

March 29, 2013

By Electronic Delivery

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *New York Independent System Operator, Inc.’s Proposed Tariff Revisions to Establish a Distinct Credit Requirement for External Transactions; Docket No. ER13- ____ - ____*

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. (“NYISO”) hereby submits revisions to Section 2 of its Market Administration and Control Area Services Tariff (“Services Tariff”) and to Attachment K of its Services Tariff to better align the credit requirements for imports to, exports from, and wheels through (“External Transactions”) the New York Control Area with the associated market risk.² External Transactions are currently included in the calculation of a Market Participant’s credit requirement for Energy and Ancillary Services. By establishing a distinct credit requirement for External Transactions, the NYISO can better align the credit requirements for those transactions with the market risk they present. These proposed tariff revisions have, with abstentions, been approved unanimously by the NYISO’s Management Committee.

I. List of Documents Submitted

The NYISO submits the following documents:

1. This filing letter;
2. A clean version of the proposed revisions to Services Tariff (Attachment I);
3. A blacklined version of the proposed revisions to the Services Tariff (Attachment II);
4. A clean version of the proposed revisions to the Open Access Transmission Tariff (“OATT”) (Attachment III); and
5. A blacklined version of the proposed revisions to the OATT (Attachment IV).

¹ 16 U.S.C. § 824d (2012).

² Capitalized terms that are not otherwise defined herein shall have the meanings specified in Section 2 of the Services Tariff.

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

Robert E. Fernandez, General Counsel
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III. Service

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

IV. Summary and Background

The NYISO is implementing software that will allow it to monitor Bids for External Transactions in real-time. With this automation, the NYISO can establish a distinct credit requirement for a Market Participant's External Transactions that is better aligned with the market risk presented by those transactions. The proposed tariff revisions will increase the overall credit requirement for some Market Participants and reduce it for others.

Between 2008 and 2010 the NYISO implemented an automated and integrated Credit Management System (CMS) to eliminate manual processes and credit calculations administered by its Credit Department. In connection with the planned implementation of CMS, the NYISO engaged an industry expert to review the NYISO's credit requirements and identify opportunities to leverage the automated credit processes to develop enhanced credit requirements.³ The analysis related to the NYISO's credit requirements for Energy and Ancillary Services resulted in a number of key findings, including the following:

³ Other filings made by the NYISO to enhance its credit requirements based on the automation of its credit processes include the following: *New York Independent System Operator, Inc.'s Filing of Proposed Revisions to the Transmission Congestion Contract Creditworthiness Provisions*, Docket No. ER09-378-000, accepted by the Commission on January 7, 2009; and *New York Independent System Operator, Inc.'s Filing of Proposed Revisions to the Credit Requirements for Virtual Transactions*, Docket No. ER09-1010-000 (Apr. 17, 2009), accepted by the Commission on May 20, 2009.

- ♦ The NYISO should leverage automation to establish distinct credit requirements for imports, exports, and wheels through to stratify credit requirements based on transaction characteristics and risks.
- ♦ Bids for External Transactions in the Day-Ahead Market can present financial risk exposure similar to Virtual Transactions if the associated power does not flow in real-time.
- ♦ Import Suppliers that have historically settled a high proportion of Day-Ahead transactions financially at a loss are essentially virtual suppliers because they do not supply the physical power in real-time. The NYISO's existing credit methodology is not designed to account for this risk.

External Transactions are currently included in the calculation of a Market Participant's credit requirement for Energy and Ancillary Services. This credit requirement is determined based on a Market Participant's historical purchases. Therefore, a Market Participant's bids to purchase Energy and Ancillary Services typically have no real-time effect on its Energy and Ancillary Services credit requirement. The methodology underlying this credit requirement was designed to account for the risk posed by LSEs purchasing to meet their load obligations.⁴ By establishing a Market Participant's Energy and Ancillary Services credit requirement based on its historical purchases, the NYISO establishes a baseline credit requirement. This credit requirement, however, does not account for the financial risk exposure of when Bids for External Transactions in the Day-Ahead Market where the associated power does not flow in real-time.

The NYISO analysis of historical data revealed that a Market Participant's past activity in External Transactions is not an accurate predictor of its future activity. In general, a Market Participant's bids for External Transactions are more variable than power purchases by an LSE to support its load obligations because the bidding activity is often dependent on the price differentials between control areas and the availability of transmission lines. Due to this variability, using historical purchases to calculate the credit requirement for External Transactions, instead of real-time bidding activity, can leave the NYISO with undue credit exposure on a day when a Market Participant's activity increases, and can require a Market Participant to unnecessarily post collateral when no bids have been entered. With the expanded capabilities of CMS, the NYISO can now monitor Bids for External Transactions in real-time and implement the distinct credit requirements proposed in this filing to better align the credit requirements for External Transactions with actual market risks.⁵

The NYISO initially planned to implement the External Transaction credit requirements proposed in this filing with its June 2010 deployment of enhancements to CMS. The NYISO determined, however, as it began developing the system design to implement these credit requirements, that it would need to substantially revise the platform used by CMS in order to support the real-time monitoring of Bids for imports, exports and wheels through. Over the past two years, the NYISO has

⁴ See *New York Independent System Operator, Inc.'s Filing of Tariff Revisions Regarding Customer Creditworthiness Requirements*, dated February 21, 2003, Docket No. ER03-552-000.

