

New York Independent System Operator, Inc.
FERC Electric Tariff
Original Volume No. 1
Attachment M

Second Revised Sheet No. 561
Superseding First Revised Sheet No. 561

ATTACHMENT M
SALE OF TRANSMISSION
CONGESTION CONTRACTS ("TCCs")

1.0 Overview of the Sales of TCCs

TCCs will be made available through ~~both~~: (i) the Centralized TCC Auction ("Auction") and Reconfiguration Auction, which will be conducted by the ISO; ~~and~~ (ii) Direct Sales by the Transmission Owners, which will be non-discriminatory, auditable sales conducted solely on the OASIS in compliance with the applicable requirements and restrictions set forth in Order No. 889 et seq.; **(iii) the conversion of transmission capacity associated with certain Existing Transmission Agreements ("ETAs") pursuant to Section 2A of this Attachment M; and (iv) the conversion of Auction Allocation Rights ("AARs") allocated to LSEs pursuant to Section 2B of this Attachment M.**

Before each Auction, the ISO shall ensure that all of the following correspond to a simultaneously feasible security constrained Power Flow: (i) existing TCCs that are valid for any ~~part~~**portion** of the duration of any TCCs to be sold in the ~~Centralized TCC Auction~~**Auction, including TCCs that were created pursuant to: (A) Section 2A of this Attachment M and that have certain characteristics specified in Attachment N to this Tariff; or (B) Section 2B of this Attachment M prior to the previous Centralized TCC Auction;** (ii) Grandfathered Rights, ~~and~~ (iii) **Original Residual TCCs; and (iv) ETCNL₂**, not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. Should infeasibility occur, the TCC Reservations shown in Table 1 **to this Attachment M** will be reduced until feasibility is assured, as described in Section 3.0 of this Attachment M.

Before each Centralized TCC Auction, the ISO shall also: **(i)** convert ETCNL into

ETCNL TCCs pursuant to Section 5.0 of this Attachment M, ~~and shall~~ **(including the Capacity Reservation Cap provision of Section 5.3) (ii)** allocate RCRRs to Transmission Owners and convert RCRRs into RCRR TCCs pursuant to Section 6.0 of this Attachment M; **and (iii) allocate AARs to LSEs and, at the LSE's option, convert them into TCCs pursuant to Section 2B of this Attachment M.**

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Prior to the first Centralized TCC Auction, the NYISO distributed to Transmission Owners Original Residual TCCs, the NYISO designated certain transmission Capacity as ~~Existing Transmission Capacity for Native Load (“ETCNL”)~~ **capacity as ETCNL**, and some Transmission Owners converted their Grandfathered Rights into Grandfathered TCCs. Transmission Owners with ETCNL **remaining after the annual LSE conversion of AARs derived from ETCNL into TCCs** will release ~~the~~**that** transmission Capacity **capacity** for sale in each Centralized TCC Auction, unless the Transmission Owner has converted the ETCNL into ETCNL TCCs pursuant to Section 5.0 of this Attachment M.

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First Revised Sheet No. 562
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Transmission Owners will be required to either sell their Original Residual TCCs **that have not been used to create AARs** through a Direct Sale on the OASIS prior to each Centralized TCC Auction, or to sell them through each Centralized TCC Auction. Each Transmission Owner may retain its Grandfathered TCCs. If it sells Grandfathered TCCs, a Transmission Owner shall do so either through Direct Sales or through Centralized TCC Auctions or Reconfiguration Auctions.

When selling TCCs, Transmission Owners are considered Primary Owners of those TCCs. Purchasers of TCCs, other than in a secondary market, are considered Primary Holders of those TCCs if they meet certain criterion outlined in Sections 7.0 and 9.4 of this Attachment M.

2.0 General Description of the Auction Process

Until the ISO develops the Auction software necessary to perform an End-State Auction, the ISO shall conduct Initial Auctions, in which ~~long-term~~ TCCs will be available. ~~This Auction will consist of multiple rounds.~~ The proportion of system transmission

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~~Capacity~~capacity that will be set aside to support TCCs of varying durations will be determined before the each Initial Auction is conducted. ~~Then later, upon~~ In order to ensure that sufficient transmission capacity is available to support the conversion of AARs into TCCs pursuant to Section 2B below, the ISO shall, starting in 2008 and, continuing until the implementation of an automated Initial Auction process, set aside no less than twenty five percent of the transmission capacity associated with ETCNL and Original Residual TCCs in the Spring Centralized TCC Auction for sale as TCCs with a duration of one year, or for assignment to LSEs that opted to convert AARs into TCCs with a duration of one year. To the extent that transmission capacity set aside under the previous sentence has not been sold as, or converted into, TCCs with a duration of one year by the conclusion of the Spring Centralized TCC Auction it shall be available to support the sale of TCCs in the Autumn Centralized TCC Auction.

Upon the completion of more sophisticated Auction software, the ISO will perform an End-State Auction, which will permit the Bids submitted by Auction participants to determine the lengths of the TCCs sold in the Auction. Each of these types of Auctions is described in additional detail later in this Attachment. All bidders in the Auction must meet certain ~~criteria~~criteria outlined in Section 9.0 of this Attachment M, and if they are awarded TCCs they will be considered Primary Holders of those TCCs.

The Each Initial Auction will consist of a series of one or more sub-auctions. These sub-auctions and the End-State Auction will normally be conducted in two stages, ~~with each stage including several rounds~~ described later in this Attachment M. The transmission ~~Capacity~~capacity that has been offered for sale in Stage 1 will be auctioned in not less than four (4) rounds, unless the Transmission Owners unanimously consent to fewer rounds, provided

however that during Centralized TCC Auctions conducted between the start of 2008 and the ISO's implementation of an automated Initial Auction process, the ISO may offer only one stage and/or fewer rounds in each sub-auction, if the ISO concludes that doing so is necessary in light of software or other resource constraints, without Transmission Owner consent. A portion of that transmission ~~Capacity~~capacity offered for sale in Stage 1 will be auctioned in each of ~~these~~its rounds. In Stage 1, the transmission ~~Capacity~~capacity available for sale as TCCs in the Auction will include (i) the transmission ~~Capacity~~capacity associated with Original Residual TCCs allocated to the Transmission Owners, but not (a) sold through a Direct Sale, (b) sold as, or converted into, existing TCCs that are valid for any part of the duration of any TCCs sold in the Centralized TCC Auction, ~~or;~~ (c) converted into RCRR TCCs; or (d) converted to TCCs before this Centralized TCC Auction or before the immediately preceding Centralized TCC Auction by LSEs holding AARs; (ii) the transmission ~~Capacity~~capacity associated with ETCNL initially allocated to the Transmission Owners, but not (a) sold through a Direct Sale, (b) sold as, or converted into, existing TCCs that are valid for any part of the

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duration of any TCCs sold in the Centralized TCC Auction, ~~or~~(c) converted into ETCNL TCCs;
**or (d) converted to TCCs before this Centralized TCC Auction or before the immediately
preceding Centralized TCC Auction by LSEs holding AARs;** (iii) Residual Transmission
Capacity not (a) converted to RCRR TCCs or (b) sold in prior Auctions; and (iv) any TCCs
offered for sale by a Primary Holder.

In Stage 2, holders of TCCs may indicate whether they wish to sell those TCCs into a
given round before that round begins. All of the TCCs that have been offered for sale in each
round of Stage 2 will be auctioned in that round. Each Primary Owner, purchaser of

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a TCC in a previous round of the Auction, or purchaser of a TCC in a Direct Sale (if it meets the ISO's creditworthiness standards) may offer its TCCs for sale in any round of Stage 2. No one will be required to offer TCCs for sale in Stage 2.

The ISO will run a security constrained Power Flow to determine the simultaneous feasibility of TCCs to be awarded in a round of an Auction. The Power Flow model will treat Grandfathered Rights and TCCs identified in Section 9.7 of this Attachment M, as fixed injections and withdrawals corresponding to the Point of Injection and Point of Withdrawal for each of those Grandfathered Rights or TCCs. ~~As each~~

As each ETA that is listed in Table I-A of Attachment L to this OATT, and that conferred transmission rights on an LSE, terminates, the capacity associated with it may be used to create TCCs with a duration of ten years, or AARs, and/or converted to Residual Transmission Capacity, pursuant to Sections 2A and 2B of this Attachment M. When any other ETA terminates, the Grandfathered Rights or Grandfathered TCCs associated with the ETA ~~it~~ shall be released for sale into the Auction converted into Residual Transmission Capacity. The revenues associated with the auction of these TCCs the sale in Auctions of TCCs created from capacity associated with expired ETAs shall be allocated among the Transmission Owners according to the Facility Flow Based Methodology, as described in Attachment N, as will the revenues associated with the conversion of AARs associated with expired ETAs into TCCs. All references to "ETAs listed in Table I-A of Attachment L" in this Attachment M shall encompass both those agreements that were previously converted into Grandfathered TCCs and those that were not.

In the Auction, bidders will place Bids specifying the maximum amount they are willing to pay for the TCCs they wish to purchase. The objective of the Auction will be to maximize the

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value of the TCCs awarded to the bidders, as valued by their Bids, subject to the Constraint that the set of all outstanding TCCs and Grandfathered Rights identified in Section 9.7 of this Attachment M must correspond to a simultaneously feasible security-constrained Power Flow in each time period.

The Auction will determine prices for feasible TCCs. The ISO will conduct Reconfiguration Auctions on a monthly basis. Primary Holders of TCCs that are valid for the next month will be permitted to offer those TCCs for sale in the Reconfiguration Auction (as described in Section 8.5 of this Attachment M). Winning bidders in a Reconfiguration Auction will be awarded TCCs that will be valid for the next month.

2A. Converting Transmission Capacity Associated with Expired or Expiring ETAs Into TCCs with a Duration of Ten Years

The ISO shall follow the procedures set forth in this Section 2A prior to the implementation of the End-State Auction process.

Any LSE that previously took or that is taking, Transmission Service to serve its Load under an ETA that was listed in Table I-A of Attachment L to this OATT on November 18, 1999 shall have a right to obtain TCCs with a duration of ten years and the same Point of Injection and Point of Withdrawal as the ETA. To exercise this right, an LSE must inform the ISO in writing, of its intention to obtain TCCs and the expiration date of its ETA, prior to a deadline to be established by the ISO and specified in the ISO Procedures. In the case of an ETA that has already expired as of the effective date of this provision, or that will expire prior the end of the 2008 Summer Capability Period, the deadline shall be set prior to the beginning of the Spring 2008 Centralized TCC Auction. In the case of an ETA that expires after the end of the 2008 Summer Capability Period, the

deadline shall be set prior to the beginning of the Centralized TCC Auction held for the Capability Period in which the ETA expires.

When an LSE elects to convert an ETA that: (i) has expired; (ii) is scheduled to expire, prior to May 1, 2008; or (iii) is scheduled to expire later but that is terminated before May 1, 2008, into TCCs with a duration of ten years, the term of the TCCs shall begin on May 1, 2008. When an LSE elects to convert any other ETA into TCCs with a duration of ten years, the LSE may opt to have the term of the TCCs begin on the day after the ETA's expiration or at the beginning of the Capability Period following the ETA's expiration. Nothing in this paragraph shall be construed as authorizing the early termination of ETAs before their scheduled expiration dates or as excusing the parties to ETAs of their obligations thereunder.

