

August 19, 2016

By Electronic Delivery

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: Docket No. ER07-521-000, ER16-__-000, *New York Independent System Operator, Inc.* – Compliance Filing to Establish Procedures for Allocating Revenues Received from the Sale of Historic Fixed Price TCCs

Dear Secretary Bose:

Pursuant to its prior commitment recognized by the Federal Energy Regulatory Commission (“Commission”),¹ the New York Independent System Operator, Inc. (“NYISO”) submits this compliance filing related to the requirements of Order Nos. 681 and 681-A² to establish procedures for allocating revenues received from the sale of Historic Fixed Price Transmission Congestion Contracts (“TCCs”).³ The proposed tariff revisions establish procedures that will enable the NYISO to distribute the revenues it receives from the sale of Historic Fixed Price TCCs to the Transmission Owners that are subject to Net Congestion Rent and Net Auction Revenue settlements pursuant to Attachment N of the OATT.⁴ These

¹ See *New York Independent System Operator, Inc.*, 123 FERC ¶ 61,044 at P 23 (2008) (“April 2008 Order”); and Docket No. ER07-521-000, *New York Independent System Operator, Inc.*, Compliance Filing of the New York Independent System Operator, Inc. at 22-23 (February 5, 2007) (“Historic Fixed Price TCC Compliance Filing”).

² *Long-Term Firm Transmission Rights in Organized Electricity Markets*, Order No. 681, 116 FERC ¶ 61,077 (2006); and *Long-Term Firm Transmission Rights in Organized Electricity Markets*, Order No. 681-A, 117 FERC ¶ 61,201 (2006).

³ Capitalized terms not otherwise defined herein shall have the meaning specified in Section 1 of the NYISO Open Access Transmission Tariff (“OATT”) and Section 2 of the NYISO Market Administration and Control Area Services Tariff (“Services Tariff”).

⁴ Presently, the New York Transmission Owners (“NYTOs”) are the only Transmission Owners that are subject to these procedures. The NYTOs consist of: (i) Central Hudson Gas & Electric Corporation; (ii) Consolidated Edison Company of New York, Inc.; (iii) New York Power Authority; (iv) New York State Electric & Gas Corporation; (v) Niagara Mohawk Power Corporation d/b/a National Grid; (vi) Orange and Rockland Utilities, Inc.; (vii) Power Supply Long Island; and (viii) Rochester Gas and Electric Corporation.

procedures are designed to apply to past revenues received from the sale of Historic Fixed Price TCCs (*i.e.*, from 2008 through 2016⁵), as well as all future revenues received from such sales.

The NYISO respectfully requests that the Commission issue an order accepting the proposed tariff revisions on or before October 18, 2016, with an effective date of October 18, 2016 (*i.e.*, sixty days from the date of this filing).

I. Documents Submitted

The NYISO respectfully submits the following documents with this filing letter:

1. A clean version of the proposed compliance revisions to the OATT (“Attachment I”);
2. A clean version of the proposed compliance revisions to the Services Tariff (“Attachment II”);
3. A blacklined version of the proposed compliance revisions to the OATT (“Attachment III”);
4. A blacklined version of the proposed compliance revisions to the Services Tariff (“Attachment IV”); and
5. A Certificate of Service (“Attachment V”).

II. Background

Historic Fixed Price TCCs enable Load Serving Entities (“LSEs”) to secure long-term firm transmission rights to meet their load-serving obligations.⁶ The NYISO first sold Historic Fixed Price TCCs to qualifying LSEs in 2008.

In its filing that proposed the implementation of Historic Fixed Price TCCs as an instrument for achieving compliance with Order Nos. 681 and 681-A, the NYISO noted that its existing rules for allocating revenues received from the sale of TCCs were predicated on such instruments being sold primarily in TCC auctions conducted by the NYISO.⁷ Because Historic Fixed Price TCCs are not sold in NYISO-conducted TCC auctions, alternative procedures needed to be developed to address the allocation of revenues resulting from the sale of these instruments.⁸

⁵ The final award/renewal cycle for Historic Fixed Price TCCs in 2016 commenced in April 2016 and will be completed in mid-October 2016.

