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August 17, 2011

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 TCC Credit Requirements and Default Notifications; Docket No.
ER11-____**

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") and Open Access Transmission Tariff ("OATT").² With this filing, the NYISO is proposing to (i) enhance its credit requirements for holding transmission congestion contracts ("TCCs") by updating the credit requirement formulas, (ii) better protect Market Participants against default risks in the TCC market by mandating margin calls, and (iii) increase transparency in the event of a Market Participant payment or creditworthiness default by requiring disclosure of the dollar range of the default and information on any related credit support. The proposed tariff revisions are described in detail in Section V below.

¹ 16 U.S.C. § 824d (2010) and 18 C.F.R. Part 35.

² Capitalized terms that are not otherwise defined herein shall have the meanings specified in Article 1 of the OATT and Article 2 of the Services Tariff.

I. Documents Submitted

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

II. Communications and Correspondence

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

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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.

³ The NYISO respectfully requests waiver of 18 C.F.R. § 385.203(b)(3) (2008) to permit service on counsel for the NYISO in both Washington, D.C. and Richmond, VA.

IV. Background

The NYISO plans to implement an enhanced TCC market design in the future to offer longer-term TCCs and to permit balance-of-period auctions. The NYISO has been analyzing recent data and trends in the TCC market to determine the appropriate credit methodology to apply upon implementation of the enhanced TCC market design. In performing this analysis, the NYISO determined that the enhancements to the TCC credit requirements proposed in this filing could be made prior to the implementation of the enhanced TCC market design.

In addition, Market Participants have requested that the NYISO provide information in the event of a payment or creditworthiness default that is sufficient to allow Market Participants to ascertain potential net loss. The enhancements to the default provisions of the NYISO's tariffs proposed in this filing are in response to this request.

V. Description of Proposed Revisions

A. Enhancements to TCC Credit Requirement Formulas

A customer holding TCCs awarded through a TCC auction, or otherwise allocated in accordance with the NYISO tariffs, must satisfy the credit requirement for holding these TCCs, which is calculated pursuant to the formulas for determining the TCC Component of the customer's Operating Requirement set forth in Section 26.4.2.3 of the Services Tariff. Upon award or allocation of the TCCs, the customer must satisfy the baseline credit requirement set forth in Section 26.4.2.3(a) of the Services Tariff (the "Part A Requirement"). Subsequently, a customer will be required to provide additional collateral, pursuant to Section 26.4.2.3(b) of the Services Tariff (the "Part B Requirement"), if the customer's entire portfolio of TCCs creates a net projected obligation that exceeds the total amount of collateral already provided pursuant to the Part A Requirement.

The NYISO developed the formulas set forth in the Part A Requirement based on a statistical analysis of historical TCC auction prices and TCC congestion payments through early 2006, and of the dispersion of actual TCC congestion payments around the expected level of payments, as measured by auction clearing prices.⁴ The Part A Requirement formulas are based on TCC path-specific characteristics (e.g., whether the TCC sinks in Zone J or in Zone K, the TCC auction price, the term of the TCC, the month of the year in the case of monthly TCCs, and the season in the case of six-month TCCs) with the one-month and six-month TCC formulas set at a 97% probability, and the one-year TCC formula set at a 95% probability, based on historical auction data, that the credit requirement for holding a TCC would equal or exceed the

⁴ See New York Independent System Operator, Inc.'s Filing of Proposed Tariff Revisions Regarding the Credit Requirements for Holding Transmission Congestion Contracts and Request for Expedited Treatment, Docket No. ER08-778 (April 2, 2008).

Congestion Rents for the TCC.

In this filing, the NYISO is proposing to revise the formulas set forth in the Part A Requirement to take into account historical TCC auction prices and TCC congestions payments through December 2010. The proposed revisions would align the formulas with more recent TCC data and likely result in an overall reduction in the credit requirements for holding TCCs, while marginally increasing the credit requirements for holding negatively-priced TCCs.

The purpose of the formula in the Part B Requirement is to mark-to-market a customer's TCC portfolio and adjust, as appropriate, the customer's credit requirement for holding TCCs to protect the NYISO against under collateralization in the event that fluctuations in the amount or direction of transmission congestion significantly alter the projected Congestion Rents. This formula estimates projected TCC payments for each TCC for the remaining duration of the TCC based on the average Congestion Rents for that TCC during the previous 90 days. This formula, however, does not add to the projected amount of future TCC payments the amount of current unpaid Congestion Rents owed by a customer. As a result, a customer's Part B Requirement does not reflect the NYISO's total potential exposure related to the customer's TCC portfolio.

In this filing, the NYISO is proposing to modify the formula in the Part B Requirement to add to the existing formula the amount of the customer's current unpaid Congestion Rents. This revision would allow the NYISO to better protect Market Participants against TCC losses by more accurately aligning this credit requirement with the NYISO's total potential exposure for a customer's overall TCC portfolio.

B. Margin Calls

Section 26 of the Services Tariff requires the NYISO to request payment or additional credit support any time the net amount owed to the NYISO by a customer as a result of Virtual Transactions reaches 50% of the credit support provided by the customer to support its Virtual Transactions. The NYISO tariffs do not include a similar provision mandating margin calls based on a customer's TCC market exposure.

In this filing, the NYISO is proposing to insert a new Section 26.7 in the Services Tariff to require the NYISO to request payment or additional credit support any time the net amount owed to the NYISO by a customer for Congestion Rents reaches 50% of the credit support provided by the customer to secure its TCCs. This revision would allow the NYISO to better protect Market Participants against default risks in the TCC market.

C. Notice of Market Participant Default

Section 2.6.5.4 of the OATT requires the NYISO to notify all Market Participants in the event of a default by a Market Participant. This provision, however, does not explicitly allow the NYISO to provide any information to Market Participants about the magnitude of payment or creditworthiness defaults.

In this filing, the NYISO is proposing to revise Section 2.6.5.4 of the OATT to explicitly

allow the NYISO to include in the default notice to Market Participants the dollar range of the default, out of six potential ranges, and, unless otherwise precluded, the amount and type of collateral held by the NYISO to secure the defaulting Market Participant's obligations to the NYISO. The NYISO is also proposing to add an identical provision as new Section 7.5.6 in the Services Tariff.

This proposed revision would increase transparency and allow Market Participants, who must bear the cost of any bad debt loss, to ascertain potential net loss.

VI. Effective Date

The NYISO respectfully requests that this filing become effective on October 18, 2011, which date complies with the Commission's notice requirements.⁵

VII. Requisite Stakeholder Approval

The NYISO's Business Issues Committee unanimously approved the tariff revisions proposed in this filing at its meeting on June 15, 2011. The NYISO's Management Committee unanimously approved these proposed revisions at its meeting on July 27, 2011. On August 16, 2011, 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
Counsel to the
New York System Operator, Inc.

cc: Michael A. Bardee
Gregory Berson
Connie Caldwell
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⁵ 18 C.F.R. § 35.3 (2008).

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