NEW YORK INDEPENDENT SYSTEM OPERATOR
10 Krey Boulevard Rensselaer, NY 12144

May 30, 2012

Submitted Electronically

Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street N.E.
Washington, D.C. 20426

Re: New York Independent System Operator, Inc., Compliance Filing; Docket No. ER07-521-000, ER12-____-000

Dear Ms. Bose:

In compliance with Paragraph 82 and Ordering Paragraph D of the Federal Energy Regulatory Commission's ("Commission's" or "FERC's") April 16, 2008, Order,[1] Paragraph 18 and Ordering Paragraph A of the Commission's July 15, 2010, Order,[2] the New York Independent System Operator, Inc.'s ("NYISO's") amended implementation timetable accepted by the Commission on October 12, 2010,[3] and the NYISO's updated implementation timetable submitted December 1, 2011,[4] the NYISO respectfully submits amendments to its Market Administration and Control Area Services Tariff ("Services Tariff") and its Open Access Transmission Tariff ("OATT") to implement a new Non-Historic Fixed Price TCC ("NHFPTCC") product. As is discussed in detail below, the NYISO's proposed tariff revisions and software systems will allow Load Serving Entities ("LSEs")[5] to purchase NHFPTCCs between any Point of Injection ("POI") and the Load Zones in which they serve customers. A final compliance filing, anticipated for the second half of this year, will propose amendments describing the allocation of revenues received from the sale of these NHFPTCCs to LSEs.[6] Once the NYISO's proposed tariff

[1] *New York Independent System Operator, Inc*., 123 FERC 61,044 (2008) ("April 2008 Order")

[2] *New York Independent System Operator, Inc*., 132 FERC ¶ 61,030 (2010) ("July 2010 Order")

[3] Letter Order, Docket ER07-521-010, (Oct. 12, 2010)

[4] New York Independent System Operator, Inc., Docket ER07-521-010, letter to Secretary Bose from Mollie Lampi, December 1, 2011 ("Dec. 2011 Implementation Update"). In that filing, which the Commission has not yet acted upon, the NYISO proposed implementing its Non-Historic FPTCC product concurrently with the Spring 2013 Centralized TCC Auction.

[5] Capitalized terms that are not otherwise defined herein shall have the meaning specified in Article 2 of the Services Tariff.

[6] The NYISO will propose an allocation of revenue received from the sale of NHFPTCCs that is similar to the provisions contained in OATT Section 20, describing the allocation of revenue from the sale of TCCs

amendments are accepted and NHFPTCCs are available for purchase, the NYISO will be in full compliance with the Commission's long-term firm transmission rights policies as set forth in Order Nos. 681 and 681-A.[7]

I. Communications

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II. Documents Submitted

1. This filing letter;

2. A clean version of the proposed revisions to the NYISO's OATT ("Attachment I");

3. A clean version of the proposed revisions to the NYISO's Services Tariff ("Attachment II");

4. A blacklined version of the proposed revisions to the OATT ("Attachment III");

5. A blacklined version of the proposed revisions to the Services Tariff ("Attachment IV");

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in NYISO TCC Auctions. Tariff revisions describing the allocation of revenues from the conversion of existing Grandfathered Rights and Grandfathered TCCs into Historic Fixed Price TCCs will be submitted simultaneously, if not earlier.

[7] *Long-Term Firm Transmission Rights in Organized Electricity Markets,* Order No. 681, FERC Stats. & Regs. ¶ 31,226 (July 20, 2006), *reh'g denied,* Order No. 681-A, 117 FERC ¶ 61,201 (November 16, 2006) (Final Rule).

III. Background

In its April 2008 Order, the Commission determined that the NYISO's proposal to allow LSEs to convert expiring, or previously expired, "Grandfathered Transmission Rights" into "Fixed Price Transmission Congestion Contracts" was a reasonable initial approach for meeting the requirements of the Final Rule.[8] However, the Commission required the NYISO to make certain limited modifications through future compliance filings.[9] All but one of those modifications has subsequently been accepted by the Commission and put into place.[10]

The sole remaining issue concerns the availability of long-term transmission rights (or, as they are known in New York, Transmission Congestion Contracts or "TCCs") between "non-historic" POI and Point of Withdrawal ("POW") combinations.[11] In its April 2008 Order, the Commission directed the NYISO to "expand the availability of long term transmission rights to LSEs that sought to use non-historic [POIs and POWs]."[12] The Commission further stated that the rights "may take the form of Fixed Price TCCs" or alternative instruments that satisfied the Commission's requirements.[13] It specified that the NYISO could:

