

## **19.8 Auctions for TCCs**

### **19.8.1 Overview**

The ISO will conduct Centralized TCC Auctions before each Capability Period. Winning bidders in each such auction will purchase TCCs that will be valid for one or more Capability Periods, beginning with the first Capability Period that begins after the conclusion of the auction. The ISO will also conduct Reconfiguration Auctions each month. Winning bidders in each such auction will purchase TCCs valid for one or more calendar months within the same Capability Period, beginning with the calendar month that begins after the conclusion of the auction.

### **19.8.2 Description of the Reduction Process For Reducible ETCNL/GFTCCs**

Before each Centralized TCC Auction, the ISO shall ensure that all of the following correspond to a simultaneously feasible security constrained Power Flow: (i) existing TCCs and Grandfathered Rights that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, including but not limited to Fixed Price TCCs that were created pursuant to Section 19.2.1 (including Section 19.2.1.4) or Section 19.2.2. of this Attachment M and Incremental TCCs awarded pursuant to Section 19.2.4 of this Attachment M; Grandfathered TCCs not subject to reduction and Original Residual TCCs to the extent not previously used to support the purchase of TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction (henceforth “TCCs and Grandfathered Rights listed in Section 19.8.2 (i)”); and (ii) ETCNL (to the extent not previously used to support the purchase of TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction) and Grandfathered TCCs subject to reduction as listed in Table 1 of this Attachment M (henceforth “Table 1 ETCNL/TCCs”). In some cases, the total set of all the TCCs, Grandfathered Rights, and Table 1 ETCNL/TCCs listed in (i) through (ii) above may not

correspond to a simultaneously feasible Power Flow in some period of time. In such cases, Table 1 ETCNL/TCCs, will be reduced for that period in order to make the total set of TCCs and Grandfathered Rights listed in Section 19.8.2 (i), and Table 1 ETCNL/TCCs remaining after reduction correspond to a simultaneously feasible Power Flow.

This reduction procedure will use the same optimization model that will be used in the Centralized TCC Auction to determine the amount by which Table 1 ETCNL/TCCs will be reduced. Each of the TCCs and Grandfathered Rights listed in Section 19.8.2 (i) above will be represented in the Centralized TCC Auction model by a fixed injection of 1 MW at its Point of Injection, and a fixed withdrawal of 1 MW at its Point of Withdrawal. In addition, Table 1 ETCNL/TCCs will be represented in the model, but they will be represented in such a way as to allow their reduction. To do so, bids for each Table 1 ETCNL/TCC will consist of a line which intersects the y-axis at \$1/TCC (or any other value selected by the ISO, so long as that value is constant for each bid curve for all of these Table 1 ETCNL/TCCs) and which intersects the x-axis at 1 MW. An example of the bid curve  $B_j$  for a representative Table 1 ETCNL/TCC is illustrated in the diagram below.

The TCC auction software will determine the amount of each Table 1 ETCNL/TCC that will remain after reduction, which is designated as  $A_j$  in the diagram. The objective function that the TCC auction software will use to determine these coefficients  $A_j$  will be to maximize:

$$\sum_{j \in N} \int_0^{A_j} B_j$$

Where:

$N$  = The set of Table 1 ETCNL/TCCs

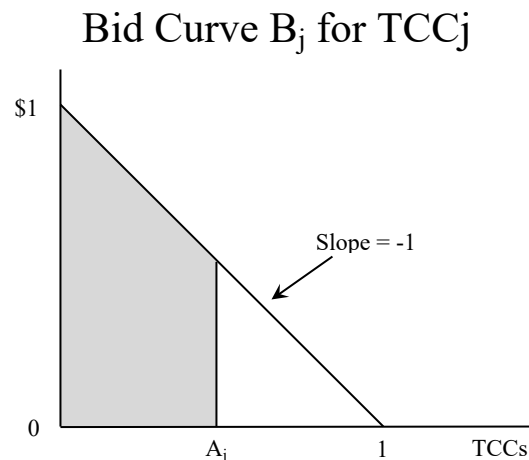
$j$  = Any individual Table 1 ETCNL/TCC

$A_j$  = Any amount of each Table 1 ETCNL/TCC(j) remaining

$B_j$  = As defined by the diagram

subject to the constraint that injections and withdrawals corresponding to the TCCs and Grandfathered Rights listed in Section 19.8.2(i) and Table 1 ETCNL/TCCs remaining after reduction must be simultaneously feasible in a Power Flow.

As a result, the objective function will maximize the area under the bid curve for each Table 1 ETCNL/TCC that remains after reduction, summed over all Table 1 ETCNL/TCCs, subject to the simultaneous feasibility constraint. This area for one Table 1 ETCNL/TCC is illustrated in the following diagram:



The ISO shall apply this methodology as follows:

19.8.2.1 first, on the Table 1 ETCNL/TCCs (prior to the conversion of any ETCNL to ETCNL TCCs), and

19.8.2.2 second, on the Table 1 ETCNL/TCCs remaining after conversion into ETCNL TCCs of ETCNL included in such Table 1 ETCNL/TCCs.

