

# Credit Policy Enhancement: Projected True-Up Exposure

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# Background

- ◆ In Summer 2013 and Winter 2013/2014 the NYISO administered markets experienced high demand for electricity. As a result:
  - *The high demand led to high energy prices and significantly increased the NYISO's credit requirements in the Energy and Ancillary Services market*
  - *Certain Market Participants experienced temporary cash flow constraints during extended periods of increased invoice payment amounts, coupled with increases in credit requirements*
  - *This was compounded for those Market Participants that did not forecast their daily load accurately*

# Background

- ◆ In response, the NYISO examined its current credit policy and has considered options to better manage the implications to all Market Participants in times of volatile energy prices and high demand
- ◆ As a result of the above analysis, the NYISO has determined that there is an opportunity to enhance its current credit requirements pertaining to Market Participant collateral and potential exposure to the marketplace
  - *The NYISO will continue to evaluate potential opportunities and may come to a future CPWG with additional proposed credit policy enhancements*

# Issue

- ◆ The NYISO may have credit exposure in certain circumstances, as the credit policy does not currently account for projected true-up exposure resulting from differences in estimated versus actual meter data
  - *In 2013 Market Participants' 4-month true-ups were approximately 3% of the initial settlement, on average, for the Power Supplier and Transmission Customer line items*
  - *For Market Participants that under-forecast their daily load, 4-month true-ups were approximately 50% of the initial settlement, on average, for the Power Supplier and Transmission Customer line items*

# Issue

- ◆ True-up exposure at the 4-month level is primarily driven by the Energy and Ancillary Services market
  - *Specifically, the initial settlement for the Energy and Ancillary Services market is primarily driven by Market Participant estimated daily load forecasts*
    - Market Participants are required to forecast their load, which will in turn account for its purchases in any given month
    - If a Market Participant under-forecasts its load, it will be trued-up 4 months later, when actual metered data is provided

# Issue

- ♦ The current Energy and Ancillary Services credit requirement is based on the higher of the following two calculations:
  - *The highest month's energy purchases in the prior equivalent capability period, adjusted for gas prices, divided by the number of days in that month, extrapolated out for 16 days*

*or*

- *The average daily run rate over the previous 10 days, extrapolated out for 16 days (the 10-day run rate)*

# Issue

- ◆ The NYISO holds the higher of the two calculations on the previous slide
  - *The prior equivalent capability period calculation captures actual purchases from that time period while the 10-day run rate (daily purchases) is based off of the Market Participant's load forecast*
- ◆ If a Market Participant under-forecasts in periods of increased load or prices, it is possible that the NYISO may have credit exposure until such time that the prior equivalent capability period credit requirement is calculated
- ◆ Potential exposure can grow the longer the Market Participant is under-forecasting as the actual load will not be invoiced until the 4 month true-up

# Implications

- ◆ The NYISO and Market Participants could be exposed to potential bad debt losses as the NYISO may not have sufficient credit support in place to cover this true-up exposure if the Market Participant ultimately defaults
- ◆ Market Participants who accurately forecast their load may pay out more in the initial month than they otherwise should



# Proposed Adjustment to Credit Policy

- ◆ The NYISO is proposing to add a true-up exposure credit requirement to its credit policy
  - *For consistency, Market Services Tariff Section 26.13 will be updated to utilize the same proposed calculation for all Market Participants who have withdrawn from the Energy and/or NYISO administered markets*
- ◆ Under the revised credit policy, the NYISO would calculate the Projected True-Up Exposure credit requirement each month, after the monthly invoice is issued, on the fifth business day
- ◆ Secured credit would be required for the Projected True-Up Exposure credit requirement

# Proposed Adjustment to Credit Policy

- ◆ Market Participants would be required to post credit support in the amount of the projected true-up exposure if:
  - *The 4-month true-ups, over the most recent four months of actual data (months with both initial settlement and 4-month true-up data), are an average credit exposure of greater than 10% of the initial settlement*
- The NYISO would determine these amounts by summing the Power Supplier and Transmission Customer line items from the Consolidated Invoice
- Market Participants who forecast their load within 90% of the actual meter data are not likely to have excessive true-ups and as such, would typically not be subject to this requirement

# Proposed Adjustment to Credit Policy

- ◆ When analyzing November through February actual data utilizing the 10% threshold, 37 Market Participants would be required to post additional credit support to cover projected true-up exposure
- ◆ Actual true-up exposure for these 37 Market Participants, for this time period, was approximately \$18.5M
- ◆ Using a 12% threshold, 32 Market Participants would be affected, with a total exposure of approximately \$14.8M
- ◆ Using a 15% threshold, 31 Market Participants would be affected, with a total exposure of approximately \$14.8M
- ◆ The NYISO recommends utilizing 10% as the screening threshold whereby Market Participants would be subject to this credit requirement

# Proposed Adjustment to Credit Policy

- ◆ The credit requirement would equal projected true-up exposure calculated as follows:
  - *Calculate six-month rolling average percentage of 4-month true-up to initial settlement (Version 1)\**
  - *Multiply the calculated percentage by the outstanding initial settlements not yet trued-up at the 4-month level and sum*
  - *Calculate six-month rolling average percentage of final bill closeout true-up to the Version 2 settlement\**
  - *Multiply the calculated percentage by the outstanding initial settlements not yet final billed and sum*
  - *Sum total the 4-month true-up exposure and final bill closeout exposure*

\* Calculations will utilize the Power Supplier, Transmission Customer and Interest line items from the Consolidated Invoice

# Proposed Adjustment to Credit Policy

## Example

- Market Participant is analyzed to determine if its 4-month true-ups, over the most recent four months of actual data, are an average credit exposure of greater than 10% of the initial settlement.

