

February 15, 2018

By Electronic Delivery

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

Re: *New York Independent System Operator, Inc.*, Docket No. ER07-521-000, ER18-____-000; Compliance Filing to Establish Procedures for Allocating Revenues Received from the Sale of Non-Historic Fixed Price TCCs

Dear Secretary Bose:

Pursuant to its prior commitment¹ and the requirements of Order Nos. 681 and 681-A,² the New York Independent System Operator, Inc. (“NYISO”) submits this compliance filing to revise its Open Access Transmission Tariff (“OATT”) to establish procedures for allocating revenues received from the sale of Non-Historic Fixed Price TCCs (“NHFPTCCs”).³ The proposed tariff revisions will enable the NYISO to distribute the revenues it has previously received, as well as any future revenues it receives, from the sale of NHFPTCCs. The NYISO will distribute such revenues to the Transmission Owners that are subject to Net Congestion Rent and Net Auction Revenue settlements pursuant to Attachment N of the OATT.⁴

¹ See Docket No. ER07-521-000, *New York Independent System Operator, Inc.*, Compliance Filing at 1 (May 30, 2012); and Docket No. ER16-2444-000, *New York Independent System Operator, Inc.*, Compliance Filing to Establish Procedures for Allocating Revenues from the Sale of Historic Fixed Price TCCs at 2-3 (August 19, 2016).

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 OATT.

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

In response to the notice issued by the Federal Energy Regulatory Commission (“Commission”) on September 6, 2017, the NYISO also proposes several non-substantive revisions to address the use of certain footnotes within the tariff sections related to this proposal.⁵ The NYISO proposes to discontinue the use of these footnotes by incorporating the substance thereof within the body of the tariff text.

The NYISO respectfully requests that the proposed revisions become effective on April 17, 2018.

I. Documents Submitted

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

1. A clean version of the proposed revisions to the OATT (“Attachment I”); and
2. A blacklined version of the proposed revisions to the OATT (“Attachment II”).

II. Background

NHFPTCCs enable Load Serving Entities (“LSEs”) to secure long-term firm transmission rights to meet their load-serving obligations consistent with the requirements Order Nos. 681 and 681-A.⁶ The NYISO first offered NHFPTCCs for purchase by qualifying LSEs in 2013. To date, the NYISO has received nearly \$1.2 million from the sale of NHFPTCCs.⁷

The NYISO’s standard procedures for allocating revenues received from the sale of Transmission Congestion Contracts (“TCCs”) are predicated on the sale of such instruments in NYISO-administered auctions. NHFPTCC sales occur outside the NYISO-conducted TCC auctions. Thus, the allocation of the revenues received by the NYISO from the sale of these instruments requires the development of alternative procedures.

Like NHFPTCCs, certain qualifying LSEs may purchase Historic Fixed Price TCCs.⁸ Historic Fixed Price TCC purchases also occur outside of the NYISO-administered TCC auctions. In 2016, the Commission accepted a revenue allocation methodology for Historic

⁵ Docket No. RM01-5-000, *Electronic Tariff Filings*, Notice Regarding Footnotes, Headers, or Footers in Tariff Text in the Commission’s e-Tariff System (September 6, 2017).

⁶ Docket No. ER07-521-000, *supra*, Compliance Filing (May 30, 2012); and Docket No. ER07-521-011, *supra*, Letter Order (August 1, 2012).

⁷ The NYISO’s most recent offering of NHFPTCCs occurred in 2017 in conjunction with the Centralized TCC Auction conducted in advance of the 2017 Summer Capability Period. LSEs did not seek to purchase or renew NHFPTCCs as part of this offering. Accordingly, there are currently no active NHFPTCCs in the market.

⁸ See Section 19.2.1 of Attachment M of the OATT.

Fixed Price TCCs.⁹ Based on the successful experience with these rules to date, the NYISO proposes to apply a substantially similar methodology to allocate revenues received from the sale of NHFPTCCs.

III. Description of the Proposed Tariff Revisions

The proposed methodology for allocating revenues received from the sale of NHFPTCCs extends the recently implemented procedures for allocating Historic Fixed Price TCC sales revenue to the NHFPTCC product. Extension of these procedures requires certain adjustments to recognize differences between NHFPTCCs and Historic Fixed Price TCCs.¹⁰ The proposed revenue allocation methodology would apply to revenues previously received by the NYISO from the sale of NHFPTCCs, as well as any such revenues received by the NYISO in the future.