An LSE that is eligible to obtain TCCs under this Section 2A may elect to receive a number of TCCs up to one hundred percent of the MW quantity specified in the ETA. An LSE that wishes to exercise this right must submit a written certification to the ISO, attesting that for the first year of the TCC's duration: (i) it will be legally obligated to serve that Load, or some portion of it; and (ii) it will need the transmission capacity between the Point of Injection and Point of Withdrawal that was specified in the expired ETA to serve the Load that it historically served under the ETA. The LSE will not be allowed to obtain TCCs with a duration of ten years to the extent that it cannot satisfy either or both of these requirements, *i.e.*, it may be wholly or partially terminated if the LSE has lost all or part of the Load, or if it no longer needs all or part of the transmission capacity associated with the expired ETA to serve the Load. LSEs will not be required to make additional certifications beyond the first year of the TCCs' duration. Additional information regarding the ISO's certification process shall be set forth in the ISO Procedures.

In addition, if the ISO concludes that an LSE's requested conversion would make

existing and valid TCCs infeasible, it will reduce the number of TCCs that the LSE may obtain to the extent necessary to preserve the feasibility of existing and valid TCCs. The reduction procedure will use the same optimization model as the Centralized TCC Auctions. Additional details shall be specified in the ISO Procedures.

Except as is specifically noted in the next paragraph, if an LSE chooses to obtain TCCs pursuant to this Section 2A it shall pay an amount per MW equal to the average of: (i) the average market-clearing prices calculated for TCCs with a duration of one year and the same Point of Injection and Point of Withdrawal in the four previous Centralized TCC Auctions; and (ii) the average value of the Day-Ahead Market Congestion Component between the Point of Injection and the Point of Withdrawal associated with the TCCs during the four most recently concluded Capability Periods. This amount shall be adjusted to reflect the expected rate of inflation posted by _____ (???) for the entire ten year duration of the TCCs.

If, however, an LSE chooses to obtain a TCC with a Point of Withdrawal at or inside of Load Zone K (Long Island) pursuant to this Section 2A, it shall pay an amount per MW equal to the average value of the Day-Ahead Market Congestion Component between the Point of Injection and the Point of Withdrawal associated with the TCCs during the four most recently concluded Capability Periods. This amount shall be adjusted to reflect the expected rate of inflation posted by _____ (???) for the ten year duration of the TCCs.

The ISO shall post the following information promptly after ETAs are converted into TCCs: (i) the quantity of TCCs converted (in MW); (ii) the Point of Injection and Point of Withdrawal for each TCC converted ; and (iii) the price paid for each TCC.

An LSE that obtains TCCs with a duration of ten years pursuant to this Section 2A shall be the Primary Owner of those TCCs for their entire duration. It shall be required to

pay the ISO the total amount specified in this Section 2B in ten, equal, annual payments.

The ISO shall allocate funds collected pursuant to this provision under the terms of

Attachment N to this Tariff.

To the extent that TCCs with a duration of ten years are created pursuant to this Section 2A, the transmission capacity that supports them shall not be available for sale in the Centralized TCC Auctions until those TCCs expire. Upon the expiration of such TCCs, the ISO shall use twenty five percent of the associated transmission capacity to create AARs, and shall allocate them to LSEs, pursuant to Section 2B, of this Attachment M. The remaining seventy five percent of the associated transmission capacity shall be converted to Residual Transmission Capacity. If an LSE has opted to obtain TCCs under this Section 2A it may not also exercise the annual right of first refusal established in Section 2B.4 below with respect to the same underlying ETA.

2B. Auction Allocation Rights

The ISO shall follow the procedures set forth in this Section 2B prior to the implementation of the End-State Auction process.

2.B.1 Creating the Initial Pool of AARs for Each Load Zone

Before the Spring 2008 Centralized TCC Auction, the ISO shall establish an initial pool of AARs for each Load Zone. To the extent that such AARs are created and LSEs choose to convert them into TCCs, the associated transmission capacity shall not be available for sale in the Initial Auctions during the TCCs' term but shall instead be allocated among LSEs that serve Load in the relevant Load Zone pursuant to Section 2B.2 below.

The ISO shall create AARs for inclusion in the initial pool in each Load Zone that correspond to twenty five percent of the transmission capacity associated with ETCNL that is determined to be feasible at the time of the initial AAR allocation, reduced to account for

the Capacity Reservation Cap specified in Section 5.3 below (i.e., twenty two point five percent under the currently effective Section 5.3).

The ISO shall also create AARs for inclusion in the initial pool in each Load Zone that correspond to twenty five percent of the transmission capacity associated with Original Residual TCCs that is determined to be feasible at the time of the initial AAR allocation, reduced to account for the Capacity Reservation Cap specified in Section 5.3 below (i.e., twenty two point five percent under the currently effective Section 5.3).

Finally, the ISO shall create AARs for inclusion in the initial pool in each Load Zone that correspond to twenty five percent of the transmission capacity designated in each ETA that: (i) has a Point of Withdrawal at or within the relevant Load Zone; (ii) expired, or that will expire, prior to May 1, 2008 (or that are scheduled to expire after that date but that are terminated before it); (iii) was listed in Table I-A of Attachment L to this OATT on November 18, 1999; and (iv) conferred transmission rights on an LSE. All other transmission capacity associated with that ETA shall be converted into Residual Transmission Capacity. Nothing in this paragraph shall be construed as authorizing the early termination of ETAs before their scheduled expiration dates or as excusing the parties to ETAs of their obligations thereunder.

The ISO shall not, however, convert transmission capacity associated with expired or terminated ETAs into AARs or Residual Transmission Capacity: (i) to the extent that transmission capacity associated with the ETA was already converted into TCCs with a duration of ten years pursuant to Section 2A above; or (ii) to the extent necessary to avoid infeasibility. If the ISO concludes that creating new AARs or Residual Transmission Capacity would result in infeasibility, it will reduce the number of MW of AARs and Residual Transmission Capacity created to the extent necessary to preserve the feasibility of existing and valid TCCs. The reduction procedure will use the same optimization model

as the Centralized TCC Auctions. Additional details regarding the reduction procedure shall be specified in the ISO Procedures.

2B.2 Annual Allocation of the Initial Pool of AARs

Starting in 2008, the ISO shall allocate AARs created pursuant to Section 2B.1 above on an annual basis to LSEs in each Load Zone where AARs have their Points of Withdrawal. The ISO shall complete the allocation before the commencement of each year's Spring Centralized TCC Auction, with the exact date to be determined by the ISO and specified in the ISO Procedures. Each LSE that serves Load in a given Load Zone shall be allocated a percentage of the initial pool of AARs for the Load Zone equivalent to its zonal load ratio share. Load ratio shares shall be determined based on each LSE's average annual energy usage for the previous twelve months, starting with the first month prior to the execution of the annual allocation process for which the ISO has actual metered data. Load shifts that occur after the allocation of AARs shall be reflected in the ISO's allocation of AARs for the following year.

2B.3 Annual Creation and Allocation of Additional AARs from Transmission Capacity Associated with ETAs that Expire On Or After May 1, 2008

Except as noted in the following paragraph and in Section 2B.4 below, the ISO shall create additional AARs prior to the Spring Centralized TCC Auction each year for each Load Zone corresponding to twenty five percent of the transmission capacity designated in any ETA that: (i) has a Point of Withdrawal in that Load Zone, (ii) is scheduled to expire on or after May 1, 2008 (and that are not terminated prior to that date); (iii) was listed in Table I-A of Attachment L to this OATT on November 18, 1999; and (iv) conferred transmission rights on an LSE. The remaining seventy five percent of such transmission capacity shall be converted to Residual Transmission Capacity. Nothing in this paragraph shall be construed as authorizing the early termination of ETAs before their scheduled expiration dates or as excusing the parties to ETAs of their obligations thereunder.

The ISO shall not use transmission capacity associated with expiring ETAs to create AARs or Residual Transmission Capacity to the extent: (i) that LSEs chose to exercise the right under Section 2A above to convert the transmission capacity associated with an ETA to TCCs with a duration of ten years and those TCCs have not yet expired; (ii) that LSEs choose to exercise the annual right of first refusal described in Section 2B.4 below, and their right to do so has not yet expired; or (iii) to the extent necessary to avoid infeasibility. If the ISO concludes that creating new AARs and Residual Transmission Capacity would result in infeasibility, it will reduce the number of MW of AARs and Residual Transmission Capacity created to the extent necessary to preserve the feasibility of existing and valid TCCs. The reduction procedure will use the same optimization model as the Centralized TCC Auctions. Additional details regarding the reduction procedure shall be specified in the ISO Procedures.

AARs created under this Section 2B.3 shall be allocated to LSEs each year at the same time, and on the same zonal load ratio share basis, specified in Section 2B.2 above.

2B.4 Annual Right of First Refusal for LSEs Taking Transmission Service Under ETAs that Expire on or After May 1, 2008

An LSE taking Transmission Service under an ETA that is scheduled to expire on or after May 1, 2008, that is not terminated early by the LSE, and that would otherwise be used to create AARs and Residual Transmission Capacity under Section 2B.3 above, may exercise a right of first refusal upon the ETA's expiration. If an LSE exercises its annual right of first refusal it may obtain a number of TCCs up to one hundred percent of the MW quantity specified in the ETA. To exercise this right, an LSE must inform the ISO in writing, of its intention to do so, prior to a deadline to be established by the ISO and specified in the ISO Procedures. If the LSE chooses to obtain less than one hundred percent of the TCCs it is authorized to claim when it first exercises its annual right of first refusal it may not increase the number of TCCs that it obtains under this Section 2A in

subsequent years, although it may decrease the number (subject to the early termination rule set forth below).

If the ISO concludes, however, that creating AARs under an annual right of first refusal would result in infeasibility, it will reduce the number of AARs that the LSE may obtain to the extent necessary to preserve the feasibility of existing and valid TCCs. The reduction procedure will use the same optimization model as the Centralized TCC Auctions. Additional details regarding the reduction procedure shall be specified in the ISO Procedures.

The annual right of first refusal shall last for a transition period up to a maximum of ten years, i.e., for up to ten one year renewals, provided, however, that the LSE's exclusive right to AARs with a given Point of Injection and Point of Withdrawal shall terminate before the end of the transition period if, in any year during that period, the LSE chooses not to convert those AARs into TCCs pursuant to Section 2B.5 below. To the extent that the ISO is able to support giving an LSE the option, under Section 2B.5, to convert some, but not all, of its AARs with a particular pair of Points of Injection and Points of Withdrawal, then the LSE's annual right shall terminate early only to the extent that it opts not to convert AARs with those Points of Injection and Points of Withdrawal.

An LSE's annual right of first refusal shall also expire, or be reduced in quantity, prior to the end of the ten year transition period to the extent that the LSE ceases to serve the Load that it previously served under the expired ETA. An LSE that wishes to exercise the annual right of first refusal must submit a written certification to the ISO, attesting that for the year to which the right of first refusal would apply: (i) it will be legally obligated to serve that Load, or some portion of it; and (ii) it will need the transmission capacity between the Point of Injection and Point of Withdrawal that was specified in the expired ETA to serve all of the Load for which it intends to exercise the right of first

refusal. The LSE's right of first refusal shall be terminated to the extent that it cannot satisfy either or both of these requirements, i.e., it may be wholly or partially terminated if the LSE has lost all or part of the Load, or if it no longer needs all or part of the transmission capacity associated with the expired ETA to serve the Load. Additional information regarding the ISO's certification process shall be set forth in the ISO Procedures.

