



# Transmission Congestion Contract – Proposed Improvement

Presented by Vitol Inc.

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# Vitol's Proposed Improvement

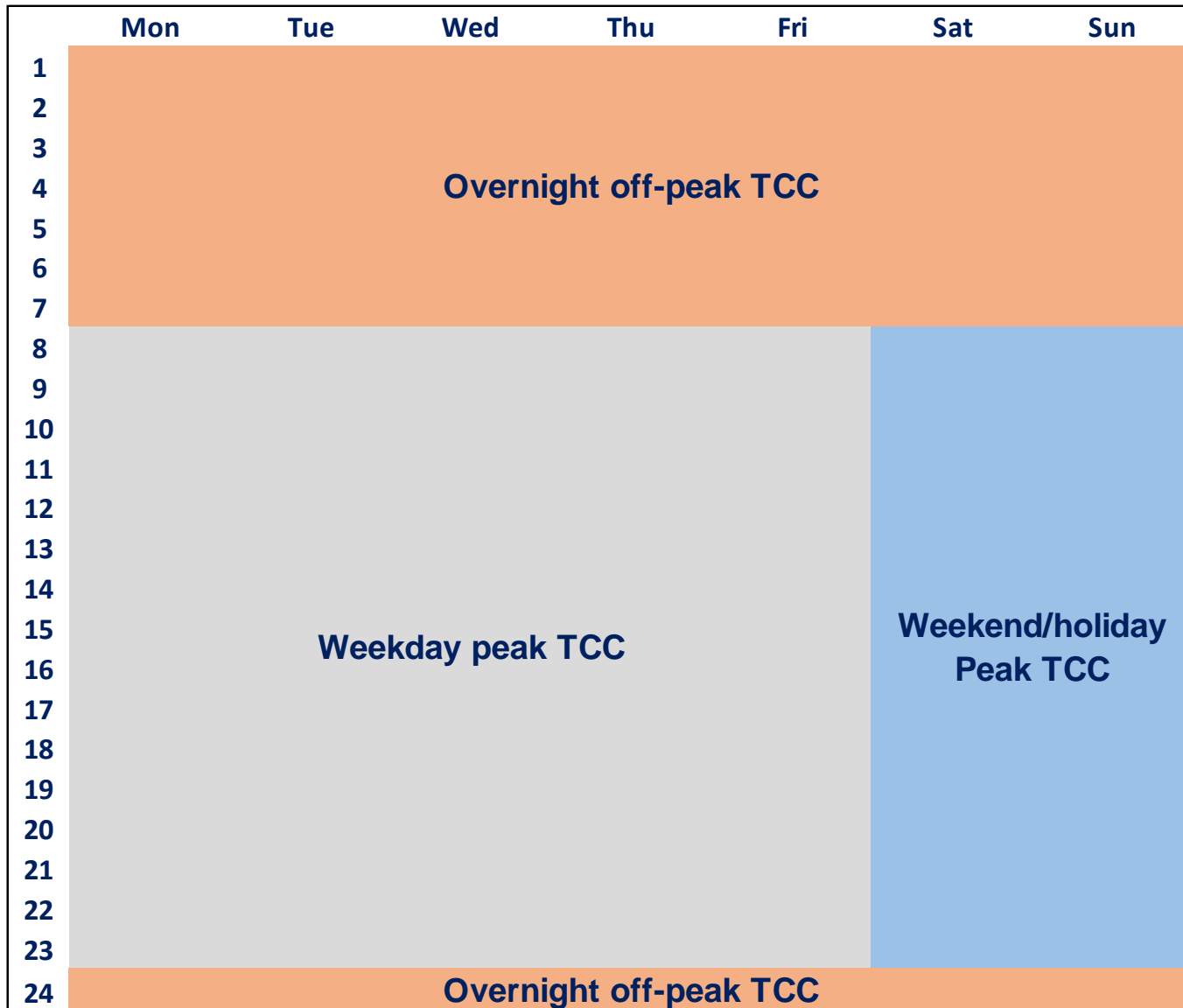
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- *Improve the TCC product by changing it from a 24 hours a day, 7 days a week product into 3 smaller products:*
  1. ***On-peak TCC:*** *non-holiday weekday peak hours (HE 8 - 23)*
  2. ***Weekend/holiday peak TCC:*** *weekend and holiday peak hours (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

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- *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

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- *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

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- *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*