

November 24, 2014

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.
ER15- ____ - ____**

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 Attachment K of its Market Administration and Control Area Services Tariff ("Services Tariff") to better align the credit requirements to the market risk associated with the settlement processes.² In the NYISO markets, the initial invoice for a Market Participant's purchases of Energy and Ancillary Services is based on the Market Participant's estimate of its load for the invoice period because actual meter data related to its load is not yet available to the NYISO. Through the settlement processes, the NYISO and the Market Participant true-up any differences between the Market Participant's estimate of its load and its actual load based on meter data. The vast majority of the dollar volume of a Market Participant's purchases is invoiced on the initial invoice and as such the NYISO's credit requirements are largely designed to minimize the exposure associated with the initial settlements. However, the NYISO may have credit exposure in certain circumstances, as the credit policy does not currently account for projected true-up exposure resulting from differences in estimated versus actual data on the four-month true-up and final bill close-out settlements. Presently, the NYISO credit requirements only require collateral for projected true-ups for withdrawing Market Participants. By establishing a distinct credit requirement for projected true-ups for all Market Participants, the NYISO can better align the credit requirements for those settlements with the market risk they present. These proposed tariff revisions have, with one abstention, been approved unanimously by the NYISO's Management Committee.

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.

I. List of Documents Submitted

The NYISO submits the following documents:

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

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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III. Service

The NYISO will send an electronic link to this filing to the official representative of each of its Market Participants, 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 maintains a settlement process that provides defined time periods for review of settlements data by both Market Participants and the NYISO to allow for the correction of errors by the NYISO within established time periods. The current settlement process begins when the NYISO posts an initial invoice for the service week, the weekly invoice, which invoices the vast majority of the

dollar volume of market transactions furnished under the NYISO tariffs.³ As such the credit requirements are largely designed to protect the NYISO and its Market Participants from the risk of a bad debt loss due to a default on these initial weekly settlements. However, the settlement process continues past this initial weekly settlement to account for differences between estimated and actual data. The NYISO issues a monthly invoice that consists of: (i) a small number of *de minimis* initial settlements; (ii) penalty and dispute amounts; and (iii) true-ups and adjustments of previous settlement amounts as accurate meter data replaces initial estimates.⁴ Those true-ups and adjustments consist of: (i) any true-ups to weekly invoices issued in the preceding month; (ii) any true-ups to monthly invoices issued four-months previously; and (iii) any true-ups to previously issued monthly invoices that are being finalized. The NYISO may have credit exposure in certain circumstances, as the credit policy does not currently account for projected true-up exposure resulting from the difference in estimated meter data used for the weekly invoice and actual meter data used for the true-ups in the monthly invoice.

True-up exposure at four-months is largely attributable to the difference between a Market Participant's daily load forecasts, which will determine the Market Participant's initial settlement payment obligations, and its actual payment obligations for any given month based on meter data. Any discrepancies between a Market Participant's forecast of its load and actual load consumption will be true-up four months after the initial invoice when actual meter data is available to the NYISO. If a Market Participant under-forecasts its load, it is possible that the NYISO may have credit exposure until such time that the prior equivalent capability period credit requirement is calculated, as such credit requirement is based on actual historical load as opposed to an estimate. This exposure results because the NYISO's current credit requirement for Energy and Ancillary Services purchases is based upon the higher of either the Market Participant's past ten days of forecasted load or the Market Participant's activity in the prior year's equivalent capability period.⁵ As such, during periods of increased prices like the 2013/2014 winter cold snaps, if a Market Participant is under-forecasting, the current credit requirements may not cover the exposure caused by the under-forecasting until the following equivalent capability period when the credit requirement will be based upon the actual data from that period of increased load or prices. This potential exposure can grow the longer the Market Participant under-forecasts and Market Participants could be exposed to potential bad debt losses as the NYISO may not have sufficient credit support in place to cover this true-up exposure if the Market Participant ultimately defaults.

³ See *New York Independent System Operator, Inc.'s, Order 741, Compliance Filing Docket No. RM10-13, Request for Delayed Effective Date, and Request for Limited Waiver - Supplemental Filing*, dated June 30, 2011, Docket No. ER11-3949-000 and 001 (June 11 Compliance Filing).

⁴ To minimize the impact on Market Participants' existing settlement systems and processes the monthly invoice includes any weekly invoice components when a shortened week concludes a month. *Id.*

⁵ For additional information see *Credit Policy Enhancements Projected True-Up Exposure*, Slides 6-7, Sheri Prevatil, Management Committee, July 30, 2014 Slides 6 and 7, available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2014-07-30/Agenda%2004_Credit%20Policy%20Enhancement_Protected%20True-Up%20Exposure.pdf.