> [E]stablish reasonable priorities for the allocation of these rights, such as a preference for LSEs with long-term power supply arrangements, and may propose reasonable limits on the amount of existing transmission capacity used to support the rights.[14]

In its July 2010 Order, the Commission agreed to a 2012 implementation date for the NYISO's proposal to make long term transmission rights available for non-historic uses of the transmission system, accepted the NYISO's proposal to file compliance tariff sheets in late 2011 or early 2012 and required a detailed implementation timetable and two status reports.[15] In its December 1, 2011 second status report, the NYISO submitted an

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[8] *See:* April 2008 Order at ¶ 81 and Ordering ¶ A.

[9] April 2008 Order, ordering ¶¶ B, C and D.

[10] These include: acceptance of compliance filings made on December 22, 2008 to adjust the offered term of Historic Fixed Price TCCs and on February 18, 2009 to adjust credit requirements for LSEs taking Historic Fixed Price TCCs (*New York Independent System Operator, Inc*., 127 FERC 61,042 (2009)); and acceptance of tariff amendments providing for an award of Incremental TCCs related to transmission system expansions (*New York Independent System Operator, Inc*., 126 FERC 61,029 (2009));

[11] The NYISO intends to submit a final compliance filing in the third or fourth quarter of this year describing the allocation of revenues derived from the sale of Non-Historic Fixed Price TCCs.

[12] April 2008 Order at ¶ 82.

[13] *Id.*

[14] *Id.*

[15] July 2010 Order at ¶14

amended implementation plan proposing a Spring 2013 NHFPTCC roll-out separate from the End-State Auction roll-out to avoid further delay.[16]

IV. Overview

Under the NYISO NHFPTCC proposal, LSEs would be able to obtain Fixed Price TCCs between non-historic POI and POW combinations with a duration as long as ten years through an initial two-year term and annual renewals thereafter. As the NYISO described in its Dec. 2011 Implementation Update, this option is being offered in advance of the End-State Auction to avoid further delay.[17] The NYISO is including with these amended tariff sections, an amended credit policy to govern nominating NHFPTCCs and holding two-year TCCs. An amended credit policy is necessary to include NHFPTCCs within the existing bidding requirement and to accommodate the Commission order to allow purchasers of two-year NHFPTCCs to pay for them one year at a time.[18]

A. Overview of Fixed Price TCCs

The NYISO is proposing to pattern the NHFPTCC product design after its existing Fixed Price TCC rules which themselves are based on the NYISO's rules governing TCCs generally.

TCCs have been available to market participants that wish to hedge their exposure to congestion in the NYISO's Day-Ahead Market ("DAM") since the NYISO's inception in 1999. A TCC holder collects the congestion rent associated with transmitting one MWh of energy from a specific POI to a specific POW. TCCs do not provide a physical transmission priority but, as the Commission has recognized, allow customers to obtain the functional equivalent of "physically firm" transmission service.[19] TCCs may also be obtained through NYISO-administered auctions, through "Direct Sales" by the New York Transmission Owners ("NYTOs"), via secondary market transactions, by funding the creation of transmission expansions (which can result in the award of "Incremental TCCs") or, in recent years, through the conversion of Grandfathered Rights or Grandfathered TCCs into Fixed Price TCCs.

All TCCs are "fully funded" since the NYTOs are required by the tariff to cover any Congestion Rent Shortfalls.[20] The NYISO's tariffs provide for the allocation of Congestion Rent Shortfalls among the NYTOs and for the ultimate recovery of those costs from their Transmission Customers. Similarly, if congestion charges exceed TCC

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[16] As mentioned, the Commission has not yet acted upon this filing. *See*: ft.nt. 4 *supra.*

[17] Dec. 2011 Implementation Update at pages 5-6

[18] *See*: July 2010 Order at ¶16

[19] *See Central Hudson Gas & Electric Co., et al.,* 86 FERC ¶ 61,062 at 61,228-33, *Order on Reh'g and Compliance Filing*, 88 FERC ¶ 61,138 at 61,399-61,402 (1999) (describing and generally approving TCC program and auction structure)

