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Submitted Electronically

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

**Re: *New York Independent System Operator, Inc.*, Proposed Tariff Revisions
Related to ICAP Credit Requirements; Docket No. ER12-___**

Dear Secretary Bose:

In accordance with Section 205 of the Federal Power Act and Part 35 of the Commission's regulations,¹ the New York Independent System Operator, Inc. ("NYISO") respectfully submits proposed revisions to its Market Administration and Control Area Services Tariff ("Services Tariff").² With this filing, the NYISO is proposing to (i) revise its methodology for calculating a Market Participant's credit requirement for bidding in the ICAP Spot Market Auction to better align the credit requirement with actual market risk, and (ii) set forth this methodology in Attachment K to the Services Tariff to enhance the transparency of its credit practices. The proposed tariff revisions are described in detail in Section V below.

I. Documents Submitted

1. This filing letter;
2. A clean version of the proposed revisions to the Services Tariff (Attachment I);
and

¹ 16 U.S.C. § 824d (2011) and 18 C.F.R. Part 35.

² Capitalized terms that are not otherwise defined herein shall have the meanings specified in Articles 2 and 5 of the Services Tariff.

3. A blacklined version of the proposed revisions to the Services Tariff (Attachment II).

II. Communications and Correspondence

All communications and services in this proceeding should be directed to:

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III. Service

This filing will be posted on the NYISO's website at www.nyiso.com. In addition, the NYISO will email 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 electric utility regulatory agencies of New Jersey and Pennsylvania. The NYISO will also make a paper copy available to any interested party that requests one.

IV. Background

The NYISO requires Load Serving Entities (LSEs) to procure capacity to ensure that adequate resources are available to meet projected Load on a long-term basis. Each LSE has an

³ The NYISO respectfully requests waiver of 18 C.F.R. § 385.203(b)(3) (2011) to permit service on counsel for the NYISO in both Washington, D.C. and Richmond, VA.

LSE Unforced Capacity (UCAP) Obligation. An LSE must satisfy its capacity obligations for an Obligation Procurement Period (*i.e.*, one calendar month) basis. Generally stated, these obligations are determined based on the LSE's contribution to peak load, plus an additional amount for its share of the NYCA Minimum Unforced Capacity Requirement. An LSE with Load in New York City (NYC) and/or Long Island (LI) will also have a Locational Minimum Unforced Capacity Requirement.

An LSE may procure capacity to satisfy its capacity obligations through certified bilateral sales or a NYISO-administered ICAP auction. The NYISO administers three types of ICAP auctions: (i) Capability Period Auction, (ii) Monthly Auction, and (iii) ICAP Spot Market Auction. Participation in the Capability Period Auction and the Monthly Auction is voluntary for all Market Participants. In contrast, all LSEs must participate in the ICAP Spot Market Auction for each month.⁴ A few days prior to the ICAP Spot Market Auction, LSEs must certify to the NYISO the UCAP they have procured for the auction month.⁵ In the ICAP Spot Market Auction, LSEs purchase the remaining amount of capacity needed to meet their capacity obligations for the auction month.⁶

To participate in the ICAP Spot Market Auction, a Market Participant must first post with the NYISO credit support sufficient to cover the maximum amount it may owe the NYISO for capacity purchased in the auction.⁷ Presently, the NYISO calculates a Market Participant's maximum exposure using an estimate of the megawatts of UCAP the Market Participant will have to procure in the ICAP Spot Market Auction to satisfy its capacity obligation, and the ICAP Demand Curve reference price.

Earlier in 2012, some Market Participants expressed concern that the credit requirements for the ICAP Spot Market Auction were too high and requested that the NYISO revisit its methodology for establishing this credit requirement.

⁴ Services Tariff, § 5.11.2 (“All LSEs shall participate in the ICAP Spot Market Auction pursuant to Section 5.14.1 of this Tariff.”)

⁵ *Id.* (“Each LSE must certify the amount of Unforced Capacity it has or has obtained prior to the beginning of each Obligation Procurement Period by submitting completed Installed Capacity certification forms to the ISO by the date specified in the ISO Procedures.”)

