

Proposed TCC Credit Policy Enhancements

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Background

- In March 2019, at the direction of PJM’s Board of Directors, the Report of the Independent Consultants on the GreenHat Default in PJM’s Financial Transmission Rights (“FTR”) market (“GreenHat Report”) was issued to the public.
- The NYISO reviewed the report to understand the background, issues, and recommendations for the PJM market.

Background

- **The NYISO believes that the current credit requirements for the TCC market provide appropriate protection against potential default risks and already address many of the concerns/issues highlighted by the GreenHat Report.**
 - A prior NYISO analysis demonstrated that application of NYISO's current TCC credit policy to a portfolio of TCCs similar to that held by GreenHat Energy, LLC in PJM's FTR market could have resulted in a collateral requirement in excess of \$300 million, which would have sufficiently covered the default (refer to August 24, 2018 BACWG materials).
- **In light of the GreenHat Report, the NYISO also conducted a comprehensive evaluation of its current TCC credit policy and auction practices and identified potential enhancements.**

Current TCC Credit Policy

Current TCC Credit Policy Overview

■ Minimum Participation Criteria

- The NYISO requires Market Participants in the TCC market to provide audited financial statements indicating at least \$10 million in assets or \$1 million in tangible net worth (“TNW”).
- Absent audited financial statements, or if unable to meet the asset or TNW thresholds, TCC Market Participants must provide \$500,000 in secured credit.
- TCC Market Participants are required to provide their risk policies, or a certification stating the policies have not materially changed, each year.
 - The NYISO credit team and legal department review the policies to ensure they meet the minimum criteria as defined in the NYISO tariffs.
- TCC Market Participants are required to provide notice to the NYISO of a material change to their risk policies within five business days of implementing the change.

■ All TCC Market Participants must provide secured credit to participate in the market.

- Unsecured credit is not permitted in the TCC market.

Current TCC Credit Policy Overview

- **The TCC credit requirement is equal to the greater of (a) the Auction TCC Holding Requirement or (b) the Mark-to-Market Calculation (historical projection).**
 - Only TCCs awarded in Centralized TCC Auctions, Reconfiguration/Balance-of-Period Auctions, and Fixed Price TCCs are subject to the Auction TCC Holding Requirement.
 - Certain other TCCs are only subject to the Mark-to-Market Calculation (*i.e.*, Grandfathered TCCs, Incremental TCCs, ETCNL TCCs, and RCRR TCCs).
- **However, upon initial award of a TCC until the NYISO receives payment for that TCC, the NYISO will hold the greater of the payment obligation or the credit requirement listed above.**
 - This requirement currently does not apply to the collateral held for the second year of a two-year TCC.

Current TCC Credit Policy Overview

■ Suspension Policy for TCC Market Participants

- If at any time, losses exceed 50% of the collateral posted in the TCC market, the Market Participant will receive a request for payment of the losses or additional collateral in that amount, which must be received in full that same day, otherwise the entity will be automatically suspended from the TCC market.
- Suspension from the TCC market will prohibit Market Participants from further participation, including submitting additional bids. However, the Market Participant continues to own any TCCs they have been awarded prior to suspension and remains obligated to satisfy the credit requirements and all other TCC obligations for such previously awarded TCCs.

Current TCC Credit Policy Overview

- **All TCCs, other than the second year of a two-year TCC, are paid for prior to the beginning of their term.**
 - The first year of a two-year TCC is paid for prior to the beginning of its term while the second year of the two-year TCC is paid for prior to the commencement of the second year of that TCC.
 - The NYISO holds a collateral margin on the payment due for the second year of a two-year TCC to cover declines in value relative to the auction price.
- **Each TCC auction updates market-clearing prices that are used by the Credit Management System (“CMS”) to recalculate collateral requirements based on the updated prices.**
 - If there is a collateral shortfall due to the updated market-clearing prices, the Market Participant will receive a collateral call due two business days later.
 - If the collateral call is not met, the Market Participant will have two business days to cure the default.
 - If the default is not cured, the NYISO has the right to suspend or terminate their participation in the NYISO markets.