The NYISO proposes to add a new Section 20.5 to Attachment N of the OATT to describe the methodology and procedures for allocating revenues received by the NYISO from the sale of NHFPTCCs. The NYISO also proposes revisions to Sections 20.2 and 20.3 of Attachment N to ensure that the allocation of these revenues are, on a going forward basis, appropriately recognized in allocating Net Congestion Rent and any negative Net Auction Revenue. The proposed revisions to Attachment H of the OATT ensure that the NYTOs account for their receipt of NHFPTCC sales revenue in the calculation of Transmission Service Charge (“TSC”) and NYPA Transmission Adjustment Charge (“NTAC”) rates.

The Commission recently issued a notice regarding problems with the use of certain types of footnotes in its eTariff system.¹¹ In response to this notice, the NYISO proposes to discontinue use of such footnotes within the tariff sections related to this proposal. The NYISO proposes to: (i) include the substance of such footnotes within the body of the tariff text; and (ii) include certain related ministerial revisions in Attachment N to direct readers to the new location of the language previously residing in such footnotes.

A. Proposed NHFPTCC Sales Revenue Allocation Methodology

The NYISO proposes to add a new Section 20.5 to Attachment N of the OATT to describe the methodology for allocating the revenues it receives from the sale of NHFPTCCs. The NYISO also proposes to revise Section 20.1.1 of Attachment N to include a reference to the proposed NHFPTCC sales revenue allocation procedures set forth in Section 20.5.

⁹ Docket No. ER16-2444-000, *supra*, Compliance Filing to Establish Procedures for Allocating Revenues from the Sale of Historic Fixed Price TCCs (August 19, 2016); and Docket No. ER16-2444-000, *supra*, Letter Order (September 30, 2016).

¹⁰ The principle differences between the two products that necessitate slight adjustments to the previously approved Historic Fixed Price TCC revenue allocation procedures are as follows: (i) the initial term for new NHFPTCCs is two-years instead of the one-year initial term applicable to Historic Fixed Price TCCs; and (ii) the methodology for determining the applicable purchase price of each product.

¹¹ Docket No. RM01-5-000, *supra*, Notice Regarding Footnotes, Headers, or Footers in Tariff Text in the Commission’s e-Tariff System (September 6, 2017).

As described in proposed Section 20.5.1, the proposed revenue allocation procedures would apply to prior NHFPTCC sales revenue received by the NYISO, as well as all such future revenue received by the NYISO. The proposed procedures consist of three steps: (i) assigning portions of NHFPTCC sales revenue to the appropriate rounds of the applicable Sub-Auction of a Centralized TCC Auction; (ii) determining a facility flow-based coefficient value for each Transmission Owner for each set of NHFPTCCs;¹² and (iii) utilizing these values to allocate NHFPTCC sales revenues among the Transmission Owners.

Proposed Section 20.5.2 describes the process for assigning a portion of the revenue received by the NYISO from the sale of NHFPTCCs to certain rounds of the appropriate Sub-Auctions of the Centralized TCC Auction that immediately precedes the Capability Period in which the NHFPTCC takes (or, in the case of previously sold NHFPTCCs, took) effect. The proposed methodology assigns a portion of NHFPTCC sales revenue to rounds other than the first round of the two-year Sub-Auction for initial purchases of new NHFPTCCs.¹³ The NYISO will assign a portion of the sales revenue from renewal purchases to all rounds of the one-year Sub-Auction.¹⁴ This treatment aligns with the different term lengths for initial purchases (*i.e.*, two years) and renewals (*i.e.*, one year) of NHFPTCCs.

Proposed Section 20.5.3 describes the process for calculating coefficient values used in allocating NHFPTCC sales revenue among the NYTOs. These coefficient values represent the contribution made by each Transmission Owner's transmission facilities toward supporting the transmission capacity that accommodates NHFPTCCs.

The NYISO determines the coefficient values, in part, by measuring changes in flow on each transmission facility as determined in two power flow simulations. The change in flow is determined by comparing flows in the Optimal Power Flow representing the solution to the

¹² As described in proposed Section 20.5.1.1, a "set of NHFPTCCs" consists of all NHFPTCCs with the same term, effective date, Point of Injection ("POI") and Point of Withdrawal ("POW").

