

Credit Requirements

Long Term Long Island TCCs

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Agenda

- ◆ Background
 - *A request was made to make Long Island TCCs with durations of three years or less available in the NYISO Centralized TCC auctions.*
 - *Refer to April 10, 2012 MIWG presentation*

- ◆ Analysis – Long Term Long Island TCCs

- ◆ Next Steps

Background

- ◆ To date, the NYISO has only offered TCCs that source and/or sink on Long Island (LI) for durations of one month.
 - *The current credit requirements, as defined in the NYISO tariffs, only provide coverage in one month durations for Zone K TCCs.*

- ◆ There has been a request for the NYISO to provide the capability in the TCC Centralized Auction to purchase or sell LI TCCs for longer durations - specifically six-months, one-year or two-years.
 - *These additional durations are currently available for other locations in the New York Control Area.*

Credit Proposal – Zone K TCCs

- ◆ While available, auction prices for Long Island TCCs with durations greater than one month are not meaningful for calculating appropriate credit requirements.
 - *This is because there has not been auction activity on Long Island for TCCs in durations longer than one month.*

- ◆ In the current monthly credit formula, the term for Zone K TCCs is approximately 1.5 times the term for Zone J TCCs.

Credit Proposal – Zone K TCCs

- ◆ The NYISO analyzed data to determine if the monthly relationship between the Zone J and Zone K credit formulas could be utilized to initially set the six-month, one-year & two-year Zone K TCC formulas.
 - *Tested if assumptions could be made that the difference in risk patterns between the monthly, six-month and annual TCCs would be the same for Zone K as it is for Zone J.*

- ◆ Initial results are inconclusive.

Credit Proposal – Zone K TCCs

- ◆ Based on the NYISO's initial results and lack of data to analyze, the NYISO suggests using a factor of 1.75 multiplied by the Zone J term to create the Zone K term in the Six-Month, One-Year and year two of the Two-Year TCC formulas.
 - *In Attachment K, Zone K is defined as a TCC that sources or sinks but not both in Zone K and does not source or sink in Zone J.*
 - *In Attachment K, Zone J is defined as a TCC that sources or sinks but not both in Zone J.*

Credit Proposal – Zone K TCCs

One-year TCCs and year one of a Two-Year TCC

$$\sqrt{e^{10.9729 + .6514 (\ln (|P_{ijt}| + e)) + .6633 * \text{Zone J} + 1.1607 * \text{Zone K}}}$$

+1.909 -1 P_{ijt}

Year two of a Two-Year TCC

$$\sqrt{e^{10.9729 + .6514 (\ln (|P_{ijt}| + e)) + .6633 * \text{Zone J} + 1.1607 * \text{Zone K}}}$$

+1.909

Six-Month TCCs

$$\sqrt{e^{11.6866 + .4749 (\ln (|P_{ijt}| + e)) + .4856 * \text{Zone J} + .8498 * \text{Zone K} - .0373 * \text{Summer}}}$$

+2.565 -1 P_{ijt}

Credit Proposal – Zone K TCCs

- ◆ Due to the uncertainty involved, the NYISO is proposing to add tariff language to allow the NYISO to adjust the Zone K term in the TCC formulas periodically.

- ◆ NYISO is proposing to analyze the performance of the credit formula for Zone K TCCs as compared to the performance of the Zone J TCCs.
 - *Will analyze total collateral held by location as compared to congestion rents.*

Credit Proposal – Zone K TCCs

- ◆ If the Zone K TCC formula results in a relationship between collateral and congestion rents that deviates from the Zone J relationship by more than 10% then NYISO may adjust the Zone K TCC term in the formula.
 - *Ex. – Zone J collateral / congestion rents = 101%*
Zone K collateral / congestion rents = 121%
 - *NYISO would consider reducing the Zone K TCC collateral margin.*

Credit Proposal – Zone K TCCs

- *Ex. – Zone J collateral / congestion rents= 101%
Zone K collateral / congestion rents = 81%*
- *NYISO would consider increasing the LI TCC collateral margin.*
- ◆ This would allow the NYISO to adjust credit requirements for Six-Month, One-Year or Two-Year Zone K TCCs if auction outcomes leave the market substantially under or over- collateralized.

Next Steps

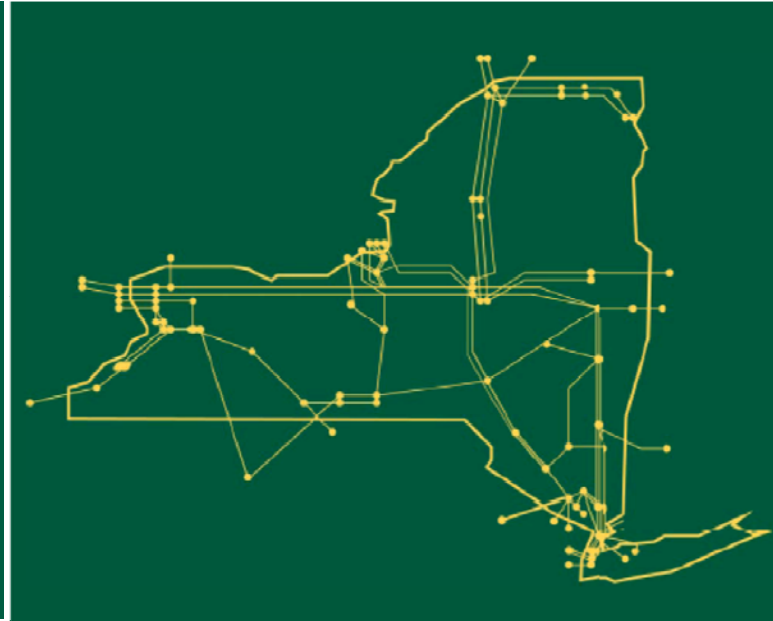
- ◆ The NYISO requests comments from Market Participants by October 10, 2012.

- ◆ Finalize proposal at CPWG.

- ◆ Look at implementation options based on final proposal.
 - *2013 Commitments for CMS – Energy Transactions, Enhanced MP Data Access and Additional Capacity Zones.*

 - *Potential 2014 Commitments for CMS – ICAP Spot Market revisions, Multi-duration TCC Phase 2, Coordinated Transaction Scheduling (CTS) and Demand Response in RT Energy Markets.*

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