

# Proposal for Two Year TCC Credit Requirements

**Janet Joyce**  
*Director, Product and Project Management*  
**New York Independent System Operator**

## **Management Committee**

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***DRAFT – For Discussion Only***

# Background

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- ◆ The current NYISO TCC credit provisions establish credit requirements for bidding on and holding monthly, six-month, and one year TCCs but do not include credit requirements for bidding on and holding two year TCCs
- ◆ Credit requirements for holding TCCs are calculated at the 97<sup>th</sup> percentile for monthly and six-month TCCs and the 95<sup>th</sup> percentile for one year 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.

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- ♦ In 2008 the NYISO and MPs expressed mutual desire to begin offering two year TCCs; however, credit requirements must be proposed by the NYISO and subsequently approved by MPs and FERC before two year TCCs can be offered
- ♦ In July 2008 the 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 the NYISO and TOs discussed the possibility of waiving the tariff requirement that would otherwise require the NYISO to offer two year TCCs in four Stage 1 rounds and one Stage 2 round, in favor of offering two year TCCs in one Stage 1 round and one Stage 2 round

# Proposal

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- ◆ Obtain tariff authority via MST (Attachment K) and OATT (Attachment W) for the 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

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- ◆ 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 methodology to establishing a credit requirement for two year TCCs that it has applied for other TCC durations

# Commitment

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- ♦ The NYISO proposes an alternative approach to initially establishing the credit coverage requirement for two year TCCs with the commitment to replace the alternative approach at such time as the NYISO and MPs have accumulated enough data on two year TCC auction prices and payments to statistically validate a new approach

# Proposed Bidding Requirement

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- ◆ Bidding requirement calculation for two year TCCs:

The higher of:

- *The bid price for the two year TCC*

*or*

- *The minimum bidding requirement for a one year TCC x 2*

# Proposed Holding Requirement

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## **Two-step process for calculating holding requirement:**

- ◆ Requires the calculation of interim holding requirement for a two year TCC that would apply during the period of time between the award of the two year TCC and the final Stage 1 round of the current one year TCC auction
- ◆ Upon completion of the final Stage 1 round of the one year TCC auction, the NYISO would calculate the final holding requirement for a two year TCC

## **Interim Holding Requirement:**

- ◆ Utilize the price in the final Stage 1 round of the prior capability period auction to calculate the holding requirement for a one year TCC having the same source and sink as the two year TCC. This holding requirement would be multiplied by 2 to establish the interim holding requirement for the two year TCC.



# Proposed Holding Requirement – Cont.

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## Final Holding Requirement:

- ◆ Utilize the price in the final Stage 1 round of the current auction to calculate the holding requirement for a one year TCC having the same source and sink as the two year TCC. This holding requirement would be multiplied by 2 to establish the final holding requirement for the two year TCC.

## Reset Holding Requirement:

- ◆ After payments are made on the first year of a two year TCC, reset the holding requirement for the final year of the two year TCC based on the price of a one year TCC for the same source and sink in the final Stage 1 round for one year TCCs covering the same period as the final year of the two year TCC
- ◆ The reset holding requirement for the final year of the two year TCC will equal the holding requirement for a one year TCC covering the same period and having the same source and sink

# Example: Two Year TCC

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- ◆ Initial offering: “interim” holding requirement = holding requirement for a one year TCC having the same source and sink in the previous capability period x 2
- ◆ Upon completion of the final round of the one year auction: recalculate holding requirement based on final price of a one year TCC having the same source and sink, then multiply this by 2 for the two year TCC
- ◆ Reset at beginning of year two: the two year TCC is now a one year TCC so the holding requirement for the two year TCC will equal the holding requirement for a one year TCC with the same source and sink

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# Proposed Schedule

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- ◆ **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**

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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