

# **Multi-Duration Centralized TCC Auction Credit Policy**

**Kimberly Sebben**

**Manager, Finance Products**

**New York Independent System Operator**

**Credit Policy Working Group**

**November 18, 2011**

# Agenda

1. High Level overview of Modified Multi-Duration TCC Project Approach
2. Two-Year TCC credit policy discussion
3. Next Steps

*Draft – for discussion purposes only*

# Modified Multi-Duration TCC Project Approach

- ◆ The NYISO investigated alternative approaches to meet the following goals:
  - Satisfying compliance obligation for offering Non-Historic Fixed Price TCCs
  - Divide project into phases for earliest delivery of the highest value functionality
- ◆ The NYISO has developed a phased approach for delivery of the project:
  - Phase 1 – Non-Historic Fixed Price TCCs
  - Phase 2 - Balance-of-Period
  - Phase 3 - Short Term Multi-Duration Centralized Auctions – 6 month & 1 year only
  - Phase 4 - Long Term Multi-Duration Centralized Auctions

*Draft – for discussion purposes only*

# Multi-Duration TCC Project

## Phase 1

- ◆ Offer Non-Historic Fixed Price TCCs to qualified LSEs based on Market Clearing Prices from a Two-Year TCC Auction Round.
  - The NYISO would conduct a Two-Year TCC Auction Round followed by LSE nomination and allocation of Non-Historic Fixed Price TCCs, followed by a Two-Year TCC cleanup Auction Round.
- ◆ Annual renewals after initial two-year period for up to ten years total.
  - The NYISO must provide up to ten-years of coverage as required by the FERC.
  - Annual renewals after an initial period is part of current approved stakeholder design.
- ◆ All Two-Year TCCs paid for one year at a time.
  - The FERC required annual payments for Non-Historic Fixed Price TCCs and the NYISO has also decided to apply this policy for TCCs awarded in auctions.
  - The annual payments would be based on dividing the Market Clearing Price from initial two-year TCC Auction Round by two.

*Draft – for discussion purposes only*

# Delivery of Project Phases

- ◆ Phase 1 – Non-Historic Fixed Price TCC; Software Ready 2012 – Functionality Available Spring 2013  
Centralized TCC Auction

The following will be offered in series:

- ◆ Phase 2 - Balance-of-Period (Stakeholder High Priority)
  - Requires resolution of issues with auction engine
- ◆ Phase 3 - Short Term Multi-Duration Centralized Auctions – 6 month & 1 year only
- ◆ Phase 4 - Long Term Multi-Duration Centralized Auctions

*Draft – for discussion purposes only*

# Two-Year TCC Bidding Requirement

- ◆ Current Bidding Requirement
  - The amount of credit required for each Two-Year TCC that the Customer bids to purchase is equal to the higher of the bid dollars per MW or \$3,000 per MW.
- ◆ No changes are planned for the bidding requirement.

*Draft – for discussion purposes only*

# Two-Year TCC Holding Requirement

## ♦ Holding Requirement:

- The credit requirement for holding TCCs is calculated as the greater of:
  - (Part A) The higher of 1) the appropriate per TCC term-based formula and 2) payment obligation.

Or

- (Part B) The sum of the TCC holder's projected net mark-to-market payment obligation to the NYISO over the remaining life of each TCC it holds.

*Draft – for discussion purposes only*

# Two-Year TCC Holding Requirement

## ♦ Current Part A Holding Requirement

- Upon initial award of a two-year TCC until completion of the final round of the current one-year Sub-Auction:
  - 2 x the amount calculated in accordance with the one-year TCC formula
  - $P_{ijt}$  = auction price of a one-year TCC in the final round of the one-year Sub-Auction in the prior Capability Period Centralized TCC auction.
- Upon completion of the final round of the current one-year Sub-Auction until commencement of year two of a two-year TCC:
  - 2 x the amount calculated in accordance with the one-year TCC formula
  - $P_{ijt}$  = auction price of a one-year TCC in the final round of the current one-year Sub-Auction

## ■ One-Year TCC Formula

$$+1.909 \sqrt{e^{10.9729 + 0.6514(\ln(|P_{ijt}| + e)) + .6633 * \text{Zone } J} - 1} P_{ijt}$$

