

III.7 Financial Transmission Rights Auctions

III.7.1 Auctions of Financial Transmission Rights. Periodic auctions (“FTR Auctions”) to allow Eligible FTR Bidders to acquire or FTR Holders to sell FTRs shall be conducted by the ISO in accordance with the provisions of this Section. Non-Market Participants that want to participate in the FTR Auction or to become an FTR Holder via the secondary market and have satisfied the applicable financial assurance criteria will be charged a one time FTR Registration Fee of \$5,000. This fee may be superceded by a future provision in the Transmission, Markets and Services Tariff.

III.7.1.1 Auction Period and Scope of Auctions.

- (a) Initially, FTR Auctions shall be held on a monthly basis followed by the introduction of long-term FTR Auctions. Long-term auctions shall be introduced no later than October 1, 2003. The ISO shall provide notice of the initial

long-term auction at least thirty (30) days prior to the opening of the auction-quoting period for such long-term auction as described in Section III.7.1.2(a). At the time of such notice, the ISO shall post a schedule for future long-term auctions and the percent of the feasible FTRs that will be available in such long-term auctions. Such schedule shall coordinate the start and end dates of the long-term FTRs to be auctioned with those of the long-term FTRs of neighboring Control Areas. During the period prior to the long-term auctions, the entire transfer capability of the New England Transmission System will be made available to support the sale of FTRs with a term of one month in the monthly FTR Auctions.

- (b) Following the initial auctions described above, FTR auctions shall be held on both an annual and monthly basis.

Fifty percent of the feasible FTRs that can be made available with a term of one year shall be made available in the annual FTR Auction. After the annual FTR Auction has been conducted, the remaining feasible FTRs, each having a term of one month, shall be made available in the monthly FTR Auctions. Within two years from the March 1, 2003, the ISO will evaluate making available FTRs with a term of more than one year (in one-year increments).

III.7.1.2 Frequency and Time of FTR Auctions.

- (a) Annual (initial long-term) auctions: The bid and offer period shall open five business days before the first business day of the month preceding the period in which the FTRs are to be effective for a five business day auction-quoting period that closes at noon on the fifth business day.

- (b) Monthly auctions: The bid and offer period shall open beginning fifteen business days before the first business day of the month preceding the period in which the FTRs are to be effective for a five business day auction-quoting period that closes at noon on the fifth business day.

III.7.2 Financial Transmission Rights Characteristics.

III.7.2.1 Reconfiguration of Financial Transmission Rights. Using an appropriate linear programming model, the ISO shall reconfigure the FTRs offered or otherwise available for sale in any auction to maximize the value to the bidders of the FTRs sold, provided that any FTRs acquired at auction shall be simultaneously feasible in combination with those FTRs outstanding at the time of the auction and not sold in the auction. The linear programming model shall, while respecting transmission constraints and the maximum megawatt quantities of the bids and offers, select the set of

simultaneously feasible FTRs with the highest total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers.

III.7.2.2 Specified Locations. Auction bids for FTRs may specify any combination of receipt and delivery locations represented in the State Estimator model for which the ISO calculates and posts Locational Marginal Prices. Auction bids may specify receipt and delivery points from locations outside of the New England Control Area to locations inside the New England Control Area, from locations within the New England Control Area to locations outside of the New England Control Area, or to and from locations within the New England Control Area. Congestion over interfaces associated with non-PTF external tie lines is not subject to LMP-based congestion management and, therefore, no FTRs across such interfaces will be included in the FTR Auctions.

III.7.2.3 Transmission Congestion Revenues. FTRs shall entitle holders thereof to credits only for Transmission Congestion Revenue, and shall not confer a right to credits for payments arising from or relating to transmission congestion made to any entity other than the ISO.

III.7.2.4 [Reserved.]

III.7.3 Auction Procedures.

III.7.3.1 Role of the ISO. FTRs auctions shall be conducted by the ISO in accordance with standards and procedures set forth in the ISO New England Manuals and ISO New England Administrative Procedures, such standards and procedures to be consistent with the requirements of this Market Rule.

III.7.3.2 [Reserved.]

III.7.3.3 [Reserved.]

III.7.3.4 On-Peak and Off-Peak Periods. The ISO will conduct separate auctions simultaneously for on-peak and off-peak periods. On-peak FTRs shall cover the periods from 7:00 a.m. up to the hour ending at 11:00 p.m. on Mondays through Fridays, except holidays as defined in the ISO New England Manuals and ISO New England Administrative Procedures. Off-peak FTRs shall cover the periods from 11:00 p.m. up to the hour ending 7:00 a.m. on Mondays through Fridays and all hours on Saturdays, Sundays, and NERC holidays as defined in the ISO New England Manuals and ISO New England Administrative Procedures. Each bid shall specify whether it is for an on-peak or off-peak period.

III.7.3.5 Offers and Bids.

(a) Offers to sell and bids to purchase FTRs shall be submitted during the applicable period set forth in Section III.7.1.2, and shall be in the form specified by the ISO in accordance with the requirements set forth below.

(b) Offers to sell shall identify the specific FTRs, by megawatt quantity and receipt and delivery points, offered for sale. An offer to sell a specified megawatt quantity of FTRs shall constitute an offer to sell a quantity of FTRs equal to or less than the specified quantity. An offer to sell may not specify a minimum quantity being offered. Each offer may specify a reservation price, below which the offeror does not wish to sell the FTR. Offers shall be subject to such applicable standards for the financial assurance of the

offeror or for the posting of security for performance as the ISO shall establish.