⁵ Bilateral Transactions, including those that source or sink outside the NYCA, will remain a part of the Energy and Ancillary Services credit requirement because Bilateral Transactions are Bid at local Load buses and are typically used to support Load obligations.

upgraded the CMS foundation to enable real-time monitoring and implementation of the External Transaction credit requirements.

As described in detail below and set forth in the proposed tariff revisions, CMS will calculate External Transaction credit requirements by evaluating each transaction bid from the initial offer through settlement and (i) distinguish between imports, exports and wheels through, (ii) distinguish between external locations, and (iii) as appropriate, group months and times-of-day with similar risk characteristics together.

V. Description of Proposed Revisions

With this filing, the NYISO proposes to revise Section 26 of Attachment K to the Services Tariff, replacing the current procedure and methodology for determining the credit requirements for External Transactions with a refined methodology that establishes credit requirements for External Transactions that are better aligned with the market risk they present. The NYISO will establish each Market Participant's credit requirement for External Transactions by summing its credit requirement for all Import, Export and Wheels Through Bids, excluding Non-Firm Transactions,⁶ and any amounts owed for settled External Transactions.

To enable the NYISO to determine these credit requirements, each month the NYISO will calculate and update the import and export price differentials for each external location using a methodology comparable to the one used to calculate credit requirements for Virtual Transactions, which will capture similar risk exposure.⁷ The price differential methodology is based on historical data, applying a 97% probability, that the credit requirement for an import or export position would equal or exceed any payment due to the NYISO as a result of a loss on the import or export if the transaction did not flow in real-time. The price differential will equal the price differential for Energy prices in the Day-Ahead Market ("DAM") and Real-Time Market for the period of time from April 1, 2005 up to the date that LBMP data is available for that external location, for the same season and time-of-day (including consideration of whether it is a weekend or holiday).

In addition, for Import Bids, each month, the NYISO will calculate a historical performance ratio based on bid data from the prior three month period (or six month period, if there is insufficient data during the prior three month period) for each Market Participant that bids to import to determine the proportion of the Market Participant's Day-Ahead positions that have settled at a loss. If 25% or more of that Market Participant's MWhs bid settled at a loss, then that Market Participant will be subject to the Import Credit Requirement.

Under the proposed tariff revisions the new External Transaction Component of the Operating Requirement will equal the sum of the Market Participant's (i) Import Credit Requirement, (ii) Export Credit Requirement, (iii) Wheels Through Credit Requirement, and (iv) the net amount owed to the NYISO for settled External Transactions.

⁶ Non-Firm Transactions are not included as they do not have a Day-Ahead settlement and as such do not expose the NYISO to the same financial risks as the Firm Transactions that are covered in the proposed tariff revisions.

⁷ See *New York Independent System Operator, Inc.'s Filing of Proposed Tariff Revisions to the Credit Requirements for Virtual Transactions*, Docket No. ER09-1010-000 (April 17, 2009).

A. Import Credit Requirement.

The Import Credit Requirement will apply to all Market Participants entering an Import Bid into the DAM unless the historical bid analysis, as outlined in the tariff, determines that the Market Participant's prior three month (or six month) period import market activity falls below the historical performance threshold. The Import Credit Requirement for an Import Bid in the DAM is calculated by multiplying the MWhs bid by the appropriate import price differential. Once the DAM schedules and prices have been established after the DAM posts, the credit requirement for accepted DAM Bids will be the MWhs scheduled in the DAM multiplied by the appropriate import price differential. After the market runs in real-time the Import Credit Requirement will be the greater of the estimated balancing payment owed to the NYISO by the Market Participant reduced by the DAM Settlement owed to the Market Participant by the NYISO or zero.

B. Export Credit Requirement.

For the Export Credit Requirement, all Export Bids of a Market Participant that have the same Source, Sink and Bid Date/Hour will be grouped together and evaluated as one bid-group. Day-Ahead Bids and Hour-Ahead Bids will be grouped separately. The Export Credit Requirement for each Export bid-group in the DAM will be the higher of the maximum potential exposure to the NYISO based on the Bid Prices and the MWhs that a Market Participant bids to export at those Bid Prices or the sum of all MWhs in the bid-group multiplied by the appropriate export price differential. Once the DAM schedules and prices have been established after the DAM posts, the credit requirement for accepted DAM Bids will be the MWhs scheduled in the DAM multiplied by the greater of the LBMP or the appropriate export price differential. The Export Credit Requirement for each bid-group in the Hour-Ahead Market ("HAM") will be the maximum potential exposure based on Bid Prices and the MWhs that a Market Participant bids to export at those Bid Prices. After the market runs in real-time the Export Credit Requirement will be the greater of any amounts owed to the NYISO by the Market Participant reduced by an estimate of any balancing payments owed by the NYISO to the Market Participant or zero.