*Draft – for discussion purposes only*



# Two-Year TCC Holding Requirement

## ♦ Current Part A Holding Requirement

- Upon commencement of year two of a two-year TCC until commencement of the final six months of the two-year TCC:
  - 1 x the amount calculated in accordance with the one-year TCC formula
  - $P_{ijt}$  = auction price of a one-year TCC in the final round of the most recently completed one-year Sub-Auction.
- Upon commencement of the final six months of a two-year TCC until commencement of the final month of the two-year :
  - the amount calculated in accordance with the six-month TCC formula
  - $P_{ijt}$  = auction price of a six-month TCC in the final round of the most recently completed six-month Sub-Auction
- Upon commencement of the final month of a two-year TCC:
  - the amount calculated in accordance with the one-month TCC formula
  - $P_{ijt}$  = auction price of a one-month TCC in the most recently completed monthly reconfiguration auction

*Draft – for discussion purposes only*

# Proposed Two-Year TCC Holding Requirement

## ♦ Proposed Part A Holding Requirement

- Upon initial award of a two-year TCC until completion of the final round of the current one-year Sub-Auction:
  - the amount calculated in accordance with the one-year TCC formula plus the amount calculated in accordance with the year two one-year TCC formula.
  - Year 1  $P_{ijt}$  = auction price of a one-year TCC in the final round of the one-year Sub-Auction in the prior Capability Period Centralized TCC auction.
  - Year 2  $P_{ijt}$  = auction price of a two-year TCC in the current Capability two-year sub-auction minus the auction price of a one-year TCC in the final round of the one-year Sub-Auction in the prior Capability Period Centralized TCC auction.

*Draft – for discussion purposes only*

# Proposed Two-Year TCC Holding Requirement

## ♦ Proposed Part A Holding Requirement

- Upon completion of the final round of the current one-year Sub-Auction until commencement of year two of a two-year TCC:
  - the amount calculated in accordance with the one-year TCC formula plus the amount calculated in accordance with the year two one-year TCC formula.
    - Year 1 Pijt = auction price of a one-year TCC in the final round of the current one-year Sub-Auction
    - Year 2 Pijt = auction price of a two-year TCC in the final round of the current Capability Period two-year Sub-Auction minus the auction price of a one-year TCC in the final round of the current one-year Sub-Auction.
- *Upon commencement of year two of a two-year TCC until the completion of the TCC, we are proposing no changes.*

*Draft – for discussion purposes only*

# Proposed Two-Year TCC Holding Requirement

- ◆ One-Year TCC Formula

- $+1.909 \sqrt{e^{10.9729 + 0.6514(\ln(|P_{ijt}| + e)) + .6633 * Zone J}} - 1P_{ijt}$

- ◆ Year 2: One-Year TCC formula

$$+1.909 \sqrt{e^{10.9729 + 0.6514(\ln(|P_{ijt}| + e)) + .6633 * Zone J}}$$

*Draft – for discussion purposes only*

# Proposed Two-Year TCC Holding Requirement

	Fall 2010		Fall 2011	
	Using one year price	Using implied year 2 price	Using one year price	Using implied year 2 price
Total 2 year auction value	\$20,433,058	\$20,433,058	\$17,455,141	\$17,455,141
First Year payment	\$10,216,529	\$10,216,529	\$8,727,570	\$8,727,570
1 <sup>st</sup> Year Credit	\$570,548	\$570,548	\$1,479,548	\$1,479,548
1 <sup>st</sup> Year Offsets	(\$2,968,298)	(\$2,968,298)	(\$3,685,843)	(\$3,685,843)
2 <sup>nd</sup> Year Credit	\$7,459,375	\$7,638,532	\$6,618,933	\$6,562,420
<b>Total Credit/ Payment including offsets</b>	<b>\$15,278,154</b>	<b>\$15,457,311</b>	<b>\$13,140,209</b>	<b>\$13,083,696</b>
	Fall 2010-current policy		Fall 2011-current policy	
Current Total Payment & Credit	\$21,574,154		\$20,414,237	
Current Offsets	(\$5,936,596)		(\$7,371,685)	
<b>Current Credit/ Payment less offsets</b>	<b>\$15,637,558</b>		<b>\$13,042,552</b>	

