Adjustments to Energy Market Credit Requirements

Credit Policy Working Group

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Background

- The current credit requirements for purchases of Energy and Ancillary Services are based on historic purchase volumes and historic energy prices.

- Market Participants have expressed concerns that this methodology does not adjust for fluctuations in energy prices from year to year.

Current Energy Market Credit Requirement

- ◆ The Energy and Ancillary Services credit requirement is the higher of:

    - ▪ $\dfrac{\underline{\text{Basis Amount for Energy and Ancillary Services}} \times 50}{\text{Days In Basis Month}}$

        OR

    - ▪ $\dfrac{\underline{\text{Total Charges Incurred for Energy and Ancillary Services for the previous 10 Days}}}{10} \times 50$

- ◆ Basis Amount is defined as "the greatest amount owed to the ISO for purchases of Energy and Ancillary Services in any month during the Prior Equivalent Capability Period…"

Proposed Adjustment to Credit Policy

- The NYISO is proposing to adjust the existing formula for calculating the Energy and Ancillary Services credit requirement to provide for fluctuations in energy prices from year to year based on projected fluctuations in gas prices.

- Gas prices and energy prices tend to be highly correlated.

- Under the revised credit policy, the NYISO would calculate a Gas Price Ratio approximately two weeks before the start of each Capability Period for each month in the Prior Equivalent Capability Period and updates would be performed monthly.

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Proposed Adjustment to Credit Policy

- The "Gas Price Ratio" would equal the average Henry Hub spot gas price for the like month in the Prior Equivalent Capability Period less the futures Henry Hub spot gas price for the like month in the upcoming Capability Period divided by the average Henry Hub spot gas price in the like month in the Prior Equivalent Capability Period.

- The NYISO would then calculate a "Price Adjustment" equal to one minus the Gas Price Ratio and multiply the Price Adjustment by the amount owed the ISO for purchases of Energy and Ancillary Services in the like month in the Prior Equivalent Capability Period.

Proposed Adjustment to Credit Policy

- Under the revised credit policy, the Energy and Ancillary Services credit requirement would continue to equal the higher of:

  - $$\frac{\text{Basis Amount for Energy and Ancillary Services}}{\text{Days In Basis Month}} \times 50$$

    OR

  - $$\frac{\text{Total Charges Incurred for Energy and Ancillary Services for the previous 10 Days}}{10} \times 50$$

- However, Basis Amount would be defined as "the greatest amount owed to the ISO for purchases of Energy and Ancillary Services, after applying the Price Adjustment, in any month during the Prior Equivalent Capability Period…"

Example 1 – Assume 2008/2009 Gas Prices

◆ The NYISO would calculate the Energy and Ancillary Services credit requirement under the revised credit policy as follows:

▪ Determine the Gas Price Ratio and Price Adjustment.

Month	2008 Average Henry Hub Spot Gas Price ($/Million BTU)	2009 Henry Hub Futures Gas Price ($/Million BTU)	Gas Price Ratio	Price Adjustment
May	11.26	3.69	0.67	0.33
June	12.69	3.83	0.70	0.30
July	11.06	3.99	0.64	0.36
August	8.25	4.11	0.50	0.50
September	7.67	4.18	0.45	0.55
October	6.73	4.31	0.36	0.64

▪ Multiply amount owed for each month by price adjustment.

Month	Amount Owed in 2008 for Energy and Ancillary Services	Price Adjustment	Adjusted Energy and Ancillary Services Amount
May	2,000,000	0.33	655,950
June	4,600,000	0.30	1,387,612
July	4,500,000	0.36	1,623,418
August	2,400,000	0.50	1,196,218
September	2,050,000	0.55	1,118,279
October	1,400,000	0.64	896,999

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Example 1 (continued)

- Determine highest month based on Adjusted Energy and Ancillary Services Amount.

  - July 2008 - $1,623,418

  - *Note: Energy requirement under today's rules would use June 2008.*

- Determine credit requirement for current capability period using Adjusted Energy and Ancillary Services Amount.

  - ($1,623,418/31) * 50 = $2,618,416

  - *Note: The energy requirement under today's rules would be $7,666,667 [$4,600,000/30 * 50], however the 10-day run rate would capture any increases in load and/or price under the proposed rules as well.*

Example 2 – Assume 2007/2008 Gas Prices

◆ The NYISO would calculate the Energy and Ancillary Services credit requirement under the revised credit policy as follows:

▪ Determine the Gas Price Ratio and Price Adjustment.

Month	2007 Average Henry Hub Spot Gas Price ($/Million BTU)	2008 Henry Hub Futures Gas Price ($/Million BTU)	Gas Price Ratio	Price Adjustment
May	7.63	10.21	(0.34)	1.34
June	7.36	10.30	(0.40)	1.40
July	6.21	10.40	(0.67)	1.67
August	6.23	10.46	(0.68)	1.68
September	6.08	10.47	(0.72)	1.72
October	6.80	10.52	(0.55)	1.55

▪ Multiply amount owed for each month by price adjustment.

Month	Amount Owed in 2007 for Energy and Ancillary Services	Price Adjustment	Energy and Ancillary Services Amount
May	2,000,000	1.34	2,674,967
June	4,600,000	1.40	6,434,375
July	4,500,000	1.67	7,534,058
August	2,400,000	1.68	4,027,608
September	2,050,000	1.72	3,530,855
October	1,400,000	1.55	2,165,882

Example 2 (continued)

- Determine highest month based on Adjusted Energy and Ancillary Services Amount.

  - July 2007 - $7,534,058

  - *Note: Energy requirement under today's rules would use June 2007.*

- Determine credit requirement for current capability period using Adjusted Energy and Ancillary Services Amount.

  - ($7,534,058/31) * 50 = $12,151,706

  - *Note: While the energy requirement under today's rules would be $7,666,667 [$4,600,000/30 * 50], in most cases, during 2008 Market Participants were required to post significantly more due to the 10-day run rate.*

Impact to Current Energy Requirements

- ◆ Current 2009 Summer Capability Period credit requirements for the Energy and Ancillary Services Markets total ~$2.1B.

- ◆ Proposed Energy and Ancillary Services credit requirements would total ~$760M, representing a decrease of approximately 64%.

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Schedule

- ◆ CPWG, if necessary   August 2009

- ◆ BIC   September 9

- ◆ MC   September 30

- ◆ BOD   October 2009

- ◆ FERC Filing   October 2009

- ◆ Implementation – Manual   Upon FERC Approval

- ◆ Implementation - Automated   June 2010

Questions?