[20] *See* NYISO OATT § 1.5e

payments, the resulting congestion rent surplus will be distributed to the NYTOs (and on to their Transmission Customers). Generally, the tariffs require that shortfalls and surpluses be debited and credited monthly to each NYTO's Transmission Service Charge ("TSC").[21]

Historic Fixed Price TCCs have most of the attributes of TCCs. Like TCCs, they provide congestion hedges in the DAM between a particular POI and POW and are fully funded by the NYTOs via the existing TSC arrangements. Notable distinctions include the fact that Historic Fixed Price TCCs will be available only to LSEs. They are currently available to LSEs that hold expiring Grandfathered Transmission Rights, for a term of up to ten years, if they can certify that they will be legally obligated to serve the load they historically served and that they need the transmission capacity of the Historic Fixed Price TCC to serve that Load.[22] The new NHFPTCCs are proposed to also be available only to LSEs, for ten year terms.

B. Overview of Non-Historic Fixed Price TCCs

The NYISO intends to make initial NHFPTCCs available at least every other year, concurrent with one of its biannual Centralized TCC Auctions and to make renewal NHFPTCCs available annually, also concurrent with one of its Centralized TCC Auctions. Under the NYISO's proposal, LSEs would register, and certify their eligibility, for initial two-year NHFPTCCs prior to the Centralized TCC Auction in which the NYISO is offering initial NHFPTCCs. The NYISO would verify LSE eligibility for such TCCs, by Load Zone, on a timeline provided by the NYISO prior to the start of the Centralized TCC Auction. Immediately following the first round of the Centralized TCC Auction in which two-year TCCs are sold,[23] the NYISO would provide, to these registered Load-Zone-certified LSEs, the prices at which they could purchase initial NHFPTCCs sinking in their Load Zones. The price of an initial two-year NHFPTCC between an identified POI and POW would be the same as a two-year TCC with the same POI and POW as determined in the just-concluded round of the Centralized TCC Auction. LSEs would have a defined period of time to nominate NHFPTCCs for purchase at the disclosed price. Awarded NHFPTCCs would follow a NYISO-conducted feasibility analysis. Should such analysis indicate not all NHFPTCCs could be sold while maintaining the feasibility of existing TCCs, the NYISO would reduce the number of NHFPTCCs awarded to maintain the feasibility of all existing TCCs including the new NHFPTCCs. Once the feasibility analysis was concluded and LSEs notified, the NYISO would continue with the balance of

[21] In the case of the New York Power Authority, surpluses and shortfalls are passed through to the New York Power Authority Transmission Adjustment Charge ("NTAC"). *See* NYISO OATT, Attachment H at Section 2.1. Shortfalls due to outages on the transmission expansions that's support awarded Incremental TCCs are funded through outage TCCs imposed on holders of Incremental TCCs (*see*: OATT Sections 19.2.2.4 and 19.2.2.9).

[22] LSEs purchasing Energy from the New York Power Authority under agreements that expire in 2025, and existing transmission agreements that expire in 2013, may obtain a twelve-year Historic Fixed Price TCC for related transmission service.

[23] For any Centralized TCC Auction during which the NYISO makes initial NHFPTCCs available, it will also offer for sale two-year TCCs.

the rounds in the Centralized TCC Auction. The NHFPTCC sale would conclude at the end of the Centralized TCC Auction.

One-year renewals would also be available, for a total term of ten years, at an annual renewal price developed in a similar fashion following the conclusion of the first round of the Centralized TCC Auction in which one-year TCCs were sold.[24] LSEs interested in renewals would also be required to register and certify continued eligibility.

The NYISO intends to make NHFPTCCs first available in conjunction with the Spring 2013 Centralized TCC Auction. The LSE registration period is expected to begin in late fall / early winter 2012.

C. Stakeholder Discussion of Non-Historic Fixed Price TCCs Market Design, Credit Revisions and Compliance Tariff Proposals

The NYISO has discussed with its stakeholders the design for, and tariff revisions necessary to support, the availability of NHFPTCCs at seven working group or committee meetings since September, 2010. The six Market Issues Working Group meetings include two in 2012 at which the NYISO provided the tariff revisions it is proposing here.[25] Following the March 14, 2012 Business Issues Committee presentation of these tariff revisions, the NYISO received editorial suggestions but no adverse comments from its Market Participants. On Nov. 18, 2011, the NYISO also presented to the Credit Policy Working Group tariff revisions for the NYISO's TCC credit policies that would be necessary to manage the annual payment for two-year TCCs.[26] Changes to both the Bidding and the Operating Requirement were discussed. Market Participants support the design of NHFPTCCs as proposed here.