2B.5 Converting AARs to TCCs

Each LSE that is allocated an AAR shall have the exclusive right to convert it into a TCC with a duration of one year subject to the requirements of this Section at a price to be determined pursuant to Section 2B.6 below. The one year term for any TCCs created pursuant to this Section shall begin on May 1 of the year they are created and shall end on April 30 of the following year.

Starting in 2008, the ISO shall establish an annual deadline, which shall precede that year's Spring Centralized TCC Auction, by which LSEs must decide whether they will convert their AARs into TCCs. If an LSE opts not to convert AARs, the ISO shall convert the transmission capacity associated with them into Residual Transmission Capacity. LSEs must provide the ISO with written notice of their decision by the deadline established by the ISO or be deemed to have elected not to convert any AARs that year. An LSE may convert each AAR it holds into a TCC with the same Points of Injection and Points of Withdrawal and a duration of one year, except to the extent that the LSE already has an ETA that entitles it to receive firm transmission service to the Point of Withdrawal specified in that AAR and that is valid for any part of the period covered by the AAR.

If the LSE has such an ETA, or has obtained a TCC with a duration of ten years pursuant to Section 2A, its entitlement to AARs created under this Section 2B will be reduced proportionately. The reduction will be determined as follows:

1. Each LSE's entitlement to AARs will first be computed without regard to ETA holdings or TCCs associated with expired ETA holdings under Section 2A for each Load Zone, to determine the AARs which it would normally be entitled.

2. The number of AARs that each LSE is eligible to convert into TCCs will then be calculated as the greater of (i) zero or (ii) the sum of the AARs to which it would normally be entitled less the sum of: (a) the number of MW of transmission capacity associated with ETAs held by that LSE that have a Point of Withdrawal at a given Load Zone and that are valid during any portion of the period covered by the annual TCCs that that LSE would receive if it were to convert its AARs into TCCs, and (b) the number of MW of transmission capacity associated with TCCs with a duration of ten years that the LSE has obtained pursuant to Section 2A for that Load Zone.

3. Each LSE will then be allocated a number of AARs with each possible pair of Points of Injection and Points of Withdrawal equal to the total number of AARs that it normally would have been allocated with that pair of Points of Injection and Points of Withdrawal, multiplied by the ratio of (i) the total number of AARs that LSE is eligible to convert into TCCs, as calculated in (1) above, to (ii) the total number of AARs to which that LSE would normally be entitled, as calculated in (2) above.

For each set of AARs allocated to an LSE with a given pair of Points of Injection and Points of Withdrawal, the ISO may require the LSE to choose between converting either all or none of those AARs into TCCs. If the ISO imposes this requirement, an LSE that has AARs for more than one pair of Points of Injection and Points of Withdrawal must make the same election for each such pair, i.e., the LSE may convert all of its AARs to TCCs for one or more pairs of Points of Injection and Withdrawal, while not converting all of its AARs for sale into the Auctions for one or more other pairs of Points of Injection and Points of Withdrawal (thereby making the associated transmission capacity available to the

Auction.)

If the ISO determines, however, that its software and processes are able to support more flexible LSE choices, the ISO may give LSEs the option to convert some, but not all, of their AARs with a given pair of Points of Injection and Points of Withdrawal. If such partial conversions are allowed, the ISO shall include rules governing them in the ISO Procedures.

To the extent that an LSE elects not to convert AARs into TCCs, or is not eligible to convert them due to rights under an ETA, the transmission capacity associated with the AARs will be converted to Residual Transmission Capacity. LSEs shall not receive any compensation for such AARs. LSEs that choose not to convert AARs into TCCs shall continue to be eligible to receive their full allocation of AARs the following year, subject to the special conditions for AARs awarded to an LSE pursuant to an annual right of first refusal under Section 2B.4 above.

2B.6 Conversion Price

To the extent that an LSE elects to convert AARs that do not have a Point of Withdrawal at or within Load Zone K (Long Island) it shall be obligated to pay to the ISO the weighted average of the market-clearing prices determined in the Stage 1 rounds of the one-year sub-auction of the Spring Centralized TCC Auction for TCCs with the same Points of Injection and Points of Withdrawal as the AAR that is converted. The weighting used to calculate this average will be proportional to the amount of transmission capacity made available in each Stage I round of the one-year sub-auction.

To the extent that an LSE elects to convert AARs that have a Point of Withdrawal at or within Load Zone K, it shall be obligated to pay to the ISO the sum of the market-clearing prices determined in the most recent twelve Monthly Reconfiguration Auctions for TCCs with the same Points of Injection and Points of Withdrawal.

Funds that the ISO collects as payment for TCCs converted from AARs shall be allocated among the Transmission Owners as described in Attachment N.

3.0 Description of the Reduction Process

Before each Auction, the ISO shall ensure that all of the following correspond to a simultaneously feasible security constrained Power Flow: (i) existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, **including TCCs that were created pursuant to: (A) Section 2A of this Attachment M and that have certain characteristics specified in Attachment N to this Tariff; or (B) Section 2B of this Attachment M prior to the previous Centralized TCC Auction;** (ii) Grandfathered Rights, and (iii) ETCNL **and Original Residual TCCs** not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. In some cases, the total set of these TCCs, Grandfathered Rights, ~~and~~ ETCNL **and Original Residual TCCs** may not correspond to a simultaneously feasible Power Flow in some period of time. In such cases, the ETCNL and

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TCCs Subject to Reduction, as listed in Table 1 of this Attachment (henceforth “Table 1 ETCNL/TCCs”), will be reduced for that period in order to make the total set of existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, Grandfathered Rights, and ETCNL not accounted for through existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction correspond to a simultaneously feasible Power Flow.

This reduction procedure will use the same optimization model that will be used in the Auction to determine the amount by which Table 1 ETCNL/TCCs will be reduced. Each of the existing TCCs, ETCNL, and Grandfathered Rights that is not included in Table 1 will be represented in the Auction model by a fixed injection of 1 MW at its Point of Injection, and a fixed withdrawal of 1 MW at its Point of Withdrawal. Bids for each Table 1 ETCNL/TCC will consist of a line which intersects the y-axis at \$1/TCC (or any other value selected by the ISO, so long as that value is constant for each bid curve for all of these Table 1 ETCNL/TCCs) and which intersects the x-axis at 1 MW. An example of the bid curve B_j for a representative Table 1 ETCNL/TCC is illustrated in the diagram below.

The TCC Auction software will determine the amount of each Table 1 ETCNL/TCC that will remain after reduction, which is designated as A_j in the diagram. The objective function that the TCC Auction software will use to determine these coefficients A_j will be to maximize:

$$\sum_{j=1}^N A_j B_j$$

where N is the set of Table 1 ETCNL/TCCs, and all other variables are as defined above, subject to the Constraint that injections and withdrawals corresponding to each of the following must be simultaneously feasible in a Power Flow: (i) existing TCCs that are valid for any part~~portion~~ of the duration of any TCCs to be sold in the Centralized TCC Auction; **including TCCs that were created pursuant to: (A) Section 2A of this Attachment M and that have certain characteristics specified in Attachment N to this Tariff; or (B) Section 2B of this Attachment M prior to the previous Centralized TCC Auction;** (ii) Grandfathered Rights; and (iii) ETCNL not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. As a result, the objective function will maximize the area under the bid curve for each Table 1 ETCNL/TCC that remains after reduction, summed over all Table 1 ETCNL/TCCs, subject to the simultaneous feasibility Constraint. This area for one Table 1 ETCNL/TCC is illustrated in the following diagram:

Bid Curve B_j for TCC $_j$

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FERC Electric Tariff
Original Volume No. 1
Attachment M

First Revised Sheet No. 568
Superseding Original Sheet No. 568

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4.0 Calculation of Residual Transmission Capacity to Establish Original Residual TCCs

Before the first Auction, the ISO calculated the Residual Transmission Capacity across each transmission Interface in both the Summer and Winter Capability Periods from the Operating Study Power Flow dispatch and allocated the Residual Transmission Capacity across Interfaces to individual Transmission Owners in the form of Original Residual TCCs in accordance with the Interface MW-Mile Methodology. The ISO's allocation of Original Residual TCCs to Transmission Owners shall remain the same

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for at least the duration of the LBMP Transition Period. At the conclusion of the LBMP Transition Period, the Transmission Owners will review this methodology and shall have the sole discretion to modify by unanimous vote, the procedure to be used to allocate Residual Transmission Capacity across Interfaces in the form of Original Residual TCCs, and to determine the duration of all such Original Residual TCCs allocated. **However, to the extent that the ISO has created AARs pursuant to Section 2B.2 of this Attachment M that correspond to Original Residual TCCs, those Original Residual TCCs must be included in any revised set of Original Residual TCCs.**

Original Residual TCCs for each Interface will constitute point-to-point TCCs, each from a Point of Injection in one Load Zone to a Point of Withdrawal in another Load Zone.

5.0 Reservation of Transmission Capacity in an Auction through ETCNL TCCs

5.1 Subject to the limitations set forth in Section 5.2 of this Attachment M, a Transmission Owner with a set of ETCNL designated from a Point of Injection to a Point of Withdrawal, as detailed in Table 2 of this Attachment M, shall have a right prior to each Centralized TCC Auction to convert into an ETCNL TCC each megawatt of transmission ~~Capacity~~**capacity** of that set of ETCNL that has not previously been sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction and that remains after any reduction pursuant to Section 3.0 of this Attachment M. Each ETCNL TCC will have a duration of 6 months and will have the same POI and POW as the original set of ETCNL converted into ETCNL TCCs. If a Transmission Owner fails to exercise its right to convert a megawatt of ETCNL into an ETCNL TCC in the manner and by the date specified in this Section 5.0, the Transmission Owner shall forfeit its right to convert ETCNL into ETCNL TCCs for the Centralized TCC Auction. Any ETCNL not converted to ETCNL TCCs (or used to create AARs that are converted into TCCs) shall remain valid as ETCNL, and shall be released for the Centralized TCC Auction pursuant to the provisions of this Attachment M.

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5.2 Notwithstanding any other provisions of this Section 5.0, a Transmission Owner shall not convert into ETCNL TCCs an amount greater than the Capacity Reservation Cap of the transmission ~~Capacity~~capacity of each set of the Transmission Owner's ETCNL; *provided, however*, that if (i) a Transmission Owner has a set of ETCNL from one POI and one or more sets of ETCNL from another POI, each of which are in the same Load Zone, and (ii) each of these sets of ETCNL has the same POW, then there shall be no maximum amount of transmission ~~Capacity~~capacity from a single set of ETCNL that a Transmission Owner shall have a right to convert into ETCNL TCCs, but a Transmission Owner shall not convert into ETCNL TCCs an amount greater than the Capacity Reservation Cap of the total transmission ~~Capacity~~capacity of all of the Transmission Owner's sets of ETCNL.

