

Sale of Excess TCCs

Meeting with Market Participants

June 10, 2004

Why Are We Here?

- Notice of TCC issue was made upon discovery of the problem.
- Have not had individual discussions with Market Participants.
- Wanted all Market Participants to receive information at the same time.
- Complex analysis is not complete.
- This is the first of on-going discussions we will have with you.

Congestion Rent Shortfalls

- The NYISO has been examining the causes of past congestion rent shortfalls.
- The causes of shortfalls have been the subject of many discussions with Market Participants.
- Various contributing factors have been discovered by the NYISO.
- The NYISO recently discovered a data recording error in the TCC contracts database which contributed significantly to past shortfalls.

Data Recording Error

- All TCCs, including grandfathered TCCs, are recorded in the TCC contracts data base.
- Grandfathered TCCs include a reference to Attachment L (OATT), and the associated capacity is withheld from the TCC auctions.
- The Attachment L reference was inadvertently excluded from one grandfathered TCC in the database in 2002 and the capacity associated with this TCC contract was made available for sale in the fall 2002 auction.
- The error has been corrected and the NYISO is taking steps to prevent the sale of excess capacity in future auctions.
- Grandfathered rights were not affected.

Impact of the Database Error

- Excess capacity was released into the TCC auctions since Fall 2002.
- Holders were awarded TCCs that should not have been available.
- Transmission Owners received additional revenues from the sale of these excess TCCs.

Impact of the Database Error

- Congestion rent payment obligations were created by these excess TCCs.
- Since fall of 2002, congestion rent shortfalls resulted from these obligations.
- The shortfalls were allocated to the Transmission Owners in accordance with the tariff.

Summer 2004 Auction Impacts

- The capability period auction was conducted from February through April 2004.
- 912 MW associated with a grandfathered TCC contract was released into the auction.
 - Indian Point to NYC zone
- Transmission Owners received additional revenues associated with the sale of excess TCCs for Summer 2004.
- These additional auction revenues may be higher than or lower than the congestion rent shortfall caused by the excess TCC sales.

Summer 2004

Shortfall Impact To Date

- Congestion rent shortfalls related to the sale of TCCs in May were low.
- Total shortfall exposure for remainder of this summer is related to a variety of factors.
 - Generation and transmission outages
 - Weather
 - Gas and oil prices
 - Neighboring supply and demand conditions

Correction Remedy Objectives

- Minimal intrusion into the marketplace.
- Fair and feasible
- Timely
- Supportable by Market Participants, FERC and the New York PSC.

Potential Correction Remedies

Summer 2004

1. Status Quo
2. Hold monthly reconfiguration auctions properly accounting for grandfathered TCCs.
3. Award the TOs an equivalent amount of negative TCCs for the capability period.
4. Cancel and re-run the Summer 2004 Auction TCCs.

Potential Add-on Option for 1, 2 and 3:

Buyback and retirement of excess TCCs prior to the auction(s) and awards.

Summer 2004 Remedy

Next Steps

- Continue economic and regulatory analysis.
- Examine pros and cons of each remedy option.
- Determine implementation tasks including any required FERC filings.
- Identify preferred remedy.
- Review options and preferred remedy with Market Participants and regulators.
- Select and implement final remedy.
- The June reconfiguration auction is critical depending on option chosen.

Previous Auctions

- Impacts associated with the sale of excess TCCs through time.
 - Impacted Winter 2002/2003, Summer 2003, and Winter 2003/2004 auctions.
- Appropriate remedy, if any, will be identified after Summer 2004 situation is addressed.
- The most urgent priority is to decide what, if anything, needs to be done about the Summer 2004 situation.