Description of the Procedure for Forecasting the Impact of a Project on TCC Revenues Allocated to Load in Each Zone

NYISO Electric System Planning Working Group

February 22, 2010

Presented by Michael Cadwalader

Cost Savings Calculation

Section 15 of Attachment Y of the OATT describes the procedure the ISO will use to forecast cost savings that would result from regulated economic transmission projects proposed in response to congestion identified in the CARIS.

- **Cost savings would be forecasted for load in each zone, for ten years following the proposed commercial operation date of the project.**
- **These cost savings would reflect the impact of the project on the LBMPs paid for energy by load in each zone, adjusted to account for:**
  - ***Bilateral contracts (whose price would be unaffected by the project).***
  - ***TCC revenues allocated to loads (which could fall as a result of the project).***

Tariff Language Regarding TCC Revenues

Section 15.4.b(iii) of Att. Y describes the procedure for forecasting the net impact of a project on TCC revenues allocated to load in each zone. It says:

- **"Net reductions in TCC revenues will reflect the forecasted impact of the project on TCC auction revenues and day-ahead residual congestion rents allocated to load in each zone, excluding the congestion rents that accrue to any Incremental TCCs that may be made feasible as a result of this project. This impact will include forecasts of: (1) the total impact of that project on the Transmission Service Charge offset applicable to loads in each zone (which may vary for loads in a given zone that are in different Transmission Districts); (2) the total impact of that project on the NYPA Transmission Adjustment Charge offset applicable to loads in that zone; and (3) the total impact of that project on payments made to LSEs serving load in that zone that hold Grandfathered Rights or Grandfathered TCCs, to the extent that these have not been taken into account in the calculation of item (1) above. Calculations of net reductions in TCC revenues will be detailed in a NYISO manual." (Emphasis added.)**

FERC Order

In response, FERC issued an order on October 15, 2009, stating:

- **"Although this section of the tariff further outlines the factors involved in this calculation, it leaves further details of the net reductions calculation to unspecified sections of NYISO's manuals. To clarify this provision, we direct NYISO to specifically identify the relevant provisions in its manuals and to file a compliance filing within 60 days hereof revising section 15.4.b of its tariff to incorporate those provisions into its tariff." (129 FERC ¶ 61,044 at P 54.)**

This presentation describes the proposed tariff changes that would be made in response to that order.

- **The compliance deadline for these changes was extended to April 13, 2010.**

Procedure for Forecasting Impact on TCC Revenues

Last spring, the ESPWG reviewed a procedure for forecasting the impact of transmission expansions on TCC revenues that is much more detailed than the tariff description.

This procedure was approved at the June 2009 meeting of the BIC. It described how the ISO would forecast:

- **The value of Grandfathered Rights, Grandfathered TCCs, and revenue from the TCC auction.**
- **How those TCC auction revenues would be allocated among the Transmission Owners.**
- **How those revenues would affect the TSCs for each Transmission Owner and the NTAC.**
- **How these changes in TSCs and the NTAC, and the change in the value of other TCCs that benefit load but which are not included in the calculation of the TSC or NTAC, would affect load in each zone.**

Proposed Changes to Tariff

The compliance filing would delete the last sentence of Section 15.4.b(iii), which read:

- **“Calculations of net reductions in TCC revenues will be detailed in a NYISO manual.”**

and substitute the following:

> **“These forecasts shall be performed using the procedure described in Appendix B to this Attachment Y.”**

The new Appendix B would then contain a detailed description of this procedure that is based on the language approved by BIC.

Removing Material That Should Not Be in a Tariff

While it is based on the procedure approved by BIC, the language proposed for Appendix B contains a number of changes to that procedure.

