

# Methodology to Index Fixed Dollar Amounts within Creditworthiness Policies

## Credit Policy Working Group

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# Background

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- ◆ Certain enhancements to NYISO creditworthiness policies that were recently approved by the Management Committee included fixed dollar amount limits / provisions. Specifically:
  - Concentration cap (\$150M for most Market Participants, and \$250M for Market Participants meeting limited exception criteria)
  - Unsecured credit provisions for municipalities (\$1M starting point regardless of tangible net worth, and \$60M for Market Participants meeting limited exception criteria)
  
- ◆ During the development of these enhancements, the NYISO and Market Participants agreed that fixed dollar amounts would be updated for future years based on an index to current market prices. The index would likely include factors related to price and quantity variations.
  
- ◆ Excluding the \$1M municipality starting point for unsecured credit, the remaining fixed dollar amounts referenced above were determined based on specific Market Participant activity from 2008.
  
- ◆ Other ISOs/RTOs that have fixed dollar amount provisions included in their respective tariffs do not currently index such amounts.

# Background

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- ◆ The NYISO has discussed a series of potential approaches to develop an indexing methodology for the fixed dollar amounts.
  
- ◆ The following criteria for use in an indexing methodology were established and have been included in the recommended approach:
  - Transparency
  - Certainty / predictability
  - Stability
  - Easily understandable

# Proposed Indexing Methodology

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- ◆ Percentage change in annual fixed dollar amounts for forthcoming year is based on forecasted change in Natural Gas price and forecasted growth of NYCA annual energy sendout.
- ◆ Proposed methodology uses Price and Quantity variables, where Price is represented by forecasted Natural Gas price (Transco Zone 6) and Quantity is represented by forecasted NYCA energy sendout (GWh).

# Proposed Indexing Methodology

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- ◆ Credit Limit for 2011 = Base Credit Limit x  $Index_{2011}$

$$Index_{2011} = \{1 + (0.75 \times [(P^{2011}/P^{2010}) - 1])\} \times (Q^{2011} / Q^{2010})$$

*where*

P = current NYISO forecast of Gas price (Transco Z6)

*and*

Q = most recent Gold Book forecast of NYCA energy sendout in GWh

# Proposed Indexing Methodology

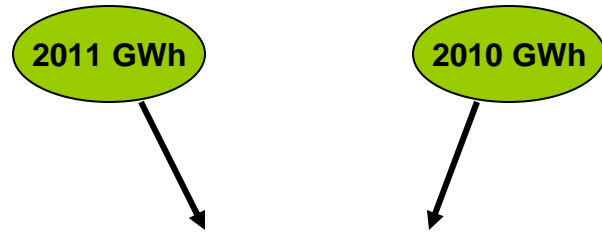
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- ◆ The base-year for the indexation is 2010.
- ◆ The “0.75” discount factor reflects the fact that volatility of Natural Gas prices is high.
- ◆ A 10% summer-adder is applied for the June 1<sup>st</sup> - August 31<sup>st</sup> period in order to reflect relatively higher LBMPs for these months.

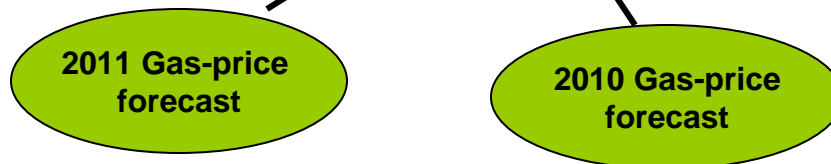
# Proposed Indexing Methodology

EXAMPLE:

	Gas Price Forecast	NYCA Energy Forecast
2009	\$5.31/mmbtu	164568 GWh
20010	\$7.65/mmbtu	164423 GWh
2011	\$7.78/mmbtu	165263 GWh

