UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.) Docket No. EL22-64-000

ANSWER TO ORDER TO SHOW CAUSE

Pursuant to Rule 213 of the Rules of Practice and Procedure promulgated by the Federal Energy Regulatory Commission ("Commission"),[1] and the Order to Show Cause issued by the Commission on July 28, 2022, in the above-captioned docket ("Order to Show Cause"),[2] the New York Independent System Operator, Inc. ("NYISO") hereby provides this answer to the Order to Show Cause ("Answer").[3]

I. INTRODUCTION

In its Order to Show Cause, the Commission questioned whether the NYISO's credit requirement[4] calculations for Transmission Congestion Contracts ("TCCs") should include a volumetric minimum collateral requirement to appropriately address the risk of default presented by TCCs.[5] The Commission directed that the NYISO either (1) show cause as to why its tariff remains just and reasonable and not unduly discriminatory or preferential; or (2) explain what changes to its tariff would remedy the Commission's concerns.[6]

[1] 18 C.F.R. § 385.213(a)(1).

[2] *New York Independent System Operator, Inc.*, *et al.*, 180 FERC ¶ 61,049 (July 28, 2022).

[3] Capitalized terms not otherwise defined herein shall have the meaning specified in the Market Administration and Control Area Services Tariff ("Services Tariff") and Open Access Transmission Tariff.

[4] Unsecured credit may not be used to satisfy any credit requirement for TCCs, so bidders and holders of TCCs must provide collateral in the forms set forth in the Services Tariff to meet TCC credit requirements. *See* Services Tariff Sections 26.5 and 26.6. For this reason, this Answer uses the terms "credit requirement" and "collateral requirement" interchangeably.

[5] *See*, *e.g.*, Order to Show Cause at P 19-21 and 27-29.

[6] *Id*. at P 2.

This Answer demonstrates that the NYISO's credit requirements are carefully and appropriately calibrated to reflect the risk presented by TCCs. The NYISO's TCC credit policies have been tailored to the NYISO's market design to minimize default risk while supporting market liquidity. While the NYISO does not impose a volumetric minimum collateral requirement, it imposes robust and carefully-calculated collateral obligations that a customer must meet prior to bidding on a TCC, after an award, and throughout the term of the TCC. The NYISO's TCC credit requirements require TCC bidders and holders to provide collateral in amounts that appropriately reflect the default risk associated with TCCs throughout their entire term.

The NYISO has conducted analyses demonstrating that its TCC credit requirements effectively protect against the risk of default. These analyses, discussed further below, show that the NYISO's credit requirements (1) would have resulted in collateral holdings more than sufficient to cover the losses attributable to the GreenHat Energy, LLC ("GreenHat") default cited by the Commission; and (2) result in upfront TCC payment and collateral obligations that are materially greater than the volumetric minimum collateral requirements cited in the Order to Show Cause, with the limited exception of the second year of a two year TCC, for which the minimum collateral requirement would nonetheless be higher than one of the minimum collateral requirements cited by the Commission. [7]

As discussed below, adding a volumetric minimum collateral requirement would likely increase collateral held by the NYISO only on TCCs with minimal risk of default. This increase in collateral would tend to increase the cost of holding a TCC, without providing a material

[7] The NYISO analyzed default risk related to two-year TCCs in 2020 and updated its collateral requirements, adding a new auction round to provide for earlier recalculation of the second year of a two-year TCC using auction-derived market-clearing prices. Docket No. ER21-486-000, *New York Indep. Sys. Operator, Inc.*, Proposed Tariff Revisions to Enhance TCC Credit Requirements (Nov. 24, 2020).

reduction in the risk of default. As a result, the NYISO markets would not benefit from the addition of a volumetric minimum collateral requirement.

The Commission noted that the NYISO allows some limited offsetting of collateral requirements to reduce the total amount of collateral that must be provided for certain TCC portfolios.[8] The Commission has previously determined that this limited offsetting is reasonable and appropriate in consideration of the NYISO's overall TCC credit requirements.[9] As explained further below, the rationale for this policy remains sound, consistent with the differences between the NYISO TCC auction settlement design and the designs of some other RTO/ISOs. This feature of the NYISO's TCC credit policy continues to be effective and just and reasonable.