Initial Settlement Month	Initial Settlement Amount	4 Month Actual True-up Amount	%
Nov-13	(933,000.00)	(325,000.00)	34.83%
Dec-13	(1,500,000.00)	(200,000.00)	13.33%
Jan-14	(2,200,000.00)	(380,000.00)	17.27%
Feb-14	(1,725,000.00)	(180,000.00)	10.43%
<b>4 Month Average</b>			<b>18.97%</b>

# Proposed Adjustment to Credit Policy

## Example - Continued

- ♦ Calculate six-month rolling average of 4-month true-up to initial settlement

Initial Settlement Month	Initial Settlement Amount	4 Month Actual True-up Amount	%
Sep-13	(824,000.00)	(175,000.00)	21.24%
Oct-13	(958,000.00)	(350,000.00)	36.53%
Nov-13	(933,000.00)	(325,000.00)	34.83%
Dec-13	(1,500,000.00)	(200,000.00)	13.33%
Jan-14	(2,200,000.00)	(380,000.00)	17.27%
Feb-14	(1,725,000.00)	(180,000.00)	10.43%
<b>6 Month Average</b>			<b>22.27%</b>

- ♦ Calculate six-month rolling average of final bill closeout true-up to initial settlement

Initial Settlement Month	Version 2 Settlement Amount	Final Bill Close Out Actual True-up Amount	%
May-13	(895,000.00)	3,000.00	-0.34%
Jun-13	(1,310,000.00)	320.00	-0.02%
Jul-13	(1,600,000.00)	(3,200.00)	0.20%
Aug-13	(1,500,000.00)	1,400.00	-0.09%
Sep-13	(999,000.00)	3,000.00	-0.30%
Oct-13	(1,308,000.00)	(500.00)	0.04%
<b>6 Month Average</b>			<b>-0.09%</b>

# Proposed Adjustment to Credit Policy

## Example - Continued

- ♦ Apply average percentages of respective true-ups to initial settlement of outstanding months not billed and sum

Initial Settlement Month	Initial Settlement Amount	Total 4-Month <u>Projected</u> True-up		Total FBC <u>Projected</u> True-up	
		% of Initial	\$	% of Initial	\$
Nov-13	(933,000.00)			-0.09%	793.05
Dec-13	(1,500,000.00)			-0.09%	1,275.00
Jan-14	(2,200,000.00)			-0.09%	1,870.00
Feb-14	(1,725,000.00)			-0.09%	1,466.25
Mar-14	(1,850,000.00)	22.27%	(412,025.83)	-0.09%	1,572.50
Apr-14	(1,200,000.00)	22.27%	(267,260.00)	-0.09%	1,020.00
May-14	(1,005,000.00)	22.27%	(223,830.25)	-0.09%	854.25
Jun-14	(1,150,000.00)	22.27%	(256,124.17)	-0.09%	977.50
<b>TOTAL</b>	<b>(11,563,000.00)</b>		<b>(1,159,240.25)</b>		<b>9,828.55</b>

# Proposed Adjustment to Credit Policy

## Example - Continued

- ◆ Determine Projected True-Up Exposure credit requirement

Future Initial Settlement Month	4-Month Projected True-up Total	Final Bill Closeout Projected True-up Total	Total
Jul-14	(412,025.83)	793.05	(411,232.78)
Aug-14	(267,260.00)	1,275.00	(265,985.00)
Sep-14	(223,830.25)	1,870.00	(221,960.25)
Oct-14	(256,124.17)	1,466.25	(254,657.92)
Nov-14		1,572.50	1,572.50
Dec-14		1,020.00	1,020.00
Jan-15		854.25	854.25
Feb-15		977.50	977.50
<b>TOTAL</b>	<b>(1,159,240.25)</b>	<b>9,828.55</b>	<b>(1,149,411.70)</b>

- ◆ Projected True-Up Exposure credit requirement = \$1,149,411.70



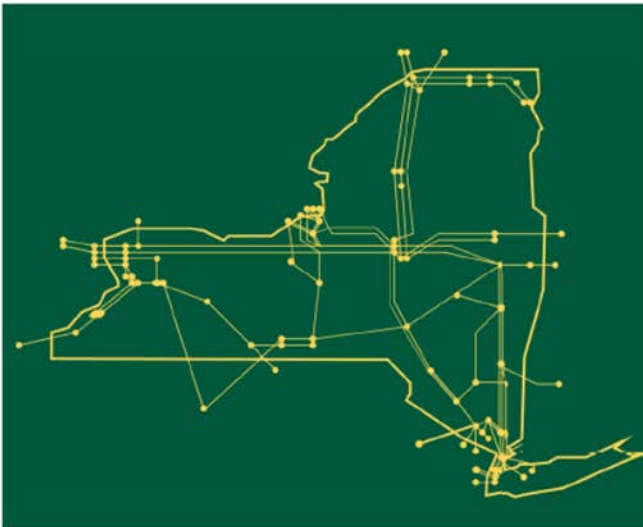
# Impacts

- ◆ Typically only those Market Participants that significantly under-forecast their load would be impacted by this credit requirement
- ◆ Reduces the possibility of a bad debt loss as the NYISO will hold secured credit to cover the projected true-up exposure
- ◆ Additional credit requirements could incent Market Participants to more accurately forecast their daily load in the initial month, which may ultimately remove the Projected True-Up Exposure credit requirement
- ◆ Market Participants that historically forecast their load accurately each month could benefit in that they may no longer over pay in the initial month only to get paid back in the 4-month true-up

# Next Steps

- ◆ CPWG June 2014
- ◆ BIC July 2014
- ◆ MC July 2014
- ◆ BOD October 2014
- ◆ FERC 205 Filing October 2014
- ◆ Implementation Targeting Q1 2015

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.



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