

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 LI 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 – LI 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.*

- ◆ The current monthly credit formula for LI TCCs is approximately 1.5 times the monthly formula for Zone J TCCs.

Credit Proposal – LI 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 LI 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 – LI TCCs

- ◆ Based on the NYISO's initial results and lack of data to analyze, the NYISO suggests using the 1.5 monthly relationship between Zone K and Zone J as a starting point.
 - *Will consider adding a margin to account for uncertainty with respect to Zone K outcomes.*

- ◆ Other ideas?

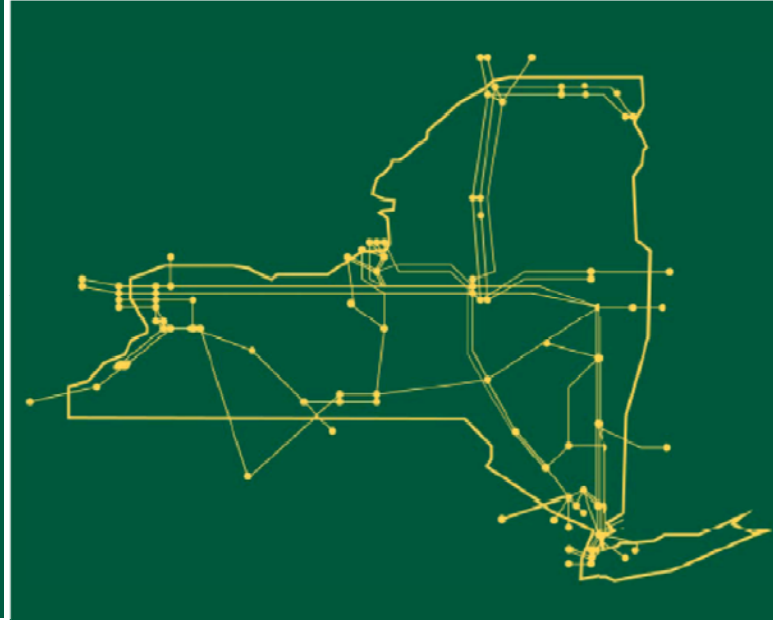
Credit Proposal – LI TCCs

- ◆ Due to the uncertainty involved, options are needed which would allow the NYISO to quickly react and adjust credit requirements for six-month, one-year or two-year LI TCCs if initial auction outcomes leave the market substantially under or over- collateralized.

Next Steps

- ◆ The NYISO requests comments or other options from Market Participants by August 31, 2012.
- ◆ Analyze data to determine a proposed margin for six-month, one-year & two-year LI TCCs.
- ◆ Determine an option that allows the NYISO to react to substantial under or over-collateralization.
- ◆ Finalize proposal at CPWG.
- ◆ Discuss implementation options based on final proposal.

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