ORIGINAL

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.	)	**Docket Nos. ER01-3009-~~001~~,** -003 **~~ER01-3009-002~~, ER01-3153-~~001~~,** -003 **~~and ER01-3153-002~~**
Morgan Stanley Capital Group, Inc.	)	**Docket Nos. EL00-90-~~001~~** -003 **and ~~EL00-90-002~~**
v.	)	
New York Independent System Operator, Inc.	)	

REQUEST FOR EXPEDITED ACTION AND CLARIFICATION AND ALTERNATIVE REQUEST FOR LIMITED REHEARING AND MOTION FOR STAY OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

Pursuant to Rule 212 of the Commission's Rules of Practice and Procedure,[1] the New York Independent System Operator, Inc. ("NYISO") hereby respectfully requests that the Commission clarify its January 31, 2002, *Order on Rehearing and Compliance Filing* in the above-referenced dockets ("January 31 Order").[2] Specifically, the NYISO seeks clarification that removing the $1113/MWh floor on the collateral required to support non-physical (*i.e.* "virtual") bids of generation and load submitted in the Day-Ahead Market and settled in the Real-Time Market ("Virtual Transactions")[3] will satisfy the Commission's directive in the January 31 Order. In the alternative, pursuant to Rule 713 of the Commission's Rules of Practice and Procedure,[4] the NYISO hereby respectfully requests a limited rehearing of the

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[1] 18 C.F.R. § 385.212 (2001).

[2] *New York Independent System Operator, Inc.*, 98 FERC ¶ 61,077 (2002).

[3] Capitalized terms not otherwise defined herein have the meaning ascribed to them in Article 2 of the Market Administration and Control Area Services Tariff ("Services Tariff").

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January 31 Order and requests that the Commission stay its decision to require the NYISO to remove the minimum collateral requirement applicable to Virtual Transactions until the Commission acts on the NYISO's request for rehearing.

In addition, the NYISO respectfully requests that the Commission take expedited action in this matter. The NYISO will soon make a filing that will propose revisions to the interim credit polices applicable to Virtual Transactions that would reduce the overall collateral requirements for Virtual Transactions Customers. However, due to the interrelated nature of the special interim credit support polices for Virtual Transactions, the NYISO has been authorized to proceed with the proposed tariff amendments only upon the Commission's granting of the NYISO's request for clarification contained herein.[5] Accordingly, the NYISO respectfully requests that the Commission act on the NYISO's request for clarification not later than March 13, 2002.

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4 18 C.F.R. § 385.713 (2001).

5 More specifically, at its February 7, 2002, meeting, the NYISO Management Committee voted unanimously, with abstentions, in favor of a proposal to amend the interim credit support policies applicable to Virtual Transactions to calculate collateral requirements on a zonal rather than state-wide basis. This change would have the effect of lowering the overall collateral requirements for Virtual Transactions Customers. However, the Management Committee explicitly conditioned its vote upon the Commission's granting of the NYISO's request for clarification contained herein.

I. Notices and Communications

All notices and communications in this proceeding should be served on:

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II. Service List

The NYISO has mailed copies of this filing to all parties on the official service lists maintained by the Commission in the above-captioned dockets.

III. Background

On September 4, 2001, the NYISO submitted proposed revisions to its Open Access Transmission Tariff ("OATT") and Services Tariff to implement Virtual Transactions and to make changes to its credit policies to accommodate Virtual Transactions.[7] In the NYISO's September 4 Filing, the NYISO submitted proposed revisions to its Services Tariff to, among other things, require Virtual Transactions Customers to provide "an unconditional and

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6 The NYISO respectfully requests a waiver of the Commission's regulations (18 C.F.R. § 385.203) to allow the inclusion of more than two persons for service and communications.