V. OATT Tariff Amendments

A. Definitions and General Revisions

The NYISO proposes to amend the defined term "Fixed Price TCC" in OATT Section 1.6 to indicate that the term covers both Historic Fixed Price TCCs awarded

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[24] Renewal prices for these NHFPTCCs would be made available in the Centralized TCC Auction held just prior to the expiration of the NHTCC's initial two-year term or, thereafter, expirations of their annual renewal term.

[25] *See:* MIWG presentation March 2, 2012 at
http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2012-03-02/NHFPTCC_Compliance_Tariff_Language.pdf

and Feb. 2, 2102 presentation at
http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2012-02-02/NHFPTCC_Compliance_Tariff_Language_MIWG_020212.pdf

[26] *See* CPWG Nov. 18, 2011 presentation at
http://www.nyiso.com/public/webdocs/committees/bic_spwg_cptf/meeting_materials/2011-11-18/Multi-Duration_TCC_Credit_P1_NovCPWG_DraftFinal.pdf

pursuant to the provisions of OATT Section 19.2.1 and NHFPTCCs awarded pursuant to the provisions of Section 19.2.2:

> **Fixed Price TCC:** TCCs obtained pursuant to Sections 19.2.1 or 19.2.2 of Attachment M of the OATT. If the TCC is obtained pursuant to Section 19.2.1 of Attachment M of this OATT, it is an Historic Fixed Price TCC. If it is awarded to an LSE pursuant to the provisions of Section 19.2.2 of Attachment M, it is a NonHistoric Fixed Price TCC.

Existing references to "Fixed Price TCCs" in Section 19.2.1 are proposed to be replaced with a reference to the new term "Historic Fixed Price TCCs." Provisions regarding payment for Historic Fixed Price TCCs which are currently found in Section 19.2.3 are relocated to Section 19.2.1. A new Section 19.2.2 is inserted to describe the process for acquiring NHFPTCCs.

Existing provisions found in the balance of Section 19 are renumbered to appropriately refer to Historic or Non-Historic Fixed Price TCCs as appropriate.

B. Initial Request for Non-Historic Fixed Price TCCs

In Section 19.2.2.1, the NYISO sets forth the eligibility certification requirements for LSEs interested in purchasing NHFPTCCs. LSEs identify NHFPTCCs for possible purchase by providing the NYISO with a Notice of Intent to Purchase in which they indicate the TCCs they desire by MW size and POWs. LSEs are limited to POWs in the Load Zones in which they serve Load as they must certify they expect to be legally obligated to serve Load, as discussed below in Section V.C., in each such identified Load Zone. The LSE would also provide the potential POIs in which they are interested.

C. LSE Certification and Eligibility

The LSE certification process, described in Section 19.2.2.1, is patterned after the certification requirements currently imposed on LSEs converting existing Grandfathered TCCs and Grandfathered Rights to Historic Fixed Price TCCs. Pursuant to this Section, the NYISO is proposing that the LSE certify that it expects to be legally obligated to serve Load, in each Load Zone in which an LSE-proposed NHFPTCC has a POW, in an amount that equals or exceeds the sum of the NHFPTCCs it intends to purchase and the number of Grandfathered TCCs, Grandfathered Rights, Historic Fixed Price TCCs and existing NHFPTCCs, in effect for the same term, that are held by or on behalf of the LSE, with POWs in that Load Zone. Thus, the LSE is limited to NHFPTCCs with POWs in the Load Zones in which the LSE serves load.

The LSE must also certify it has served Load in that Load Zone for at least the most recent concluded Capability Period.

