

THE AWARD OF EXTERNAL AND LOCAL UCAP DELIVERABILITY RIGHTS

(REVISED BASED ON APRIL 29, 2002 NY ICAP WG MEETING AND SUBSEQUENT COMMENTS)

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. Transmission expansion can make a significant contribution to relaxing local reliability requirements if market rules are structured to send the correct price signals to market participants that expand the system. 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

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

UCAP Deliverability Rights (“UDRs”) would be awarded to the entitlement holder (what’s that?) of new 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. The holder of an External UDR over an interface between the NYCA and an adjoining control area would be permitted to count capacity located in that control area towards NYISO ICAP requirements as though that capacity were located within the NYCA.
3. The holder of a Local UDR over a boundary between a Locality in the NYCA and ROS would be permitted to count capacity located in ROS towards NYISO ICAP requirements in that Locality as though that capacity were located in that Locality.

4. 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 capacity located in that control area towards NYISO ICAP requirements in that Locality as though that capacity were located in that Locality.
5. 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;
6. A new transmission project would be awarded UDRs throughout its project life, although the amount of such an award and 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;
7. The award of UDRs would be subject to an availability requirement for the associated project;
8. UDRs would not count as UCAP; they would have to be combined with UCAP to meet NYCA and locational UCAP obligations;
9. 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;
10. 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
11. UDRs would be tradeable rights subject to anti-hoarding provisions, which will require the holder of a UDR to surrender those rights before the month-ahead ICAP auction, thereby permitting those rights to be used to permit additional imports of ICAP into the NYCA or into a Locality, if those rights have not been used before that auction. In such cases, the UDR holder would receive payment equal to the relevant locational price differences determined in that auction.

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 calculated periodically. 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, 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. 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 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 300 MW of LI-Local UDRs, which would be determined by the NYISO on a periodic basis.

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.

Five business days prior to the monthly UCAP auction, if holders of the UDRs had not sold its UDRs for that month, the UDRs would be sold in the monthly auction and any revenue associated with such sales would be credited to the UDR holder. This could be achieved, for example, if holders of the UDRs that had not sold its UDRs for that month, those UDRs would be released as additional transfer capability in the monthly ICAP auction and the difference between the ICAP clearing prices across the path of the UDR times the amount of UDR released would be credited to the UDR holder.

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.