*Draft – for discussion purposes only*

# Examples

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	Estimated 2nd Year Price		[L]	[M]
POI	POW	POI Zone	POW Zone	TCC MW	2-Year Auction Price	1-Year Final Round Price	1-Year Final Round Price x 2	Total Credit 1st Year (Based on Final Round Price)	Half of 2-Year Auction Price [F] * (1/2)	2-Year Price Minus 1-Year Price [F] - [G]	Version 1: Total Credit 2nd Year (Based on [J])	Version 2: Total Credit 2nd Year (Based on [K])
61752	61758	WEST	HUD VL	1	93,334	47,961	95,921	-32,540	46,667	45,373	15,284	15,145
323658	323574	CAPITL	MHK VL	1	-90,048	-44,931	-89,863	60,028	-45,024	-45,117	15,107	15,117
61752	323596	WEST	WEST	1	-50	29	58	1,393	-25	-79	1,360	1,934

*Draft – for discussion purposes only*

# Two-Year TCC Holding Requirement

- ◆ Part B Holding Requirement
  - (Part B) The sum of the TCC holder's projected net mark-to-market payment obligation to the NYISO over the remaining life of each TCC it holds.
    - The mark-to market calculation considers the average congestion rents for that TCC over the previous 90 days and projects it over the remaining number of days for that TCC in that TCC holder's portfolio plus
    - The current unpaid congestion rents.
- ◆ No changes are proposed for Part B of the holding requirement.

*Draft – for discussion purposes only*

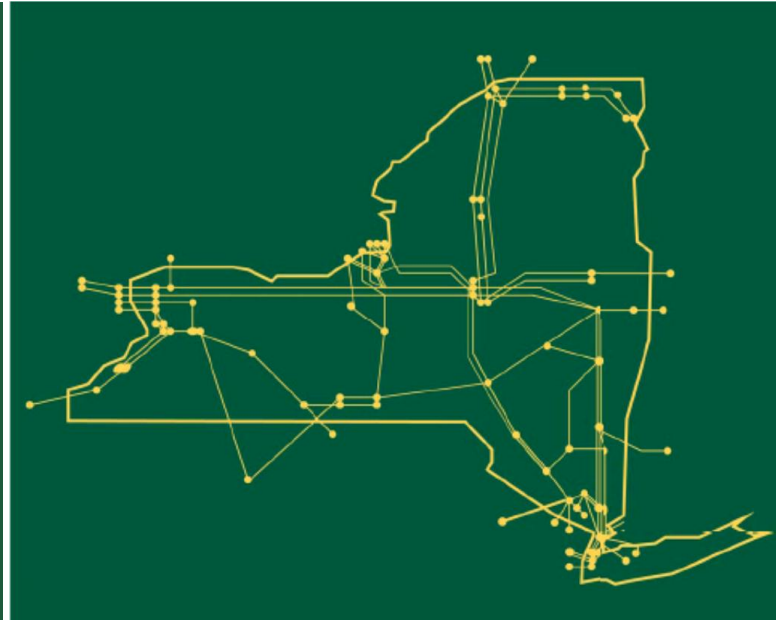
# Next Steps

- ♦ Send comments or suggestions related to the proposed Two-Year TCC credit framework to:
  - E-mail [sprevratil@nyiso.com](mailto:sprevratil@nyiso.com) and [ksebben@nyiso.com](mailto:ksebben@nyiso.com)
- ♦ Incorporate Phase 1 proposed TCC Credit policy into Multi-Duration Centralized TCC discussions
- ♦ December/ January CPWG meeting
  - TCC default resolution policy – Liquidation of TCCs

*Draft – for discussion purposes only*



The New York Independent System Operator (NYISO) is a not-for-profit corporation that began operations in 1999. The NYISO operates New York's bulk electricity grid, administers the state's wholesale electricity markets, and conducts comprehensive planning for the state's bulk electricity system.



[www.nyiso.com](http://www.nyiso.com)

*Draft – for discussion purposes only*