7 *New York Independent System Operator, Inc. Filing of Tariff Revisions to Implement Virtual Bidding,* Docket Nos. ER01-3009-000, ER01-3153-000 and EL00-90-000 (September 4, 2001) ("September 4 Filing").

irrevocable letter of credit or a cash deposit, *as specified by ISO Procedures*, as security to meet its obligations related to Virtual Transactions under the ISO Services Tariff."[8] (Emphasis added.) On October 25, 2001, the Commission issued an order ("October 25 Order")[9] accepting in part and rejecting in part the September 4 Filing and directing the NYISO to file revised tariff sheets to: (i) incorporate the credit policies applicable to Virtual Transactions and (ii) reduce the collateralization period applicable to Virtual Transactions from fourteen to seven days.

The ISO Procedures specifying the credit polices applicable to Virtual Transactions that were referenced in the September 4 Filing were developed in close coordination with Market Participants and were approved by the Management Committee at its meeting on August 17, 2001. At the conclusion of the meeting, the Management Committee voted, with an affirmative vote of 92.77%, to adopt "the credit policy *as discussed in the materials presented* to the Management Committee."[10] (Emphasis supplied.) The materials that were presented to the Management Committee at its August 17 Meeting ("Virtual Transactions Presentation," attached hereto as Attachment I) state that the collateral calculation for Virtual Transactions is based on the difference between the prices observed in the Day-Ahead Market and the Real-Time Market at the 97th percentile ("Price Delta") during the "[m]ost recent/available rolling 3-Month period or {June/July/August} period; whichever is higher."[11] In addition, the Virtual Transactions Presentation states that adjustments to the collateral calculation for Virtual Transactions will be

8 September 4 Filing, Attachment IV, Services Tariff proposed First Revised Tariff Sheet No. 204.

9 *New York Independent System Operator, Inc.*, 97 FERC ¶ 61,091 (October 21, 2001).

10 Motion #1, Motions from the Meeting, August 17, 2001.

11 Virtual Transactions Presentation at 7.

made "*upward only.*"[12] (Emphasis added.) Accordingly, under the interim credit support policies for Virtual Transactions approved by the Management Committee, the collateral requirement to support Virtual Bidding could never be lower than the requirement as it was calculated based on June, July, and August of 2001.

Pursuant to the October 25 Order, the NYISO submitted revised tariff sheets on November 27, 2001 ("November 27 Filing")[13] to incorporate the credit policies applicable to Virtual Transactions into the Services Tariff. At the time of the August 17 Management Committee meeting, it was not possible to present a sum-certain minimum collateral requirement based on the period of June, July, and August because that time period had not yet elapsed. When the NYISO made its compliance filing on November 27, however, it was able to determine this figure. Therefore, when the NYISO made its November 27 Filing, it sought, for the sake of simplicity, to include in its tariff sheets the sum-certain minimum collateral amount of $1113/MWh rather than the formula that was approved by the Management Committee and that would always yield $1113/MWh.[14]

In response to the November 27 Filing, Aquila Energy Marketing Corp., Edison Mission Energy, Inc. and Edison Mission Marketing & Trading, Inc. filed a protest ("Aquila and Edison

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12 Virtual Transactions Presentation at 7.

13 *New York Independent System Operator's Request for Leave to Make Compliance Filing One Day Out of Time and Compliance Filing* in Docket Nos. ER01-3009-000, ER01-3153-000 and EL00-90-000 (November 27, 2001).

14 The Commission's January 31 Order states that the minimum collateral requirement "appeared neither in NYISO's original virtual bidding filing nor in any comments submitted in that proceeding." January 31 Order at 7. As discussed in greater detail in the NYISO's alternative request for limited rehearing below, the minimum collateral requirement was a well-established component of the interim credit support policies applicable to Virtual Transactions. The Commission's October 25 Order directed the NYISO to include the details of those polices into its tariffs, which the NYISO did in its November 27 Filing.

