

Revisions to Congestion Rent & Auction Revenue Shortfall Allocation Methodology (OATT, Attachment N)

Presentation to:

Market Structures Working Group

Thursday, January 13, 2005

Draft – For Discussion Only

What topics will revisions to Attachment N cover?

<u>Areas Covered by Attachment N</u>	<u>To be Revised</u>
➤ Settlements with TCC holders	No
➤ Collection of congestion rents from energy purchasers	No
➤ Allocation of congestion rent shortfalls/surpluses among Transmission Owners	Yes
➤ Allocation of TCC auction revenues among Transmission Owners	Yes

“Procedural History”

- **May 2003 – 88% MC vote in support of Attachment N revisions to amend shortfall allocation methodology**
- **October 2003 – FERC filing to amend Attachment N**
- **December 2003 / January 2004 – Revised Attachment N takes effect**
- **Spring 2004 – NYISO begins implementation of revised Attachment N; NYISO discovers TCC database flaws; NYISO delays implementation of revised Attachment N; after addressing database flaws, NYISO resumes implementation of revised Attachment N**

2003 Version of Attachment N did not Accomplish Intended Objectives

2003 Methodology Objective

- **“Make Whole Approach” to determine charges to TOs for costs attributable to facility outages (both in DAM and TCC auctions).**
- **Application of Make Whole Approach to determine revenues to TOs for facilities placed back in service (both in DAM and TCC auctions).**

Objective Accomplished?

No – Charges to TOs would not accurately reflect the impact of outages (particularly in the DAM).

No – Payments to TOs would not accurately reflect the beneficial impact of returns-to-service (in the DAM or in TCC auctions).

2003 version of Attachment N did not accomplish intended objectives (continued)

2003 Methodology Objective

- Use consistent methodology (Make Whole Approach) to attribute costs to facilities out of service and revenues to facilities returning to service.
- Improves allocation of congestion rent shortfalls/surpluses among TOs.

Result

No – The cost for an outage and the payment for the return-to service would be calculated differently, which will lead to inequities

No – Errors in the “Net Congestion Rent” formula would cause congestion rent shortfalls and surpluses to be allocated to TOs incorrectly.

2003 version of Attachment N did not accomplish intended objectives (continued)

2003 Methodology Objective

- **Improves allocation of auction revenues among TOs.**

Result

No – Errors in the “Net Auction Revenue” formula would cause auction revenues to be allocated to TOs incorrectly.

Errors in Methodology found in Attachment N Must be Corrected

Problems Related to the DAM Portion of Attachment N:

- **Formula for calculating benefit of return-to-service does not operate as intended**
 - Result: Transmission Owner charged for outage, but not properly rewarded for restoration

- **Impact of deratings and upratings from transmission maintenance not properly reflected in formulas**
 - Result: Transmission Owner charged for deratings not attributable to maintenance conditions, rewarded for upratings not attributable to maintenance conditions.
 - Result: Method for allocating derating and uprating impacts among Transmission Owners not clear.

- **Formula for measuring impact of outages and returns-to-service includes “noise”**
 - Result: Outage charges and return-to-service payments incorrectly high or low

Errors in Methodology found in Attachment N Must be Corrected (continued)

➤ Other problems:

- Sign convention in some formulas not correct;
- Method for identifying impact of ISO-caused configuration changes not clear;
- Need to address cancellation of July Reconfiguration Auction;
- Some allocation formulas do not recognize possibility that result could have incorrect sign, need to set to zero;
- Formula for determining TO pro rata share of congestion rent shortfalls/surpluses includes errors.

Errors in Methodology found in Attachment N Must be Corrected

Problems Related to TCC Auction Portion of Attachment N:

- **Formula for calculating benefit of return-to-service does not operate as intended**
 - Result: Transmission Owner charged for outage, but not properly rewarded for restoration
- **Impact of deratings and upratings from transmission maintenance not properly reflected in formulas**
 - Result: Transmission Owner charged for deratings or rewarded for upratings not related to the TO's facility maintenance
- **Formula for measuring impact of outages and returns-to-service includes "noise"**
 - Outage charges and return-to-service payments incorrectly high or low
- **Other problems similar to issues with DAM portion of Attachment N also need to be fixed.**

NYISO to propose revisions to methodology

- **NYISO has devised a solution for each identified problem:**
 - Retroactive treatment needed to correct invoices since January 2004
- **NYISO proposes also adding a provision to address issues raised when shortfall allocation formulas fail to work properly, thereby producing an invalid result::**
 - The impact of outages and returns-to-service are technically difficult to measure and are complex;
 - *NYISO and consultants have extensively reviewed and tested revised methodology;*
 - Possibility remains that future unaccounted for technical problems could have unintended consequences;
 - NYISO seeks to avoid lengthy billing delay and prolonged true-up process by allocating charges and payments resulting from formula failure among TOs as Net Congestion Rents or Net Auction Revenues.

NYISO will seek FERC approval to relocate rules from Attachment N to new manual

- **New manual will contain the extensive shortfall allocation details (including formulas) currently included in Attachment N**
- **Attachment N will include only statement of principles that form basis for allocation, with cross-reference to details in new manual**
 - Avoids need to seek FERC approval for even minor changes to very technical methodology
 - Accelerates process for making future technical adjustments to methodology
- **Rules for TCC settlements and congestion charges for purchasers of energy will remain in Attachment N – only shortfall allocation methodology will move**

NYISO Plan

- **Business Issues Committee for discussion– January 19, 2005**
- **Business Issues Committee vote – February 16, 2005**
- **Management Committee – March 2, 2005**
- **NYISO Board – March 2005**
- **Business Issues Committee – approve new manual – April 27, 2005**
- **Implement revisions upon FERC approval; correct all affected historic TO invoices (on rolling basis) no later than approximately early 2006.**