II. BACKGROUND ON THE NYISO'S TCC CREDIT POLICY

A. The NYISO Requires TCC Bidders and Holders to Provide Collateral Sufficient to Meet TCC Payment Obligations.

TCCs are source-sink specific financial instruments that can be used to hedge costs resulting from transmission system congestion. The holder of a TCC is entitled to the value of the Day-Ahead Market congestion between the point of injection and point of withdrawal associated with that TCC. TCCs are primarily allocated to Market Participants through auctions administered by the NYISO. The NYISO currently conducts two Centralized TCC Auctions each year providing the opportunity to purchase and sell longer-term TCCs (*i.e.*, two-year, one-

[8] Order to Show Cause at P 29.

[9] Docket Nos. ER08-778-000 and ER-08-778-001, *New York Indep. Sys. Operator, Inc.*, Order Accepting Revisions to Tariff Requirements at para. 3 (Apr. 28, 2008).

year, and six-month durations). The NYISO also conducts monthly Balance-of-Period Auctions to allow Market Participants the opportunity to purchase and sell one-month duration TCCs.[10]

A positive TCC obligates the bidder/purchaser to *pay* the clearing price of the TCC and entitles the bidder/purchaser to *receive* congestion rents associated with the transmission path and size of the TCC throughout the life of the instrument. Conversely, a negative or "counterflow" TCC entitles the bidder/purchaser to *receive* the clearing price of the TCC and obligates the bidder/purchaser to *pay* congestion rents associated with the transmission path and size of the TCC throughout the life of the instrument.

The framework of the NYISO's TCC credit policies is designed to address the risk of nonpayment default by ensuring that sufficient collateral is held by the NYISO at all times until the payment obligations of TCC bidders and holders are met. There are two basic components of the TCC credit requirements: a Bidding Requirement that must be satisfied to participate in an auction and a Holding Requirement that must be satisfied throughout the life of the TCC. Unsecured credit may not be used to satisfy TCC credit requirements, so bidders and holders of TCCs must provide an acceptable form of collateral to the NYISO.[11]

To submit a bid to purchase a TCC, a bidder must provide collateral in the amount of the Bidding Requirement to the NYISO. The Bidding Requirement is intended to cover the bidder's payment obligations in connection with the auction, including both its ability to pay for the TCC it seeks to purchase and the expected Holding Requirement. The Bidding Requirement provides

[10] Balance-of-Period Auctions are monthly auctions that provide Market Participants the opportunity to purchase and sell one-month TCCs for each of the remaining months of a Capability Period. Balance-of-Period Auctions serve as enhancement to the alternative monthly auction structure that encompasses only a single month. For example, the initial Balance-of-Period Auction for a Summer Capability Period provides the ability to purchase and sell TCCs for all six months of the Summer Capability Period (*i.e.*, May through October). Alternatively, using the single-month auction structure, the initial monthly auction for a Summer Capability Period would provide the ability to purchase and sell TCCs only for May.

[11] Services Tariff Sections 26.5 and 26.6.

for minimum amounts of collateral required per TCC the customer seeks to purchase, regardless of the amount bid.[12] After award, the customer must pay upfront the full cost of the TCC and maintain the collateral required to cover its Holding Requirement.[13]

A TCC holder then must satisfy a collateral Holding Requirement throughout the term of the TCC. The NYISO monitors congestion patterns throughout the life of a TCC and conducts ongoing mark-to-market analyses that are used to recalculate the Holding Requirement. If congestion patterns produce expected payment obligations that reduce the mark-to-market value of the TCC, the NYISO will require the TCC holder to provide additional collateral to meet the new requirement.

B. The NYISO Regularly Evaluates its Credit Requirements to Ensure They Are Sufficient to Address Default Risk, but Are Not Excessive.