Mission Protest")[15] regarding the NYISO's proposed minimum collateral requirement of $1,113/MWh. The Aquila and Edison Mission Protest incorrectly asserted that the minimum collateral requirement included in the NYISO's November 27 Filing constituted a new element of the interim credit support policies applicable to Virtual Transactions. In the January 31 Order, the Commission accepted in part and rejected in part the NYISO's November 27 Filing and directed the NYISO to "remove from its tariff sheets the minimum collateral requirement."[16]

IV. Request for Clarification

The NYISO respectfully asks that the Commission clarify that its instruction to remove the minimum collateral requirement from the interim credit policies applicable to Virtual Transactions requires only that the NYISO remove the $1113/MWh minimum collateral requirement proposed for Virtual Transactions in the November 27 Filing. As the NYISO understands the Commission's January 31 Order, omitting this sum-certain minimum collateral requirement would mean that Virtual Transactions Customers would be required to provide collateral based on the greater of the Price Deltas observed in the most recently-available three-month period or in the most recent June, July, and August, whichever is higher. By omitting the sum-certain minimum collateral requirement of $1113/MWh, the collateral requirement applicable to Virtual Transactions could be reduced, depending on the Price Deltas observed this summer. Accordingly, this change will capture the benefits of any price convergence observed

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15 *Protest One Day Out-of-Time of Aquila Energy Marketing Corp. and to the Extent Necessary, Motion to Intervene Out-of-Time and Protest of Edison Mission Energy, Inc. and Edison Mission Marketing & Trading, Inc.*, Docket No., ER01-3009-002, et al. (November 28, 2001).

16 January 31 Order at 7.

between the Day-Ahead Market and the Real-Time Market, thereby allowing for a reduction of the amount of collateral required to support Virtual Transactions.

The NYISO is concerned that a credit policy that, instead, bases collateral requirements only on the Price Delta observed in the previous three months, without also accounting for the Price Delta observed in the most recent summer, would leave the NYISO vulnerable to serious credit risks.[17] Furthermore, the NYISO stresses that the credit policies at issue are *interim* policies that will apply only until the NYISO gains more experience with this new type of transaction and implements a new permanent credit policy that is revised to accommodate Virtual Transactions.[18]

In compliance with the January 31 Order, the NYISO intends to file revised tariff sheets, omitting the minimum collateral requirement of $1113/MWh and requiring instead that Virtual Transactions provide collateral in an amount based on the Price Delta observed in either: a) the most recent three months, or b) the most recent June, July, and August, whichever is greater. In addition, to effectively eliminate the minimum collateral requirement, the NYISO will revise the provision in its Services Tariff that restricts adjustments to the collateral requirements for Virtual Transactions to upward adjustments only, so that the collateral requirements will be adjusted

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17 If the NYISO uses only the Price Delta observed in the most recent three month period (as opposed to the *greater of* that figure or the Price Delta observed in the most recent June, July, and August) then the NYISO would frequently be under-collateralized when entering the summer months due to a lag effect in its collateral requirements since the summer months have historically produced more volatile prices than the milder months of spring that proceed them.

18 The Commission has acknowledged that the "NYISO's virtual bidding is a completely new market mechanism and thus no information is available about the potential drawbacks and risks of the NYISO virtual market." January 31 Order at 4. Furthermore, in recognition of the interim nature of the credit policies applicable to Virtual Transactions, the Commission has ordered the NYISO to file periodic progress reports, including reports on the NYISO's "experience with bad debts and adequacy of and/or need for the differing credit requirements" regarding Virtual Transactions within thirty days after each Capability Period, beginning with the Winter 2001-2002 Capability Period. Id.

whenever there is an increase *or decrease* of 10% or more. Thus, the compliance filing will remove the minimum credit requirement of $1113/MWh while leaving intact critical elements of the credit policy approved by the Management Committee and supported by the NYISO that account for the volatile prices sometimes observed in the summer months.

V. Alternative Request for Limited Rehearing and Stay

An interim credit support policy that fails to protect against the price volatility sometimes observed during the peak summer months by relying solely on the Price Delta observed in the previous three months would result in a lag in the collateral requirements applicable to Virtual Transactions. For example, in March, April, and May of 2001, the Price Delta was $84/MWh, whereas in June, July, and August of 2001, the Price Delta was $159/MWh.[19] A credit policy that bases collateral requirements only on the previous three months would leave the NYISO vulnerable to potentially substantial and irreparable harm as it enters periods of greater price volatility. Accordingly, and in the alternative to the NYISO's request for clarification above, the NYISO requests a limited rehearing of the NYISO's November 27 Filing and a stay of the Commission's January 31 Order.