D. Non-Historic Fixed Price TCC Availability

Pursuant to proposed Section 19.2.2.1.1 the NYISO will determine, for each Centralized TCC Auction during which initial NHFPTCCs are available, the amount of transmission capacity that can be made available to support them. The NYISO currently determines the amount of capacity to be made available, by duration, for TCCs sold in Centralized TCC Auctions and the authority to make similar determinations for NHFPTCCs is patterned after that existing provision.[27]

The NYISO also proposes to limit the transmission capacity available to support initial NHFPTCCs to no more than five (5) percent of the transmission capacity otherwise available during that Auction.[28] Nonetheless, the NYISO's preliminary view is that it will allocate only two and one-half percent (2.5%) of the transmission system capacity otherwise available in the Centralized TCC Auction to support initial NHFPTCCs. This assessment is informed by stakeholder discussions, the general preference for shorter-term, auction-based rights in New York, and the fact that such a large portion of transmission capacity is already committed to long-term transmission rights in the form of Grandfathered Transmission Rights, Grandfathered TCCs and Historic Fixed Price TCCs. The NYISO believes that this is a reasonable allocation given that the municipal electric utilities that have expressed the greatest interest in NHFPTCCs to date already hold a substantial quantity of Grandfathered Transmission Rights, Grandfathered TCCs and a growing number of Historic Fixed Price TCCs. System transmission capacity allocated to support, but not used to create NHFPTCCs, will be made available to support the sale of TCCs in subsequent rounds of the Centralized TCC Auction. This should ensure that the nomination of NHFPTCCs does not negatively impact auction liquidity.

Adding to the tariff an upper limit on capacity allocated to support NHFPTCCs that is higher than this initial assessment, however, will allow the NYISO and its stakeholders the flexibility to increase this allocation as the the terms of existing Historic Fixed Price TCCs expire and the availability of new Historic Fixed Price TCCs declines.

The NYISO also indicates in this Section 19.2.2.1.1 that it will incorporate a scaling factor into the feasibility analysis it describes in OATT Section 19.2.2.3.2 and discusses in Section V.G. below to ensure that it does not sell more transmission capacity in support of NHFPTCCs than is indicated by the percentage of available transmission capacity committed to support such TCCs.[29]

In Section 19.2.2.1.2, the NYISO proposes to extend NHFPTCC availability to the broadest number of interested LSEs possible by requiring that NHFPTCCs be limited to an

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[27] OATT Section 19.8.4

[28] Transmission capacity otherwise available in a Centralized TCC Auction is the balance of total transmission system capacity after accounting for fixed uses of the system, *i.e.* Grandfathered TCCs, Grandfathered Rights, Historic Fixed Price TCCs and Incremental TCCs.

[29] The NYISO also incorporates a scaling factor into Centralized TCC Auctions to limit awarded TCCs to the capacity allocated to that round. *See:* OATT Section 19.8.4.

LSE's unhedged Load. To effectuate this eligibility, the NYISO will limit NHFPTCCs to the MW of the LSE's average hourly load in each of the Load Zones, in which it serves customers, that is unsecured by existing Grandfathered TCCs, Grandfathered Rights, Historic Fixed Price TCCs or previously purchased and still effective NHFPTCCs.[30] This limitation will ensure that no LSE is able to purchase a NHFPTCC if, in the Load Zone for which its proposed NHFPTCC sinks, the LSE is already completely hedged. The NYISO will establish in its procedures the manner in which it will calculate the average hourly Load for each LSE and will also provide each LSE with the number of NHFPTCCs in each Load Zone for which it is eligible.

The NYISO may apply a uniform percentage reduction to each LSE's average hourly load in this calculation to further broaden NHFPTCC availability, if necessary. Should significant requests for NHFPTCCs be subject to the proposed post-nomination reduction process described in OATT Section 19.2.2.3.2 and discussed in Section V.G. below, the NYISO may reduce the number of NHFPTCCs for which each LSE may be eligible by reducing the percentage of the LSE's average hourly load against which it will evaluate each LSE's unhedged Load (that is, the MW available for NHFPTCCs). Using this approach would further broaden the award of nominated NHFPTCCs among a larger set of LSEs. Before finalizing, however, the NYISO would discuss the percentage reduction with stakeholders and include the percentage reduction in NYISO Procedures.

In Section 19.2.2.1.2 the NYISO also proposes to specify that new NHFPTCCs will be offered with two year initial terms at least every other year. Renewal terms will be offered annually, with one year terms.