The Commission has acknowledged that "[t]he management of risk and credit necessarily involves balance."[14] In developing its credit requirements, the NYISO seeks to balance the cost of increasing credit requirements against the benefit of reducing the risk of default to the market. In the NYISO-administered markets, credit is collectively extended by all Market Participants to each individual Market Participant, so that if one Market Participant defaults on its obligations to the NYISO, the remaining participants must make up the shortfall.[15] More stringent credit requirements, such as requiring higher levels of collateral, benefit the market by lowering the

[12] Services Tariff Section 26.4.3(i).

[13] The only exception to the requirement that a TCC be paid for in full upon award is the second year of a two-year TCC, which is paid for before the beginning of the second year. As discussed below, however, the NYISO holds the higher of the auction payment obligation for the second year of the TCC or the applicable Holding Requirement. This requirement is designed to ensure the NYISO continues to hold an appropriate amount of collateral for these TCCs.

[14] *Credit Reforms in Organized Wholesale Electric Markets*, 133 FERC ¶ 61,060 at P 2 (Oct. 21, 2010) ("Order 741").

[15] *Policy Statement on Electric Creditworthiness*, 109 FERC ¶ 61,186 at P 5 (Nov. 19, 2004).

risk of defaults.[16] Increases in credit requirements can, however, reduce competition if the increased costs associated with the credit requirements result in unwarranted barriers to participation.[17] In recognition of this dynamic, the NYISO evaluates changes to credit requirements to determine whether any increase in requirements is supported by a resulting reduction in the risk of default. The requirements are calibrated to protect against the risk of default presented at each stage of the life of the TCC while not imposing credit requirements that unnecessarily increase the cost of holding a TCC.

The NYISO regularly evaluates its credit requirements to identify areas of potential risk and improvement. For example, in 2020, the NYISO conducted a comprehensive evaluation of its TCC credit requirements to determine how well the requirements reflect the market risk of TCCs over time.[18] Based on that analysis, the NYISO proposed enhancements to its TCC credit requirements to better align the requirements with the risk of default presented by each TCC.[19]

III. THE NYISO'S EXISTING TCC CREDIT REQUIREMENTS ARE ROBUST AND APPROPRIATE

A. The NYISO's TCC Credit Requirements Appropriately Reflect the Default Risk Associated with TCCs.

The NYISO's TCC credit requirements are designed to appropriately mitigate the two primary sources of default risk associated with TCCs: (1) defaulting on payment of the purchase of a TCC, and (2) defaulting on congestion payments owed to the NYISO by the TCC holder during the term of a TCC.

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[16] *Id*.

[17] Order 741 at P 2.

[18] Docket No. ER21-486-000, *New York Indep. Sys. Operator, Inc.*, Proposed Tariff Revisions to Enhance TCC Credit Requirements (Nov. 24, 2020).

[19] *Id*; and Docket No, ER21-486-000, *supra*, Letter Order (Jan. 12, 2021) ("January 2021 Order").

1. The NYISO Requires Upfront Payment in Full for TCCs.

In contrast to the financial transmission right ("FTR") markets administered by PJM Interconnection, L.L.C. ("PJM") and Midcontinent Independent System Operator, Inc. ("MISO"), which impose volumetric minimum collateral requirements, the NYISO requires full payment for TCCs purchased in auctions upon completion of the auction, except for the second year of a two-year TCC. This upfront payment design is coupled with the Bidding Requirement and Holding Requirement to provide appropriate protection against the potential for defaulting on the payment obligations to acquire and hold TCCs.

The NYISO requires a Market Participant to provide a minimum amount of collateral to submit bids in a TCC auction. This requirement is designed to ensure that the bidder will be able to pay for any TCCs it is awarded and post the required Holding Requirement (if any). The amount of this Bidding Requirement is determined based on the amounts bid for TCCs, and is subject to a minimum amount for each TCC based on the megawatt amount and duration of the TCCs.[20] This collateral must be posted prior to an auction, and bids will be rejected if the bidder provides insufficient collateral.

After award, the customer must pay upfront the full cost of the TCC and meet the Holding Requirement.[21] Until the auction price of a TCC is paid in full, the NYISO requires the Market Participant to meet the Holding Requirement (and thereafter during the term of the TCC), which is the *higher of* the auction price or an amount designed to represent the market risk of a

[20] Services Tariff at Section 26.4.3(i).