[19] As explained in the November 27 Filing, the collateral requirement per MWh of authorization to engage in Virtual Transactions is derived by multiplying the relevant Price Delta times seven. Therefore, these Price Deltas would result in collateral requirements of $588/MWh and $1113/MWh, respectively.

A. Request for Limited Rehearing of the Commission's Decision to Require the NYISO to Remove the Minimum Collateral Requirement Applicable to Virtual Transactions

1. The Commission erred in the January 31 Order when it concluded that the NYISO failed to fully comply with the Commission's October 25 Order.

In the January 31 Order, the Commission rejected in part the NYISO's November 27 Filing and directed the NYISO to remove from its tariff the minimum collateral requirements applicable to Virtual Transactions, noting that "this provision appeared neither in NYISO's original virtual bidding filing nor in any comments or protests submitted in that proceeding." Contrary to the conclusion of the January 31 Order, the NYISO fully complied with the Commission's instructions in the October 25 Order to "file revised tariff sheets to ... incorporate the credit policies applicable to Virtual Transactions." The NYISO's minimum collateral requirement was a well-established component of the interim credit support policies applicable to Virtual Transactions, which the NYISO filed for inclusion in its tariff sheets pursuant to the Commission's October 25 Order.

The Commission appears to have been misled by assertions that the minimum collateral requirement submitted by the NYISO in its November 27 Filing "was never approved by the NYISO Management Committee, not included in the NYISO's September 4 Filing, or even in any of the Technical Bulletins issued in regards to virtual transactions."[20] Furthermore, the Commission was misinformed that "[m]embers of the NYISO ... never had the opportunity to

[20] Aquila and Edison Mission Protest at 11.

discuss the requirement in the NYISO committees or to vote to approve or disapprove the requirement."[21]

As discussed above, the Virtual Transactions Presentation, which was incorporated by reference into the motion passed by the Management Committee to implement Virtual Transactions, included the provision that the Commission is now directing the NYISO to remove. Contrary to the assertions of a few, Market Participants had ample opportunity to discuss this requirement and to decide whether to approve it as over 92% of them chose to do.

Although a few Market Participants may be unhappy with the dollar amount that results from the credit policy they previously endorsed, the fact remains that the policy being applied to Virtual Transactions is neither new, nor a surprise. The policy that the NYISO is now applying to Virtual Transactions is the policy that was supported by over 92% of the Management Committee as a condition of its support for the implementation of Virtual Transactions.[22]

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21 Aquila and Edison Mission Protest at 11. Both Aquila Energy Marketing and Edison Mission Marketing and Trading voted in favor of the interim credit policy, including a minimum collateral requirement, at the August 17, 2001, meeting of the Management Committee.

22 The Commission has consistently placed great importance on proper observance of the Commission-approved NYISO governance process, insisting that Market Participants first address their grievances in that process. *See, e.g., Morgan Stanley Capital Group, Inc. v. New York Independent System Operator, Inc.*, 93 FERC ¶ 61,058, 61,156 (2000) (stating that participation in the stakeholder process is the appropriate venue to address ISO concerns and that relief for grievances should first be sought through the process provided by the ISO before being brought to the Commission). *See also, Consolidated Edison Co. of New York, Inc.*, 95 FERC ¶ 61,216, 61,719 (2001) (stating that Consolidated Edison circumvented the stakeholder process by unilaterally filing revisions to the in-City mitigation measures and stating, "[w]e strongly encourage participants to use the stakeholder process, especially in this type of situation, *i.e.*, where a market participant seeks to modify market measures that impact all market participants"). The Commission has similarly stated in a number of other orders that it will defer to an ISO's stakeholder governance process. *See PJM Interconnection, L.L.C.*, 84 FERC ¶ 61,212 (1998); *Sithe New England Holdings, LLC and Sithe New Boston, LLC v. New England Power Pool, and ISO New England, Inc.*, 86 FERC ¶ 61,283 (1999), *reh'g denied*, 88 FERC ¶ 61,080 (1999); *New York Independent System Operator, Inc.*, 90 FERC ¶ 61,319 (2000); *New England Power Pool*, 90 FERC ¶ 61,168 (2000); and *USGen New England*, 90 FERC ¶ 61,323 (2000).