To address the issue outlined above, the NYISO has considered several options to better manage the implications to the NYISO and its Market Participants in times of volatile market conditions. As noted, Market Participants who consistently under-forecast their load may pose an increased credit risk to the NYISO. In order to account for this exposure, the NYISO has developed a credit policy, described in detail below, by which it would hold secured credit for a Market Participant's projected true-up exposure.

V. Description of Proposed Revisions

The NYISO is proposing to add a new Services Tariff Section 26.4.2.9 to require additional credit support from those Market Participants who consistently under forecast their load to equal, on average, approximately less than 90% of their actual load. The proposed credit requirement will apply only to Market Participants whose four-month true-up amounts, over the most recent four months with both initial and four-month settlement data, are greater than 10% of the initial settlement amounts.⁶ Market Participants who forecast their load within 90% of the actual meter data are not likely to have excessive true-up exposure and as such would typically not be subject to this credit requirement. The NYISO used as its starting point for developing this projected true-up exposure credit requirement the existing credit requirement for withdrawing Market Participants under Services Tariff Section 26.13.

The projected true-up exposure will be calculated by first calculating the six-month rolling average percentage credit exposure of: (i) the four-month true-up to initial settlement; and (ii) of final bill closeout true-up to the four-month settlement. Both percentages will have a market-wide percentage cap, as reasonably determined by the NYISO, to prevent unrealistic averages from creating unreasonable credit requirements. The percentage for the four-month true-up will then be multiplied by the initial settlements that have not yet had a four-month true-up settlement, and the percentage for the final bill closeout will be multiplied by the initial settlements that have not had a final bill closeout. Finally, the four-month true-up exposure and final bill close out exposure will be summed to get the total for the projected true-up exposure credit requirement.

The NYISO will notify Market Participants, via an email to each Market Participant's designated credit contact(s), of the market-wide percentage cap at least one week in advance of the effective date of the cap and will provide at least two days notice in advance of any change to the market-wide cap. The cap will also be posted to the NYISO's website and available to Market Participants at any time on the NYISO's Credit Department webpage.

For consistency, the NYISO is also proposing to revise Services Tariff Section 26.13, the credit requirement for withdrawing Market Participants, to use the same proposed credit calculation for all Market Participants who withdraw from the Energy market or withdraw from all NYISO-administered markets.

⁶ The NYISO's review of historical true-up amounts for Market Participants revealed that the load forecasts of Market Participants, on average, are within 3-5% of the actual meter data. Through the stakeholder process, the NYISO and its Market Participants agreed that permitting a variance of up to 10% prior to triggering the applicability of the proposed credit requirement would allow for a reasonable margin of error in Market Participant forecasts while still protecting the NYISO and Market Participants against any significant true-up exposure credit risk.

Finally, to minimize the risk of loss to the NYISO and its Market Participants, the NYISO is proposing to revise Services Tariff Section 26.5 to prohibit a Market Participant from using Unsecured Credit to satisfy its credit requirement for projected true-up exposure or its credit requirement as a withdrawing Market Participant.

VI. Effective Date

The NYISO respectfully requests that the tariff revisions proposed in this filing become effective on February 18, 2015. The NYISO also requests that the Commission issue an order by January 23, 2015 accepting this filing within the 60 day period normally applicable to filings under Section 205 of the Federal Power Act to allow the NYISO to provide Market Participants with sufficient notice that this new credit requirement will be going into effect and the determination for the market-wide percentage cap.⁷ This will allow Market Participants to prepare for the potential increase in required collateral. In the event the deployment date for these 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 February 11, 2015 that indicates the revised effective date.

VII. Requisite Stakeholder Approval

In April 2014, at the Credit Policy Working Group meeting, the NYISO proposed to Market Participants to create a distinct credit requirement for projected true-up exposure. The NYISO then advanced the concept through the stakeholder process in two parts. First, the NYISO projected true-up exposure credit requirement was approved unanimously, with abstentions, at the July, 16 2014 Business Issues Committee meeting and unanimously at the July 30, 2014 Management Committee meeting. Second, an improvement to the concept was approved unanimously with an abstention at both the October 15, 2014 Business Issues Committee meeting and the October 29, 2014 Management Committee meeting.

On November 18, 2014 the NYISO's Board of Directors approved a motion directing the NYISO to file the proposed tariff revisions approved by the Management Committee.

⁷ 16 U.S.C. § 824d(d).

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

Attorney

New York Independent System Operator, Inc.

cc: Michael A. Bardee
Gregory Berson
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