawman proposal for awarding TCCs to the developers of transmission expansions, which should be considered when developing those procedures (although, as I noted in that memo, the proposal contained therein does not necessarily represent the position of any of the TOs).