(continued...)

2. The Commission should avoid a piecemeal alteration of the interim credit polices applicable to Virtual Transactions.

The interim credit support polices applicable to Virtual Transactions were developed as an interrelated package of measures, and the Commission should avoid making piecemeal alterations to those polices. The policies were developed by the NYISO in close coordination with Market Participants as a complete package of credit protections custom tailored to this new type of transaction in the NYISO-administered energy markets. To make piecemeal modifications to the interim credit support policies that have been specially developed for Virtual Transactions would undermine the widespread support that they have received. The protestors, who themselves previously voted to adopt the proposed credit policies, have sought to usurp the collaborative process by which those polices were developed by mischaracterizing and attacking the individual components with which they now disagree.

The NYISO and Market Participants are already developing revisions to the interim credit policies applicable to Virtual Transactions that are based on the interrelated package of measures originally approved by the Management Committee and proposed by the NYISO. On February 7, 2002, the NYISO Management Committee voted unanimously, with abstentions, in favor an amendment to the interim credit support policies applicable to Virtual Transactions to calculate collateral requirements on a zonal rather than state-wide basis.[23] This change would lower the overall collateral requirements for Virtual Transactions Customers. However, the Management Committee explicitly conditioned its vote in favor of the proposed amendment on the Commission's granting of the NYISO's request for clarification contained herein. The NYISO supports this change, but agrees with the Management Committee that it should only be

[23] The text of the motion passed by the Management Committee is attached hereto as Attachment II.

implemented if the Commission grants the NYISO's request for clarification since the credit policies applicable to Virtual Transactions are specifically designed to work together as a package.

3. The NYISO and Market Participants could suffer serious, irreparable harm if the Commission does not grant the NYISO's request for clarification.

The NYISO may be seriously and irreparably harmed if it is forced to implement Virtual Transactions with insufficient collateral to protect against the potentially serious financial consequences of this new market feature. The NYISO has granted authorization for over 122,000 MWh of Virtual Transactions each day in the NYISO-administered markets, and some individual Market Participants are authorized for as much as 20,000 MWh of Virtual Transactions each day.[24] As noted above, the Price Delta in March, April, and May of 2001 was only $84, but the Price Delta observed in June, July, and August nearly doubled to $159. Assuming similar Price Deltas are observed again this year, the NYISO would be subjected to a lag of $9,660,000 in the collateral posted by a Virtual Transactions Customer authorized to bid 20,000 MWh/day as it enters the more volatile summer months. If it could not be recovered from the defaulting Virtual Transactions Customer, a loss of this magnitude would result in irreparable harm to the NYISO and other Market Participants who would be forced to absorb the loss.

[24] Although authorization to engage in Virtual Transactions is expressed in a MWh/day amount, Virtual Transactions Customers may use their daily authorization in as many or as few hours within the day as they wish. Accordingly, a Virtual Transactions Customer with a 20,000 MWh authorization could bid all 20,000 MWh of Virtual Transactions in a single hour.

B. Request or Limited Stay Until the Commission Acts on the NYISO's Alternative Request for Limited Rehearing

The Administrative Procedure Act authorizes the Commission to stay the effects of its rulings "when justice so requires."[25] In applying this standard, the Commission has traditionally considered three factors in determining whether a stay should be granted. These factors are: (i) whether the moving party will suffer irreparable injury without a stay; (ii) whether issuing a stay will not substantially harm other parties; and (iii) whether a stay is in the public interest.[26] The NYISO believes that the facts of this case justify a stay under the applicable standards.

The potential financial risks associated with Virtual Transactions are of such a magnitude that the NYISO and Market Participants may be irreparably harmed if the NYISO is forced to implement this new type of transaction with insufficient collateral. As stated above, the NYISO has granted authorization for over 122,000 MWh of Virtual Transactions each day with some individual Market Participants holding substantial portions of the total authorization. If it could not be recovered from the defaulting Virtual Transactions Customer, a significant loss attributable to Virtual Transactions would result in irreparable harm to the NYISO and the remaining Market Participants who would be forced to absorb the loss.