⁶ See April 2008 Order.

⁷ Historic Fixed Price TCC Compliance Filing at 22-23.

⁸ In addition to Historic Fixed Price TCCs, the Commission also accepted the NYISO’s proposal to implement Non-Historic Fixed Price TCCs as part of complying with the requirements of Order Nos.

Although the NYISO was prepared in 2008 to include new revenue allocation procedures in its filing that proposed the implementation of Historic Fixed Price TCCs, after discussions with the NYTOs at that time, the NYISO committed to work with the NYTOs to further evaluate the procedures that had been developed by the NYISO and determine whether modifications were appropriate. Accordingly, the NYISO informed the Commission that it intended to make a future compliance filing to address such revenue allocation procedures.⁹ The Commission recognized this future obligation in the April 2008 Order.¹⁰

The NYISO and the NYTOs have been conferring on the appropriate methodology for allocating revenues received from the sale of Historic Fixed Price TCCs since 2009. As revenues have been received each year from the initial awards and renewals of Historic Fixed Price TCCs, the NYISO has held these funds in its accounts.¹¹ Including revenues that are anticipated to be received from the currently ongoing award/renewal cycle, the total amount of revenues received from the sale of Historic Fixed Price TCCs to date is expected to be approximately \$64.6 million.

As further described herein, the NYTOs have agreed to a methodology for allocating revenues received from the sale of Historic Fixed Price TCCs. The agreed upon revenue allocation procedures are designed to apply to both the revenues previously received, as well as all future revenues received by the NYISO from the sale of Historic Fixed Price TCCs.

III. Description of Compliance Tariff Revisions

The proposed methodology for allocating revenues received from the sale of Historic Fixed Price TCCs leverages the existing methodology for allocating revenues received from the sale of TCCs in NYISO-conducted TCC auctions. The allocation of revenues from Historic Fixed Price TCCs also impacts three related areas: (i) the allocation of Net Congestion Rents; (ii) the allocation of Net Auction Revenues when the revenue received for a particular Reconfiguration Auction is negative; and (iii) the calculation of Transmission Service Charge (“TSC”) rates and NYPA Transmission Adjustment Charge (“NTAC”) rates.

681 and 681-A. Like Historic Fixed Price TCCs, Non-Historic Fixed Price TCCs are sold outside NYISO-conducted TCC auctions and, thus, require the development of alternative procedures for the allocation of the revenue resulting from the sale thereof. This compliance filing does not address the revenue allocation procedures for Non-Historic Fixed Price TCCs. As previously indicated, the NYISO intends to file such procedures in a subsequent, future compliance filing. *See* Docket No. ER12-1868-000, *New York Independent System Operator, Inc.*, Letter Order (August 1, 2012); and Docket No. ER12-1868-000, *supra*, Compliance Filing (May 30, 2012).

⁹ Historic Fixed Price TCC Compliance Filing at 22-23.

¹⁰ April 2008 Order at P 23.

¹¹ Although Historic Fixed Price TCCs are generally available to qualifying LSEs for up to ten years, they are annual instruments, subject to renewal and payment each year.

Attachment N (Section 20) of the OATT addresses TCC auction settlements and Congestion-related settlements in the Day-Ahead Market.¹² The NYISO proposes to add a new Section 20.4 to Attachment N of the OATT to describe the procedures for allocating revenues resulting from the sale of Historic Fixed Price TCCs. In addition, the NYISO proposes revisions to Sections 20.2 and 20.3 of Attachment N of the OATT to ensure that allocations of Historic Fixed Price TCC revenues are recognized on a going forward basis in the allocation of Net Congestion Rents and negative Net Auction Revenues. The NYISO also proposes revisions to Sections 14.1.2.1 and 14.2.2.2.1 of Attachment H of the OATT to ensure that the receipt of Historic Fixed Price TCC revenues by the NYTOs is accounted for in the calculation of TSC and NTAC rates.

