

Proposal for Two Year TCC Credit Requirements

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DRAFT – For Discussion Only

Background

- ◆ The current NYISO TCC credit calculations support monthly, six-month, and annual auctions only
- ◆ Credit requirements for holding TCCs are calculated at the 97th percentile for monthly and six-month TCCs and the 95th percentile for annual TCCs based on empirical analysis of the historical dispersion of TCC payments relative to the auction price as a measure of expected payments

Background – Cont.

- ◆ In 2008 NYISO and MPs expressed mutual desire to begin offering two year TCCs; however, credit requirements must be proposed by NYISO and subsequently approved by MPs and FERC before two year TCCs can be offered
- ◆ In July 2008 NYISO and TOs discussed introducing a two year TCC for approximately 5% of the auction capacity in the Autumn Capability Period Auction
- ◆ To facilitate the most efficient offering of two year TCCs in an auction, in 2008 NYISO and the TOs discussed the possibility of waiving the tariff requirement for NYISO to offer four stage one rounds and one stage two round, in favor of one stage one round and one stage two round

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Proposal

- ◆ Obtain tariff authority via MST (Attachment K) and OATT (Attachment W) for NYISO to calculate credit requirements for two year TCCs
- ◆ Offer two year TCCs for approximately 5% of auction capacity, beginning with the Autumn 2009 Capability Period Auction; subject to TO and MP concurrence

Challenge

- ◆ Currently, the NYISO does not have a history of auction prices for TCCs with a duration greater than one year; therefore, the NYISO cannot perform an analysis of the historical dispersion of TCC payments for two year TCCs relative to the auction price
- ◆ This lack of data and analysis does not allow the NYISO to apply the same logic and methodology to two year TCCs as it does for one year TCCs offered in a capability period auction

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Commitment

- ♦ The NYISO proposes an alternative approach with the commitment to replace the alternative approach at such time the NYISO and MPs have accumulated enough data on two year TCCs to statistically validate a new approach

Proposed Bidding Requirement

- ◆ Bidding requirement calculation for two year TCCs:
 - *Annual TCC bidding requirement x 2*
 - *Two year TCCs will be offered in the first round of the auction; therefore a current price for an annual TCC will not exist until a subsequent round*
 - *NYISO proposes utilizing the final price for an annual TCC from the previous capability period auction to establish the annual TCC bidding requirement*

Proposed Holding Requirements

- ◆ Holding requirement calculation for Two Year TCCs:
 - *Holding requirement = 2 times the holding requirement for a one year TCC of the same zonal source and sink*
 - *NYISO proposes utilizing the final price for a one year TCC of the same zonal source and sink from the previous capability period to establish the annual TCC holding requirement x 2 to calculate the “interim” holding requirement*
 - *Upon completion of the final round of the one year TCC auction, NYISO would recalculate the two year holding requirement based on the last price for the one year TCC*

Proposed Holding Requirement – Cont.

- ◆ After payments are made on the first year of a two year TCC, reset the holding requirement for a two year TCC based on the price of a one year TCC for the same source and sink in the next year's auction
- ◆ The reset = one year TCC for same source and sink

Example: Two Year TCC

- ◆ Initial offering: “interim” holding credit requirements = one year TCC for same source and sink from previous capability period x 2
- ◆ Upon completion of the final round of the one year auction: recalculate holding requirements based on final price of one year for same source and sink x 2
- ◆ Annual auction at beginning of year two: one year TCC for same source and sink x 1 (1=remaining years duration)

Next Steps

- ◆ Prepare draft tariff language for review
- ◆ Proposed Schedule
 - *January 16 – CPTF*
 - *February 6 – MIWG*
 - *March 11 – BIC*
 - *March 25 – MC*
 - *April – NYISO Board of Directors*
 - *April – FERC Filing*
 - *Autumn 2009 Capability Period Auction – Initial Offering*

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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 provides comprehensive reliability planning for the state's bulk electricity system.

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