

THE AWARD OF EXTERNAL AND LOCAL UCAP DELIVERABILITY RIGHTS

Revised Proposal to the ~~May 22nd~~ June 5th, 2002 New York ~~Business Issues~~ Committee ICAP Working Group

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.

Issues Stakeholders have Raised with the Proposal

This proposal has been revised to address many of the issues raised by the New York stakeholders. These issues include the following:

- a. It is moving too fast, i.e., there has not been enough discussion;
- b. Could UDRs be auctioned in the ICAP auctions and if so, how?
- c. How would UDRs affect scheduling over the Cross Sound Cable and how would scheduling of the Cross Sound Cable work in general?
- d. Should UDRs be granted for existing transmission and if so, how?

Staging the Proposal

In order to address the concern that this proposal is moving too fast but to account for the need that something must be done in time for the commercial operation of the Cross Sound Cable, this revised proposal consists of three stages.

Stage 1: Determine and assign UCAP Deliverability Rights (“UDRs”) to the Cross Sound Cable in an amount to be determined by the NYISO until a comprehensive UDR proposal is adopted. Other incremental transmission projects would also be eligible for UDRs during this period. In addition, if feasible, the ability of UDR holders to bid their UDRs into the ICAP auctions would be created.

Stage 2: Further develop and implement the UDR proposal for incremental transmission projects, including the development of methodologies to determine the amount of UDRs to be allocated to incremental AC transmission projects (assuming the development of such methodologies could wait until Stage 2).

Stage 3: Determine if it is desirable to allocate UDRs to existing transmission owners and, if so,

determine the associated allocation.

The NY BIC and as appropriate the NY Management Committee would approve each stage of the proposal. Only Stage 1 would be requested for BIC and MC approval (if required) at the July BIC meeting and, if necessary, the subsequent MC meeting.

~~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 for Stages 1 and 2-Basies~~

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, ~~whether a merchant or traditional transmission owner.~~

UDRs would have the following attributes (~~applicable in both Stages 1 and 2 unless noted otherwise~~):

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 subregion¹ within that control area, that could count towards NYISO ICAP requirements when combined with the UDRs, ~~if applicable~~, would be determined by the NYISO and the NYSRC, as appropriate. ~~The NYISO needs to inform the participants in any anticipated and actual changes in these requirements.;~~
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 contract² 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

¹ UCAP subregions refer to the division of the New York State Control area into different subregions for UCAP purposes. Under existing rules the subregions are Rest of State, New York City, and Long Island.

² 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.

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;

A means of determining the initial availability of the incremental transmission project needs to be developed. In addition, the appropriate data needed to calculate the transmission project's on-going availability must be identified and collected and the associated availability calculation needs to be specified. The objective would be to make the data collection and calculation as compatible as possible with what is currently done with respect to generation units.

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;

Owners of UDRs and associated capacity would be treated identically as any other UCAP holder. In the case of UDR-UCAP being imported from another control area, the importer would have to make the necessary arrangements in compliance with all NYISO rules including bidding the UCAP associated with the UDRs into the New York markets to ensure that the UCAP associated with the UDRs is deliverable. If it failed to do so, then it would incur the same penalties for non-deliverability as any other UCAP supplier would in that situation. To help ensure that such an owner would not be penalized for non-delivery, it could acquire the associated energy deliverability rights so that its transaction is deliverable.

(There are other important scheduling and associated issues with the Cross Sound Cable that need to be discussed among stakeholders. These other issues, as raised by participants to date, are not directly related to this UDR proposal and therefore should be addressed separately from this proposal. It is important to note that all scheduling done over the Cross Sound Cable would require both the NYISO and the ISO-NE to coordinate and approve of the schedule and would comply with all applicable FERC and reliability requirements.)

13. A mechanism would be developed to enable UDR holders to bid their UDRs into the ICAP auctions.

As a preliminary matter, entities that combine UDRs with UCAP could bid the combined UDR-UCAP asset into the UCAP auctions. The auction would treat the combined UDR-UCAP asset as if that asset were electrically located at the deliver point of the UDR.

Additional modifications to the UCAP auction, if feasible, would enable stand-alone UDRs to bid at a price into the UCAP auctions. The auction mechanism would determine whether such bid UDRs should be combined with any of the bid in UCAP to satisfy UCAP requirements at least cost, and if so, the combination of UCAP and UDRs. UDR holders would be paid the difference in the market clearing prices in UCAP established in the auction between the two UCAP zones that the UDR spans.

Any changes to the existing ICAP auction software would be appropriately scheduled to account for other priorities and software changes.

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 an ~~new~~ incremental transmission project ~~whether AC or DC~~ 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.³ [The determination of the award of UDRs may depend on the type of transmission facility, e.g., AC or DC. For AC lines, the methodology would appropriately account for freeridership, if necessary, and the fact that incremental transfer capability of AC lines may not be at rated line capacity.](#) 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. [If and when UDRs can be bid into the ICAP auctions, the UDR holder could also avail itself of this mechanism to sell its UDRs.](#)

Tariff and Manual Changes

[Stage 1:](#)

~~Based on the discussion pertaining to this document,~~ The NYISO is determining if any Tariff changes are necessary to implement Stage 1 of this proposal. ~~if any, and~~ Associated UCAP Manual changes will be drafted by the NY ICAP Working Group and presented to the BIC at its ~~June 26~~ July, 2002 meeting.

[Stages 2 and 3:](#)

³ The ISO will not assume the line to be available for emergency services during the calculation of the relevant locational requirements.

At the appropriate time and when sufficient agreement exists, Tariff and changes, if necessary, UCAP Manual changes would be drafted and submitted for the approval of the appropriate committees.