For purpose of the second reduction, a holder of ETCNL may elect to disaggregate the ETCNL in accordance with ISO Procedures prior to conducting the reduction process. If a

Transmission Owner elects to have its ETCNL disaggregated, the number of MW of ETCNL allocated to that Transmission Owner specifying each Load Zone as its POW shall be replaced by the same number of MW of ETCNL, specifying the same POI as the original ETCNL, but specifying various buses within that Load Zone as the POWs, as determined in accordance with ISO Procedures.

To the extent more than one model is used in a given Centralized TCC Auction (*e.g.*, to reflect different summer / winter ratings), the ISO shall retest the Table 1 ETCNL/TCCs remaining after reduction so as to avoid reducing the Table 1 ETCNL/TCCs more than is necessary to prevent infeasibility in a given Sub-Auction. However, any Table 1 ETCNL/TCC that is deemed infeasible in one Centralized TCC Auction may be deemed reduced and not eligible for retesting in a subsequent Centralized TCC Auction.

### **19.8.3 Transmission Capacity Sold in Centralized Auctions for TCCs**

Transmission Owners with ETCNL will release that transmission Capacity to support the sale of TCCs in each Centralized TCC Auction, unless the Transmission Owner has converted the ETCNL into ETCNL TCCs pursuant to Section 19.4 of this Attachment M. Transmission Owners which have not sold their Original Residual TCCs through a Direct Sale on the OASIS prior to the Centralized TCC Auction, shall sell them through the Centralized TCC Auction. Transmission Owners may retain their Grandfathered TCCs. If it sells Grandfathered TCCs, a Transmission Owner shall do so either through Direct Sales or through Centralized TCC Auctions or Reconfiguration Auctions.

Capacity associated with the termination of ETAs in effect on November 19, 1999, listed in Table 1A of Attachment L to this OATT (as it may be amended), that conferred transmission rights on an LSE and is not used to create Historic Fixed Price TCCs, pursuant to Section 19.2.1

of this Attachment M (including extensions of Historic Fixed Price TCCs awarded pursuant to Section 19.2.1.4 of this Attachment M) shall be converted into Residual Transmission Capacity.

In each Centralized TCC Auction, the following transmission Capacity not required to support already-outstanding TCCs or Grandfathered Rights and not withheld pursuant to Section 19.1.1 of this Attachment M shall be available to support TCCs that can be purchased in that Centralized TCC Auction:

19.8.3.1 following any reduction pursuant to Section 19.8.2 of this Attachment M, all of the transmission Capacity associated with ETCNL (a) that the Transmission Owners do not sell through a Direct Sale in advance of the Centralized TCC Auction, (b) that the Transmission Owners do not convert to ETCNL TCCs, and (c) that has not been used to support the sale of existing TCCs that are valid for any part of the duration of any TCCs sold in the Centralized TCC Auction;

19.8.3.2 all of the transmission Capacity associated with Original Residual TCCs, that the Transmission Owners do not sell through a Direct Sale in advance of the Centralized TCC Auction and that has not been used to support the sale of existing TCCs that are valid for any part of the duration of any TCCs sold in the Centralized TCC Auction;

19.8.3.3 all of the transmission Capacity associated with TCCs offered for sale by TCC Primary Holders; and

19.8.3.4 any Residual Transmission Capacity; provided, however, that, in determining Residual Transmission Capacity for the Centralized TCC Auction, the ISO shall exclude consideration of transmission Capacity associated with the CHPE MTF.

#### **19.8.4 Centralized TCC Auctions**

TCCs with durations of 6 months and 1 year shall be available in each Centralized TCC Auction. TCCs with durations of 2 years, 3 years, 4 years, or 5 years may also be available in the Centralized TCC Auction, at the ISO's discretion.

The final decision concerning the percentage of the transmission Capacity that will be available in the Centralized TCC Auction to support TCCs of different durations will be made by the ISO. The ISO will conduct a polling process to assess the market demand for TCCs with different durations, which it will take into consideration when making this determination. The ISO may elect not to sell any TCCs with one or more of the above durations. However, all transmission Capacity not associated with the CHPE MTF, ETAs or outstanding TCCs or not reserved through conversion of ETCNL to ETCNL TCCs or RCRRs to RCRR TCCs must be available to support TCCs of some duration sold in the Centralized TCC Auction that have a start date of the first day of the Capability Period that commences immediately following the completion of such Centralized TCC Auction.

