Retention of Collateral from Market Participants Withdrawing From the NYISO-Administered Markets

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For Discussion Only

Overview

- Currently, the tariffs do not explicitly address the retention of collateral from Market Participants requesting voluntary withdrawal from the NYISO-administered markets ("Markets").

- Retaining a portion of collateral from certain Market Participants voluntarily exiting the Markets could protect against the default on potential obligations arising from prior-period true-ups, re-bills and adjustments that are invoiced after a Market Participant has exited the Markets.

- This proposal will outline the criteria by which NYISO may retain collateral from Market Participants voluntarily leaving the markets.

Current Provision

- Article 7, “Billing and Payment” of the Market Services Tariff (“MST”) and Open Access Transmission Tariff (“OATT”) require that Market Participants pay all obligations in connection with any activity in the NYISO-administered markets (i.e., in the Energy, Installed Capacity, Transmission Congestion Contracts and/or Virtual Transactions markets).

- Market Participants which are actively participating in the Energy, Installed Capacity (“ICAP”), Transmission Congestion Contracts (“TCC”) and/or Virtual Transactions (“VT”) markets may be required to provide credit support to meet respective credit requirements.

- Separate credit calculations exist for each market, as defined in Attachments K and W of the MST and OATT, respectively.

- Market Participants may meet credit requirements through the use of unsecured credit, if qualified, collateral or a combination of both.

- Acceptable forms of collateral include cash, letter of credit, surety bonds, guarantees and netting of amounts receivable (i.e., amounts NYISO may owe a Market Participant).

- This proposal specifically addresses Market Participants which provide cash collateral or letters of credit. Surety Bonds and guarantees contain provisions that provide security to cover all obligations resulting from initial settlements, no matter when obligations arise.

Identified Problems

- Revisions to initial settlements include "true-ups," (also known as "re-bills") and "adjustments."
- The maximum period revisions to initial settlement occur is 18 months. This period includes the initial settlement, four-month true-up, 12-month true-up, four-month challenge period and two months to close the settlement.
- If a Market Participant requests withdrawal from the Markets, prior-period obligations can occur up to 18 months from the point of withdrawal.
- In the event the NYISO invoices a former Market Participant a prior-period obligation for which the NYISO does not retain collateral and the Market Participant cannot or will not settle the obligation, a bad debt loss may occur, which is ultimately socialized to the Marketplace.

Proposed Solutions

- NYISO staff recommends retaining a certain amount of collateral based on Market Participant-specific historic revision activity.
- The NYISO has developed a method of using a six-month rolling average calculation of four and 12-month revisions, to predict anticipated revisions to initial settlements.
- The estimated average revision is then multiplied by the number of outstanding initial settlement months to be billed, assuming a Market Participant exited the Markets during any given month.
- The amount calculated above would be the amount of collateral retained, upon a Market Participant's exit from the Markets.

EXAMPLE

1. **Market Participant "A" has $5,000,000 cash collateral, based on existing credit requirements.**
2. **The 6-month average historic 4-month true-up is $100,000. This amount is multiplied by four, which is the number of remaining 4-month true-ups to be processed. The total projection of 4-month true-ups is $400,000 [$100,000 x 4].**
3. **The 6-month average historic 12-month true-up is $5,000. This amount is multiplied by 12, which is the number of remaining 12-month true-ups to be processed. The total projection of 12-month true-ups is $60,000 [$5,000 x 12]**
4. **The total projected true-up amount is $460,000 [$400,000 + $60,000], which is the amount of collateral that will be retained.**

Recommendations / Next Steps

Schedule & Pricing Working Group:	10/18
Business Issues Committee:	11/08
Management Committee:	11/29
Board of Directors:	01/08
205 Tariff Filing with FERC	Late January