



Virtual Transaction Market

Market Overview
and
Proposal to Modify Collateral Requirements

**Management Committee Meeting
February 7, 2002**

Revisions: February 6, 2002

Objective of the Revision

- **Make the collateral required from a market participant taking part in virtual bidding based upon the risk associated with their bidding**
- **Since risk exposure depends upon the zone where virtual bidding takes place, collateral requirement should also vary by zone.**

Considerations of Original Virtual Bidding Collateral Policy

- **Designed to cover the following Exposure Components**
 - *The Price Delta (DAM vs. RTM) per MWH*
 - *Number of MWHs Bid In A Day*
 - *Number of Days to include in Exposure Calculation*

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Collateral Calculation

- **June-August 2001 Peak Hours**
- **Based upon 97 percentile price delta observed**
- **Highest Zone or Proxy Bus Delta**
- **Collateral Requirement Set to 159.33/MWh
based upon observed Price Delta in New York
City zone**

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Collateral Should Be Based Upon a MPs
Virtual Bidding Zone

- **Market Participants are required to identify the zones in which they will enter Virtual Bids when signing up for program**
- **Market Participants cannot bid outside the approved zones.**
- **The price delta exposure is not the same in all zones**

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Concern

- **Credit Policy has two financial impacts on market participants**
 - 1. *Cost of posting the letter of credit*
 - 2. *Reduction in accessible working capital*
- **Requiring MPs participating only in lower risk zones to post based upon NYC price deviation unreasonably penalizes the MP**
- **This reduces the participation in Virtual Bidding and consequently the benefits of virtual bidding.**

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97th Percentile Deviation

CAPITL	100.81	\$/MWh
CENTRL	71.61	\$/MWh
DUNWOD	158.52	\$/MWh
GENESE	69.96	\$/MWh
HUD VL	109.52	\$/MWh
LONGIL	156.87	\$/MWh
MHK VL	72.76	\$/MWh
MILLWD	155.46	\$/MWh
N.Y.C.	159.33	\$/MWh
NORTH	71.52	\$/MWh
WEST	71.37	\$/MWh
H Q	77.14	\$/MWh
NPX	103.10	\$/MWh
O H	74.78	\$/MWh
PJM	87.27	\$/MWh

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Conclusion (Before Recent FERC Virtual Bidding Collateral Decision)

- **The BIC requested that the Credit Policy Working Group review the proposed change before bringing it to the MC. They have completed that review and support the change.**
- **The NYISO have stated that they support the change.**
- **The NYISO board has already discussed the proposed changes and determined they would support a MC decision to revise the VB Credit Policy in this manner.**

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NYISO Staff Recommendation (Post FERC Decision)

➤ **Considerations**

- *Proposal would require no changes to the billing software;*
 - *FERC's January 31, 2002 Order in Docket No. ER01-3009-001 et al. raises issues concerning the continued adequacy of the existing policy;*
 - *NYISO staff is seeking Clarification of the January 31 Virtual Bidding Order and will request FERC concur, on an expedited basis, that the VB collateral calculation going forward is one which incorporates the most recent/available rolling 3 month period or the previous June/July/August period, whichever is higher.*
- **NYISO staff recommends that the Management Committee approve a zonal approach to VB collateral calculation on condition that FERC approves the NYISO request for clarification regarding the VB credit collateral methodology.**

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NYISO Staff Recommendation cont.'d

➤ **Implementation Process**

- *Upon MC approval of the zonal amendment, the Tariff changes will need to be reviewed again by the Board in light of the FERC decision.*
- *If FERC concurs in our request for clarification, we will expedite the zonal filing and seek implementation by April 1, 2002.*

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MOTION

- 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 to be reviewed by Chairs and Vice Chairs of the Management Committee and the Business Issues Committee in consultation with the BSP.
- The Management Committee approval of the zonal component is conditional on FERC's concurrence with the clarified credit calculation methodology as discussed above.

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