

Operating Reserves Cost Allocation

**Review of Differences Between
Tariff and Implementation**

Proposed Resolution

**Market Structures Working Group
10/27/06**

Background

- ◆ NYISO staff has been engaged in a formal Tariff review process for its Settlement System Replacement Project
- ◆ NYISO identified a conflict between Tariff language and BAS software on September 21st.
- ◆ [New] The Tariff conflict was introduced by the SMD tariff change effective 2/05. Prior to 2/05, the BAS software accurately implemented the Tariff.

What's The Issue

- ◆ The Tariff (OATT Rate Schedule 5) describes the allocation of Operating Reserves (“Ops Res”) costs as an allocation of the daily cost of Ops Res to Loads and Exports based on the ratio share of their hourly withdrawals to the NYISO’s daily total of Load and Export withdrawals:
 - *“Each Transmission Customer (“TC”) engaged in an Export and each LSE shall pay an hourly charge equal to the product of (A) cost to the ISO of providing all Operating Reserves a given Dispatch Day; and (B) the ratio of (i) the LSE’s Load or the TC’s scheduled export to (ii) the sum of all Load in the NYCA and all scheduled Exports during that Dispatch Day.”*

Specifics

Current BAS Code (MWhrs = NYCA Load + Exports)

Reserve Costs $_{TC, h} =$

$MWhrs_{TC, h} / MWhrs_{NYISO, h} * Reserve\ Costs_{NYISO, h}$

Current Tariff (MWhrs = NYCA Load + Exports)

Reserve Costs $_{TC, h} =$

$MWhrs_{TC, h} / MWhrs_{NYISO, d} * Reserve\ Costs_{NYISO, d}$

Proposed Resolution

- ◆ Amend Schedule 5 of the OATT to align Tariff with the Current BAS Code as follows,

2.0 Operating Reserves Charges

Each Transmission Customer engaging in an Export and each LSE shall pay an hourly charge equal to the product of (A) cost to the ISO of providing all Operating Reserves ~~a given Dispatch Day for a given hour~~; and (B) the ratio of (i) the LSE's hourly Load or the Transmission Customer's hourly scheduled Export to (ii) the sum of all Load in the NYCA and all scheduled Exports ~~during that Dispatch Day for a given hour~~. The cost to the ISO of providing Operating Reserves in each hour will equal the total amount that the ISO pays to procure Operating Reserves on behalf of the market in the Day-Ahead Market and the Real-Time Market, less payments collected from entities that are scheduled to provide less Operating Reserves in the Real-Time Market than in the Day-Ahead Market during that hour, under Rate Schedule 4 of the ISO Services Tariff. The ISO shall aggregate the hourly charges to produce a total charge for a given Dispatch Day.

Justification : Equity

- ◆ Calculations being performed by the current BAS code match the Reserve Costs incurred by the NYISO for an hour to the Loads and Exports being served in that hour.
- ◆ Whenever practicable, costs associated with providing service should be matched to parties benefiting from service
- ◆ Loads and Exports not served during a particular hour incur none of the Reserve costs associated with that hour.