As explained above, if the NYISO's request for clarification is not granted, then the NYISO may be irreparably harmed if its request, in the alternative, for a stay is rejected. Moreover, since the NYISO acts as the market administrator for all Market Participants in New York, there is a risk that all Market Participants may be irreparably harmed if the NYISO sustains substantial losses associated with Virtual Transactions. Finally, granting a stay is

[25] 5 U.S.C. § 705 (1994).

[26] *See, e.g., CMS Midland, Inc., Midland Cogeneration Venture Limited Partnership,* 56 FERC ¶ 61, 631 (1991), *aff'd sub. nom, Michigan Municipal Cooperative Group v. FERC*, 990 F.2d 1377 (D.C. Cir. 1993), *cert. denied*, 510 U.S. 990 (1993).

unlikely to harm other parties since Virtual Transactions will remain available to all Market Participants on the same basis that they have been offered since the inception of that market feature. Therefore, if the NYISO's request for clarification is not granted, the Commission should grant the NYISO's request, in the alternative, for a stay and limited rehearing of the Commission's January 31 Order.

VI. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc., respectfully asks that the Commission take expedited action and grant its request for clarification. In the alternative, it respectfully asks that the Commission expeditiously grant its request for: (i) limited rehearing of the January 31 Order; and (ii) stay the January 31 Order's denial of authority to specify a minimum collateral requirement applicable to Virtual Transactions.

Respectfully submitted,

Arnold H. Quint

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February 13, 2002

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure 18 C.F.R. § 385.2010 (2001).

Dated at Washington, D.C. this 13th day of February.

Hunton & Williams
1900 K Street, NW
Washington, DC 20006-1109

ATTACHMENT I

Proposed Credit Policy For Virtual Bidding

Presented on
August 17, 2001
to the
Management Committee

Bidding Characteristics

- **Purely Financial Transactions**
- **Virtual Load Bidders: Do Not Consume Energy**
- **Virtual Supply Bidders: Do Not Supply Energy**
- **New/Untested Market**
  - *24 Hours/7 days*

New York Independent System Operator

[redacted]al Bidding Overview

- **Virtual Load Bid**
  - *Day-Ahead purchase of energy*
  - *Day-Ahead energy purchase is sold back in Real-Time*
  - *Actual energy consumed = 0*
- **Virtual Supply Bid**
  - *Day-Ahead sale of energy*
  - *Day-Ahead energy sale is bought back in Real-Time*
  - *Actual energy supplied = 0*

New York Independent System Operator

[redacted]Credit Policy Goals

- **Support 11/1/01 Implementation Date**
- **Keep it Simple**
- **Two Phases**
  - *Phase One: Interim Policy*
    - Conservative approach to support 11/1/01 implementation date
    - Minimize Risk
  - *Phase Two: Revisit Policy*
    - Integrate Virtual Bidding Credit Policy into overall Credit Policy
    - Revise Virtual Bidding Credit Policy based upon experie[redacted]
    - Timeframe – 1st Quarter of next year?

New York Independent System Operator

[redacted] Credit Policy Approach

- **Fully collateralized credit limits for Virtual Bidding**
  - *Applies to "ALL" Market Participants*
  - *Rated Entities*
  - *Unrated Entities*
- **Form of collateral restricted to Cash or Irrevocable Letter of Credit**

New York Independent System Operator

Fully Collateralized Credit Limits = ?

