

Reserving Transfer Capability for Balance-of-Period TCC Auctions

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Agenda

- Release of Transfer Capability in Centralized TCC Auctions
- Proposal to Reserve Transfer Capability for Balance-of-Period TCC Auctions
- Assessing Interest in Monthly TCCs
- Implementation Requirements and Conclusion



Release of Transfer Capability in Centralized TCC Auctions

Simultaneous Feasibility Test

- Every spring and fall, the ISO conducts a Centralized TCC Auction. The number of TCCs that can be awarded in each of these auctions is limited by the simultaneous feasibility test.
 - To pass this test, the grid must be able to accommodate injections and withdrawals corresponding to all TCCs that are outstanding at the end of each of these auctions.
 - If the simultaneous feasibility test is passed (and there are no other changes on the grid between the auction and the day-ahead market), all payments to TCC holders can be funded using congestion rents collected in the DAM.

Previously Awarded TCCs

- TCCs that are valid during the capability period following a given Centralized TCC Auction are modeled as fixed injections and withdrawals in the simultaneous feasibility tests conducted for that auction.
- These TCCs include the following TCCs defined outside the auctions:
 - Grandfathered TCCs (and Grandfathered Rights).
 - Historic Fixed Price TCCs.
 - Incremental TCCs.
 - ETCNL TCCs and RCRR TCCs.
- They also include TCCs awarded in previous auctions.

Remaining Transfer Capability

- TCCs awarded in the Centralized TCC Auction may utilize the remaining transfer capability.
- This is required by the ISO's OATT:
 - "In each Centralized TCC Auction, the following transmission Capacity not required to support already-outstanding TCCs or Grandfathered Rights ... shall be available to support TCCs that can be purchased in that Centralized TCC Auction." (OATT Section 19.8.3.)

Spring 2019 Allocation

- For example, before the recently concluded Spring 2019 Centralized TCC Auction:
 - 30 percent of available system transfer capability had been used to support TCCs sold in previous auctions.
- Of the remaining 70 percent:
 - 5 percent was allocated to two-year TCCs valid beginning in Summer 2019.
 - 20 percent was allocated to one-year TCCs valid beginning in Summer 2019.
 - 45 percent was allocated to six-month TCCs valid during Summer 2019.



Proposal to Reserve Transfer Capability for BOP TCC Auctions

Balance-of-Period TCC Auctions

- In late 2017, the ISO began to conduct balance-of-period (BOP) TCC Auctions.
 - In each BOP TCC Auction, TCCs valid during each month of the capability period can be separately purchased.
 - For example, in the May 2019 BOP TCC Auction, TCCs valid during each of the six months of the Summer 2019 capability period could be purchased separately.
 - In the June 2019 BOP TCC Auction, TCCs covering June 2019 through October 2019 can be separately purchased.

Transfer Capability Currently Available in BOP TCC Auctions

- Because the ISO must release all available system transfer capability into the Centralized TCC Auctions, TCCs that are purchased in a BOP TCC Auction can only use:
 - Transfer capability that remained unused in the Centralized TCC Auction.
 - Transfer capability from TCCs that are offered for sale in the BOP TCC Auction.
 - Transfer capability on facilities that are modeled as in-service in the BOP TCC Auction but were out-of-service in the Centralized TCC Auction, or which were up-rated in the BOP TCC Auction.

Reserving Transfer Capability for BOP Auctions

- The TOs propose that MPs consider changing the OATT so that it would no longer require the ISO to release all available transfer capability into the Centralized TCC Auction.
 - Instead, the ISO could reserve a portion of that transfer capability and release it into BOP TCC Auctions.
 - This would permit additional monthly TCCs to be purchased in the BOP TCC Auctions.
 - Thus, this addresses a request that has been made in each of the last six pre-auction surveys of auction participants.
- Reserving transfer capability for BOP TCC Auctions would not affect the operation of the day-ahead or real-time markets.