[21] With the exception of the second year of a two-year TCC. See footnote 13, *supra*.

TCC over time.[22] By holding collateral sufficient to cover the auction price of an awarded TCC until it is paid for, the risk associated with a purchase default for a TCC is fully addressed.

In contrast, purchasers of FTRs in markets administered by PJM and MISO pay for their FTRs over time.[23] As a result, the FTR collateral requirements in these markets must account for an ongoing default risk associated with nonpayment for the FTR. This difference in settlement design requires that these RTOs/ISOs have a minimum collateral requirement as there is default risk on all FTRs, because none have been paid for, and hence there needs to be a collateral requirement on all FTRs. The NYISO's market design does not allow for payment of TCCs over time and therefore does not need to mitigate the risk of defaulting on the purchase of a high-priced TCC. Because of its existing market design and robust TCC credit requirements, the addition of a volumetric minimum collateral approach would not serve to reduce the risk of TCC nonpayment in the NYISO-administered markets.

2. The NYISO's TCC Credit Requirements Provide Robust Protection Against the Risk of Default on Congestion Payments Owed to the NYISO.

i. TCC Credit Requirements are Marked-to-Market After Every Auction.

The NYISO's TCC collateral requirements are refreshed or "marked-to-market" throughout the term of a TCC to help ensure that the collateral requirement reflects the default risk over time. As previously described, once a TCC is awarded, the NYISO's credit policy

[22] Services Tariff Section 26.4.2.4. The Holding Requirement is designed to establish collateral requirements for TCCs based on market-clearing prices set through TCC auctions. Auction prices represent forward-looking assessments as to system congestion patterns and the associated value of TCCs. Therefore, the auction-derived prices provide a reliable predictor of future congestion payments. The NYISO recalculates the Holding Requirement for each TCC frequently to capture changes in default risk over time.

[23] *See* PJM Manual 28: Operating Agreement Accounting, at Section 16.2 (stating that PJM buyers are charged for FTR Auction purchases based on the FTR awarded in 0.1 MW increments and the market-clearing price); MISO Credit Policy Attachment L at Section V.B.3 (providing the calculation for the potential exposure associated with FTR transactions cleared but not yet settled).

requires the provision of collateral in amount equal to the higher of the purchase price payment obligation for the TCC or the Holding Requirement.[24] After the NYISO receives payment for the purchase cost of a TCC, the credit requirements then require that collateral in an amount equal to the Holding Requirement be retained throughout the remaining term of each TCC.

The Holding Requirement is calculated to reflect market risk over time and is designed to ensure that a TCC holder provides sufficient collateral to cover any congestion payments that may be owed to the NYISO over the term of the TCC. The Holding Requirement is determined based on the market-clearing price of the TCC in the most recent TCC auction (to reflect the expected payments due to or from the TCC holder) plus a margin to cover uncertainty. The mark-to-market value is updated with new auction prices over the term of the TCC.[25] If at any time during the term of the TCC the mark-to-market valuation of the TCC declines, the Market Participant must provide additional collateral to restore the collateral margin. Because the Holding Requirement is recalculated using updated market-clearing prices determined by the auctions conducted during the term of each TCC, the requirement ensures that Market Participants are required to maintain a minimum level of collateral that is appropriately scaled to the default risk posed by their TCC portfolio.

ii. The Holding Requirement Calculation Results in Collateral Requirements for All TCCs Except Those That Present Very Low Credit Risk.

The Commission expresses concern that without a volumetric minimum collateral requirement, Market Participants may be able to minimize their collateral requirements without a

[24] Services Tariff Section 26.4.2.4.1. In 2021, the NYISO strengthened its TCC credit policy to apply the "mark-to-market" calculation to all TCCs, as well as require provision of collateral in an amount equal to the higher of the purchase cost payment obligation or the Holding Requirement for the second year of a two-year TCC until payment for such second year is made. *See* Docket No. ER21-486-000, *supra*, Proposed Tariff Revisions to Enhance TCC Credit Requirements (Nov. 24, 2020); and January 2021 Order.