New York Independent System Operator

[redacted]Collateralized Credit Limits

[redacted]mine the # of MWHs an entity can bid in a day (24 hour period)
  - [redacted] Virtual Load or Virtual Supply combined
    - Based upon the collateral posted

- **Considerations**
  - *Exposure Components*
    - The Price Delta (DAM vs.RTM) per MWH
    - Number of MWHs Bid In A Day
    - Number of Days in the Exposure Calculation Period
- **Collateral Calculation**
  1) *Determine required Collateral for each MWH bid*
     - Based upon 97 percentile price delta observed
     - Most recent/available rolling 3-Month period or (June/July/August) period; whichever is higher
     - Peak Hours (HB 6:00 AM – HE 10:00 PM)
     - Highest Zonal or Proxy Bus Delta observed
     - Adjust if +10% (upward only for interim proposal)
  2) *Determine Daily Exposure*
     - Multiply required Collateral for each MWH bid by the number of MWHs the MP [redacted]
       - MP tells the NYISO the maximum number of MWHs they wish to bid in a [redacted]
  3) *Determine Total Collateral Requirement*
     - Daily Exposure multiplied by # of days in exposure calculation period
     - Exposure Calculation Period = 14 Days

New York Independent System Operator

[redacted]teral Calculation: Example

Example only; Initial delta to be Determined prior to Actual implementation

[redacted]

- *Historic Price Delta per MWH:* $95.78
- *Number of MWHs Bid in a Day:* 1600 MWH (Provided by Market Participant)
  - 100 MW's Bid each hour for 16 hours

  OR
  - 1600 MW's Bid in one hour

  OR
  - Any combination of bidding patterns
- *Exposure Calculation Period:* 14 Days

Calculation	
Price Delta:	$ 95.78 per MWHR
# of MWHs Bid:	x 1600 MWHR/day
Exposure	$ 153,248/day
# Days Exposure Calculation Period:	x 14
Total Collateral Required:	$2,145,472

[redacted]

- *Required Collateral to Bid 1600 MWH/Day*

New York Independent System Operator

New York Independent System Operator 4

14 Days Collateral is Necessary

> **Total Known and Unknown exposure could reach 14 days**

> **Unknown Exposure**

• *Settlement info available on 3rd day following bid submission:*	*3 Days*
• *If it is a Friday, next business day is a Monday; Add 3 more days:*	*3 Days*
• *If an extended weekend; Add 1 more day:*	*1 Day*
• *Subtotal:*	*7 Days*

> **Known Exposure**

• *Collateral Call made when the known exposure reaches 50% of collateral posted:*	*7 Days*
• *Total Exposure Period:*	

New York Independent System Operator

...ement Info Availability

Unknown Exposure always 3 days, at least

5:00 AM Monday	Tuesday	Thursday	
[illegible]	[illegible]	[illegible]	3 Days Unknown Exposure

New York Independent System Operator

New York Independent System Operator

...ement Info Availability

Unknown Exposure can be 6 days or more

DAM Bid Due	Virtual Bid Contract Day	Virtual Bid Settlement Known (DAM vs. RTM)
5:00 AM Tuesday	Wednesday	Friday

6 Days Unknown Exposure

New York Independent System Operator

...toring

> ...itoring of Bids Submitted
  - *Bid box automatically rejects all Virtual Bids for MP if total MWHs bid for day exceeds authorized MWHs*
    - Authorized MWHs based upon collateral posted
    - MP notified ASAP/Real-Time

> **Daily Monitoring of Accumulated Receivable**
  - *Credit Manager monitors accumulated Virtual Bidding Receivable vs. Collateral Posted for each MP*

> **Early Warning**
  - *MP contacted when Accumulated Receivable = 25% of collateral posted*
  - *Advisory*

> **Call for Collateral/Paydown**
  - *When Accumulative Receivable = 50% of collateral posted Market Participant is requested to either:*
    - Pay down Virtual Bidding Receivable in full
    - Post Additional Collateral to reestablish 14-day coverage

By N...