E. Renewals

Section 19.2.2.2 contains the NYISO's proposed revisions describing the NHFPTCC renewal process. Each interested LSE submits a Notice of Intent to Renew, specifying the NHFPTCCs which it proposes to renew. The renewal process also requires the LSE to again certify that it expects to be legally obligated to serve Load in each Load Zone identified by a NHFPTCC POW in an amount (MW) at least equal to the number of NHFPTCCs sought for renewal plus existing Grandfathered TCCs, Grandfathered Rights, Historic Fixed Price TCCs and other existing NHFPTCCs with the same POW. The limitation on the MW of NHFPTCCs that can be renewed is the same as it is for the number of MW of new NHFPTCCs the LSEs are entitled to purchase; that NHFPTCCs would be available for renewal in an amount that does not exceed the unhedged average hourly Load in each Load Zone for which a NHFPTCC POW is chosen. The LSE is also required to certify that it needs the transmission capacity between the POI and POW of the

[30] This calculation is described in a Stakeholder presentation at: http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2011-10-19/Agenda_-4_Multi-Duration_Project_Update.pdf

NHFPTCC to serve its Load. This mirrors the certification required of LSEs seeking Historic Fixed Price TCCs.[31]

The initial and renewal terms of a NHFPTCC may extend for a period no longer than ten years.

F. Pricing NHFPTCCs

Consistent with previous Commission orders in this docket, the NYISO is not proposing to require LSEs to bid into and win an auction for NHFPTCCs although the NYISO does propose to base the price of a NHFPTCC on the price for a TCC with the same POI, POW and term as determined in a Centralized TCC Auction. The process of pricing NHFPTCCs is described in Section 19.2.2.3.1. The NYISO proposes to price NHFPTCCs identified by the LSE for initial purchase or renewal at the Market-Clearing Price for a TCC with the same POI / POW combination as established in the first round of the Centralized TCC Auction in which TCCs of the same duration as the NHTCC being sought were offered. A Market Clearing Price for such a TCC established in the Auction at a price of less than zero will be set to zero. Initially nominated NHFPTCCs have a two-year term and therefore are proposed to be priced based on the Market Clearing Price of a TCC with the same POI / POW combination sold in the first round of the Centralized TCC Auction in which two-year TCCs were offered. Similarly, renewal NHFPTCCs with a one-year term would be priced, under this proposal, at the price of a one-year TCC, sold in the first one-year round of the Auction, with the same POI / POW combination.

G. Awarding NHFPTCCs

The NYISO proposes several administrative actions for awarding NHFPTCCs in Section 19.2.2.3.2. Once the NHFPTCC price has been made available, the interested LSE will have a short period of time during which to nominate which, if any, of its identified NHFPTCCs it wishes to purchase. The NHFPTCCs each LSE is eligible to purchase is limited by the NHFPTCCs it indicated were of interest in its Notice of Intent to Purchase (or Renew). The NYISO also proposes to forfeit any further renewal opportunity for NHFPTCCs a LSE declines to renew. The LSE is free, however, to return to the NHFPTCC process and purchase new NHFPTCCs, even with the same path as the forfeited NHFPTCC. This forfeiture process is modeled after the forfeiture of a five or ten-year Historic Fixed Price TCC if an owner-LSE of such a TCC fails to pay the annual portion of the purchase price.[32]

Before awarding the NHFPTCCs that each LSE nominated for purchase, however, the NYISO will determine the feasibility of awarding all such requested NHFPTCCs. If awarding all nominated NHFPTCCs does not result in a feasible power flow solution, the NYISO will reduce the number of awarded NHFPTCCs by using the auction algorithm which is currently used in each TCC Action to create a feasible set of awarded TCCs.

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[31] *See:* OATT Section 19.2.1.1

[32] *See*: OATT Section 19.2.1.3

When used during a Centralized TCC auction, this auction algorithm uses the dollar value and number of MWs sought in each TCC Bid to allocate available capacity in such a way as to maximize the use of available transmission capacity to support awarded TCCs and maximize the total value to those Market Participants awarded TCCs in the Auction.

When used to allocate available transmission capacity across all nominated NHFPTCCs, the NYISO will equalize the monetary value of each nominated NHFPTCC such that the algorithm will be limited to maximizing the use of available transmission capacity to support awarded NHFPTCCs. That is, if all nominated NHFPTCCs can be accommodated within the available 2.5% of the capacity offered, without overloading any transmission facilities or interfaces, all would be awarded. If such is not the case, the software will allocate capacity available across constrained transmission facilities and interfaces based on the transmission system capacity available and the NHFPTCCs being sought. As a general matter, this allocation will be accomplished by reducing the number of NHFPTCCs awarded across an oversubscribed constraint in proportion to the number of constraint-impacting NHFPTCCs being sought in individual requests. No NHFPTCCs will be awarded, however, in quantities of less than one MW.