[25] *See* Services Tariff Section 26.4.2.4.1.

corresponding reduction in risk.[26] The NYISO's TCC credit requirements appropriately and effectively calibrate collateral requirements to the risk presented by the Market Participant's TCC portfolio and change over time to reflect that risk. The Holding Requirement increases as the congestion payments owed to the NYISO increase (or the expected level of such payments increases) and decreases as the likelihood of positive congestion payments owed to the TCC holder increases (or the expected level of such congestion payments by the NYISO to the TCC holder increases). As a result, a collateral obligation applies throughout the term of a TCC except in the case of a TCC for which there is a high probability of substantial congestion payments being owed by the NYISO to the TCC holder. At auction, such TCCs typically clear with a high, positive market-clearing price. A high, positive market-clearing price for a TCC reflects the fact that the market expects that TCC to generate significant congestion payments *to* its holder, thereby presenting very little credit risk.[27]

System conditions could, however, result in changes to the prevailing direction of power flows and resulting patterns of congestion. Such conditions can result in a TCC that was initially expected to generate positive congestion payments *to* its holder producing a congestion payment obligation *from* its holder. If these circumstances occur and are expected to persist, the change in market conditions will be reflected in future auction clearing prices. Under the NYISO's mark-to-market calculation methodology, the Holding Requirement for the TCC is refreshed to reflect the updated auction valuations. The applicable collateral requirement for the TCC would be updated accordingly to reflect the increased market risk of the TCC resulting from change in

[26] Order to Show Cause at P 28.

[27] A positive market-clearing price is one for which a Market Participant will initially make payment to the NYISO to acquire the TCC with the expectation that the holder will likely receive the congestion payments from the NYISO for such TCC over its term. A negative market-clearing price is one for which a Market Participant will initially receive payment from the NYISO to hold the TCC with the expectation that the Market Participant will be required to pay congestion costs to the NYISO for such TCC over its term.

system conditions and increased likelihood of the TCC to generate a congestion payment obligation by the holder to the NYISO. Because the potential for a TCC to produce a payment obligation on the part of its holder over the term of such TCC is already accounted for by the NYISO's TCC credit requirements, imposing an additional volumetric minimum collateral requirement would not reduce default risk. For a TCC with a high probability of producing substantial congestion payments being owed by the NYISO to the TCC holder, application of an additional volumetric minimum collateral requirement would unnecessarily raise the costs associated with those TCCs.

iii. Imposing Unnecessary Credit Requirements on TCCs Can Have Detrimental Impacts on the TCC and Energy Markets.

Imposing unnecessary costs on TCC holders, such as applying a volumetric minimum collateral requirement, can distort the TCC market and have detrimental impacts to the broader markets. For example, increasing the cost of TCCs could result in fewer entities bidding on TCCs, thereby reducing competition and liquidity in TCC auctions. Reducing competition for TCCs could generate TCC prices that do not accurately reflect the market's expectations for transmission system congestion and the economics of hedging against such congestion.

Additionally, if a Market Participant has purchased a high-priced TCC to hedge the congestion charges that they could incur to serve their load obligations, imposing excessive credit requirements could unnecessarily raise the cost of such hedging. This increased cost of purchasing TCCs could cause the Market Participant to forgo the procurement of congestion hedges, which could raise the probability of defaults in the energy market resulting from such unhedged positions. Alternatively, if TCCs are acquired despite the higher costs, the inflated hedging costs would unnecessarily raise the cost of serving load to the detriment of consumers.

These adverse impacts would occur without a commensurate benefit of reducing the risk of defaults. Inclusion of a volumetric minimum collateral requirement is, therefore, unnecessary in light of the robust protection afforded by the NYISO's current TCC credit requirements.

3. The NYISO's Existing TCC Payment and Collateral Obligations Exceed the Volumetric Minimum Collateral Requirements Imposed by Other Regions.