New York Independent System Operator

[redacted]cement

- Trading privileges temporarily suspended if additional collateral or paydown not provided by close of business on 1st business day after notification by NYISO
  - *7x24 Market Operations*
  - *MPs must provide 7-day 24-hour contact*
    - Telephone Number and E-Mail Address
  - *NYISO Credit Manager documents time and date of notice/request for market participant to paydown Virtual Bidding receivable or post additional collateral*
    - No acknowledgement of notice/request required from market participant
    - 1st business day is based upon NYISO record of notification/req[redacted]

New York Independent System Operator

[redacted]sure Protection

[redacted] Virtual Bidding Trading "May Be" Suspended If Unknown Exposure Greater than 3 [redacted]
  - Reasons:
    - Settlement information not available
    - System problem/Price reservations
  - *Decision Criteria*
    1) Immediate Suspension if: Total Virtual Bidding Accounts Receivable = 50% of total Virtual Bidding Collateral Posted

       OR

    2) If Total Virtual Bidding Accounts Receivable less than 50% of total Virtual Bidding Collateral Posted – NYISO Considers Projected System Restoration Time, Time to Correct Reserved Prices, Historical Market Volatility, Market Participant Concentration, etc. and makes a judgment call whether or not to suspend Virtual Bidding Trading

- **Decision Authority**
  - *CEO or CFO*
  - *BOD Finance Committee Chair*

  (Advisory: Time is of essence)

- **Market Notification**
  1) *Market notified ASAP that Virtual Bid Market Trading may be suspended*
     - Today's 5:00 AM bids valid/Tomorrow's 5:00 AM bids?
     - Best efforts to issue notification by noon
     - Brief statement of reason
  2) *Decision made and market notified by 4:00 PM*

New York Independent System Operator

New York Independent System Operator

[redacted]ket Protection

[redacted] NYISO will suspend Market-wide Virtual Bidding Trading if, in the sole judgment of the NYISO, the implementation of Virtual Bidding has caused a market aberration that impairs the ability of the NYISO to effectively manage Market Participant risk exposure or the NYISO's ability to maintain the reliability of the electric system

- **Decision Authority**
  - *CEO or CFO*
  - *BOD Finance Committee Chair*

  (Advisory: Time is of essence)
- **Market Notification**
  1) *Market notified ASAP that Virtual Bid Market Trading may be suspended*
     - Today's 5:00 AM bids valid/Tomorrow's 5:00 AM bids?
     - Best efforts to issue notification
     - Brief statement of reason
  2) *Decision can be made at anytime*

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[redacted]Sharing

[redacted] Participants will share in losses resulting from default of a virtual bidder on a virtual bid obligation
  - *Physical Loads/Virtual Bidders/Physical Generators/TCC Market Participants*

- **The Market Monitoring Unit will evaluate and adjust generator reference prices to account for any additional costs that may result from now requiring generators to incur these costs by virtue of the loss sharing formula for virtual bidding.**
- **Full collateralization should minimize losses**
  - *Not 0 Risk: 97 percentile price spreads / 14 days collateral / 50 % Collateral Usage Threshold*
- **Loss sharing associated with default of a Market Participant [redacted] bid transaction continues to be covered by loads only**
  - *Currently being reconsidered as part of overall credit policy review*

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Sharing Formula

- % Loss for MP = $\dfrac{\text{MP (Gross A/R + Gross A/P) in month of loss}}{\text{NYISO (Gross A/R + Gross A/P) in month of loss}}$

- Loss Obligation of MP = (% Loss for MP) x $ Amount of Total Loss

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ution

- The Management Committee concurs with the Interim Credit Policy for Virtual Bidding
- The Management Committee authorizes the Board to make the necessary Tariff filing to implement the policy

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ATTACHMENT II

NYISO Management Committee Meeting

February 7, 2002

Consolidated Edison, New York, NY

Motion #6:

The Management Committee requests the NYISO Board to concur in an expedited tariff filing, pursuant to Sec. 205 of the FPA, to implement a change to the Virtual Bidding credit policy to calculate collateral required per MWh of authorized bidding, as equal to seven times the highest differential between the Day-Ahead and Real-Time Energy market price over either the previous three months at the 97th percentile or the previous June/July/August period at the 97th percentile, which ever is higher, in any of the Load Zones in which the Customer has applied to be authorized to bid. Specific Tariff language shall be developed by the NYISO in consultation with the BSP and approved by the Chairs and Vice Chairs of the Management Committee and the Business Issues Committee.

The Management Committee approval of the zonal component is conditional on FERC's concurrence with the clarified credit calculation methodology as discussed above.

(Motion passed unanimously by a show of hands with abstentions)