- (c) Bids to purchase shall specify the megawatt quantity, price per megawatt, and receipt and delivery points of the FTR that the bidder wishes to purchase. A bid to purchase a specified megawatt quantity of FTRs shall constitute a bid to purchase a quantity of FTRs equal to or less than the specified quantity. A bid to purchase may not specify a minimum quantity that the bidder wishes to purchase. A bid may specify as receipt or delivery points any Location for which the ISO calculates and posts Locational Marginal Prices in accordance with Section III.2 of this Market Rule and may include FTRs for which the associated Transmission Congestion Credits may have

negative values. Bids shall be subject to such applicable standards for the financial assurance of the bidder or for the posting of security for performance as the ISO shall establish.

- (d) Bids and offers shall be specified to the nearest 0.1 megawatt and the quantity shall be greater than zero.

III.7.3.6 Determination of Winning Bids and Clearing Price.

- (a) At the close of each bidding period, the ISO will create a base FTR power flow model that includes all outstanding FTRs that have previously been awarded for the period for which the auction was conducted and that were not offered for sale in the auction. The base FTRs model also will include estimated uncompensated parallel flows into each

interface point of the New England Control Area and estimated scheduled transmission outages.

- (b) In accordance with the requirements of this Section and subject to all applicable transmission constraints and reliability requirements, the ISO shall determine the simultaneous feasibility of all outstanding FTRs not offered for sale in the auction and of all FTRs that could be awarded in the auction for which bids were submitted. The winning bids shall be determined from an appropriate linear programming model that, while respecting transmission constraints and the maximum megawatt quantities of the bids and offers, selects the set of simultaneously feasible FTRs with the highest net total auction value as determined by the bids of buyers and taking into account the reservation prices of the sellers. In the event that there are

two or more identical bids for the selected FTRs and there are insufficient FTRs to accommodate all of the identical bids, then each such bidder will receive a pro rata share of the FTRs that can be awarded.

- (c) FTRs shall be sold at the market-clearing price for FTRs between specified pairs of receipt and delivery points, as determined by the bid value of the marginal FTR that could not be awarded because it would not be simultaneously feasible. The linear programming model shall determine the clearing prices of all FTR paths based on the bid value of the marginal FTRs, which are those FTRs with the highest bid values that could not be awarded fully because they were not simultaneously feasible, and based on the flow sensitivities of each FTR's path relative to the

marginal FTRs' paths flow sensitivities on the binding transmission constraints.

III.7.3.7 Announcement of Winners and Prices. Within four (4) business days after the close of a monthly auction and six (6) business days after the close of an annual or initial long-term auction or such later time as may be approved by the ISO Board, the ISO shall post the winning bidders, the megawatt quantity, and the receipt and delivery points for each FTR awarded in the auction and the price at which each FTRs was awarded. Results of the on-peak auction and off-peak auction will be posted separately. The ISO shall not disclose the price specified in any bid to purchase or the reservation price specified in any offer to sell.

III.7.3.8 Auction Settlements. All buyers and sellers of FTRs between the same points of receipt and delivery shall pay or be paid the market-clearing price, as determined in the auction, for such FTRs.

III.7.3.9 Allocation of Auction Revenues. All auction revenues, net of payments to entities selling FTRs into the auction, shall be allocated as specified under Appendix C of this Market Rule.

III.7.3.10 Simultaneous Feasibility. The ISO shall make the simultaneous feasibility determinations specified herein using appropriate power flow models of contingency-constrained dispatch. Such determinations shall take into account outages and expected configuration of transmission facilities and outages of individual generating units to the extent that such outages impact voltage or stability limits and shall be based on reasonable assumptions about the configuration and availability of transmission capability during the period covered by the auction. The goal of the simultaneous feasibility determination shall be to ensure that there are sufficient Transmission Congestion Revenues to satisfy all FTR obligations for the auction period under expected conditions.

III.7.3.11 [Reserved.]

III.7.3.12 Financial Transmission Rights in the Form of Options. When the ISO has the necessary software and hardware, the FTR Auctions shall allow for the acquisition of FTRs that do not create potential obligations to pay.

III.7.3.13 FTR Secondary Trading Market. FTR Holders may trade FTRs on the secondary market and have these settled using the ISO systems. The ISO systems shall only allow FTRs to be subdivided into multiple FTRs with; i) the same points of injection and withdrawal; ii) different megawatt amounts the sum of which does not exceed the original FTR MW amount; and iii) different start and end dates where the start and end dates are the same as or within the start and end dates of the original FTR. FTRs may be reconfigured only through FTR Auctions.

III.7.3.14 Temporary FTR Surcharge. Beginning with the first monthly statement for Non-Hourly Charges, as described and defined in Section 2.2 of the ISO New England Billing Policy, issued by the ISO after the Commission approves the settlement agreement filed in Docket No. ER04-798, the ISO shall collect through its normal settlement process, from all entities awarded FTRs in the auctions conducted by the ISO following Commission approval of the settlement agreement, a surcharge of one and one-tenth percent (1.1%) on the absolute value of all awarded dollars in FTR auctions (the "FTR Surcharge"), including positive and negative awarded dollars. Sellers of FTRs and FTR sales outside the auction shall not be subject to the FTR Surcharge. The ISO shall collect the FTR Surcharge until it has received \$2,599,781 plus all interest costs associated with borrowing such amount payable by the ISO to its lenders under its revolving line of credit. The ISO will post monthly on its website information regarding the pay-down of such borrowing and interest from proceeds of the FTR Surcharge. Amounts collected pursuant to the FTR Surcharge in the final monthly statement for Non-Hourly Charges in excess of the foregoing cumulative total will be credited to those entities paying the FTR Surcharge in that final billing period.