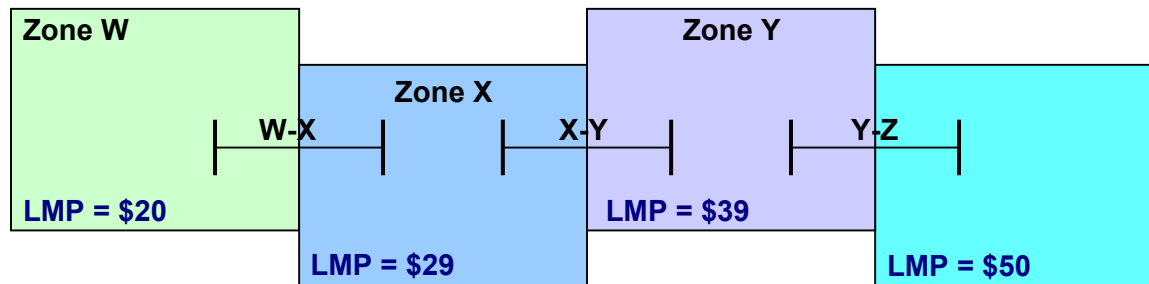


Avoiding Over-Subscription and Unnecessary Shortfall

How do we help insure that a realistic set of transmission rights is sold that:

- a) Can be reasonably expected to be physically supported thereby avoiding unnecessary shortfall
- b) Avoids unnecessary surplus
- c) Assigns costs fairly thereby sending correct price signals
- d) Treats grandfathered rights the same as other rights

Illustrative Example:



(1) TO	(2) Interface	(3) Interface's Physical Capacity (MW)	(4) Interface's Expected Availability (%)	(5) Average Expected Capacity (MW)	(6) Congestion Price Across the Interface (\$/MWh)	(7) Expected Annual Shortfall (\$millions)	(8) Grand-fathered Capacity (MW)	(9) Capability Surplus (Shortfall) Available for TCC Auction (MW)
A	W-X	2,000	95%	1,900	\$ 9	\$ 7.9	2,000	(100)
B	X-Y	2,000	95%	1,900	\$10	\$ 8.8	1,500	400
C	Y-Z	2,000	95%	1,900	\$11	\$ 9.6	1,000	900
Total Shortfall						\$ 26.3		

Assumptions and Calculations

Col. 1 = Transmission Owner which has/will receive revenue from sale of transmission rights on the Interface in Col. 2, and which is responsible for outages/derates on that interface.

Col. 3 = Full capability of interface ignoring loss of availability caused by outages and derates.

Col. 4 = Average availability of interface after taking expected outages and derates into account based upon historical performance (expected to reoccur) and specific planned outages known in advance -- it does not include unanticipated non-reoccurring "one-time" outages.

Col. 5 = (Col. 3) x (Col. 4).

Col. 6 = (LMP on Downstream Side of Interface) – (LMP on Upstream Side of Interface).

Col. 7 = [(Col. 3) – (Col. 5)] x (Col. 6) x 8,760 hours / (1,000,000).

Col. 8 are different levels of Grandfathered Transmission Rights assumed.

Col. 9 = (Col. 5) – (Col. 8) -- A positive value indicates capability available to sell in the TCC Auction; a negative value indicates capability that has been "oversold".

Comments on Options to Reduce Shortfall

(Listed on Con Ed 5/1/2003 slide presentation, pages 10 and 11)

Option 1: Withhold TCCs from the 6 Month Auction – Release them as they are deemed available for the monthly reconfiguration auctions

- ◆ Needs to be conducted on an interface by interface basis – can not use surpluses generated from one interface (taking revenue from one set of TOs) to offset shortfalls generated by another interface (giving revenue to another set of TOs)
- ◆ Needs to apply to grandfathered rights as well (i.e., grandfathered rights need to be derated if physical capability is not available)
- ◆ Withheld amounts need to be rational, reasonable and defensible
- ◆ Problem will still exist in that the one-month ahead forecast will have inaccuracies
- ◆ Makes more sense once shortfall costs are reallocated to the TO responsible (e.g., using SCRP or LECG “Make Whole Approach” method)

Option 2: Eliminate Full Funding

- ◆ Reduces TCC revenue for TOs, but will also reduce risk to TOs thereby potentially resulting in a net decrease to TSC charges
- ◆ Not really a way to reduce shortfall – but buyers of transmission rights will be getting closer to what they actually paid for (grandfathered rights will be treated the same)
- ◆ Over- or under-subscription of interfaces will be reflected in TCC market prices
- ◆ May provide some incentive for TOs to reduce shortfall since a TCC with a higher expected availability will theoretically be worth more in the TCC Auction (this may be strengthened by development of an additional shortfall reduction incentive)
- ◆ Needs to be done on an interface-by-interface basis so that shortfall generated by an interface will be charged to purchases of transmission rights across that interface

Option 3: Charge Shortfalls to Schedule 1 Uplift

- ◆ Certainly not a way to reduce shortfall!
- ◆ Doesn't address over-subscription of interfaces
- ◆ This is simply a cost-shift from TOs and purchasers of transmission rights to LSEs on inequitable inefficient basis without regard to those that benefit
- ◆ May even increase shortfall – eliminates incentive for TOs to reduce shortfall; probably provides a perverse incentive for TOs to increase shortfall