ETCNL may be converted only into whole ETCNL TCCs. If the Capacity Reservation Cap multiplied by the transmission ~~Capacity~~capacity of a set of ETCNL or by the total transmission ~~Capacity~~capacity of multiple sets of ETCNL, as the case may be pursuant to this Section 5.2, does not yield a whole number, then the number of ETCNL TCCs that a Transmission Owner may convert from ETCNL will be reduced to the nearest integer and the number of megawatts of ETCNL that a Transmission Owner may not convert to ETCNL TCCs will be increased to the nearest integer.

5.3 The ISO shall determine the Capacity Reservation Cap prior to each Centralized TCC Auction, and shall post the Capacity Reservation Cap on its website. The Capacity Reservation Cap shall be any amount less than or equal to five percent (5%).

5.4 Before each Centralized TCC Auction, the ISO shall, subsequent to performing the reduction process pursuant to Section 3.0 of this Attachment M, determine the number of megawatts of transmission ~~Capacity~~capacity from each of the Transmission Owner's sets of ETCNL that the Transmission Owner shall have a right to convert into ETCNL TCCs. The ISO shall notify each Transmission Owner of the ISO's determination with regard to its ETCNL in a written notice to be received by the Transmission Owner on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the ISO's website, as that timeline may be revised from time to time.

5.5 A Transmission Owner may exercise its right to convert its ETCNL into ETCNL TCCs by notifying the ISO of the number of megawatts of transmission ~~Capacity~~capacity from each of the Transmission Owner's sets of ETCNL that the Transmission Owner elects to convert to ETCNL TCCs. The Transmission Owner shall make the notification

in a written notice to be received by the ISO on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the ISO's website, as that timeline may be revised from time to time. After receipt by the ISO, the Transmission Owner's notification shall not be modified or revoked, except by permission of the ISO.

6.0 Reservation of Transmission Capacity in an Auction through RCRR TCCs

6.1 Before each Centralized TCC Auction, the ISO shall, subsequent to performing the reduction process pursuant to Section 3.0 of this Attachment M, determine the number of RCRRs between each of the following contiguous pairs of Load Zones within the NYCA that the ISO shall allocate to Transmission Owners: West – Genesee; Genesee – Central; North – Mohawk Valley; Central - Mohawk Valley; Mohawk Valley – Capital; Capital - Hudson Valley; Hudson Valley – Millwood; Millwood – Dunwoodie; Dunwoodie - New York City; Dunwoodie - Long Island.

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The ISO shall determine the number of RCRRs that the ISO shall allocate for each of these Load Zone pairs by maximizing the number of RCRRs between each Load Zone pair that are simultaneously feasible with all (i) existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, (ii) Grandfathered Rights, and (iii) ETCNL not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction and that remains after any reduction pursuant to Section 3.0 of this Attachment M. To do so, the ISO will use the same optimization model that is used in determining the award of TCCs in a Centralized TCC Auction, and will represent each existing TCC **(including TCCs that were: (i) created pursuant to Section 2A and that have certain characteristics specified in Attachment N to this Tariff; or (ii) created pursuant to Section 2B at any time before the beginning of that Centralized TCC Auction,** each Grandfathered Right, each ETCNL, and a large number of RCRRs in the model as a fixed injection of 1 MW at the POI of the existing TCC, Grandfathered Right, ETCNL, or potential RCRR, and a fixed withdrawal of 1 MW at the POW of the existing TCC, Grandfathered Right, ETCNL, or potential RCRR. The Centralized TCC Auction software will determine the maximum number of RCRRs for each Load Zone pair by maximizing the area under the bid curve Bids_j in the following formula, subject to the Constraint that the injections and

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withdrawals corresponding to the existing TCC, Grandfathered Right, ETCNL, and potential RCRR must correspond to a simultaneously feasible Power Flow:

Where,

$j =$ A Load Zone pair

$N =$ The set of all Load Zone pairs for which the ISO shall calculate RCRRs

$A_j =$ The number of RCRRs defined between Load Zone pair j

$Bids_j =$ The line that intersects the y-axis at $\$/TCC$ and which intersects the x-axis at 1 MW, as illustrated in the bid curve illustrated below.

Bid Curve $Bids_j$ for RCRR $_j$

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The ISO shall determine the POI and POW of each RCRR by assigning the POI and POW that the ISO expects, based on the ISO's review of historical and other information available to the ISO, to produce positive Congestion payments to a Transmission Owner that converts the RCRR into an RCRR TCC for the majority of the duration, in hours, of the longest duration TCCs to be sold in the relevant Centralized TCC Auction.

6.2 The ISO shall allocate RCRRs between each Load Zone pair to each Transmission Owner in an amount equal to the product of (i) the number of RCRRs between the Load Zone pair for the Centralized TCC Auction as calculated pursuant to Section 6.1 of this Attachment M, and (ii) the Transmission Owner's allocation factor for that Load Zone pair, which shall be calculated pursuant to the following formula:

Allocation Factor_{t,j} =

Where,

Allocation Factor_{t,j} = The allocation factor used by the ISO to allocate a share of RCRRs between Load Zone pair *j* to Transmission Owner *t* for a Centralized TCC Auction

Interface Revenue_{t,j,a} = The revenue from the sale of TCCs (excluding those TCCs for which revenue is allocated to a Transmission Owner pursuant to Sections 3.3 through 3.5 of Attachment N) associated with the Interface between Load Zone pair *j* in Centralized TCC Auction *a* assigned to Transmission Owner *t*

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- t = A Transmission Owner
- T = The set of all Transmission Owners
- a = A Centralized TCC Auction
- A = The set of Centralized TCC Auctions beginning with the Centralized TCC Auction held for the 2000 Summer Capability Period and ending with the Centralized TCC Auction held for the 2003-2004 Winter Capability Period
- j = A Load Zone pair.

6.3 Subject to the limitations set forth in Section 6.4 of this Attachment M, a Transmission Owner allocated an RCRR pursuant to Section 6.2 of this Attachment M shall have a right prior to each Centralized TCC Auction to convert each RCRR into an RCRR TCC. Each RCRR TCC will have a duration of 6 months and will have the same POW and POI as the RCRR from which it was converted. If a Transmission Owner fails to exercise its right to convert an RCRR into an RCRR TCC in the manner and by the date specified in this Section 6.0, the Transmission Owner shall forfeit the RCRR. Each RCRR shall be valid only for the Centralized TCC Auction for which it was allocated.

6.4 Notwithstanding any other provisions of this Section 6.0, a Transmission Owner shall not convert an amount greater than the Capacity Reservation Cap of the Transmission Owner's RCRRs into RCRR TCCs.

RCRRs may be converted only into whole RCRR TCCs. If the Capacity Reservation Cap multiplied by the number of RCRR does not yield a whole number, then the number of RCRR TCCs that a Transmission Owner shall have a right to convert from RCRRs will be reduced to the nearest integer and the number of RCRRs that a Transmission Owner shall not have a right to convert to RCRR TCCs will be increased to the nearest integer.

6.5 Before each Centralized TCC Auction, the ISO shall, subsequent to performing the reduction process pursuant to Section 3.0 of this Attachment M, determine the number of RCRRs that each Transmission Owner shall have a right to convert to RCRR TCCs. The ISO shall notify each Transmission Owner of the ISO's determination with regard to its RCRRs in a written notice to be received by the Transmission Owner on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the ISO's website, as that timeline may be revised from time to time.

6.6 A Transmission Owner may exercise its right to convert its RCRRs into RCRR TCCs by notifying the ISO of the number of the Transmission Owner's RCRRs that the Transmission Owner elects to convert to RCRR TCCs. The Transmission Owner shall make the notification in a written notice to be received by the ISO on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the

ISO's website, as that timeline may be revised from time to time. After receipt by the ISO, the Transmission Owner's notification shall not be modified or revoked, except by permission of the ISO.

6.7 A Transmission Owner shall not sell its RCRR TCC except through a Centralized TCC Auction or Reconfiguration Auction, and shall not sell its RCRR TCC through Direct Sales or through Secondary Markets.

7.0 Sale of TCCs by Transmission Owners directly over the OASIS ("Direct Sale")

Transmission Owners may sell their Original Residual TCCs, ETCNL, and Grandfathered TCCs directly to buyers through a Direct Sale, except Original Residual TCCs and ETCNL that has been designated as AARs Sellers and potential buyers shall communicate all offers to sell and buy TCCs, through a Direct Sale, solely over the ISO's OASIS. Buyers and Sellers of TCCs in the Secondary Market or by Direct Sale will have the responsibility to report their TCC transactions to the ISO, whereupon the ISO will post them on the OASIS.

Buyers in a Direct Sale that elect to become Primary Holders must meet the eligibility criteria in Section 9.0 of this Attachment M. In addition, each potential buyer that elects to

become a Primary Holder shall submit information to the ISO regarding the buyer's creditworthiness, as the ISO may require, along with a statement signed by the buyer, representing that the buyer is financially able and willing to pay for the TCCs it proposes to purchase as well as all other obligations associated with the purchase of such TCCs, including without limitation, Congestion payments due pursuant to Section 2.3 of Attachment N of this Tariff. The aggregate value of the buyer's offers to purchase TCCs (either in Direct

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Sales or in the Auction) and a reasonable estimate of the buyer's obligations associated with the purchase of such TCCs shall not exceed the buyer's ability to pay, as determined by the ISO (based upon an analysis of the buyer's creditworthiness).

Where a buyer electing to become a Primary Holder fails to meet the eligibility criteria or the above financial criteria (as determined by the ISO), or fails to provide information required by the ISO, the seller of the TCCs in the Direct Sale shall be the Primary Holder with respect to those TCCs. The ISO shall make all Settlements with Primary Holders.

During the Direct Sale process, the Transmission Owner shall have the sole discretion to accept or reject an offer to purchase TCCs. Each Transmission Owner shall develop and apply a non-discriminatory method for choosing the winning offers consistent with FERC Order No. 889, et seq., and may establish eligibility requirements that shall be no more stringent than those set forth in Section 11.0 of this Tariff. The Transmission Owner shall post information regarding the results of the Direct Sale on the ISO's OASIS promptly after the Direct Sale is completed. The information shall include: (i) the amount of TCCs sold (in MW); (ii) the Point of Injection and Point of Withdrawal for each TCC sold; and (iii) the price paid for each TCC.

Primary Owners of Original Residual TCCs shall inform the ISO of all sales of those TCCs, including the identity of the buyers. Transmission Owners may offer to sell Original Residual TCCs for a

period not extending beyond the end of the LBMP Transition Period, and Grandfathered TCCs for periods not extending beyond the termination date of those TCCs; however, these TCCs shall not be valid (i.e., the Congestion payment rights and obligations of the Primary Holders of those TCCs shall not commence) until TCCs sold in the first Auction became valid. Payment for TCCs purchased in a Direct Sale shall be in accordance with the terms and conditions of the agreement between the buyer and seller.

