

November 9, 2018

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.*, Docket No. ER19-\_\_\_\_-000;  
Proposed Tariff Revisions to Modify the Unsecured Credit Scoring Model**

Dear Secretary Bose:

In accordance with Section 205 of the Federal Power Act (“FPA”)<sup>1</sup> and Part 35 of the regulations of the Federal Energy Regulatory Commission (“Commission”), the New York Independent System Operator, Inc. (“NYISO”) respectfully submits proposed amendments to its Market Administration and Control Area Services Tariff (“Services Tariff”).<sup>2</sup> Through amendment, the NYISO seeks to better align its credit assessment for unsecured credit with the factors that are predictive of the potential for creditworthiness default.

The NYISO Management Committee unanimously approved the proposed tariff revisions on September 26, 2018. The NYISO respectfully requests that the tariff revisions proposed in this filing become effective the day immediately following the end of the standard sixty-day notice period under FPA Section 205 (*i.e.*, January 9, 2019).

**I. Documents Submitted**

The NYISO respectfully submits the following documents with this filing letter:

1. A clean version of the proposed revisions to the Services Tariff (“Attachment I”); and
2. A blacklined version of the proposed revisions to the Services Tariff (“Attachment II”).

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<sup>1</sup> 16 U.S.C. § 824d.

<sup>2</sup> Capitalized terms not otherwise defined herein shall have the meaning specified in the Services Tariff.

## **II. Background**

In 2009, the Commission approved tariff revisions to implement a new Credit Assessment methodology for the evaluation of Market Participants seeking eligibility for unsecured credit.<sup>3</sup> The NYISO calculates the amount of unsecured credit granted to an eligible Market Participant by using, as a starting point, a percentage of the tangible net worth of the Market Participant. This amount is refined, if necessary, based on the results of the Credit Assessment.<sup>4</sup> The Credit Assessment evaluates Market Participants based on certain designated market and financial indicators.<sup>5</sup> The NYISO also uses the assessment to recalculate the unsecured credit allocation over time to reflect changes in a Market Participant's financial condition, such as changes to a participant's tangible net worth or agency rating.<sup>6</sup> The primary objective of the Credit Assessment is to proactively identify Market Participants that may pose a higher risk of default, allowing the NYISO to adjust the level of unsecured credit to such entities to properly account for their payment default risk. This helps to minimize default exposure and potential bad debt losses for all Market Participants.

The NYISO recently conducted a comprehensive review of its Credit Assessment methodology. The NYISO engaged Oliver Wyman, an international management consulting firm with expertise in risk mitigation and scenario modeling that assisted in developing the current Credit Assessment methodology, to evaluate the current methodology's performance and determine if any enhancements were needed. The focus of the review was to ensure that the Credit Assessment continues to produce appropriate results that reasonably predict the likelihood of default.

Oliver Wyman concluded that the predictive power of the existing Credit Assessment was within an acceptable range, but recommended enhancements to further improve on the predictive capability of the results for Public Entities. Specifically, Oliver Wyman recommended that the variable "Revenue/Market Capitalization" utilized as part of the assessment for Public Entities be replaced with a size-related variable "Total Assets," because this alternative variable is a stronger predictor of default risk.<sup>7</sup> Oliver Wyman proposed no changes to the current methodology as applicable to Private Entities.

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<sup>3</sup> Docket No. ER09-1612, *New York Independent System Operator, Inc.*, Letter Order (November 4, 2009).

<sup>4</sup> Services Tariff Sections 26.5.3.1 and 26.5.3.2.

<sup>5</sup> See Services Tariff Section 26.5.3.

<sup>6</sup> Services Tariff Section 26.5.3.3.

<sup>7</sup> Oliver Wyman recommended that this replacement variable utilize the same weighting factor applied to the prior "Revenue/Market Capitalization" variable (*i.e.*, 12.7%).

### **III. Description of Proposed Tariff Revisions**

The NYISO proposes to revise Section 26.5.3.5(b) of Attachment K to the Services Tariff to reflect the addition of the variable “Total Assets” to the Credit Assessment for Public Entities as a replacement for the current “Revenue/Market Capitalization” Variable. The NYISO also proposes to improve tariff readability and clarity by relocating the Tangible Net Worth Credit Matrix (Table K-1) from its current location within Section 26.14 of Attachment K to the Services Tariff to Section 26.5.3.5 (*i.e.*, the provision that specifically references Table K-1). The NYISO proposes no changes to the contents of Table K-1.

### **IV. Effective Date**

The NYISO requests an effective date for these tariff amendments of January 9, 2019.

### **V. Requisite Stakeholder Approval**

The proposed amendments were unanimously approved by the NYISO Management Committee on September 26, 2018. The NYISO’s Board of Directors approved the proposed revisions on October 16, 2018.

### **VI. Communications and Correspondence**

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

Karen Georgenson Gach, Acting General Counsel  
Raymond Stalter, Director, Regulatory Affairs  
\*Amie Jamieson, Attorney/Registered In-House Counsel  
10 Krey Boulevard  
Rensselaer, NY 12144  
Tel: (518) 356-6000  
Fax: (518) 356-7678  
Email: [ajamieson@nyiso.com](mailto:ajamieson@nyiso.com)

\*Person designated for receipt of service.

### **VII. Service**

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

**VIII. Conclusion**

The NYISO respectfully requests that the Commission accept the tariff revisions proposed in this filing to become effective on January 9, 2019.

Respectfully submitted,

/s/ Amie Jamieson

Amie Jamieson, Attorney/Registered In-House  
Counsel  
The New York Independent System Operator, Inc.

cc: Nicole Buell  
Anna Cochrane  
James Danly  
Jignasa Gadani  
Jette Gebhart  
Kurt Longo  
David Morenoff  
Daniel Nowak  
Larry Parkinson  
Douglas Roe  
Kathleen Schnorf  
Gary Will