Balance-of-Period (“BoP”) Credit Requirements

- **The NYISO and its outside consultant, FTI Consulting (“FTI”), developed credit requirements for the BoP auctions that began in August 2017.**
 - BoP auctions produce updated market-clearing prices for every remaining month within the current Capability Period.
 - The market-clearing prices from BoP auctions are used to recalculate collateral requirements for TCCs (commonly referred to “repricing”) for every month within the current Capability Period and, if applicable, break down longer duration TCCs for repricing purposes.
 - This ensures that the NYISO utilizes the most current market-clearing prices to determine collateral requirements for its TCCs.
 - As such, each time the auction runs, TCCs are marked-to-market, which provides the most current market-clearing prices for calculating TCC credit requirements.

BoP Credit Requirements (cont'd)

- **NYISO regularly evaluates whether the current credit policy provides sufficient collateral coverage for the portfolios of TCCs awarded.**
- **FTI has analyzed the available BoP auction results and found that the credit policy design implemented in 2017 has provided adequate collateral coverage.**

Proposed TCC Credit Policy Enhancements

Overview of Proposed Enhancements

- **The NYISO identified the following potential enhancements to its current TCC auction practices and credit policy:**
 - Either: (1) hold the higher of the payment obligation or holding requirement for the second year of a two-year TCC; or (2) require payment of both years of a two-year TCC at the end of the Centralized Auction in which the two-year TCC is purchased.
 - Currently, the second year of a two-year TCC is the only TCC for which the NYISO solely holds a margin to cover declines in value relative to auction determined market-clearing prices.
 - Market Participants support the NYISO holding as collateral the higher of the payment obligation or holding requirement until such time the second year of a two-year TCC is paid, rather than paying for both years in advance.
 - The NYISO will propose modifications to the tariff reflecting this enhancement, which is consistent with the credit requirement treatment for all other TCCs.

Overview of Proposed Enhancements

- **The NYISO identified the following potential enhancements to its current TCC auction practices and credit policy (cont'd):**
 - Utilize TCC auction prices to calculate credit requirements for TCCs currently only subject to the historical congestion rent credit requirement.
 - Auction determined market-clearing prices, which are forward looking, provide a more appropriate predictor of future payments due than historic congestion rent values.
 - Historical congestion rents over the prior 90 days are sub-optimal in accounting for:
 - Expected changes in future market conditions, such as fuel prices, available generation or transmission outages;
 - Expected changes in power demand and supply, including seasonal variations.

Overview of Proposed Enhancements

- **The NYISO identified the following potential enhancements to its current TCC auction practices and credit policy (cont'd):**
 - Utilize TCC auction prices to calculate credit requirements for TCCs currently only subject to the historical congestion rent credit requirement.
 - Market Participants support the NYISO removing the 90-day “historical projection” calculation and extending the application of the Auction TCC Holding Requirement to all TCC product types (i.e., ETCNL TCCs, RCRR TCCs, Incremental TCCs, and Grandfathered TCCs).
 - The NYISO will propose modifications to the tariff reflecting this enhancement, which is consistent with the credit requirement treatment for all other TCC product types.

Overview of Proposed Enhancements

- **The NYISO identified the following potential enhancements to its current TCC auction practices and credit policy (cont'd):**
 - Pursue enhancements to facilitate earlier recalculation of the collateral requirements for the second year of a two-year TCC.
 - A critical recommendation from the GreenHat Report is to reprice TCCs more frequently to capture changes in credit risk over time.
 - The NYISO currently does not recalculate the credit requirement for the second year of a two-year TCC until approximately one year after the initial award.
 - The NYISO recommends administering a one-year round for TCCs covering the same period as the second year of a two-year TCC five to six months earlier, which will ensure more current pricing is utilized, providing for improved coverage against potential declines in future value of the second year of two-year TCCs while at the same time minimizing system and market changes to meet a need to protect against potential credit risk.