8.0 Auctions for TCCs

8.1 Transmission Capacity Sold in Centralized TCC Auctions ~~for TCCs~~

In ~~the~~ each Centralized TCC Auction, the following transmission ~~Capacity~~ capacity shall be available for purchase in the form of TCCs: (1) following any reduction pursuant to Section 3.0 of this Attachment M, all of the transmission ~~Capacity~~ capacity associated with ETCNL, ~~that the Transmission Owners do not sell through a Direct Sale in advance of the Auction and,~~ that the Transmission Owners do not convert to ETCNL TCCs, **and that was not converted into TCCs from AARs**; (2) all of the transmission ~~Capacity~~ capacity associated with Original Residual TCCs, ~~that the Transmission Owners do not sell through a Direct Sale in advance of the Auction and,~~ that the Transmission Owners do not convert to RCRR TCCs, **and that was not converted into TCCs from AARs**; (3) all of the transmission ~~Capacity~~ capacity associated with TCCs offered for sale by TCC Primary Holders; and (4) any other transmission ~~Capacity~~ capacity in excess of that claimed by ETAs and Original Residual TCCs that the Transmission Owners do not convert to RCRR TCCs- **and that was not converted into TCCs from AARs.**

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8.2 Phases of ~~Long-Term~~Centralized TCC Auction~~Auctions~~

The ISO will make ~~available long-term~~ Transmission Service **available** at a fixed price through the sale of ~~long-term~~ TCCs in an Auction which will be accomplished in two phases.

Phase 1: "Initial Auction" for ~~Long-Term~~ TCCs - The TCCs purchased in this Auction ~~will~~**shall** have varying durations. TCCs available for each of these durations will be sold in a separate "sub-auction."

Phase 2: "End-State Auction" for ~~Long-Term~~ TCCs - When the End--State

Auction software is ready, TCCs of different durations will be sold in a single End-State Auction.

8.438.3 Phase 1: Initial Auction Auctions for Long-Term TCCs

TCCs with durations of 6 months and 1 year shall be available in the ~~Initial~~ each Centralized TCC Auction. TCCs with durations of 2 years, 3 years, 4 years ~~or~~, 5 years, or longer may also be available in this Auction, at the ISO's discretion.

The percentage of the transmission Capacity capacity that is sold in an Auction as TCCs of each of these different durations will be determined by the ISO, subject to certain limits. ~~The~~ the requirement specified below.

In order to ensure that sufficient transmission capacity is available to support the conversion of AARs into TCCs pursuant to Section 2B.4 above, the ISO shall, starting in 2008 and, continuing until the implementation of an automated Initial Auction process, set aside no less than twenty five percent of the transmission capacity associated with ETCNL and Original Residual TCCs in the Spring Centralized TCC Auction for sale as TCCs with a duration of one year, or for assignment to LSEs that opted to convert AARs into TCCs with a duration of one year. To the extent that transmission capacity set aside under the previous sentence has not been sold as, or converted into, TCCs with a duration of one year by the conclusion of the Spring Centralized TCC Auction it shall be available to support the sale of TCCs in the Autumn Centralized TCC Auction.

Subject to the requirements specified in the preceding paragraph, the final decision concerning the percentage of the transmission Capacity capacity that will be sold in the Auction as TCCs of different durations will be made by the ISO. The ISO will

conduct a polling process to assess the market demand for TCCs with different durations, which it will take into consideration when making this determination. The ISO may elect not to sell any TCCs with one or more of the above durations. However, all transmission Capacity ~~Capacity~~ **capacity** not associated with ETAs or outstanding TCCs, **including TCCs created through the conversion of AARs**, or not reserved through conversion of ETCNL to ETCNL TCCs or RCRRs to RCRR TCCs must be available to support TCCs of some duration sold in the Auction.

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The Initial Auction will consist of a series of sub-auctions, which will be conducted consecutively. In each sub-auction, TCCs of a single duration will be available (e.g., only TCCs with a five-year duration might be available in one sub-auction). Sub-auctions will be conducted in decreasing order of the length of the period for which TCCs sold in the sub-auction are valid. Therefore, if the ISO were to determine that five years would be the maximum length of TCCs available in the Initial Auction, then the sub-auction for TCCs with a duration of five years would be held first. All TCCs sold in the 5-year TCC sub-auction (other than those offered for sale in the next sub-auction, as described below) would then be modeled as fixed injections and withdrawals in the next sub-auction, in which TCCs of the next longest duration, as determined by the ISO (e.g., four years), would be available for purchase. Following that sub-auction, TCCs sold in either of the first two sub-auctions (other than those offered for sale in the next sub-auction) would then be modeled as fixed injections and withdrawals in the third sub-auction (e.g., a sub-auction for TCCs with a duration of three years), etc.

TCCs purchased in any sub-auction may be resold in a subsequent sub-auction. For example, the purchaser of a 5-year TCC purchased in the 5 year sub-auction may

release a 4-year TCC with the same Point of Injection and Point of Withdrawal for sale in the 4-year sub-auction. Similarly, that purchaser could instead release a corresponding 3-year TCC for sale in the 3-year sub-auction. Any TCC that was outstanding before the Initial Auction may be released for sale in any sub-auction.

Each sub-auction shall normally consist of two stages, ~~and~~, Stage 1 of each ~~of the stages~~ sub-auction shall consist of at least four rounds, provided however that during Centralized TCC Auctions conducted between the beginning of 2008 and the implementation of an automated Initial Auction process, the ISO may offer only one stage and/or fewer rounds in each sub-auction, if the ISO concludes that it is necessary, without Transmission Owner consent. The ISO shall have the authority to determine the percentage of the available transmission ~~Capacity~~ capacity that will be sold in each round of each sub-auction. The ISO shall announce these percentages before the sub-auctions. The ISO shall also determine the maximum duration of TCCs sold in the Initial Auction, subject to the limitations above, and whether the TCCs sold in an Initial Auction shall be separately available for purchase as on-peak and off-peak TCCs. (For purposes of this Attachment, the on-peak period will include the hours from 7 a.m. to 11 p.m. Prevailing Eastern Time Monday through Friday. The remaining hours in each week will be included in the off-peak period.)

All available transmission ~~Capacity~~capacity will be sold in Initial Auctions, including transmission ~~Capacity~~capacity that would have been required to support Original Residual TCCs that the Transmission Owners do not sell directly in advance of the Auction, any other transmission ~~Capacity~~capacity in excess of that claimed by grandfathered transmission agreements, Original Residual TCCs, ~~long-term~~ TCCs sold in previous auctions whose Primary Holders offer those TCCs into the Auction, and ETCNL; *provided, however,* that transmission ~~Capacity~~capacity converted into ETCNL TCCs ~~and~~, RCRR TCCs, **and TCCs created pursuant to Sections 2A or 2B above** will not be available for sale in Centralized TCC Auctions.

8.4 Phase 2: End-State ~~Auction~~Auctions for ~~Long-Term~~ TCCs

The End-State Auction will be held annually. The date for the first End-State Auction shall be determined by the ISO. The period during which each TCC sold in an End-State Auction is valid shall begin on the beginning date of a Capability Period, and shall conclude on the ending date of a Capability Period.

The ISO will determine the maximum duration and minimum duration of the TCCs available in the End-State Auctions. The ISO shall have the authority to determine the percentage of the available transmission ~~Capacity~~capacity that will be sold in each round of the Auction. The ISO shall announce these percentages before the Auction. The ISO shall also determine the periods for which TCCs will be sold in End-State Auctions (e.g., TCCs valid during on-peak and off-peak periods, or TCCs valid during Winter and Summer Capability Periods). The ISO may elect to vary the duration or the periods for which TCCs will be available from one End-State Auction to the next End-State Auction.

The End-State Auction will not include separate sub-auctions for TCCs of different durations. Instead, TCCs of each permitted duration will be allocated as the result of the operation of a single Auction. If a Market Participant wishes to purchase a

TCC beginning in the Summer Capability Period of 2003, and ending in the Winter Capability Period of 2004-2005, it would submit a single Bid for this TCC. If that Bid is a winning Bid, the bidder would be awarded a TCC valid for the entire two year-long period; if the Bid is a losing Bid, the bidder would not receive the TCC for any portion of this period. The ISO will not specify in advance the portion of system transmission ~~Capacity~~Capacity that will be used to create TCCs of differing durations. Rather, the durations of TCCs awarded will be determined as part of the objective of the Auction, and will depend on the Bids submitted by participants in the Auction.

In a given round of the End-State Auction, the Market-Clearing Price determined for a TCC that is valid for multiple Capability Periods will equal the sum of the Market-Clearing Prices for shorter-term TCCs with the same Point of Injection and Point of Withdrawal, which in aggregate cover the same period for which the longer-term TCC is valid. (For example, the price of a TCC that is valid from May 2001 through April 2003 would equal the sum of the prices in that round for (1) TCCs valid from May 2001 through April 2002 and (2) TCCs valid from May 2002 through April 2003.)

The End-State Auction will include two stages, with each stage including multiple rounds of bidding, as described elsewhere in this Attachment.

Transmission ~~Capacity~~capacity that can be used to support TCCs sold in End-State Auctions shall include all transmission ~~Capacity~~capacity except that necessary to support the following: Original Residual TCCs that the Transmission Owners sell directly in advance of the Auction; any TCCs previously allocated (either in an Auction or through other means) that have not been offered for sale in this Auction; and transmission ~~Capacity~~capacity needed to support Grandfathered Rights.

The End-State Auction will allow reconfiguration of the TCCs sold in the previous Auctions. An entity holding a five-year TCC, for example, may release a TCC for some or all of the period for which that TCC is valid for sale in the End-State Auction.

If necessary, the ISO may elect to conduct a semi-annual Auction to sell six-month TCCs between annual End-State Auctions. The transmission ~~Capacity~~capacity that can be used to support TCCs purchased in this Auction shall include the portion of the transmission ~~Capacity~~capacity sold in the previous End-State Auction as six-month TCCs, as well as any other outstanding TCC whose Primary Holder elects to release it for sale in this Auction.

8.5 Reconfiguration Auctions

A Reconfiguration Auction is an auction in which monthly TCCs may be offered and purchased. This will allow Market Participants to purchase and sell short-term

TCCs. Reconfiguration Auctions will also capture short-term changes in transmission ~~Capacity~~capacity. Following each Initial or End-State Auction, the ISO will conduct Reconfiguration Auctions. ~~The Reconfiguration Auctions will be held~~ monthly and TCCs purchased in Reconfiguration Auctions will be valid for the month following the Reconfiguration Auction. A Reconfiguration Auction will consist of a single round. Any Primary Holder of a TCC, including a purchaser of a TCC in an Auction that has not sold that TCC and a Transmission Owner that is the Primary Owner of an ETCNL TCC or RCRR TCC, may offer that TCC for sale in a Reconfiguration Auction. The transmission ~~Capacity~~capacity used to support these TCCs, as well as any other transmission ~~Capacity~~capacity not required to support already-outstanding TCCs, will be available to support TCCs purchased in the Reconfiguration Auction.

9.0 Procedures for Sales of TCCs in Each Auction

9.1 Auction Structure

Eligibility to Bid in Stage 1 and Stage 2 - TCCs may be offered for sale in each stage of the Auction. Primary Owners (who have not sold their TCCs in a Direct Sale), purchasers of TCCs in Direct Sales (who qualify as Primary Holders), and purchasers of TCCs in previous Auctions (who have not subsequently sold their TCCs) may offer

TCCs for sale in Stage 1. If they do so, they must specify all of the TCCs they wish to offer in Stage 1 before Stage 1 begins. The following holders of TCCs may offer to sell TCCs in each round of Stage 2: (i) Primary Owners who did not sell those TCCs in a Direct Sale or in a previous round of the Auction (in either Stage 1 or Stage 2); (ii) purchasers of TCCs in previous rounds of that Auction or in previous Auctions who have not subsequently sold those TCCs through an Auction; and (iii) purchasers of TCCs through a Direct Sale who qualify to become Primary Holders and have not already sold those TCCs through an Auction or through a Direct Sale.

