

Shortfall Reduction Procedures

Market Structures Working Group

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SHORTFALL REDUCTION PROCEDURES

There is a potential for full funding of TCCs to lead to large swings in the TSC when there are substantial unanticipated changes in congestion costs.

- Full funding of TCCs based on all lines in transfer capability necessarily entails TSC funding of TCCs at DAM prices during transmission outages.
- If DAM prices are substantially higher than those anticipated in the forward auction, charges to the TSC account during outages may exceed total TSC auction revenue credits.
- Unexpectedly high congestion DAM congestion charges can arise during a particular capability period due to unanticipated fuel price changes, unusual generation outages, extreme weather conditions, or unusual transmission outage conditions.

SHORTFALL REDUCTION PROCEDURES

The proposed shortfall reduction procedure will cushion the impact of full funding of TCCs on the level of the TSC during periods in which DAM congestion costs differ from those expected in the forward auction.

- If there is no consistent difference between DAM congestion costs and those priced in forward auctions, the proposed procedure will not affect the level of the TSC.

Additionally, and more importantly, the proposed shortfall reduction procedure provides a mechanism to sell a set of TCCs that will more closely reflect the expected transmission capability available in the DAM.

SHORTFALL REDUCTION PROCEDURES

The shortfall reduction procedure has five components:

- Each transmission owner may choose to designate a proportion of its ETCNL and Residual Capacity Revenue Rights (RCRR) for valuation at DAM prices rather than at auction (capability period or monthly) prices.
- ETCNL and RCRR designated for valuation at DAM prices will not support the sale of TCCs in forward auctions.
- The amount of ETCNL and RCRR designated for valuation at DAM prices and not available to support the sale of TCCs in forward auctions will be capped at a percentage determined by the NYISO. The initial percentage will be 5 percent.

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- The cap will be based on a historical ratio of DAM congestion rent shortfall to DAM congestion rents and subject to periodic adjustment by the NYISO supported by a filing at FERC for any increase above the initial 5%, with a maximum change upward from capability period to capability period of 2 percent. The NYISO may raise or lower the allowable reduction in the 0% to 5% range without a filing at FERC.
- ETCNL and RCRR designated for valuation in the DAM will be settled like TCCs in the DAM with the revenues credited to the appropriate transmission owner's TSC account.

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Prior to each auction the NYISO verifies the simultaneous feasibility of existing ETCNL entitlements accounting for all Grandfathered Rights and TCCs, and any previously awarded long-term TCCs that are effective for the upcoming auction.

- In addition, the NYISO will define sufficient point-to-point (zone-to-zone) RCRR to exhaust the transfer capability across each key interface. The RCRR must be simultaneously feasible with all other entitlements.
- The RCRR will be assigned to the TSC accounts of the appropriate transmission owner based on predetermined allocation factors.
- The RCRR allocation factors for each interface will be determined based on the past allocation of residual auction revenues across that interface.

SHORTFALL REDUCTION PROCEDURES

The proposed shortfall reduction procedure will preserve the incentives of the make-whole approach.

- Lower transmission owner outage costs will reduce the TSC; higher outage costs will increase it.
- There will be no cost shifting across transmission owner customers.

By reserving a percentage of the ETCNL and RCRR from the auctions, a set of TCCs will be sold which more closely reflect the expected transfer capability of the transmission system reducing the DAM congestion shortfalls to which the TOs are exposed.