As mentioned, a variation of the NHFPTCC allocation process described above, and proposed for use in the NHFPTCC award process, has been used to award TCCs to those seeking TCCs across constrained transmission facilities and interfaces since the NYISO first auctioned TCCs. The process, described in OATT Section 19.9.7 for use in Auctions generally and in Section 19.8.2 for use in allocating Existing Transmission Capacity to Serve Native Load ("ETCNL") when all ETCNL cannot be feasibly modeled, is well accepted among the NYISO stakeholders and serves as a viable model for allocating NHFPTCCs over constrained transmission facilities and interfaces when all nominations cannot be feasibly accommodated.

Finally, the NYISO proposes that awarded NHFPTCCs will become effective with the first day of the Capability Period immediately following the close of the Centralized TCC Auction. This is the effective date for all TCCs sold in that Auction as well.

H. Payment for NHFPTCCs

In Section 19.2.2.3.3, the NYISO proposes to require LSEs that are acquiring NHFPTCCs to pay for them one-year at a time in compliance with the Commission's requirement that the NYISO require LSEs pay for NHFPTCCs through annual installments.[33] Billing will be in accordance with ISO Procedures and challenges to settlement information with regard to the award of initial or renewed NHFPTCCs will require payment be made according to the payment timeline provided.[34]

LSEs that fail to make their required NHFPTCC payment will forfeit their entitlement to further renewals of their NHFPTCC.

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[33] July 2010 Order at ¶16

[34] The process for challenging a NHTCC award is governed by Section 19.2.2.3.4.

I. Miscellaneous Provisions Regarding Fixed Price TCCs

The NYISO proposes to amend Section 19.2.3 to apply to Non-Historic Fixed Price TCCs provisions it currently applies to Historic Fixed Price TCCs. As mentioned, provisions regarding the payment for Historic Fixed Price TCCs have been relocated to the end of Section 19.2.1.

Among the existing provisions in Section 19.2.3 that the NYISO proposes to also apply to NHFPTCCs are:

a) The reassignment of TCCs to an LSE which has acquired Load from an LSE with TCCs;

b) Provisions relocated from Section 19.2.1 for reassignment, reconfiguration, or sale of such TCCs;

c) Provisions copied from Section 19.9.6 for resolving challenges to the award of such TCCs. These provisions apply currently to disputes arising in the context of TCC Auctions and are appropriate to also apply to disputes surrounding Fixed Price TCCs.

J. Changes to the Balance of Section 19, OATT Sections 2.2.2 and 17

The NYISO proposes a variety of minor editorial or renumbering revisions to the balance of Section 19, as submitted. These include:

Section 19.1 where the availability of Non-Historic Fixed Price TCCs is added to the provisions describing how TCCs may be acquired;

Section 19.7 where buyers of Non-Historic Fixed Price TCCs are identified as Primary Holders of TCCs;

Section 19.8 where Fixed Price TCCs that are tested as feasible before the Centralized TCC Auction is run are further defined as created pursuant to either Section 19.2.1 or 19.2.2

Section 19.9.6 where a provision describing how charges for Fixed Price TCCs are billed is removed. Since this section deals with Centralized TCC Auctions, the sentence more properly belongs in Section 19.2.3 where it has been relocated.

The NYISO proposes to revise OATT Sections 2.2.2 and 17 to indicate certain Fixed Price TCCs referenced therein are Historic Fixed Price TCCs.

VI. Services Tariff Amendments

A. Definition of Fixed Price TCC

The NYISO proposes to amend the term "Fixed Price TCC" in Section 2.6 in the same fashion as it is proposing to amend the term in the OATT (as discussed in Section V.A. above).

B. Changes to Section 26.4: Credit Requirements for Bidding and Holding Two-Year TCCs

Purchasers and holders of TCCs must meet two credit requirements. The first credit requirement is known as the "Bidding Requirement." The purpose of the Bidding Requirement is to secure payments due at the time TCCs are awarded to cover the TCC's initial purchase. The second requirement is known as the "holding requirement" and is the TCC Component of the Operating Requirement. The purpose of the TCC Component of the Operating Requirement is to secure payment obligations due over the term of the TCC. Changes to both to accommodate the purchase of NHFPTCCs are necessary.