C. Wheels Through Credit Requirement.

The Wheels Through Credit Requirements for DAM Bids will be the maximum potential congestion exposure to the NYISO based on the Bid Prices and the MWhs that a Market Participant bids to wheel through at those Bid Prices. Once the DAM schedules and prices have been established after the DAM posts, the credit requirement for accepted DAM Bids will be the greater of the MWhs scheduled in the DAM multiplied by (DAM LBMP at the Point of Withdrawal minus the DAM LBMP at the Point of Injection) or zero. The Wheels Through Credit Requirement for HAM Bids will be the maximum exposure to the NYISO based on the Bid Prices and the MWhs that a Market Participant bids to wheel through at those Bid Prices (the MWhs are reduced by the MWhs of a DAM Bid with the same hour/date, location and Bid transaction ID). After the market runs in real-time the Wheels Through Credit Requirement will be the greater of any amounts owed to the NYISO by the Market Participant reduced by an estimate of any balancing payments owed by the NYISO to the market participant or zero.

D. Settled External Transactions.

After the market day is complete, the credit requirement for import, export or wheel through transactions will equal the net payments due to the NYISO as determined by the daily bill results for that market day.

Under the proposed tariff revisions the NYISO will monitor the External Transaction Bids submitted by a Market Participant and if the credit support required exceeds the available credit support then the Bids will be rejected. Additionally, if the net amount owed to the NYISO for External Transactions reaches 50% of the credit support provided for External Transactions the NYISO may issue a demand for credit support and potentially suspend the Market Participant from engaging in External Transactions until the Market Participant makes payment or provides additional credit support. If at any time the amount owed to the NYISO by a Market Participant reaches 100% of the credit support provided by the Market Participant to support its External Transactions, then the NYISO may immediately suspend the Market Participant's authorization to engage in External Transactions until the Market Participant makes payment or provides its required amount of credit support.

Finally, the NYISO is proposing to revise Section 2 of the Services Tariff to add new defined terms related to the proposed External Transactions credit requirement. The NYISO has also made related non-substantive revisions to both the Services Tariff and the OATT to update cross-references and section numbering.

VI. Effective Date

The NYISO respectfully requests that this filing become effective on June 12, 2013, which date is the targeted deployment date for enhancements to CMS that are required to implement the proposed tariff revisions. In the event the deployment date for those CMS enhancements is delayed, the NYISO also respectfully requests permission to delay the effective date of the proposed tariff revisions, by up to 45 days, upon the filing of a notice and amended tariff sections with the Commission by June 12, 2013 that indicates the revised effective date.

VII. Requisite Stakeholder Approval

In April 2009, the NYISO proposed to Market Participants to create a distinct credit requirement for External Transactions. The NYISO worked with Market Participants over several months to refine its proposed methodology in response to Market Participant input and ensure Market Participants understood how NYISO would implement the credit requirements. The NYISO's Business Issues Committee approved the tariff revisions proposed in this filing by a show of hands at its meeting on July 22, 2009, and the NYISO's Management Committee unanimously approved these revisions by a show of hands, with four abstentions, at its meeting on July 29, 2009. On August 17, 2009 the NYISO's Board of Directors approved a motion directing the NYISO to file the proposed tariff revisions approved by the Management Committee.

As explained above, the NYISO planned to implement the tariff revisions proposed in this filing with its June 2010 deployment of enhancements to CMS. However, system design limitations kept the NYISO from being able to implement the proposed credit methodology at that time. Software completion was budgeted and scheduled for December 2012 but had to be pushed back an additional six months due to project resource reallocation required to implement the Commission's Order 755.⁸ The NYISO has now developed the software enhancements needed to implement the proposed External Transaction credit requirements. Deployment of the software enhancements is scheduled for June 12, 2013.

The NYISO held meetings with its stakeholders to review the External Transaction credit requirement methodology and implementation timeline in August 2012, October 2012 and in February 2013. The NYISO posted draft tariff language for Market Participant review and comment in February 2013, and subsequently revised the tariff language in response to Market Participant feedback. In addition, the NYISO will complete market trials related to the proposed tariff revisions in May 2013.

VIII. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept the proposed tariff changes identified in this filing.

Respectfully submitted,

/s/ Nathan D. Markey

Nathan D. Markey

cc: Travis Allen
Michael A. Bardee
Gregory Berson
Anna Cochrane
Jignasa Gadani
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Michael McLaughlin
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⁸ Information on the implementation and delay of the project was provided to Market Participants at the Budget Priorities Working Group (BPWG) five times in 2011 and five times in 2012.