A. Proposed Revisions to Sections 20.4 and 20.1 of Attachment N of the OATT

The proposed procedures will distribute Historic Fixed Price TCC revenues received by the NYISO using a methodology that is substantially similar to the current Facility Flow-Based Methodology that was previously approved by the Commission for purposes of allocating revenues resulting from the sale of TCCs in NYISO-conducted TCC auctions.¹³ Pursuant to the Facility Flow-Based Methodology, each Transmission Owner receives a portion of the Net Auction Revenue resulting from a particular TCC auction based on the contribution that the Transmission Owner's transmission facilities make toward supporting the set of TCCs awarded in the auction. The NYISO proposes to allocate Historic Fixed Price TCC revenues in a manner similar to the allocation of Net Auction Revenues resulting from the sale of one-year TCCs in the Centralized TCC Auctions.

The NYISO proposes to add a new Section 20.4 to describe the methodology for allocating revenues received from the sale of Historic Fixed Price TCCs. The proposed methodology consists of three steps: (i) assigning Historic Fixed Price TCC revenues to rounds of the one-year Sub-Auction of the Centralized TCC Auctions; (ii) determining a facility flow-based coefficient value for each Transmission Owner for each set of Historic Fixed Price TCCs;¹⁴ and (iii) utilizing these coefficient values to allocate Historic Fixed Price TCC revenues among the Transmission Owners.

¹² Notably, Section 17.5 of Attachment B of the Services Tariff currently contains duplicative provisions to those contained in Attachment N of the OATT. Accordingly, the same changes are being proposed to the corresponding provisions in Section 17.5. All descriptions herein of the proposed changes to Attachment N of the OATT also apply to Section 17.5 of Attachment B of the Services Tariff.

¹³ See Docket No. ER04-54-000, *New York Independent System Operator, Inc.*, Tariff Revisions Regarding the Allocation Among Transmission Owners of Revenue Shortfalls and Surpluses in Day-Ahead Market Related Congestion Settlements and in TCC Auctions, and the Allocation Among Transmission Owners of Net Congestion Rents and Net TCC Auction Revenues (October 16, 2003); Docket No. ER04-54-001, *supra*, Compliance Filing (December 30, 2003); Docket No. ER04-54-000, *supra*, Letter Order (December 15, 2003); and Docket No. ER04-54-001, *supra*, Letter Order (February 26, 2004).

¹⁴ The proposed definition in Section 20.4.1 provides that a "set" of Historic Fixed Price TCCs includes all Historic Fixed Price TCCs that have the same Point of Injection and Point of Withdrawal and take (or, as it relates to previously sold Historic Fixed Price TCCs, took) effect within the same Capability

Section 20.4.2 describes the procedures for assigning a portion of the revenue received from the sale of each Historic Fixed Price TCC to a given round of the one-year Sub-Auction of the Centralized TCC Auction that immediately preceded the Capability Period in which the Historic Fixed Price TCC takes (or, as it relates to previously sold Historic Fixed Price TCCs, took) effect. Although Historic Fixed Price TCCs are not sold through the TCC auctions, by assigning a given portion of Historic Fixed Price TCC revenue to a round of the one-year Sub-Auctions, the NYISO can utilize procedures substantially similar to those already in place for purposes of allocating TCC auction revenues. The rounds of the one-year Sub-Auction of the Centralized TCC Auction have been selected because Historic Fixed Price TCCs are essentially annual instruments.

The NYISO will then determine coefficient values representing the contribution of each Transmission Owner's transmission facilities to the Historic Fixed Price TCC revenue assigned to each one-year Sub-Auction round. This process is described in Section 20.4.3. To determine the applicable coefficient values for each set of Historic Fixed Price TCCs, the NYISO determines a dollar value related to the flow associated with each set of Historic Fixed Price TCCs on each Transmission Owner's transmission facilities. The coefficient value for each Transmission Owner is the ratio between the dollar value for its transmission facilities and the dollar value for all Transmission Owners.