Bid Requirements - Bidders shall submit Bids into the Auction in accordance with this Attachment. Bidders shall submit Bids such that the sum of the value of its Bids (excluding Bids for TCCs already held by that bidder) shall not exceed that bidder's ability to pay for TCCs.

Bidding Rounds - Bidders shall be awarded TCCs in each round of the Auction and shall be charged the market clearing price for that round, as defined in this Attachment, for all TCCs they purchase. For purposes of determining payments to Primary Holders who release TCCs into the Auction, each Primary Holder that offers TCCs for sale in Stage 1 of the Auction shall be deemed to have offered a portion of

those TCCs for sale in each round of Stage 1 based on the scaling factors defined by the ISO for each round of the Auction (as further defined below). Prior to each Auction, the ISO shall determine the percentage of TCCs to be offered for sale in each round of Stage 1 of the Auction, such that all of the TCCs offered for sale in Stage 1 shall be offered by the last round of Stage 1. The percentages may be different in each round. The “scaling factor” for each round in Stage 1 shall equal the percentage of TCCs to be sold in Stage 1 that have not already been sold in a previous round of Stage 1, divided by the percentage of TCCs to be sold in that round of Stage 1. TCCs that may be sold in each round shall be determined by dividing the TCCs offered for sale in Stage 1 by the scaling factor applicable to that round (See examples in Section 9.9 of this Attachment M).

Stage 2 of the Auction shall terminate: (i) if no Primary Owner of a Grandfathered TCC, Original Residual TCC, ETCNL TCC, or RCRR TCC, and no purchaser of TCCs in an earlier round of the Auction offers to sell any TCCs in a round; (ii) if no TCCs are purchased or sold in two (2) consecutive rounds; or (iii) upon the satisfaction of other criteria defined by the ISO.

Primary Holders - The ISO shall make all Day-Ahead Congestion Rent Settlements with Primary Holders.

Reconfiguration Auctions - All rules stated in this Section 9.0 for Stage 1 of an Initial or an End-State Auction shall also apply to Reconfiguration Auctions. The scaling factor for the single round of a Reconfiguration Auction shall be one, since all transmission ~~Capacity~~capacity other than that needed to support already-outstanding TCCs and Grandfathered Rights will be available to support TCCs sold in the Auction.

9.2 Responsibilities of the ISO

The ISO shall establish the Auction rules and procedures consistent with this Tariff. The ISO shall conduct the Optimal Power Flows in each round of the Auction. The ISO will verify that the Optimal Power Flows calculated in each round of the Auction corresponds to a simultaneously feasible Power Flow as described in Section 9.7 of this Attachment M. The ISO shall

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notify the Transmission Owners if: (1) the Optimal Power Flow results calculated are inaccurate; or (2) the Optimal Power Flow is not calculated in accordance with the correct procedure.

Additionally, the ISO will determine the information pertaining to the Auction to be made available to Auction participants over the OASIS and publish information on its OASIS accordingly. The ISO will identify the details to be included in development of the Auction software and arrange for development of the software.

The ISO will evaluate each bidder's ability to pay for TCCs. As a result of this evaluation, the ISO will state a limit before the Auction on the value of the TCCs that the entity may be awarded in Direct Sales or in the Auction, and collect signed statements from each entity bidding into the Auction committing that entity to pay for any TCCs that it is awarded in the Auction. Bidders will not be permitted to submit

bids that exceed this allowable limit. The ISO shall not reveal the Bid Prices submitted by any bidder in the Auction until six months following the date of the Auction. When these Bid Prices are posted, the names of the bidders shall not be publicly revealed, but the data shall be posted in a way that permits third parties to track each individual bidder's bids over time.

The ISO will settle all Centralized TCC Auctions and Reconfiguration Auctions, and will settle all Congestion settlements related to the Day-Ahead Market, pursuant to Attachment N.

9.3 Additional Responsibilities of the ISO

The ISO shall be capable of completing the Auction within the time frame specified in this Attachment.

The ISO will establish an auditable information

system to facilitate analysis and acceptance or rejection of Bids, and to provide a record of all Bids and, **the creation, allocation, and conversion of AARs, and the conversion of ETAs into TCCs with a duration of ten years. The ISO shall also** provide all necessary assistance in the resolution of disputes that arise from questions regarding the acceptance, rejection, award and recording of Bids, **the exercise of rights to convert AARs into TCCs or ETAs into AARs and TCCs with a duration of ten years pursuant to Sections 2A and 2B above.** The ISO will establish a system to communicate Auction-related information to all Auction participants between rounds of the Auction. (This last requirement will not apply to single-round Auctions.)

The ISO will receive Bids to buy TCCs from any entity that meets the eligibility criteria established in Section 11.0 of this Tariff and will implement the Auction bidding rules previously established by the ISO.

The ISO will be required to solve Optimum Power Flows for the NYS Transmission System; properly utilize an Optimum Power Flow program to determine the set of winning Bids for each round of the Auction; and calculate the market clearing price of all TCCs at the conclusion of each round of the Auction, in the manner described in this Attachment.

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9.4 Responsibilities of each Bidder

Each bidder shall submit the following information with its Bids: (i) the number of TCCs for which an offer to purchase is made, (ii) the Bid Price (in \$/TCC) which represents the maximum amount the bidder is willing to pay for the TCC (Bid Prices may be negative, indicating that a bidder would have to be paid in order to accept a TCC); (iii) the location of the Point of Injection and the Point of Withdrawal for the TCC to which the Bid applies (these locations may be any locations for which the ISO calculates an LBMP); (iv) if the Auction is an Initial Auction, the duration in multiples of Capability Periods of the TCC for which the bidder is bidding; and (v) if the Auction is an End-State Auction, the points in time at which the TCC bid upon begins to be valid (which must be the beginning of a Capability Period) and at which the TCC bid upon ceases to be valid (which must be the end of a Capability Period, and which may not extend beyond the last point in time for which TCCs will be available in that Auction). Additionally, if the ISO offers TCCs for sale that are valid in sub-periods (e.g., on-peak or off-peak TCCs), this information must also be provided by the Bidder.

Each bidder must submit such information to the ISO regarding the bidder's or LSE's creditworthiness as the ISO may require, along with a statement signed by the bidder, or LSE

representing that the bidder or LSE is financially able and willing to pay for the TCCs for which it is bidding or converting. The aggregate value of the Bids submitted by any bidder into the Auction shall not exceed that bidder's ability to pay or the maximum value of Bids that bidder is permitted to place, as determined by the ISO (based on an analysis of that bidder's creditworthiness).

Each bidder must pay the market clearing price for each TCC it is awarded in the Auction.

9.4a Responsibilities of LSEs that Obtain TCCs with a Duration of Ten Years or AARs Under Sections 2A and 2B

Each LSE that obtains a TCC with a duration of ten years or an AAR under Sections 2A and 2B of this Attachment M and must submit such information to the ISO regarding its creditworthiness as the ISO may require, along with a statement signed by the LSE representing that it is financially able and willing to pay for the TCCs it is obtaining. Each such LSE must also: (i) comply with the applicable TCC and AAR conversion deadlines established by the ISO under Sections 2A and 2B; and (ii) pay the price determined pursuant to Sections 2A and 2B, as applicable.

9.5 Selection of Winning Bids and Determination of the Market Clearing Price

The ISO shall determine the winning set of Bids in each round of the Auction as follows: (i) the ISO shall use an Optimal Power Flow program with the initial assumptions identified by the ISO; (ii) the Optimal Power Flow shall use the same Reference Bus and system security Constraints assumptions as used by the ISO; (iii) the ISO shall select the set of Bids that maximizes the value of the TCCs awarded to the winning bidders; (iv) the aggregate market value of the TCCs awarded to each bidder

shall not exceed that bidder's ability to pay, since each bidder is not allowed to Bid more than its ability to pay as determined by the ISO; and (v) the selected set of Bids must be simultaneously feasible as described in this Attachment.

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In the Initial Auction, if the ISO elects to perform separate Auctions for on-peak and off-peak TCCs, the procedure used to select winning Bids in an on-peak Auction will not depend on winning Bids selected in an off-peak Auction; nor shall the procedure used to select winning Bids in an off-peak Auction depend on winning Bids selected in an on-peak Auction.

The market clearing price for each TCC in each round of Stages 1 and 2 of an Auction shall be determined using a similar algorithm to that used to determine LBMPs (refer to Attachment J). The market clearing price for each TCC shall be based on the lowest winning Bid made in that round for that TCC (or for other TCCs if injections and withdrawals corresponding to those TCCs would have the same impact on flows over congested Interfaces as injections and withdrawals corresponding to that TCC).

9.6 Billing

Charges for TCCs awarded in the Auction **, and charges for TCCs that are converted from AARs by LSEs before an Auction,** shall be billed upon completion of the Auction process.

9.7 Simultaneous Feasibility

The set of winning Bids selected in each round of Stage 1 shall correspond to a simultaneously feasible Power Flow, with the exception of the End-State Auction. In the

End-State Auction, multiple Power Flows will be conducted in each round. One Power Flow will correspond to each of the Capability Periods for which TCCs are offered for Sale in that Auction. The set of winning Bids for any given round of an End-State Auction shall correspond to a simultaneously feasible Power Flow in each of the Capability Periods for which TCCs are available in the Auction. References in the remainder of this ~~Section~~Section 9.7 to “Power Flow” shall, in the case of the End-State Auction, be understood as referring to the “Power Flow for each of the Capability Periods for which TCCs are available in the Auction.”

The Power Flow must be able to accommodate in each Stage 1 round injections and withdrawals corresponding to each of the following TCCs and Grandfathered Rights:

(i) TCCs not offered for sale in Stage 1, including Grandfathered TCCs, Original Residual TCCs, or any other existing TCCs whether purchased in a previous Auction or otherwise acquired that are valid for any part of the duration of any TCCs to be sold in Stage 1; (ii) Grandfathered Rights; (iii) TCCs awarded in earlier rounds of Stage 1 (if applicable); and (iv) TCCs awarded in the current round of Stage 1. Each injection and withdrawal associated with TCCs and Grandfathered Rights will be multiplied by a scaling factor which apportions

the transmission ~~Capacity~~capacity available in Stage 1 among each of the rounds in Stage 1. The use of this scaling factor is illustrated in the example in Section 9.9 of this Attachment M.

The set of winning Bids selected in each round of Stage 2 shall correspond to a simultaneously feasible Power Flow that can accommodate injections and withdrawals corresponding to the following: (i) TCCs not offered for sale in the current round of Stage 2 of the Auction which include Grandfathered TCCs, Original Residual TCCs, or any other existing TCCs whether purchased in a previous round or Auction or otherwise acquired that are valid for any part of the duration of any TCCs to be sold in Stage 2; (ii) Grandfathered Rights; and (iii) TCCs awarded in the current round of Stage 2.

A set of injections and withdrawals shall be judged simultaneously feasible if it would not cause any thermal, voltage, or stability violations within the NYCA for base case conditions or any monitored contingencies.