Some of that description should not appear in a tariff. Correspondingly, the proposed tariff language:

- **Deletes explanatory material.**
- **Deletes the description of how the ISO would combine the reduction in TCC revenues with the impact of the project on LBMPs to forecast the overall net impact of a project on load in each zone.**
  - ***This is already covered elsewhere in Section 15.4.b.***
- **Deletes footnotes.**
  - ***Where retained, the information in the footnotes is being moved into the main body of the Appendix.***
- **Restates the steps in terms of tasks the ISO will perform, replacing the previous "how-to" wording.**

Improving Clarity

Other changes to the language in the procedure are intended to improve clarity:

- **Adding an introduction which ties the procedure in Appendix B to Section 15.4.b(iii).**
- **Adding headers to make it clearer what different groups of steps are doing.**
- **Stating assumptions that apply to multiple calculations only once, and adding definitions in some cases.**
- **Clarifying the distinction between calculations that are performed more than once (Steps 1-6, which are performed both with the project in place and without it in place) and calculations that are only performed once.**
- **Breaking many steps into smaller pieces, to make it clearer which mathematical operations are being performed, and to which variables those operations apply.**
- **Rearranging some steps.**
- **Using defined terms where appropriate.**
- **More consistently referring to "forecasts" where appropriate.**
- **Clarifying the calculation of imputed payments to holders of Grandfathered Rights.**
- **Explicitly excluding NYPA's TSC from the calculations in Step 7.**

Subtracting Payments to Incremental TCCs Awarded for Earlier Expansions

The proposed tariff language also contains a few substantive changes, which deal with issues discovered while making the other changes. Most of these changes pertain to Incremental TCCs.

- **In Step 2, the ISO forecasts the congestion rents that would be collected on the portion of the system that is available to support TCCs purchased in the auction.**
- **It does this by:**
  - ***Forecasting all of the congestion rents to be collected on the system.***
  - ***Subtracting payments that would be made or imputed to the holders of previously defined TCCs, such as Grandfathered TCCs and Grandfathered Rights.***
- **Incremental TCCs may have been awarded previously to the developers of other projects.**
  - ***The payments forecasted to be made to the holders of those TCCs should also be subtracted.***

Therefore, a new Step 2(b) subtracts them.

Using Projected Incremental TCCs When Actual Incremental TCCs Are Not Yet Known

In the calculation that is performed with the project in place, Step 2(a) also subtracts the value of Incremental TCCs to be awarded in association with the project.

- **However, these Incremental TCCs will not actually be known at the time the ISO performs this evaluation.**
  - ***They are only determined when the project enters commercial operation.***
- **Similarly, the Incremental TCCs resulting from other, earlier projects may not yet be known when this evaluation is being performed.**

Therefore, Steps 2(a) and 2(b) now state that if these Incremental TCCs have not yet been awarded, the ISO would subtract payments associated with Incremental TCCs that the ISO projects would be awarded.

Reflecting the Impact of a Project on Incremental TCCs Awarded for Earlier Projects That Benefit Load

In Steps 7, 8 and 9, the ISO calculates the impact of a project on the TSCs, the NTAC, and payments made for any other TCCs that benefit load in a zone.

- **If the Incremental TCCs awarded in conjunction with previous expansions affect the TSC or the NTAC, that impact should be taken into account here.**
- **Similarly, if those Incremental TCCs benefit load in a zone because they were awarded for projects that were developed using the procedure described in Section 15, that impact should also be taken into account.**

Therefore, Steps 7(a)(i), 8(a)(i) and 9(b) have been added to deal with the impact of the project under evaluation on payments made to the holders of any such TCCs.

TCC Revenue Factor

One substantive change is not related to Incremental TCCs.

- **In the procedure approved by BIC, forecasted congestion rents were multiplied by 90 percent, to reflect the expectation that TCC auction revenues will be less than forecasted congestion rents.**
  - ***However, the procedure explicitly recognized that it might be necessary to change this parameter.***
  - ***This is the kind of parameter that FERC generally lets the ISO state in its manuals.***
- **Therefore, references to “90 percent” have been replaced by references to a “TCC Revenue Factor,” which will be given in ISO Procedures.**