The Centralized TCC Auction will consist of a series of Sub-Auctions. For TCCs with the same start date, such Sub-Auctions will be conducted consecutively. In each Sub-Auction, TCCs of a single duration will be available (*e.g.*, only TCCs with a five-year duration might be available in one Sub-Auction). Sub-Auctions for TCCs with the same start date will be conducted in decreasing order of the length of the period for which TCCs sold in the Sub-Auction are valid. Therefore, if the ISO were to determine that five years would be the maximum length of TCCs available in the Centralized TCC Auction for TCCs with a particular start date, then the Sub-Auction for TCCs with a duration of five years would be held first. All TCCs sold in the 5-year TCC Sub-Auction (other than those offered for sale in the next Sub-Auction, as described in Section 19.9.1) would then be modeled as fixed injections and withdrawals in the next Sub-

Auction, in which TCCs with the same start date of the next longest duration, as determined by the ISO (*e.g.*, four years), would be available for purchase. Following that Sub-Auction, TCCs with the same start date sold in either of the first two Sub-Auction (other than those offered for sale in the next Sub-Auction) would then be modeled as fixed injections and withdrawals in the third Sub-Auction for TCCs with the same start date (*e.g.*, a Sub-Auction for three-year TCCs with the same start date), etc.

Each Sub-Auction shall normally consist of at least four rounds unless the Transmission Owners that are subject to Attachment N of this Tariff unanimously consent to fewer rounds. The ISO shall have the authority to determine the percentage of the available transmission Capacity that will be available to support TCCs sold in each round of each Sub-Auction such that all of the transmission Capacity offered for sale in that Sub-Auction shall be offered by the last round of that Sub-Auction. The ISO shall announce these percentages before the Sub-Auctions. The “scaling factor” for each round shall equal the percentage of available transmission Capacity that has not yet been made available to support the sale of TCCs in previous rounds, divided by the percentage of available transmission Capacity that will be made available to support the sale of TCCs in that round.

The ISO shall also determine the maximum duration of TCCs sold in the Centralized TCC Auction, and whether the TCCs sold in the Centralized TCC Auction shall be separately available for purchase as on-peak and off-peak TCCs. (For purposes of this Attachment, the on-peak period will include the hours from 7 a.m. to 11 p.m. Prevailing Eastern Time Monday through Friday. The remaining hours in each week will be included in the off-peak period.)

Notwithstanding anything to the contrary herein, for the Centralized TCC Auction that immediately follows a Centralized TCC Auction in which the ISO has sold two-year TCCs, the

ISO may conduct a single round one-year Sub-Auction for TCCs with a start date that is the same as the second year of the previously sold two-year TCCs; provided, however, that the amount of transmission Capacity made available to support the sale of one-year TCCs in such single round one-year Sub-Auction shall not exceed the lesser of: (a) five percent of the transmission Capacity not otherwise required to support already-outstanding Grandfathered Rights, Grandfathered TCCs, Fixed Price TCCs, Incremental TCCs, ETCNL TCCs, and RCRR TCCs; and (b) the amount of transmission Capacity that the ISO made available to support the sale of two-year TCCs in the prior Centralized TCC Auction. The remaining transmission Capacity to be made available by the ISO to support the sale of one-year TCCs with a start date that is the same as the one-year TCCs offered for sale during such single round one-year Sub-Auction shall be made available to support the sale of one-year TCCs in the next Centralized TCC Auction conducted after the Centralized TCC Auction including such single round one-year Sub-Auction.

#### **19.8.5 Reconfiguration Auctions**

A Reconfiguration Auction is an auction in which TCCs with a duration of one or more months within the same Capability Period may be offered and purchased. This will allow Market Participants to purchase and sell short-term TCCs. Reconfiguration Auctions will also capture short-term changes in transmission Capacity. The ISO will conduct Reconfiguration Auctions monthly and TCCs purchased in Reconfiguration Auctions will be valid for the applicable month or months following the Reconfiguration Auction. A Reconfiguration Auction will consist of a single round. Any Primary Holder of a TCC that is valid for a month in which TCCs are being sold in the Reconfiguration Auction, including a purchaser of a TCC in a Centralized TCC Auction that has not sold that TCC and a Transmission Owner that is the

Primary Holder of an ETCNL TCC or a Member System that is the Primary Holder of a RCRR TCC, may offer that TCC for sale in a Reconfiguration Auction; provided however that the sale of TCCs in a Reconfiguration Auction shall be subject to the limitations and prohibitions set forth in this ISO OATT including the limitation on the sale or transfer of Fixed Price TCCs and the limitation on the sale or other transfer of Incremental TCCs. The transmission Capacity used to support these TCCs, as well as any other transmission Capacity not associated with the CHPE MTF or not required to support already-outstanding TCCs or Grandfathered Rights, will be available to support TCCs purchased in the Reconfiguration Auction.

Transmission Capacity made available for transmission rights in durations of no more than one month pursuant to Section 19.1.1 shall be released in Reconfiguration Auctions.