¹³ The NYISO uses market-clearing prices from the first round of the two-year Sub-Auction to determine the purchase price of new NHFPTCCs. LSEs do not finalize their purchase decisions for NHFPTCCs until after the determination of the purchase price. As such, the NYISO does not model potential new NHFPTCCs as pre-existing in the first round. The NYISO begins modeling such instruments in the second round of the two-year Sub-Auction based on the actual new NHFPTCC purchases made by LSEs following the first round. Therefore, the proposal does not assign any portion of the revenues received from the initial purchase of new NHFPTCCs to the first round of the two-year Sub-Auction of the relevant Centralized TCC Auction.

¹⁴ Market-clearing prices from the first round of the one-year Sub-Auction determine the purchase price for NHFPTCC renewals. LSEs make renewal decisions following the first round once the renewal price is established. The NYISO models such NHFPTCCs as pre-existing in first round of the relevant one-year Sub-Auction to ensure the ability to accommodate their continued existence if renewed. Thus, it is appropriate to assign revenues received from renewal purchases of NHFPTCCs to all rounds of the one-year Sub-Auction of the relevant Centralized TCC Auction.

relevant Sub-Auction round to flows in a power flow that does not include the fixed injections and withdrawals associated with the applicable set of NHFPTCCs.

Proposed Section 20.5.3 specifies how the NYISO will model the parameters of phase angle regulators in the power flow case that does not include the injections and withdrawals associated with the relevant set of NHFPTCCs. The proposal also recognizes that, because the power flow excluding the injections and withdrawals associated with the applicable set of NHFPTCCs is not a solved solution to an auction round, the results of such case may include flows that violate the otherwise applicable flow limits for transmission facilities. As such, the proposed methodology disregards such flows in the determination of coefficient values by adjusting them to avoid flow limit violations.

The NYISO then multiplies the flow differential values determined for each transmission facility by the difference in the prices, as determined in the Optimal Power Flow representing the solution to the relevant Sub-Auction round, between the buses that comprise each such facility. The NYISO calculates coefficient values for each Transmission Owner by summing up these values for all facilities owned by the Transmission Owner and dividing by the aggregate total of such values for all the transmission facilities represented in the power flow cases.

Proposed Section 20.5.4 describes how the NYISO utilizes these coefficient values to allocate the sales revenues for each set of NHFPTCCs among the NYTOs. The NYISO multiplies the applicable coefficient value for a given Transmission Owner by the revenues assigned to the applicable Sub-Auction round for the relevant set of NHFPTCCs. The sum total across all relevant Sub-Auction rounds for all of the valid NHFPTCCs at issue establishes the total portion of the NHFPTCC sales revenue received by each NYTO.

B. Accounting for NHFPTCC Revenues in Attachment N Calculations

The NYISO needs to account for the receipt of NHFPTCC sales revenue by each Transmission Owner in allocating Net Congestion Rent, as well as Net Auction Revenue in the event that a particular Reconfiguration Auction produced net negative revenue. The NYISO proposes revisions to each allocation to account for revenues received by the Transmission Owners from all future sales of NHFPTCCs.

The NYISO allocates Net Congestion Rent and any negative Net Auction Revenue among the NYTOs on a *pro rata* basis in proportion to the benefit each Transmission Owner received from the sale of TCCs that are valid in the relevant month. The NYISO proposes to revise Formula N-15 in Section 20.2.5 and Formula N-29 in Section 20.3.7 to account for all future NHFPTCC sales revenue received by each Transmission Owner.

C. Accounting for NHFPTCC Revenues in TSC and NTAC Rates

Users of the transmission system pay TSCs and NTAC to allow the NYTOs to recover the net cost of owning and maintaining their respective systems. The calculation of TSC and NTAC rates includes an adjustment to account for revenues received from the sale of TCCs.

These calculations should also account for the revenues received by the NYTOs from the sale of NHFPTCCs.

The NYISO proposes to revise the calculation of TSC and NTAC rates, as described in Attachment H of the OATT, to account for NHFPTCC sales revenue received by each Transmission Owner.¹⁵ The NYISO proposes to modify the “SR” component of each calculation to include a new SR₄ element.¹⁶ This new element accounts for all NHFPTCC sales revenue received by each Transmission Owner.¹⁷

The proposal provides for more expedited accounting of revenues received from prior sales of NHFPTCCs (*i.e.*, revenues associated with NHFPTCCs that took effect on or before May 1, 2017). TSCs and NTAC will account for these past revenues proportionately over the six-month period covered by the Capability Period that immediately follows Commission approval of this proposal, provided that the NYISO has given notice to the Transmission Owners of their respective revenue shares at least two weeks prior to the first day of such Capability Period.¹⁸ The proposed revisions require the NYTOs to account for any remaining past NHFPTCC sales revenue proportionately over the six months of the following Capability Period.

