

THE AWARD OF EXTERNAL AND LOCAL UCAP DELIVERABILITY RIGHTS

Proposal to the May 22nd, 2002 New York Business Issues Committee

Background

In addition to serving energy needs, one of the features of transmission expansion is that it allows more capacity located at a distance from the load to be delivered to that load. This incremental ability not only affects the price and quantity of energy that can reach that load, but also contributes to the reliability of meeting that load. Control area and locational ICAP requirements reflect reliability and operational characteristics within a constrained system or local area. Market rules for transmission expansion should include the award of the deliverability benefits from the control area and local transmission improvements to the transmission expander.

Requested Action by the BIC to Award External and Local UCAP Deliverability Rights

MOTION: The ICAP Working Group requests that the BIC approve the conceptual proposal to award external and local UCAP deliverability rights as described below and instruct the ICAP Working Group to prepare ICAP manual changes and tariff changes, as necessary, to implement the proposal presented below for the June 26, 2002 BIC meeting for its consideration and approval.

Proposal Basics

In accordance with the proposal outlined below for determining the amount of UDRs to be awarded, UCAP Deliverability Rights (“UDRs”) would be awarded to the owner or its assignee of incremental transmission facilities.

UDRs would have the following attributes:

1. External UDRs would be defined over interfaces between the NYCA and adjoining control areas, and Local UDRs would be defined over the boundary between each Locality in the NYCA (i.e., an area of the NYCA in which a minimum amount of ICAP must be maintained) and the remainder of the NYCA (a.k.a. “Rest of State”, or ROS).
2. Limits on the total amount of external UCAP, whether from another control area or UCAP subregion within that control area, that could count towards NYISO ICAP requirements when combined with the UDRs would be determined by the NYISO and the NYSRC, as appropriate;
3. The holder of an External UDR over an interface between the NYCA and an adjoining control area would be permitted to count qualified capacity that it has under contract¹

¹ Qualified capacity that is under contract means that the capacity is approved by the NYISO to meet NY ICAP requirements and that the entity that is combining the UDR with such qualified capacity owns that capacity or has procured the ICAP rights of that capacity either through a bilateral contract or via an ICAP auction.

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located in that control area towards NYISO ICAP requirements as though that capacity were located within the NYCA.

4. The holder of a Local UDR over a boundary between a Locality in the NYCA and ROS would be permitted to count qualified capacity that it has under contract located in ROS towards NYISO ICAP requirements in that Locality as though that capacity were located in that Locality.
5. The holder of an External UDR over an interface between the NYCA and an adjoining control area, as well as a Local UDR over a boundary between a Locality in the NYCA and ROS, would be permitted to count qualified capacity that it has under contract located in that control area towards NYISO ICAP requirements in that Locality as though that capacity were located in that Locality.
6. UDRs could be traded, allowing Load Serving Entities and Generators to purchase UDRs in order to combine with qualified capacity under contract to meet various UCAP requirements;
7. An incremental transmission project would be awarded UDRs throughout its project life;
8. The amount of such a UDR award and may be adjusted periodically by the NYISO as appropriate;
9. The interfaces or boundaries over which those UDRs are defined may be adjusted periodically by the NYISO as appropriate to reflect the fact that the set of Localities may change over time;
10. The award of UDRs would be adjusted to reflect the availability of the associated project;
11. UDRs would not count as UCAP; they would have to be combined with qualified UCAP under contract to meet NYCA and locational UCAP obligations;
12. UDRs only pertain to ICAP and do not entitle the holder of UDRs any rights regarding energy or energy scheduling;
13. A mechanism would be developed to enable UDR holders to bid their UDRs into the ICAP auctions;
14. A transmission expansion project could result in multiple types of UDRs being awarded due to contributions to deliverability to multiple Localities, but any such award of multiple types of UDRs would be done to avoid double counting;
15. The reliability benefits of a new transmission project would not be double counted, that is the increase in transfer capability resulting from an expansion would not be considered when determining the subregion or regional installed reserve requirements if UDRs were awarded for that expansion; and
16. UDRs would be subject to the NYISO market monitoring and power rules and processes.

Determination of the Amount of UDRs to Be Awarded

New External and Local UDRs would be available for the life of the facility, but the amounts of such awards would be reviewed periodically and adjusted if necessary. Where multiple expansions occur, the contribution from each will be calculated sequentially in order of installation.

It is possible that an external transmission expansion could make reliability contributions to both the New York Control Area and to one or more local areas. In these situations, different Local UDRs will be awarded and divided up for use by specific UCAP sub-regions or the NYCA as a whole to avoid double counting.

The NYISO, in conjunction with the NYSRC, during its Reserves studying process would determine the award of UDRs including the amount, the types, and which generators the UDRs could be combined with to meet local and regional installed reserve requirements.² The amount of UDRs that would be awarded would be based upon the transmission expansions impact on the ability to rely less upon capacity resources within the Locality or control area requirement to maintain reliability compared to the requirement before the transmission improvement was implemented. The NYISO would provide market participants with information regarding how the awards were determined, that the awards are based on the reliability benefits of the project, and additional information as necessary.

An Example

With the construction of a new line into Long Island from another area, the Long Island locational UCAP requirement would not change. Instead, the entitlement holder of the new transmission – it may be the developer, it may be purchasers of capacity on the new line, or a combination – would be awarded LI-Local UDRs, which would be reviewed by the NYISO on a periodic basis and adjusted, if necessary.

The holder of UDRs could do several things. It could purchase UCAP in upstate New York or New England and combine it with the equivalent amount of UDRs in order to meet its Long Island locational UCAP obligations. It could also sell its UDRs to a load serving entity on Long Island or to generators or marketers.

Tariff and Manual Changes

Based on the discussion pertaining to this document, Tariff changes, if any, and UCAP Manual changes will be drafted by the NY ICAP Working Group and presented to the BIC at its June 26, 2002 meeting.

² The ISO will not assume the line to be available for emergency services during the calculation of the relevant locational requirements.