Illustration of Proposal

- Suppose this proposal had been in effect this spring.
- Then, in the Spring 2019 Centralized TCC Auction, of the 70 percent of available system transfer capability that wasn't already used to support previously auctioned TCCs:
 - 5 percent could have been allocated to two-year TCCs valid beginning in Summer 2019.
 - 15 percent could have been allocated to one-year TCCs valid beginning in Summer 2019 (compared to the 20 percent that was actually allocated to one-year TCCs).
 - 40 percent could have been allocated to six-month TCCs valid during Summer 2019 (compared to the 45 percent that was actually allocated to six-month TCCs).
 - The 10 percent made available as a result of these shifts would have been allocated to TCCs valid during each month in Summer 2019, for purchase in BOP TCC Auctions.
- Other allocations are also possible. This is just one possibility.



Assessing Interest in Monthly TCCs

Impact of BOP Prices on Auction Revenue

- One way to assess the likely level of interest in monthly TCCs is to compare:
 - Revenue actually collected for six-month TCCs sold in a given Centralized TCC Auction
 - to
 - The amount of revenue that would have been collected if TCCs with the same POIs and POWs, and valid during the same six months, had been sold at prices for monthly TCCs determined in BOP auctions.
- If the latter regularly exceeds the former, it suggests that auction participants are willing to pay a premium for monthly TCCs.
- In that case, it would be reasonable to reserve transfer capability for the BOP TCC Auction, which would permit additional monthly TCCs to be purchased.

Illustration of Impact of Using BOP Prices

- For example, in Round 4 of the Fall 2017 Centralized TCC Auction, TCCs valid during the Winter 2017-18 capability period with a POI at the reference bus and a POW at Zone A were sold at a price of \$9,681.13 each.
- In the November 2017 BOP TCC Auction, the following prices were determined for TCCs with the same POI and POW:
 - \$2,109.37 for November 2017 TCCs.
 - \$1,619.59 for December 2017 TCCs.
 - \$2,674.86 for January 2018 TCCs.
 - \$2,423.97 for February 2018 TCCs.
 - \$1,603.33 for March 2018 TCCs.
 - \$1,352.70 for April 2018 TCCs.
- These prices sum to \$11,783.82, indicating that the monthly TCCs were valued more highly than the corresponding six-month TCC.

Results of Analysis

- I performed this comparison for all six-month TCCs sold in the last four Centralized TCC Auctions.
 - The ISO collected a total of \$313.4 million from the sale of six-month TCCs in those auctions.
 - If all of those TCCs had been priced at the sum of the monthly prices determined in the November BOP auction (for six-month TCCs sold in fall auctions) or the May BOP auction (for six-month TCCs sold in spring auctions), net revenue collected would have increased to \$343.7 million.

Results of Analysis (cont.)

- Part of this difference may result from changes in expected levels of congestion rents since the six-month sub-auction.
 - But since the BOP auction used in this comparison closely follows the six-month sub-auction, that impact is limited.
- Therefore, much of the difference may indicate a preference for monthly TCCs.
 - This would be consistent with the MMU's prediction that "selling more of the capability of the transmission system in the [BOP] auctions (by holding back a portion of the capability from the six-month auctions) would likely raise the overall amount of revenue collected from the sale of TCCs."



Implementation Requirements and Conclusion

Implementation Requirements

- While this proposal would need to be prioritized, the implementation requirements do not appear to be significant.
 - It would require tariff changes (which appear to be minor).
 - It would require modifications to the ISO's software and procedures for conducting auctions.
 - But since the ISO already must reserve transfer capability in earlier auction rounds to ensure that transfer capability remains for later rounds, those changes don't appear to be significant.
 - It would require modifications to the ISO's software and procedures for allocating TCC auction revenue to the TOs.
 - If a portion of transfer capability is reserved for the BOP rounds, a matching portion of payments to ETCNL holders should be based on BOP prices.
 - And it would be necessary to develop procedures for determining the BOP auctions into which the reserved transfer capability would be released.

Conclusion

- It seems unlikely that this project would require significant effort.
- Because it would make additional monthly TCCs available, it could produce significant benefits for entities that wish to acquire short-term TCCs.