

Transmission Import Rights for External Capacity

ICAP Working Group Meeting
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Principles

- ✓ Continue to be subject to import limits
- ✓ Fair and unbiased
- ✓ External capacity associated with import rights used to offset New York LSE's requirements
- ✓ Market mechanisms to prevent manipulation of capacity prices
- ✓ Simple to administer
 - *Before each capability period*
 - *One-month blocks*
 - *Revenues, if any, will reduce Rate Schedule 1 charges*

Proposals

- ✓ **Three Proposals under Consideration**
 - *Allocation: First Come/First Served*
 - *Allocation: Pro-rata*
 - *Simple Auction*

Allocation: First Come/First Served

✓ Unchanged Aspects:

- *First come/first served allocations twice per year on current schedule, same request form*
- *Can request import rights monthly for remaining months in capability period*
- *Can withdraw requests without obligation when notified that total requests exceed an external control area limit*
- *Can bid and offer external capacity into Strip and Monthly Auctions*

Allocation: First Come/First Served (cont'd)

✓ New Aspects:

- *Open request window one year in advance of capability year*
- *Accept reservations until control area location or NYCA fully subscribed or designated closing date*

Allocation: First Come/First Served (cont'd)

✓ Benefits

- *Requires no change in processes*
- *Allows Market Participants to negotiate contracts further in advance*

Allocation: Pro-rata

✓ Unchanged Aspects:

- *First come/first served allocations twice per year on current schedule, same request form*
- *Can request import rights monthly for remaining months in capability period*
- *Can withdraw requests without obligation when notified that total requests exceed an external control area limit*

Allocation: Pro-rata (cont'd)

✓ New Aspects:

- *Can request additional MWs up to the control area limit during two-day period, when notified that requests exceed NYCA or external control area limit*
- *After two-day period, awarded requests become obligations to supply ICAP with valid control-area locational ICAP resources*
 - Bilaterals
 - Auction offers at zero dollars

Allocation: Pro-rata (cont'd)

- *Two-stage process for allocating import rights when requested MWs exceed available supply*
 - First stage: If total requested MWs at a control area location exceed control area limit, then pro-rated quantity for each Market Participant equals the ratio of the limit divided by the total requested MWs, times the MWs requested by that Market Participant
 - First stage: If total requested MWs at a control area location does not exceed the control area limit, then all requests are awarded
 - Second Stage: If total requested MWs exceeds NYCA limit, then pro-rated quantity of each Market Participant request equals the ratio of the limit divided by the total pro-rated MWs from the first stage, times the pro-rated MWs requested by that Market Participant

Allocation: Pro-rata (cont'd)

- *Different limits on available import rights may occur at different times due to requests becoming binding obligations*
 - Obligations are fixed awards, and subsequent awards are then subject to those prior awards
 - If import rights are not awarded, constraints still vary with requests
- *Import rights can be transferred, if the NYISO verifies receiver has valid resources to fulfill the obligation without exceeding any limits*

Allocation: Pro-rata (cont'd)

✓ Benefits:

- *Market Participants not required to lock in obligations until demand exceeds supply*
- *Large requests pro-rated to reflect import rights capability from each control area location, which reduces potential gaming*
- *Can opt for obligation before control area location requests exceed capacity (award may be equal or closer to request amount)*
- *Permits import rights allocated from one control area location to be transferred to another*

Proposed Design - Auction

✓ Unchanged Aspects:

- *Twice per year on the same schedule*
- *Can bid and offer external capacity into Strip and Monthly Auctions*
- *Can offer into Spot Market Auction*

Proposed Design – Auction (cont'd)

✓ New Aspects:

- *Supporting documentation required before Strip Auction and Monthly Auction to prove external resource/capacity is valid as a capacity resource for the NYISO*
- *Offers are limited to validated capacity at the capacity limit of each control area location*
- *Awarded import rights can be used for bilaterals or can be offered into Strip, Monthly or Spot Market Auctions*
- *Import rights holder must notify the NYISO before the Spot Market Auction, if import rights are already used for bilaterals or already sold into Strip or Monthly Auctions*

Proposed Design – Auction (cont'd)

- *Notice will be posted of control area locational and NYCA remaining available capacity*
- *Import rights not used to satisfy some ICAP requirement prior to the Spot Market Auction must be offered into Spot Market Auction*
- *Can offer their import rights at any price – their Perceived Opportunity Cost*
- *Capacity offered higher than the Spot Market Auction locational Market Clearing Price is forfeited*
 - *Forfeited import rights are awarded at the Spot Market Auction locational Market Clearing Price*
- *Offers below locational Market Clearing Price fully awarded*

Proposed Design – Auction (cont'd)

✓ Benefits:

- *Supporting documentation assures auction results are final*
- *Auction assures awards to those who value import rights most*
- *Requiring import rights be used or offered into the Spot Market Auction facilitates convergence of ICAP markets*
- *Forfeiture in the Spot Market Auction prevents hoarding*

Schedule

ICAP Working Group final review	May 8
Business Issues Committee approval	May 17
Management Committee approval of tariff language	May 31
Board of Directors requested to approve tariff language	June 20
With Board approval, submittal of tariff language to FERC	June 21
FERC approval of tariff language, expected no earlier than	August 20
Implementation of new process DRAFT - For Review Purposes Only	Late August 2006