The Transmission Owners will account for future NHFPTCC sales revenue they receive in a manner consistent with the treatment of revenues received from the sale of similar term TCCs.¹⁹ The proposal requires the Transmission Owners to account for future NHFPTCC sales revenue received by dividing such revenue equally across the months during which the relevant NHFPTCCs are valid (*i.e.*, 24 months for initial purchases of new NHFPTCCs and 12 months for NHFPTCC renewals).

D. Removal of Certain Footnotes in Attachment H and Attachment N

As recently noted by the Commission, its eTariff system does not properly recognize

¹⁵ The NYISO also proposes ministerial revisions to the titles of Sections 14.2 and 14.2.1 of Attachment H to clarify that: (i) Section 14.2 encompasses both National Grid’s formula rate schedules (*i.e.*, Section 14.2.1) and the provisions related to NTAC (*i.e.*, Section 14.2.2); and (ii) Section 14.2.1 contains the schedules related to National Grid’s formula rate.

¹⁶ Section 14.1.2.1.1 of Attachment H describes the SR component of the TSC rate formula and Section 14.2.2.1 describes the SR component of the NTAC rate calculation.

¹⁷ The NYISO also proposes revisions in Section 14.1.2 to clarify its obligation to provide the NYTOs the necessary information to calculate the appropriate value for the SR component each month, including the NHFPTCC sales revenue element.

¹⁸ The NYTOs require advance notice for purposes of administering the calculation of TSC and NTAC rates.

¹⁹ The proposal provides for accounting of revenues received from: (i) initial purchases of new NHFPTCCs in the same manner as revenues received from the sale of two-year TCCs; and (ii) NHFPTCC renewals in a manner consistent with revenues received from the sale of one-year TCCs.

certain types of footnotes.²⁰ As a result, the tariffs posted on the Commission’s website do not reproduce these types of footnotes. To address this issue, the NYISO proposes to: (i) remove the types of footnotes that are of concern from the tariff sections related to this proposal; and (ii) relocate the substance of such footnotes to the body of the tariff text.

The NYISO proposes to remove certain previously existing footnotes in Attachment H and relocate the substance thereof to the body of the tariff text. The affected provisions are Sections 14.1.1.1, 14.1.1.2, 14.1.7, 14.2.2.1.1 and 14.2.2.1.2.

For Attachment N of the OATT, the NYISO proposes to relocate language previously residing in a footnote within Section 20.3.4 to the body of the tariff text. The NYISO also proposes to relocate, to Section 20.1.2, the substance of certain footnotes throughout the provisions of Sections 20.2 and 20.3. These footnotes provide clarification regarding the interpretation of certain phrases utilized throughout Attachment N.

In conjunction with the relocation of this language to Section 20.1.2, the NYISO also proposes to add ministerial tariff “mapping” language within the affected provisions of Attachment N to direct the reader to the new location of the language clarifying the interpretation of these phrases. The NYISO proposes to include this additional tariff “mapping” language in Formula N-5 in Section 20.2.4, Formula N-8 in Section 20.2.4.2.3, Formula N-15 in Section 20.2.5, Section 20.3.3, Formula N-21 in Section 20.3.6.2.3, Formula N-29 in Section 20.3.7, Formula N-31 in Section 20.4.3 and Formula N-34 in newly proposed Section 20.5.3.

IV. Effective Date

The NYISO respectfully requests that the proposed tariff revisions become effective on April 17, 2018.

V. Stakeholder Process

The NYISO reviewed the proposed revenue allocation procedures and associated draft tariff revisions with stakeholders at a Market Issues Working Group meeting on February 6, 2018. The proposed tariff revisions described herein reflect changes based on feedback from stakeholders.

²⁰ Docket No. RM01-5-000, *supra*, Notice Regarding Footnotes, Headers, or Footers in Tariff Text in the Commission’s e-Tariff System (September 6, 2017).

VI. Communications and Correspondence

Please direct all communications and service in this proceeding to:

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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 NYISO will post the complete filing on its website at www.nyiso.com.

VIII. Conclusion

The NYISO respectfully requests that the Commission accept the proposed revisions to the OATT attached hereto with an effective date of April 17, 2018.

Respectfully submitted,

/s/ Garrett E. Bissell

Garrett E. Bissell

Senior Attorney

New York Independent System Operator, Inc.

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