The NYISO proposes to amend Section 26.4.3 (i), the description of the Bidding Requirement, to clarify that this requirement applies to LSEs desiring to purchase NHFPTCCs during a Centralized TCC Auction. Because these LSEs will "nominate" the TCCs they wish to purchase, rather than "Bid" to purchase their NHFPTCCs, the NYISO proposes to add the word "nominate," as appropriate, throughout this paragraph. The NYISO also proposes a clarification to Section 26.4.3(ii) to indicate that this provision applies only to the purchase of Historic Fixed Price TCCs.

The NYISO proposes significantly more revisions to Section 26.4.2.3, the calculation of the TCC Component of the Operating Requirement. Currently, the NYISO calculates the credit requirement for holding a two-year TCC by doubling the collateral required to hold a one-year TCC with the same POI and POW.[35] With this filing, the NYISO proposes to amend the methodology for determining the credit requirement for holding two-year TCCs to take into account the Commission's requirement that the NYISO allow purchasers of two-year NHFPTCCs to purchase them using the same annual installment process as the NYISO offers to holders of Historic Fixed Price TCCs.[36] Because the NYISO's credit management system does not differentiate between two-year TCCs purchased in an auction or through the NHFPTCC process, the proposed revisions to the TCC Component of the Operating Requirement will apply to all two-year TCCs held as of the effective date of these revisions.

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[35] *See: New York Independent System Operator, Inc.* Docket No. ER10-721-000, Letter Order issued March 23, 2010. Currently, Market Participants pay the entire two-year market clearing price for a two-year TCC upon the initial award of the two-year TCC. As demonstrated in the formulas found in Section 26.4, as a general matter, payment offsets the collateral requirement.

[36] *See*: July 2010 Order at ¶ 16

The NYISO proposes to revise Section 26.4.2.3 to calculate the collateral required for holding a two-year TCC in two parts: 1. collateral for year one of the two-year TCC will be based on the market clearing price of a one-year TCC with the same POI and POW; and 2. collateral for year two of the two-year TCC will be based on the difference between the market clearing price of a two-year TCC and the market clearing price, used in part one of the calculation, of the one-year TCC. As payment occurs and as the remaining term of the two-year TCC falls to one year, six months and one month, the collateral required will be re-calculated to reflect payments made and the remaining duration of the TCC.

As a general matter, the price of the one-year TCC used in the year one formula to calculate the required collateral will be the market clearing price of a one-year TCC sold in the most recently concluded final one-year round of a Centralized TCC Auction. Because the NYISO sells TCCs in an auction from longest term to shortest term, this may be the market clearing price from the final one-year round of the previous Centralized TCC Auction. The price for the two-year TCC used in the year two formula to calculate the required collateral will initially be the market clearing price at which the two-year TCC was awarded. The two-year TCC price in this collateral calculation will change, and the NYISO will recalculate the two-year TCC holding requirement when the final round of the two-year rounds are closed at new market clearing prices. When the remaining term drops to one year, the collateral calculation will match the collateral required of a holder of a one-year TCC.

VII. Effective Date

The NYISO respectfully requests that the Commission accept the tariff revisions proposed in this docket to become effective no earlier than October 10, 2012 and no later than November 14, 2012 on notice to be provided to stakeholders and the Commission two weeks before the effective date. The NYISO intends to offer NHFPTCCs in the first quarter of 2013, in conjunction with the first Centralized TCC Auction following this effective date. However, the credit revisions included herein would become effective with the actual installation of the software implementing the NHFPTCC product design. The NYISO expects such installation on October 17, 2012 but actual installation depends on the conclusion of all quality testing and on system conditions at the time of the scheduled installation.

Therefore the NYISO respectfully requests the Commission accept these revisions with an effective date to be determined on two week's notice to the Commission and Market Participants, such effective date to occur between October 10, 2012 and November 14, 2012. The NYISO proposes to refile accepted tariff revisions included herein with the established effective date as soon as that is known.

VIII. Conclusion

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept the revisions proposed in this filing,

recognize that subsequent filings as described herein may be made, and establish an effective date between October 10, 2012 and November 14, 2012 as indicated by a notice provided two-weeks in advance of such effective date to the Commission by the New York Independent System Operator, Inc.

Respectfully submitted,

/s/ Mollie Lampi

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