



Transmission Congestion Contract – Proposed Improvement

Presented by Vitol Inc.

May 11, 2020 – ICAP/MIWG/PRLWG

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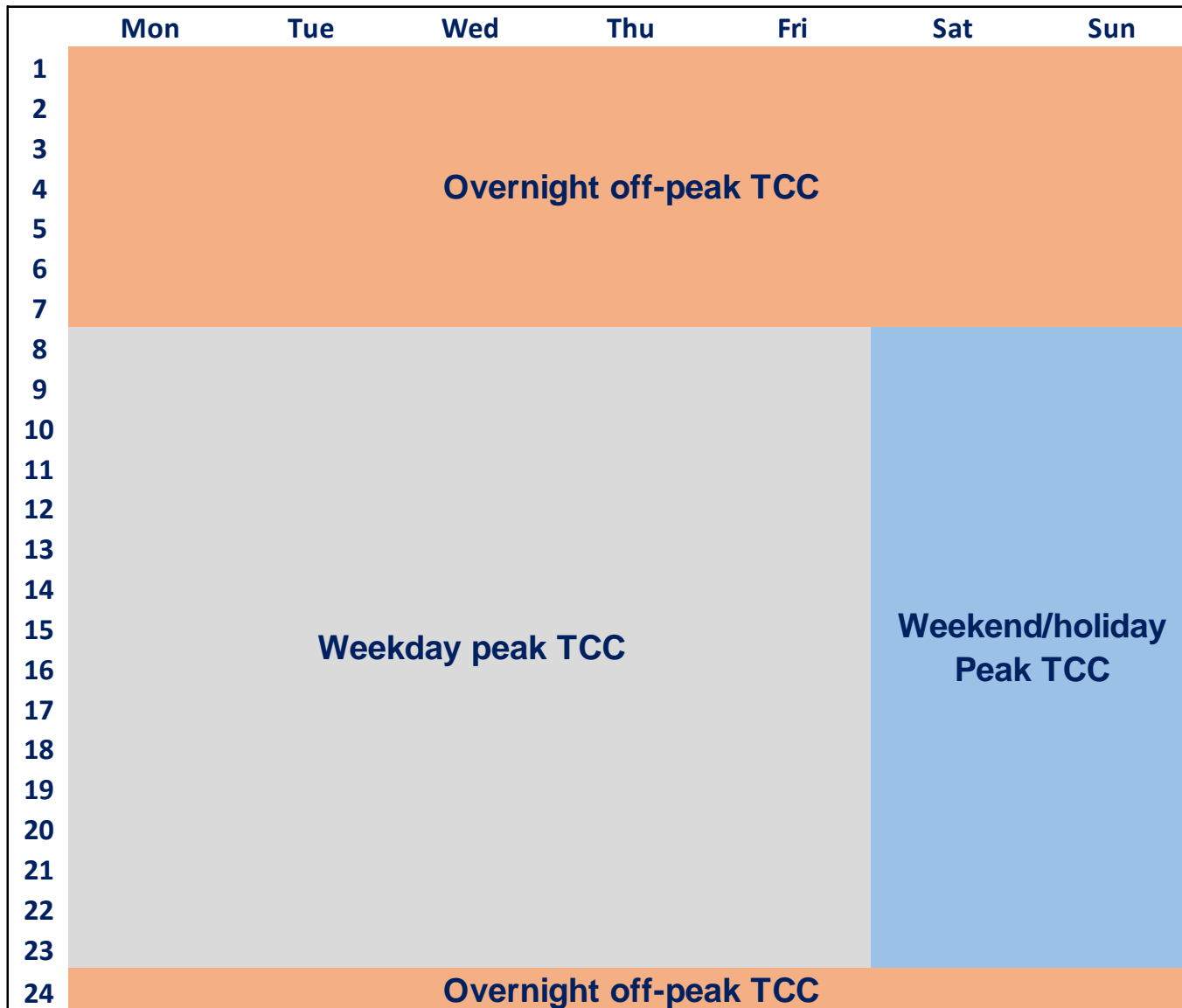
Vitol's Proposed Improvement



- *Improve the TCC product by changing it from a 24 hours a day, 7 days a week product into 3 smaller products:*
 1. ***On-peak TCC***: *non-holiday weekday peak hours (HE 8 - 23)*
 2. ***Weekend/holiday peak TCC***: *weekend and holiday peak hours (HE 8 - 23)*
 3. ***Overnight off-peak TCC***: *overnight hours for all days (HE 24 and 1 - 7)*
- *Improvement adds one more level of granularity to Calpine's TCC proposal which calls for creating a peak TCC and an off-peak TCC*
 - *Vitol agrees with Calpine's reasons for wanting to change the TCC product**
 - *Vitol proposes separating daytime hours from nighttime hours*

* Calpine presented at the April 22 ICAP/MIWG and April 30 BPWG

Summary of Vitol's Proposal



An Important Product That Needs to Evolve



- *TCCs play an important role in the NYISO's energy market*
 - *Forward congestion hedge - market participants purchase TCCs to lock in forward congestion prices for a specific time period*
 - *Forward market signal – prices from auctions provide a transparent, granular forward price signal, which is not readily available in bilaterally traded markets*
- *But the 24 hours a day, 7 days a week structure is too broad to accommodate commercial needs that are evolving*
 - *Holder is obligated to congestion payables/receivables for all 24 hours in a day, everyday of the time period in which they're held*
- *The variation of commercial needs by time of day and time of week is becoming more pronounced, particularly due to an increase in intermittent resources*
 - *TCCs, as hedge instruments, need to be more tailored to accommodate this variation*
 - *Auction prices, as forward market signals, need to reflect how expected congestion values change by time of day and time of week*
- *Utilizing three smaller TCC products will address these needs*

Example: Solar Generation



- *Consider a utility scale solar generation owner that wishes to hedge revenue risk or secure project financing by selling its expected output on a forward basis*
- *Expected output is sold at a liquid hub, e.g. Zone G, for a future period to lock in revenue*
- *Forward congestion risk exists between the generator's node and Zone G*
 - *To fully hedge revenue risk, the congestion risk needs to be hedged too*
- *But today's TCC product is ineffective in hedging congestion risk for solar*
 - *The owner must buy all 24 hours of the congestion hedge, but the generator only produces during daylight hours – a significant mismatch that adds cost/risk*
- *Under the Vitol proposal, the solar owner can tailor the hedge by purchasing a weekday peak TCC and a weekend/holiday peak TCC to cover its daytime congestion risk*

Expected Benefits



- *Improved commercial functionality and flexibility*
 - *Tailored TCC portfolios to more precisely meet commercial needs*
- *Better forward congestion price signals*
 - *Granular, locational forward price signals by time of week/day*
 - *More accurate valuation of expected congestion with increasing intermittent resources*
- *Valuable for the transition to clean energy resources*
 - *Locational price/revenue certainty for development and financing needs*
 - *Locational hedging for existing resources*