Overview of Proposed Enhancements

- **The NYISO identified the following potential enhancements to its current TCC auction practices and credit policy (cont'd):**
 - Pursue enhancements to facilitate earlier recalculation of the collateral requirements for the second year of a two-year TCC.
 - While the NYISO understands concerns regarding potential cost to Market Participants with regard to running a “future” one-year round, potential impacts on auction administration, level of participation, and/or outcomes are unknown until the revised auction procedures have been implemented and data is available for evaluation.
 - The NYISO will commit to conducting a re-evaluation of the proposed credit enhancements for the second year of two-year TCCs (see next slide for additional information).
 - The proposed enhancements are intended to better protect Market Participants from the risk of being charged a bad debt loss due to another Market Participant’s default.
 - The NYISO will propose modifications to the tariff reflecting this enhancement.

Overview of Proposed Enhancements

- **The NYISO identified the following potential enhancements to its current TCC auction practices and credit policy (cont'd):**
 - Pursue enhancements to facilitate earlier recalculation of the collateral requirements for the second year of a two-year TCC.
 - The NYISO will continue to monitor the effects of the enhancements to the credit requirements for two-year TCCs and associated revisions to TCC auction procedures included as part of this proposal. After sufficient experience has been gained with respect to these modifications, anticipated to be three years after implementation, the NYISO will report to stakeholders on:
 - The impacts of the credit requirement enhancements for two-year TCCs on collateral coverage for awarded two-year TCCs.
 - Net Auction Revenues and market-clearing prices for the TCCs awarded pursuant to the revised TCC auction procedures associated with the enhancements to the credit requirements for two-year TCCs.
 - In connection with reporting the information described above, the NYISO will discuss with stakeholders whether any revisions or other adjustments may be warranted to address the credit requirements for two-year TCCs and TCC auction procedures relating thereto.

Proposed Tariff Revisions

Proposed Tariff Revisions – TCC Credit Policy

- **To implement the proposed enhancements described above, the NYISO proposes the following tariff revisions to MST Attachment K:**
 - Hold as collateral the higher of the payment obligation or holding requirement until the second year of a two-year TCC is paid:
 - MST Section 26.4.2.4: Remove the current exception for the second year of a two-year TCC from the requirement to hold the greater of the payment obligation or holding requirement until the NYISO receives payment for the second year.
 - MST Section 26.4.2.4.1.1: Revise calculations of the two-year TCC holding requirement as necessary to reflect holding the higher of the payment obligation or holding requirement until the second year of the TCC is paid.

Proposed Tariff Revisions – TCC Credit Policy (cont'd)

- **To implement the proposed enhancements described above, the NYISO proposes the following tariff revisions to MST Attachment K:**
 - Use TCC auction prices to calculate credit requirements for TCCs currently only subject to the historical congestion rent credit requirement:
 - MST Section 26.4.2.4: Remove reference to “greater of” and Section 26.4.2.4.2 (Mark-to-Market Calculation).
 - MST Section 26.4.2.4.1: Insert references to Incremental, Grandfathered, ETCNL, and RCRR TCCs as appropriate to reflect that the holding requirement for such TCCs will now be calculated under Section 26.4.2.4.1.
 - MST Section 26.4.2.4.2: Remove Mark-to-Market Calculation.

Proposed Tariff Revisions – TCC Credit Policy (cont'd)

- **To implement the proposed enhancements described above, the NYISO proposes the following tariff revisions to MST Attachment K:**
 - Facilitate earlier recalculation of the collateral requirements for the second year of a two-year TCC:
 - MST Section 26.4.2.4.1.1: Revise calculations as necessary to reflect that the market-clearing prices from a single round one-year Sub-Auction for TCCs that correspond to the time period covered by the second year of a two-year TCC would be used to calculate the holding requirement for the second year of a two-year TCC after that auction round is run.
 - Further details regarding this new single round one-year Sub-Auction are provided on the next slide.