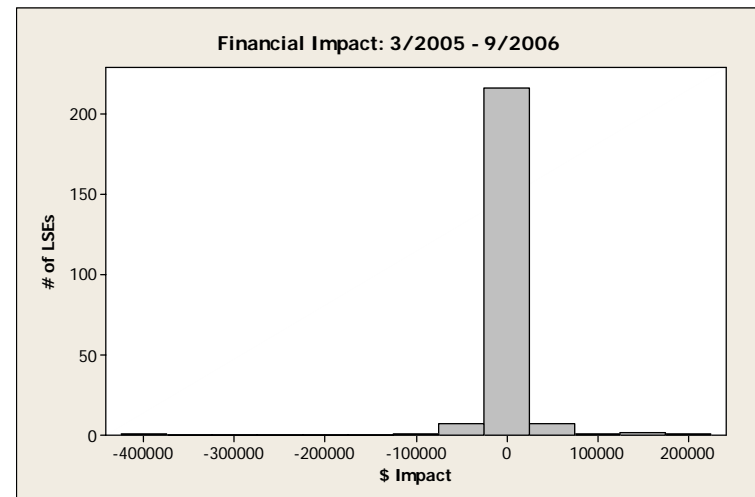
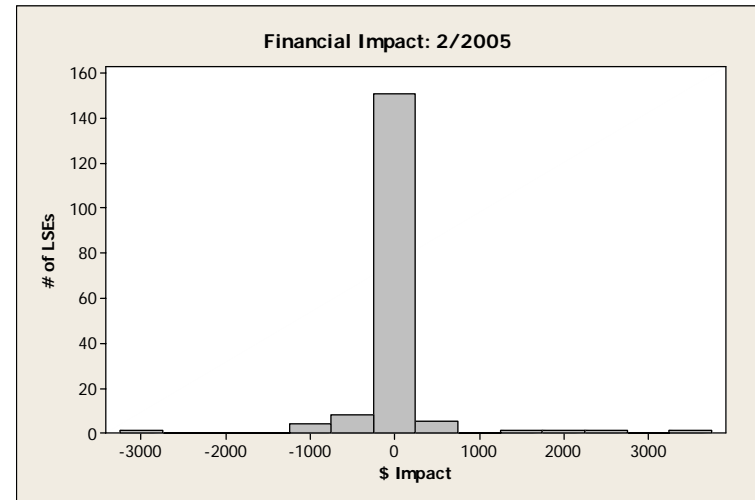
Justification: Consistency

- ◆ In other cases, OATT provides for an hourly MWhr share mechanism to be employed to allocate costs incurred hourly.
- ◆ Example 1: Regulation Service
 - *OATT Schedule 3 requires an hourly charge for Load (and a daily charge for third party station service):*
 - “The charge shall be calculated as the Regulation and Frequency Response Rate, determined as an hourly or a daily rate as appropriate, multiplied by the LSE’s or Transmission Customer’s Load for the hour or by the Transmission Customers or LSEs withdrawals to provide Station Power as a third party provider for the day.”
- ◆ Example 2: Residuals (DA Energy and Loss, RT Energy, Loss and Congestion, Day-Ahead Margin Assurance Payment)
 - *OATT Schedule 1 directs hourly calculation:*
 - “The ISO shall calculate, and Transmission Customers, other than Transmission Customers taking service under Part IV of the OATT to supply Station Power as third party providers, shall pay, an hourly charge equal to the product of (A) the residual adjustment costs listed in Section 4.A of this Rate Schedule for each hour and (B) the ratio of (i) the Transmission Customer’s withdrawal billing units for that hour as described in Section 2.A of this Rate Schedule to (ii) the sum of all ISO Transmission Customers’ withdrawal billing units for that hour as described in Section 2A of this Rate Schedule.

Financial Impacts

- ◆ 2/2005
 - \$13K
 - 111 LSEs better off under Code
 - 62 LSEs better under Tariff
 - 168 LSES +/- < \$1,000
 - All LSES +/- < \$5,000

- ◆ 3/2005 – 9/2006
 - \$1.1M
 - 122 LSEs better off under Code
 - 114 LSEs better off under Tariff
 - 106 LSEs +/- < \$1,000
 - 200 LSEs +/- < \$10,000



Proposed Next Steps

- ◆ With MP consensus agreement with NYISO's recommended approach to propose a Tariff Change to mirror code, the NYISO will:
- ◆ Seek Immediate Tariff Waiver from FERC
 - *[NEW] For period from 2/05 through governance process period*
 - *Continue Close-Out Settlement Process*
- ◆ Tariff Language Amendment
 - *NYISO to work through standard governance process to draft a Section 205 filing. Would like a special BIC to get this to the 10/25/06 MC*
 - *Proposed Tariff amendment language to be filed in December 2006; potentially an expedited filing*