This dollar value is determined, in part, by measuring the change in flow on each transmission facility by comparing flows on each transmission facility in the Optimal Power Flow solution from the relevant Sub-Auction round to a power flow case that does not include the fixed injections and withdrawals associated with the set of Historic Fixed Price TCCs at issue. This provides a determination of how revenues would have been allocated if the capacity relating to each set of Historic Fixed Price TCCs had been sold in a NYISO-conducted TCC auction rather than awarded outside the auction construct. In determining the applicable flow values for each set of Historic Fixed Price TCCs, Section 20.4.3 specifies how the NYISO will model the parameters of phase angle regulators in the power flow case that does not include the fixed injections and withdrawals associated with the relevant set of Historic Fixed Price TCCs. Section 20.4.3 also recognizes that, because the alternative power flow case without the fixed injections and withdrawals related to the set of Historic Fixed Price TCCs is not a solution to an auction round, there is a potential that the results could include flows that would violate the otherwise applicable flow limits for the relevant Sub-Auction round. Accordingly, in measuring the flow differential on a given transmission facility between the two power flow cases, Section 20.4.3 provides that the NYISO will not consider any incremental flow amounts from the case without the fixed injections and withdrawals related to the applicable set of Historic Fixed Price TCCs that violate an otherwise applicable flow limit.

The flow differential value is then multiplied by the difference in the prices between the buses that comprise each transmission facility, as determined in the Optimal Power Flow solution for the relevant one-year Sub-Auction round. Notably, however, TCCs with a Point of

Period, regardless of whether such Historic Fixed Price TCCs share a common owner or arose from the expiration or termination of the same Existing Transmission Agreement.

Injection or Point of Withdrawal on Long Island having a duration of one year or more were not made available for sale in the TCC auctions for the period that corresponds with certain affected Historic Fixed Price TCCs.¹⁵ For the affected Historic Fixed Price TCCs, Section 20.4.3 provides that the applicable prices used shall be the sum of the prices from the Optimal Power Flow solutions for the Reconfiguration Auctions for November 2013 through April 2014 and the weighted average price of the Optimal Power Flow solutions from the six-month Sub-Auction rounds for the Spring 2014 Centralized TCC Auction.

The NYISO then utilizes the resulting coefficient values to allocate the revenues for each set of Historic Fixed Price TCCs among the Transmission Owners. This revenue allocation is described in Section 20.4.4.

The NYISO also proposes to revise Section 20.1.1 to include a reference to the proposed procedures for allocating Historic Fixed Price TCC revenues.

B. Proposed Revisions to Sections 20.2 and 20.3 of Attachment N of the OATT

The receipt of Historic Fixed Price TCC revenues should be reflected in the methodology used by the NYISO to allocate Net Congestion Rents. The current methodology divides the Net Congestion Rent amount for each month among the Transmission Owners on a pro rata basis in proportion to the benefit that each Transmission Owner has received from the sale of TCCs that are effective for the relevant month. The NYISO, therefore, proposes to revise Formula N-15 in Section 20.2.5 to account for Historic Fixed Price TCC revenues received by each Transmission Owner on a going forward basis, starting with Historic Fixed Price TCCs that take effect after November 1, 2016.

Similarly, the methodology for allocating Net Auction Revenues when the results of a particular Reconfiguration Auction result in negative net revenues should be revised to account for Historic Fixed Price TCC revenues received by the Transmission Owners. In such circumstances, the current procedures divide the negative Net Auction Revenues for the applicable Reconfiguration Auction among the Transmission Owners on a pro rata basis in proportion to the benefit that each Transmission Owner has received from the sale of TCCs that are effective for the relevant month. Accordingly, the NYISO proposes to amend Formula N-29 of Section 20.3.7 to account for Historic Fixed Price TCC revenues received by each Transmission Owner on a going forward basis, starting with Historic Fixed Price TCCs that take effect after November 1, 2016.