Proposed Tariff Revisions – TCC Market Administration

- **Implementation of the proposed enhancements to facilitate earlier re-evaluation of the credit security requirements for the second year of a two-year TCC also requires modifications to certain TCC market administration rules and procedures set forth in the Open Access Transmission Tariff (OATT).**

- **The NYISO proposes revisions to Section 19.8.4 of Attachment M of the OATT to provide authority to conduct a single round Sub-Auction for one-year TCCs for the same period covered by the second year of a two-year TCC.**
 - Such a single round, one-year Sub-Auction would be conducted as part of the Centralized TCC Auction that immediately follows the auction in which two-year TCCs are awarded.
 - Amount of capacity available for such single round, one-year Sub-Auction will be limited to the lesser of: (1) 5% of transmission capacity not otherwise required to support already-outstanding Grandfathered Rights, Grandfathered TCCs, Fixed Price TCCs, Incremental TCCs, ETCNL TCCs, and RCRR TCCs;; or (2) the amount of capacity that had been made available to support the sale of two-year TCCs in the prior Centralized TCC Auction.

- **The NYISO also proposed to exclude consideration of the results and prices from such a single round one-year Sub-Auction from certain purchase price calculations and revenue allocation factor determinations for Fixed Price TCCs.**
 - Section 19.2.1.2 of Attachment M: the determination of the applicable purchase prices for Historic Fixed Price TCCs (HFPTCCs).
 - Section 19.2.1.4 of Attachment M: the determination of the applicable purchase prices for HFPTCC extensions
 - Section 20.4 of Attachment N: the procedures for allocating revenues received from the sale of HFPTCCs and HFPTCC extensions to the applicable Transmission Owners.
 - Section 20.5 of Attachment N: the procedures for allocating revenues received from the sale of Non-Historic Fixed Price TCCs to the applicable Transmission Owners.

Proposed Tariff Revisions – TCC Market Administration (cont'd)

- **The NYISO proposes clarifying revisions to various provisions in Attachment M of the OATT to address the proposal to conduct a single round Sub-Auction for one-year TCCs for the same period covered by the second year of a two-year TCC**
 - Section 1.19: clarify the definition of “Sub-Auction” to recognize that a Sub-Auction may consist of a single round and that TCCs sold in each Sub-Auction are of equivalent length and have the same start date.
 - Section 19.4: clarifying revisions to the description of ETCNL capacity that is available to be converted to ETCNL TCCs prior to a Centralized TCC Auction.
 - Section 19.5: clarifying revisions to the description of the RCRR evaluation undertaken by the NYISO prior to a Centralized TCC Auction.
 - Section 19.8.4: clarify that: (1) the required sequencing of Sub-Auctions from longest to shortest TCC duration; (2) the requirement to conduct Sub-Auctions consecutively; and (3) the modeling of TCCs awarded in previous Sub-Auction rounds for subsequent rounds within the same Centralized TCC Auction applies to all Sub-Auctions for TCC durations with the same start date.
 - Section 19.9.1: clarify that the ability to resell TCCs (or partial durations thereof) purchased in earlier Sub-Auction rounds within the same Centralized TCC Auction applies to all TCC durations with the same start date.
 - Sections 19.9.5 and 19.9.6: ministerial edits to ensure consistent use of “market-clearing price” terminology.

Next Steps

- BACWG May 2020
- BACWG June 2020
- BACWG July 2020
- BACWG – Tariff Changes August 2020
- BIC September 2020
- **MC September 2020**
- **Board of Directors October 2020**
- **FERC Filing Q4 2020**
- **Planned Implementation October 2021**

Questions?

Our mission, in collaboration with our stakeholders, is to serve the public interest and provide benefit to consumers by:

- Maintaining and enhancing regional reliability
- Operating open, fair and competitive wholesale electricity markets
- Planning the power system for the future
- Providing factual information to policymakers, stakeholders and investors in the power system