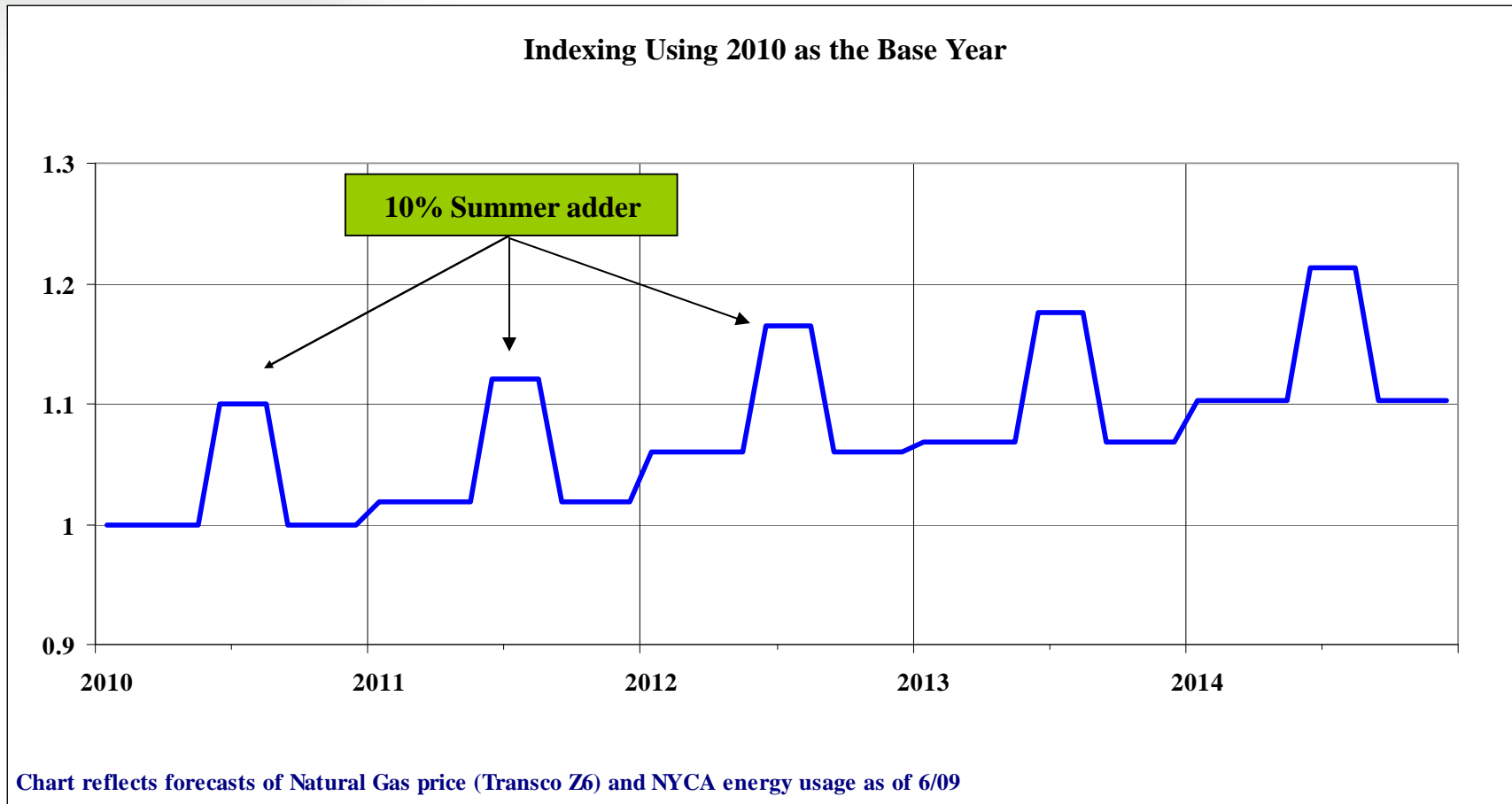


$$Index_{2011} = \{1 + (0.75 \times [(7.78/7.65) - 1])\} \times (165263/164423)$$



$$= 1.018 \text{ (i.e. approximate 2\% increase)}$$

# Proposed Indexing Methodology





# Impact Analysis

	<b>Fixed \$ Amount</b>	<b>2010 Summer</b>	<b>2011 Non-Summer</b>	<b>2011 Summer</b>
Munis – Starting Point	\$1M	\$1.1M	~\$1.02M	~\$1.12M
Munis – Limited Exception	\$60M	\$66M	~\$61.1M	~\$67.2M
Conc. Cap – Most MPs	\$150M	\$175M	\$152.7M	~\$168M
Conc. Cap – Limited Exception	\$250M	\$275M	\$254.5M	~\$280M

# Schedule

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- ◆ BIC – proposal approval September 9
  - ◆ CPWG – review of manual Q4 2009
  - ◆ BIC – approval of manual Q4 2009
  - ◆ Implementation Upon approval of manual
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- ◆ Note: This indexing methodology is proposed to be included in a new NYISO manual related to Credit.

# Questions?