In 2021, the NYISO performed an analysis to evaluate whether a dollar-per-MWh minimum requirement was necessary to mitigate the risk of default associated with TCCs in the NYISO market. The NYISO evaluated Balance-of-Period TCCs,[28] which are the most common TCCs purchased, future six-month TCCs,[29] and the second year of a two-year TCC.[30] The analysis showed that the sum of the Holding Requirement and the amount of the upfront payment required to purchase TCCs was always greater than $0.15/MWh, $0.40/MWh, and $0.053/MWh, respectively. These amounts are materially greater than the volumetric minimum collateral requirements of $0.10/MWh in PJM and $0.05/MWh in MISO[31] for the vast majority of TCCs purchased, and higher than the MISO minimums in all cases. Moreover, the NYISO assessed the adequacy of coverage of two-year TCCs in 2020 and introduced an additional auction round to provide more timely mark-to-market pricing.[32]

The NYISO's analysis demonstrates that its existing credit requirements provide better protection against default than the volumetric minimum collateral requirements applicable in

[28] Meaning the monthly segments of TCCs segmented in the Balance-of-Period Auction. *See* Services Tariff Section 26.4.2.4.1.6.2.

[29] Meaning the second six months of an annual TCC segmented in the Balance-of-Period Auction. *See* Services Tariff Section 26.4.2.4.1.6.1.

[30] The NYISO did not analyze annual TCCs because they are segmented into six-month and Balance-of-Period TCCs shortly after purchase.

[31] *See* Order to Show Cause at P 20.

[32] Docket No. ER21-486-000, *New York Indep. Sys. Operator, Inc.*, Proposed Tariff Revisions to Enhance TCC Credit Requirements (Nov. 24, 2020).

other markets. Imposition of a volumetric minimum collateral requirement is unnecessary to ensure the adequacy of the NYISO's TCC collateral requirements.

B. The NYISO's TCC Credit Requirements Would Have Required Collateral Sufficient to Protect Against Default in the GreenHat Scenario.

The Order to Show Cause describes the circumstances of the GreenHat default.[33] The Commission noted that the "unprecedented default by GreenHat . . . may have been less likely or less costly had the policies discussed [in the Order to Show Cause] been in place while GreenHat amassed its FTR portfolio."[34]

The NYISO previously conducted an analysis of its TCC credit requirements to determine how the NYISO's requirements would have functioned under the circumstances presented by the GreenHat default.[35] This analysis validated the effectiveness of the NYISO's TCC collateral requirements. The NYISO calculated that its credit policy would have required GreenHat to post approximately $300 million in credit support on its original portfolio in December, 2016, and that the credit requirement for the portfolio would have increased in 2017 and 2018 as the value of the portfolio declined and its associated default risk increased.[36] The NYISO estimates that it would have held collateral in an amount more than sufficient to cover the approximately $179 million in losses that resulted from the GreenHat default.[37]

The NYISO's analysis of the GreenHat default confirms that as the risk of a TCC portfolio increases, the associated collateral requirements will increase pursuant to the NYISO's

[33] Order to Show Cause at P 11-12.

[34] *Id*. at P 25.

[35] The NYISO presented its analysis to its Billing, Accounting and Credit Working Group on August 24, 2018. *See* NYISO, *TCC Credit Policy Coverage* (presented Aug. 24, 2018), available at: https://www.nyiso.com/documents/20142/2416436/082418%20BACWG%20-%20TCC%20Credit%20Policy%20Coverage%20of%20PJM%20Issue%20%20-%20FINAL.pdf.

[36] *Id*. at 8.

[37] *Id*. at 10.

existing TCC credit requirements. The analysis also demonstrates that because the NYISO's existing TCC credit policies appropriately protect against the risk of default, the addition of a volumetric minimum collateral requirement is not necessary.

C. The Limited Offsetting for Certain TCCs Remains Just and Reasonable.

In 2008, the Commission accepted tariff revisions that resulted in changes to the calculation of the Holding Requirement to provide for limited offsets within a Market Participant's TCC portfolio.[38] The NYISO's proposal was based on an analysis that demonstrated that for TCCs with a greater potential to result in congestion payment obligations being owed by holders to the NYISO, the Holding Requirement calculation did not require sufficient collateral to adequately cover the payments a customer may owe over the term of the TCC. Conversely, the analysis showed that "some high-priced positive TCCs have historically had such a high probability of substantial positive values that the holding of those TCCs should provide a credit offset against the credit requirement for holding other low positive, zero or negatively priced TCCs."[39] The limited offsetting of high-priced positive value TCCs provides for more accurate reflection of the overall risk of a Market Participant's TCC portfolio.