C. Proposed Revisions to Sections 14.1.2 and 14.2.2.2 of Attachment H of the OATT

Historic Fixed Price TCC revenues received by the NYTOs should also be accounted for in calculating TSC and NTAC rates. TSCs and NTAC are assessed to users of the transmission systems to allow the NYTOs to recover the net costs of owning and maintaining their systems.

¹⁵ The affected instruments are Historic Fixed Price TCCs with a Point of Withdrawal on Long Island that were in effect from November 1, 2013 through October 31, 2014

The calculation of TSC and NTAC rates currently accounts for revenues received by the NYTOs from the sale of TCCs. These calculations should also reflect revenues received by the NYTOs from the sale of Historic Fixed Price TCCs. Accordingly, the NYISO proposes to amend Sections 14.1.2.1 and 14.2.2.2 to ensure that the receipt of Historic Fixed Price TCC revenues is accounted for in the calculation of TSC and NTAC rates.

To account for Historic Fixed Price TCC revenues, the NYISO proposes to revise the “SR” term of both the TSC and NTAC to include a new SR₃ component. This new component will account for Historic Fixed Price TCC revenues allocated to each NYTO.

For revenues related to all Historic Fixed Price TCCs that take (or took) effect on or before November 1, 2016, the proposed revisions provide for an accelerated reflection of the revenues relating thereto in the TSCs and NTAC. All such revenues shall be incorporated into the TSCs and NTAC during the Capability Period that follows Commission approval of the tariff revisions proposed herein, provided that the NYISO has given the NYTOs notice of the revenue amounts to be received at least two weeks prior to the commencement of such Capability Period.¹⁶ If the NYISO does not provide timely notice, all or any remaining portion of these revenues will be accounted for in the TSCs and NTAC for the following Capability Period.

On a going forward basis, revenues received by the NYTOs will be accounted for in the TSCs and NTAC in a manner consistent with revenues received from the sale of one-year TCCs in the Centralized TCC Auctions. As such, for purposes of incorporation into the TSCs and NTAC, the revenues received will be divided equally across the months during which the Historic Fixed Price TCCs at issue are valid.

IV. Stakeholder Process

The NYISO reviewed the proposed allocation procedures and draft tariff revisions relating thereto with stakeholders at the July 21, 2016 Market Issues Working Group (“MIWG”) meeting. The proposed tariff amendments described herein reflect revisions based on feedback from stakeholders.

V. Effective Date

The NYISO respectfully requests an effective date for the proposed tariff revisions of sixty days from the date of this filing (*i.e.*, October 18, 2016).

¹⁶ Advance notice is required by the NYTOs for TSC and NTAC implementation purposes.

VI. Communications and Correspondence

All communications and service related to this compliance filing should be directed to:

Robert E. Fernandez, General Counsel
Raymond Stalter, Director, Regulatory Affairs
*Garrett E. Bissell, Senior Attorney
10 Krey Boulevard
Rensselaer, NY 12144
Tel: (518) 356-6107
Fax: (518) 356-7678
gbissell@nyiso.com

*Person designated for receipt of service.

VII. Service

The NYISO will send an electronic link to this filing to the official representative of each party to this proceeding, the official representative of each of its customers, each participant on its stakeholder committees, the New York State Public Service Commission, and the New Jersey Board of Public Utilities. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com.

VIII. Conclusion

The New York Independent System Operator, Inc. respectfully requests that the Commission issue an order on or before October 18, 2016 accepting the proposed tariff revisions that are attached hereto with an effective date of October 18, 2016.

Respectfully submitted,

/s/ Garrett E. Bissell

Garrett E. Bissell
Senior Attorney
New York Independent System Operator, Inc.
10 Krey Blvd.
Rensselaer, New York 12144
(518) 356-6107
gbissell@nyiso.com

| | | | |
|-----|-----------------|---------------|------------------|
| cc: | Michael Bardee | Anna Cochrane | Kurt Longo |
| | Max Minzner | Daniel Nowak | Larry Parkinson |
| | J. Arnold Quinn | Douglas Roe | Kathleen Schnorf |
| | Jamie Simler | Gary Will | |