When performing Power Flows for the purpose of determining simultaneous feasibility, injections for TCCs that specify a Load Zone as the Point of Injection will be modeled as a set of injections at each Load bus in the

Load Zone containing the Point of Injection (Generator buses will be used until the ISO's software can accommodate Load buses) equal to the product of the number of TCCs and the ratio of Load served at each bus to Load served in the Load Zone, based on the bus Loads used in calculating zonal LBMPs.

When performing the above Power Flows, withdrawals for TCCs that specify a Load Zone as the Point of Withdrawal will be modeled as a set of withdrawals at each Load bus in the Load Zone containing the Point of Withdrawal (Generator buses will be used until the ISO's software can accommodate Load buses) equal to the product of the number of TCCs and the ratio of the Load served at each bus to the total Load served in the Load Zone based on the ISO's estimate of the bus Loads used in calculating the Zonal LBMPs.

The Power Flow simulations shall take into consideration the effects of parallel flows on the transmission ~~Capacity~~capacity of the NYS Transmission System when determining which sets of injections and withdrawals are simultaneously feasible.

9.8 Information to be Made Available to Bidders

The ISO shall provide over the ISO's OASIS the expected non-simultaneous
Total

Transfer Capability for each Interface (as displayed on the OASIS).

The ISO shall make the following information available before each Initial, End-State, or Reconfiguration Auction:

(i) for each Generator bus, external bus and Load Zone for the previous ten (10) Capability Periods, if available, (a) the average Congestion Component of the LBMP, relative to the Reference Bus, and (b) the average Marginal Losses Component of the LBMP, relative to the Reference Bus;

(ii) for the previous two Capability Periods, (a) historical flow histograms for each of the closed Interfaces, and (b) historically, the number of hours that the most limiting facilities were physically constrained;

(iii) (a) Power Flow data to be used as the starting point for the Auction, including all assumptions, (b) assumptions made by the ISO relating to transmission maintenance outage schedules, (c) all limits associated with transmission facilities, contingencies, thermal, voltage and stability to be

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monitored as Constraints in the Optimum Power Flow determination, and
(d) the ISO summer and winter operating study results (non-simultaneous
Interface Transfer Capabilities);

- (iv) on its website no fewer than five (5) business days prior to the date on which a Centralized TCC Auction will begin, the number of megawatts of each set of ETCNL that each Transmission Owner has elected to convert to ETCNL TCCs for the Centralized TCC Auction and the RCRRs that each Transmission Owner has elected to convert to RCRR TCCs for the Centralized TCC Auction.
- (v) between each round of bidding during the Auction, for all bidders bidding in subsequent rounds, the Market-Clearing Price, stated relative to the Reference Bus for each Generator bus, External bus and Load Zone; and
- (vi) for each TCC awarded in each round, (a) the number of TCCs awarded, (b) the Point of Injection and Point of Withdrawal for that TCC, (c) the market clearing price for the TCC, and (d) the Auction participant awarded the TCC.

Items (i), (ii), (iii), and (v) above shall be made available separately for on-peak and off-peak periods, if on-peak and off-peak TCCs will be separately available for purchase in the upcoming Auction.

9.9 Auction Example

The following example is for purposes of illustration. For the purposes of this example, assume that the ISO has determined that one-fourth of the transmission

~~Capacity~~capacity

that has been offered for sale in Stage 1 will be available to support TCCs purchased in each of four Stage 1 rounds.

The example illustrates a sub-auction of an Initial Auction. It can also be used to illustrate the operation of the End-State Auction, if one makes the additional assumption that all bidders have offered to purchase TCCs of the same length, and that all sellers have released TCCs of that same length.

Round 1a

In the first round of Stage 1 (round 1a), suppose that 100 TCCs from location X to location Y are offered for sale into Stage 1 of the Auction, and four (4) Bids have been received by the auctioneer for TCCs from location X to location Y, as follows:

Company A Bids for 50 TCCs @ \$5.00/TCC

Company B Bids for 50 TCCs @ \$4.00/TCC

Company C Bids for 20 TCCs @ \$2.00/TCC

Company D Bids for 10 TCCs @ \$1.00/TCC

For the sake of simplicity, assume in this example that 100 TCCs from location X to location Y will actually be allocated in Stage 1 of the Auction, although in practice, the number of TCCs that would be available between those locations in Stage 1 would

depend on the number of TCCs that were allocated between other locations on the transmission system, and could actually change from round to round within Stage 1.

Since one-fourth of the transmission ~~Capacity~~capacity that has been offered for sale in Stage 1 is to be sold in round 1a, the number of TCCs specified in each of the Bids above is multiplied by a scaling factor of four:

Company	Scaled Number of TCCs Company Offers to Purchase	Bid Price
A	200	\$5/TCC
B	200	\$4/TCC
C	80	\$2/TCC
D	40	\$1/TCC

Since 100 TCCs are available from location X to location Y, Company A would be the only company that would receive TCCs in the current round, because its Bid is the highest Bid, in \$/TCC terms, and its scaled Bid for 200 TCCs exceeds the 100 TCCs available. Company A would be the winning bidder, and the market clearing price for TCCs in this round would be Company A's Bid of \$5/TCC.

However, Company A would not actually be awarded 100 TCCs. Each winning Bid in each Stage 1 round will be divided by the scaling factor used for that round to

determine the number of TCCs that would be awarded to each winning bidder. Thus, Company A's winning Bid for 100 scaled TCCs would be converted into an actual award of $100 \text{ TCCs} / 4 = 25 \text{ TCCs}$. Company A would be awarded 25 TCCs at the conclusion of round 1a, at a price of \$5/TCC.

Round 1b

Three-fourths of the TCCs that have been offered for sale in Stage 1 remain available after round 1a, so if one-fourth of all the TCCs that have been offered for sale in Stage 1 and to be sold in the second round of Stage 1 (round 1b), then one-third of the TCCs that have been offered for sale in Stage 1 remaining after round 1a must be sold in round 1b (since $1/3 \times 3/4 = 1/4$). Consequently, the scaling factor for round 1b would be three. We have assumed that 75 TCCs will now be available from location X to location Y in round 1b, once the 25 TCCs awarded to Company A in round 1a have been taken into account. Bids (including scaled Bids) into round 1b for TCCs between these locations are given below.

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Company	Number of TCCs Company Offers to Purchase	Scaled Number of TCCs Company Offers to Purchase	Bid Price
A	30	90	\$6/TCC
B	50	150	\$5/TCC
C	20	60	\$3/TCC
D	10	30	\$2/TCC

Since 75 TCCs are available from location X to location Y, Company A would again be the only company that would receive TCCs in this round, because its Bid is the highest Bid, in \$/TCC terms, and its scaled Bid for 90 TCCs exceeds the 75 TCCs available. Company A would be the winning bidder, and the market clearing price for TCCs in this round would be Company A's Bid, which has increased to \$6/TCC in this round.

However, Company A's winning Bid for 75 scaled TCCs would be converted into an actual award of $75 \text{ TCCs} / 3 = 25 \text{ TCCs}$. Company A would be awarded 25 TCCs at the conclusion of round 1b, at a price of \$6/TCC.

Round 1c

Half of the TCCs that have been offered for sale in Stage 1 remain available after rounds 1a and 1b, so half of the remaining TCCs that have been offered for sale in

Stage 1 must be sold in the third round of Stage 1 (round 1c), making the scaling factor for round 1c equal to two. We have assumed that 50 TCCs will now be available from location X to location Y in round 1c, once the 50 TCCs awarded to Company A in rounds 1a and 1b have been taken into account. Bids (including scaled bids) into round 1c for TCCs between these locations are given below.

Company	Number of TCCs Company Offers to Purchase	Scaled Number of TCCs Company Offers to Purchase	Bid Price
A	10	20	\$5/TCC
B	40	80	\$6/TCC
C	10	40	\$2/TCC
D	10	20	\$7/TCC

Since 50 TCCs are available between these locations, Company D, which now has the highest Bid, would be awarded 20 scaled TCCs, and Company B, which now has the second-highest Bid, would receive the next 30 scaled TCCs. The market clearing price for TCCs in this round would be \$6/TCC, Company B's Bid.

However, the winning Bids would be converted into actual awards of 20 TCCs / 2

= 10 TCCs to Company D, and $30 \text{ TCCs} / 2 = 15 \text{ TCCs}$ to Company B, each at a price of \$6/TCC.

Round 1d

All of the TCCs that have been offered for sale in Stage 1 that remain available after rounds 1a, 1b and 1c will be sold in the fourth round of Stage 1 (round 1d), so the scaling factor for round 1d would be one. In other words, there would be no scaling in round 1d. We have assumed that 25 TCCs will now be available from location X to location Y in round 1b, once the 75 TCCs awarded in rounds 1a, 1b and 1c have been taken into account. Bids into round 1d for TCCs between these locations are given below. (Note that Companies A and D have dropped out of the Auction at this point and Company E has entered the Auction, illustrating that there is no requirement for bidders in earlier rounds to Bid into later rounds or for bidders in later rounds to Bid into earlier rounds.)

Company	Number of TCCs Offers to Purchase	Company	Bid Price
B	15		\$5/TCC
C	20		\$2/TCC
E	20		\$10/TCC

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Since 25 TCCs are available between these locations, Company E, which now has the highest Bid, would be awarded 20 TCCs, and Company B, which has the second-highest Bid, would receive the last 5 TCCs. The market clearing price for TCCs in this round would be \$5/TCC, Company B's Bid.

Stage 1 Summary

TCCs awarded from location X to location Y in Stage 1, and the prices paid for those TCCs, are as follows:

Company	Round	TCCs Awarded	Price
A	1a	25	\$5/TCC
A	1b	25	\$6/TCC
B	1c	15	\$6/TCC
B	1d	5	\$5/TCC
D	1c	10	\$6/TCC
E	1d	20	\$5/TCC

In this example, all revenues from this Auction would be paid to the holders of the 100 Original Residual TCCs from location X to location Y that released those TCCs for sale into Stage 1 of the Auction.

Stage 2

In the first round of Stage 2 (round 2a), assume that Company F, which holds 50 TCCs from location X to location Y (that it received as a result of a grandfathered transmission agreement) releases those TCCs for sale into the Auction. In addition, suppose that Company E releases the 20 TCCs from location X to location Y that it purchased in Stage 1 for sale into round 2a of the Auction, so that a total of 70 TCCs from location X to location Y have been released for sale into round 2a. Although it is possible that more or fewer than 70 TCCs from location X to location Y will actually be sold, depending on Bids made for TCCs between other locations, assume for purposes of the example that only 70 TCCs between these two locations are actually sold in round 2a. Bids into round 2a are as follows:

Company	Number of TCCs Company Offers to Purchase	Bid Price
B	40	\$5/TCC
C	40	\$4/TCC
D	40	\$9/TCC

Company G, the highest bidder, would be awarded 40 TCCs, and Company B, the second highest bidder, would be awarded the remaining 30 TCCs. The Market Clearing

Price in round 2a would be Company B's Bid, \$5/TCC, so the winning bidders in round 2a would pay \$5/TCC for the TCCs they are awarded in round 2a. Companies E and F would be paid \$5/TCC for each TCC from location X to location Y that they released for sale into the Auction.

Subsequent rounds in Stage 2 would proceed in the same manner as round 2a.