The NYISO re-analyzed the TCC credit requirements, including offsets when developing enhancements to its credit policy to accommodate the implementation of the Balance-of-Period Auction structure for monthly TCC auctions. This analysis confirmed the continued reasonableness of the limited offset provided for high-priced positive value TCCs.[40]

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[38] *See New York Indep. Sys. Operator, Inc.*, 123 FERC ¶ 61,090 (Apr. 28, 2008).

[39] *Id*. at P 3. "High-priced positive TCCs" are TCCs with a very high probability of producing substantial congestion payments to the holder over their term. Such TCCs have a very low probability of producing congestion payment obligations for the holder and resulting risk of defaulting on any such payment obligations.

[40] Docket No. ER17-1167-000, *supra*, Proposed Tariff Revisions to Implement Balance-of-Period TCC Auctions and Enhancements to the Credit Requirements for TCCs at 14-16 (Mar. 13, 2017); and Docket No. ER17-1167-000, *supra*, Letter Order (Apr. 14, 2017).

Neither the NYISO's Holding Requirement calculation methodology nor TCC market design have changed in a way that would undermine the previously-approved rationale for allowing the NYISO's Holding Requirement to provide an offset for high-priced positive value TCCs. Continued availability of these limited offsets appropriately recognizes the very low default risk presented by such TCCs and the beneficial impact of holding such TCCs as part of a Market Participant's broader TCC portfolio.

D. The NYISO's Automatic Suspension Policy Provides Additional Protection Against Default.

Another important backstop to prevent a default associated with TCCs is the automatic suspension provision contained within the NYISO's existing TCC credit policy. The NYISO requires Market Participants to post additional collateral or pay outstanding congestion settlements owed to the NYISO if the net amount owed by the Market Participant reaches 50 percent of the collateral posted for its TCCs.[41] If the Market Participant does not satisfy the additional collateral requirement or make payment on their outstanding congestion settlements by 4:00 pm on the day they are provided notice, the NYISO may cancel all outstanding bids submitted by the Market Participant in TCC auctions and suspend the Market Participant's ability to submit any further bids. This bid cancellation and suspension process is automated within the NYISO's Credit Management System and requires no monitoring or manual intervention by NYISO staff. This feature ensures that if the risk presented by a Market Participant's TCC portfolio unexpectedly increases and such risk increase is not reflected in the amount of collateral held by the NYISO, the Market Participant will not be permitted to add to

[41] Services Tariff Section 26.8.1.

their TCC portfolio and potentially further increase the default risk the Market Participant's portfolio poses to the market.

IV. COMMUNICATIONS AND CORRESPONDENCE

Please direct all communications and correspondence concerning this filing to:

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V. SERVICE

The NYISO will send an electronic copy of this filing to the official representative of each party to this proceeding, the New York State Public Service Commission, and the New Jersey Board of Public Utilities. In addition, a complete copy of this filing will be posted on the NYISO's website at www.nyiso.com. The NYISO will also send an electronic link to this filing to the official representative of each of its customers, and each participant on its stakeholder committees.

VI. CONCLUSION

As demonstrated herein, the NYISO's existing TCC credit requirements appropriately reflect the risk of default associated with TCCs and impose collateral requirements commensurate with such risk. Therefore, such credit requirements remain reasonable and appropriate. Imposition of a volumetric minimum collateral requirement is unnecessary to provide adequate protection against the default risks of TCCs and could result in detrimental market impacts by unnecessarily raising the costs of holding TCCs.

Respectfully submitted,

/s/ *Amie Jamieson*
Amie Jamieson, Senior Attorney/Registered In-House Counsel
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Dated: October 26, 2022

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 26th day of October 2022.

/s/ Mitchell W. Lucas

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