⁶ Services Tariff, § 5.14.1.1 (“All LSEs shall participate in the ICAP Spot Market Auction. In the ICAP Spot Market Auction, the ISO shall submit monthly bids on behalf of all LSEs at a level per MW determined by the ICAP Demand Curves established in accordance with this Tariff and the ISO Procedures. The ICAP Spot Market Auction will set the LSE Unforced Capacity Obligation for each NYCA LSE in accordance with the ISO Procedures.”)

⁷ Services Tariff, § 26.4.3(iv) (“The Bidding Requirement shall be an amount equal to ... (iv) five (5) days prior to any ICAP Spot Market Auction, the maximum amount that the Customer may be required to pay for UCAP in the auction.”)

In response, the NYISO considered the market risks and trends associated with the ICAP Spot Market Auction, the amount of credit support held under the current methodology versus its actual exposure, and the ability of the NYISO to deploy any potential revisions in 2012. The NYISO analyzed data from May 2006 through October 2011 to determine whether the most recent Monthly Auction price would be a more accurate proxy for the ICAP Spot Market Auction price than the ICAP Demand Curve reference price. This analysis revealed a positive correlation between the Market-Clearing Prices in the Monthly Auctions and the ICAP Spot Market Auctions but also showed that the NYISO would need to add a margin to the Monthly Auction price to cover the price variability between these two auctions.

Over the time period from May 2006 through October 2011, if NYISO had used the most recent Monthly Auction price plus a margin instead of the ICAP Demand Curve reference price to estimate a Market Participant's potential ICAP Spot Market Auction exposure, credit requirements would have been reduced by at least 40% while still providing credit support sufficient to cover approximately 99.5% of payments.

V. Description of Proposed Revisions

Services Tariff Section 26.4.3(iv) establishes the credit requirement for a Market Participant to bid in the ICAP Spot Market Auction as "five (5) days prior to any ICAP Spot Market Auction, the maximum amount that the Customer may be required to pay for UCAP in the auction." The methodology the NYISO uses to estimate a Market Participant's maximum amount of exposure is hard-coded in the NYISO's credit management system but is not described in the NYISO's tariffs.

With this filing, the NYISO is proposing to revise its current methodology and include in Section 26.4.3(iv) the equation the NYISO proposes to use to calculate a Market Participant's credit requirement for bidding in the ICAP Spot Market Auction. These revisions will reduce Market Participant credit requirements, establish a methodology for determining the ICAP Spot Market Auction credit requirement that more closely aligns this requirement with the NYISO's actual risk, and add transparency to the NYISO's credit practices by describing the new methodology in the Services Tariff.

As explained in the Background section, the NYISO proposes that for each calendar month, it use the most recent Monthly Auction Market-Clearing Price plus a margin as a proxy for the ICAP Spot Market Auction Market-Clearing Price. The margin will vary based on the location of the LSE's Load, with a 25% margin added to the Monthly Auction Market-Clearing Price for NYC and a 100% margin added to the Monthly Auction Market-Clearing Price for LI and the NYCA. The NYISO will then calculate credit requirements by multiplying the proxy price by the Market Participant's estimated LSE UCAP Obligation, by location, for the Obligation Procurement Period. The Market Participant's ICAP Spot Market Auction credit requirement will equal the sum of its locational credit requirements.

VI. Effective Date

The NYISO respectfully requests that this filing become effective on October 17, 2012, which is the date the NYISO plans to deploy the software changes required to implement the proposed tariff revisions. This date also complies with the Commission's notice requirements.⁸

VII. Requisite Stakeholder Approval

The NYISO's Management Committee unanimously approved the tariff revisions proposed in this filing at its meeting on May 30, 2012. At that meeting, the NYISO agreed to evaluate, during 2013, whether any other enhancements should be made to the methodology for determining this credit requirement. On July 17, 2012, the NYISO's Board of Directors approved a motion directing the NYISO to file the proposed tariff revisions approved by the Management Committee.

VIII. Conclusion

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept the proposed tariff revisions described in this filing.

Respectfully Submitted,

/s/ Ted J. Murphy
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New York System Operator, Inc.

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⁸ 18 C.F.R. § 35.3 (2011).