10.0 Secondary Market for TCCs

After the conclusion of each Auction, all Primary Holders may sell their TCCs in the Secondary Markets, unless otherwise provided in this Attachment M. However, the ISO shall make all Settlements with Primary Holders. Buyers in a Secondary Market that elect to become Primary Holders must meet the eligibility criteria in Section 9.0 of this Attachment M.

11.0 Emergency TCC Auction Remedial Authority for the 2004 Summer Capability Period

During the 2004 Summer Capability Period only, the ISO may take the following actions to remedy its oversale in TCC auctions, during the period between the Spring 2004 Centralized TCC Auction and the end of the 2004 Summer Capability Period, of 912 MW of transmission Capacity ~~Capacity~~Capacity between the Indian Point 3 bus and Load Zone J (New York City) ("Oversales"):

- (i) solicit voluntary offers to sell TCCs to the ISO solely for immediate retirement, and voluntary offers to purchase counterflow TCCs, which the ISO may create and sell pursuant to this Section 11.0 only, from Market Participants, and to accept those offers that it determines, on an optimized, least-cost basis, will extinguish as much of the infeasibility attributable to the Oversales as is economically practicable;
- (ii) use net excess TCC auction revenues, *i.e.* TCC auction revenues currently held by Transmission Owners that are attributable to the Oversales, minus Congestion Rent Shortfalls assigned to those Transmission Owners through July 11, 2004, to fund the extinguishments described in (i) above;
- (iii) use remaining net excess TCC auction revenues to the extent that any remain after their use in (ii) above, to compensate remaining Transmission Owners for the amount by which Congestion Rent Shortfalls attributable

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to the Oversales that they have funded from the start of the 2004 Summer Capability Period through and including July 11, 2004 exceed revenues paid to a Transmission Owner as a result of the Oversale in the Spring 2004 Centralized TCC Auction;

- (iv) use net excess TCC auction revenues, to the extent that any remain after their use in (iii) above, to fund any remaining Congestion Rent Shortfalls that are attributable to the Oversales and that occur in the Summer 2004 Capability period; and
- (v) to the extent that net excess TCC auction revenues are insufficient to make the payments described in (ii), (iii), and (iv) above, to draw on up to \$ 27 million from the ISO's Working Capital Fund, which is described in Attachment V to the ISO OATT, to make such payments.

The ISO shall not be required to purchase TCCs in the Reconfiguration Auctions conducted for the remaining months in the Summer 2004 Capability Period.

12.0 Historic Period Refunds and Payments for Current Shortfalls Under the July 13, 2004 TCC Settlement Agreement

The ISO shall calculate "Historic Shortfalls" in the manner described in Article III of the Settlement Agreement in Docket Nos. EL04-110, EL04-113, EL04-115 and ER04-983 that was approved by the Commission on July 13, 2004. It shall refund these Historic Shortfalls to the

Transmission Owners using the procedures and funding mechanisms, including the rules governing the replenishment of the ISO Working Capital Fund, that are set forth in the Settlement Agreement. The Shortfall Reimbursement Surcharge referenced in the Settlement Agreement is established in Section 2.3 of Part IV of Attachment B to the Services Tariff and Section 2.3 of Attachment N to the OATT.

To the extent necessary, the ISO may also use funds collected through the Shortfall Reimbursement Surcharge to make payments for “Current Shortfalls” pursuant to Article II.B of the Settlement Agreement.

Attachment M
 Table 1

Table 1 - TCC Reservations Subject to MW Reduction																	
Reservation	Name	From	To	Sum MW	Win MW	Interface Allocations					Summer Period						
						DE	WC	VE	MoS	TE	US	UC	MS	DS	CE LI		
1	Con Edison	Bowline	Bowline	Con Edison	801	801								801	768	584	
2	Con Edison	ST4 HO	Con Ed - North	Con Edison	400	208								400	384	292	
3	Con Edison	Gilboa	Con Ed - North	Con Edison	125	125								125	120	91	
4	Con Edison	Roseton	Roseton GN1	Con Edison	480	480								480	461	351	
5	Con Edison	Corinth	Con Ed - North	Con Edison	134	134								134	129	98	
6	Con Edison	Sithe	Con Ed - North	Con Edison	837	837								837	803	611	
7	Con Edison	Selkirk	Selkirk	Con Edison	265	265								265	254	193	
8	Con Edison	IP2	Indian Pt 2	Con Edison	893	893								893	893	679	
9	Con Edison	IP3	Indian Pt 3	Con Edison	108	108								108	108	82	
10	Con Edison	IP Gas Turbine	IP GT Buchanan	Con Edison	48	48								48	48	36	
11	NMPC	NMP1	NMP1	NMPC East	610	610			610		610						
12	NMPC	NMP2	NMP2	NMPC East	460	460			460		460						
13	NMPC	Hydro North	Colton	NMPC East	110	110					110						
14	NYSEG	Homer City	Homer City	NYSEG Cent.	863	863	863	863									
15	NYSEG	Homer City	Homer City	NYSEG West	100	100											
16	NYSEG	Allegheny 8&9	Pierce Rd 230kV	NYSEG Cent.	37	37	37	37									
17	NYSEG	BCLP	Homer City	NYSEG Cent.	80	80	80	80									
18	NYSEG	LEA (Lockport)	NYSEG West	NYSEG Cent.	100	100	100	100									
19	NYSEG	Gilboa	Gilboa	NYSEG Mech	99	99											
20	SENY (2) (4)	Niagara OATT Reservation	Niagara	Con Edison	422	422	422 ³	422 ³	422 ³		422 ³	422 ³	422 ³	422 ³	422 ³	422 ³	
21	SENY (2) (4)	St. Lawrence OATT Reserv.	St. Lawrence	Con Edison	178	178				178 ³	178 ³	178 ³	178 ³	178 ³	178 ³	178 ³	

Notes: 1. Interface Designations: DE - Dysinger East WC - West Central VE - Volney East
 MoS - Moses South TE - Total East US - UPNY/SENY
 UC - UPNY/Con Ed MS - Millwood South DS - Dunwoodie South
 CE-LI - Con Ed/LILCO

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2. Subject to NYPA's obtaining non-discriminatory long term firm reservation through 2017 under their OATT.
3. NYPA's TCCs allocated to their SENY Governmental Load Customers, across UPNY/Con Ed, Millwood South and Dunwoodie South will be up to 600 MW, or amounts otherwise available to NYPA pursuant to the grandfathered rights applicable under the Planning & Supply and Delivery Services Agreement between NYPA and Con Edison dated March 1989.
4. NYPA's TCCs allocated to their SENY Governmental Load Customers will terminate on the earlier of December 31, 2017 or when NYPA no longer has an obligation to serve any SENY Loads or the retirement or sale of both IP#3 and Poletti.

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Attachment M
 Table 2

TABLE 2- ETCNL Data for Converting ETCNL to ETCNL TCCs					
	Holder of ETCNL	Name of Set of ETCNL	Point of Injection	Point of Withdrawal	Transmission Capacity (MW)
1.	Con Edison	Native Load-Bowline	Bowline	Millwood Zone	33
2.	Con Edison	Native Load-Bowline	Bowline	Dunwoodie Zone	184
3.	Con Edison	Native Load-Bowline	Bowline	NYC Zone	584
4.	Con Edison	Native Load- HQ Capacity Purchase	Pleasant Valley 345kV	Millwood Zone	16/8
5.	Con Edison	Native Load- HQ Capacity Purchase	Pleasant Valley 345kV	Dunwoodie Zone	92/48
6.	Con Edison	Native Load- HQ Capacity Purchase	Pleasant Valley 345kV	NYCZone	292/152
7.	Con Edison	Native Load - Gilboa	Pleasant Valley 345kV	Millwood Zone	5
8.	Con Edison	Native Load - Gilboa	Pleasant Valley 345kV	Dunwoodie Zone	29
9.	Con Edison	Native Load - Gilboa	Pleasant Valley 345kV	NYC Zone	91
10.	Con Edison	Native Load - Roseton	Roseton-#1	Millwood Zone	19
11.	Con Edison	Native Load - Roseton	Roseton-#1	Dunwoodie Zone	110
12.	Con Edison	Native Load - Roseton	Roseton-#1	NYC Zone	351
13.	Con Edison	Native Load - Corinth	Pleasant Valley 345kV	Millwood Zone	5
14.	Con Edison	Native Load - Corinth	Pleasant Valley 345kV	Dunwoodie Zone	31
15.	Con Edison	Native Load - Corinth	Pleasant Valley 345kV	NYC Zone	98
16.	Con Edison	Native Load - Sithe	Pleasant Valley 345kV	Millwood Zone	34
17.	Con Edison	Native Load - Sithe	Pleasant Valley 345kV	Dunwoodie Zone	192
18.	Con Edison	Native Load - Sithe	Pleasant Valley 345kV	NYC Zone	611
19.	Con Edison	Native Load - Selkirk	Pleasant Valley 345kV	Millwood Zone	11
20.	Con Edison	Native Load - Selkirk	Pleasant Valley 345kV	Dunwoodie Zone	61

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Attachment M
 Table 2 (continued)

TABLE 2- ETCNL Data for Converting ETCNL to ETCNL TCCs					
	Holder of ETCNL	Name of Set of ETCNL	Point of Injection	Point of Withdrawal	Transmission Capacity (MW)¹
21.	Con Edison	Native Load - Selkirk	Pleasant Valley 345kV	NYC Zone	193
22.	Con Edison	Native Load - IP2	Indian Pt 2	Dunwoodie Zone	214
23.	Con Edison	Native Load - IP2	Indian Pt 2	NYC Zone	679
24.	Con Edison	Native Load - IP3	Indian Pt 3	Dunwoodie Zone	26
25.	Con Edison	Native Load - IP3	Indian Pt 3	NYC Zone	82
26.	Con Edison	Native Load - IP Gas Turbine	Indian Pt.-GT Buchanan	Dunwoodie Zone	12
27.	Con Edison	Native Load - IP Gas Turbine	Indian Pt.-GT Buchanan	NYC Zone	36
28.	NMPC	Native Load - NMP1	Nine Mile Pt. #1	Capital Zone	610
29.	NMPC	Native Load - NMP2	Nine Mile Pt. #2	Capital Zone	460
30.	NMPC	Native Load - Hydro North	Colton Hydro	Capital Zone	110
31.	NYSEG	Native Load - Homer City	PJM Proxy Bus	Central Zone	863
32.	NYSEG	Native Load - Homer City	PJM Proxy Bus	West Zone	100
33.	NYSEG	Native Load - Allegheny 8&9	PJM Proxy Bus	Central Zone	37
34.	NYSEG	Native Load - BCLP	PJM Proxy Bus	Central Zone	80
35.	NYSEG	Native Load - LEA (Lockport)	Gardenville 115kV	Central Zone	100
36.	NYSEG	Native Load - Gilboa	Gilboa	Capital Zone	99

Notes: 1. Where two different amounts of transmission Capacity are separated by a “/”, the first number shall indicate the transmission Capacity available for conversion to ETCNL TCCs in a Centralized TCC Auction held for a Summer Capability Period, and the second number shall indicate the transmission Capacity available for conversion to ETCNL TCCs in a Centralized TCC Auction held for a Winter Capability Period.

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Split/Merged cell	
Padding cell	

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