

November 25, 2020

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. ER21-____-000;
Proposed Tariff Revisions to Enhance TCC Credit Requirements.**

Dear Secretary Bose:

In accordance with Section 205 of the Federal Power Act (“FPA”)¹ 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”) and Open Access Transmission Tariff (“OATT”).² Through these amendments, the NYISO seeks to revise its credit requirement calculations for certain Transmission Congestion Contracts (“TCCs”) to better align the credit requirements with the risk associated with the relevant TCCs. The proposed enhancements are intended to improve protection of the NYISO-administered markets in the event of a default.

The NYISO respectfully requests: (i) an order accepting the proposed tariff revisions within the normal timeframe, i.e., 60 days from the date of this filing; and (ii) a flexible effective date for the proposed tariff revisions to be established upon at least two weeks’ prior notice.³

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”);

¹ 16 U.S.C. § 824d.

² Capitalized terms not otherwise defined herein shall have the meaning specified in the Services Tariff and OATT.

³ As further described in Section IV below, the NYISO proposes a subsequent filing to the Commission to establish the effective date for the proposed tariff revisions, which will occur upon deployment of the software to implement such revisions. The NYISO currently anticipates that the deployment will occur in October, 2021.

2. A blacklined version of the proposed revisions to the Services Tariff (“Attachment II”);
3. A clean version of the proposed revisions to the OATT (“Attachment III”); and
4. A blacklined version of the proposed revisions to the OATT (“Attachment IV”).

II. Background

In the NYISO-administered markets, credit is collectively extended by all Market Participants to each individual Market Participant, so that if one Market Participant defaults on its obligations to the NYISO, the remaining participants must make up the shortfall.⁴ As a FERC-approved independent system operator, the Commission views the NYISO as “gatekeeper for the integrity of the markets they administer.”⁵ In this role, the NYISO is expected to “implement [its] credit policies in a manner created to limit, as much as possible, the risk of credit defaults.”⁶

The NYISO regularly evaluates its credit requirements to identify areas of potential risk and improvement of the requirements. The NYISO recently evaluated its TCC market credit requirements to determine how well the requirements reflect the market risk of TCCs over time. The element of the TCC credit requirement that reflects market risk over time is the holding requirement, which is set forth in Section 26.4.2.4.1 of the Services Tariff (“Holding Requirement”). The Market Participant must provide collateral for the Holding Requirement upon award of the TCC if it is higher than the auction payment obligation. This requirement is designed to ensure that a Market Participant awarded a TCC provides sufficient collateral to cover payments owed to the NYISO over the term of the TCC. Except for TCCs not awarded through TCC auctions, such as Incremental TCCs and Grandfathered TCCs, the Holding Requirement is determined based on the market-clearing price of the TCC and is updated with new auction prices over the term of the TCC.⁷ If at any time during the term of the TCC the “mark-to-market” valuation of the TCC based on net Congestion Rents exceeds the Holding Requirement, the Market Participant must provide collateral as calculated based on the historic Congestion Rent value, pursuant to Section 26.4.2.4.2 of the Services Tariff. For TCCs not awarded through TCC auctions, this Congestion Rent calculation is used as the Holding Requirement rather than auction-derived prices.

The NYISO determined that certain enhancements to the requirements could improve the credit protection afforded by such requirements and more closely align credit requirements for

⁴ Policy Statement on Electric Creditworthiness, 109 FERC ¶ 61,186 P. 5 (2004).

⁵ *Id.* P. 17.

⁶ *Id.*

⁷ *See* Services Tariff Section 26.4.2.4.1.

certain TCCs with the market value thereof over time. Based on its comprehensive review, the NYISO proposes to revise the currently effective TCC credit requirement calculations to:

1. Hold the higher of the payment obligation or the Holding Requirement on the second year of a two-year TCC;
2. Use auction-derived market-clearing prices to calculate the applicable credit requirements for certain TCCs that are currently subject only to a credit requirement based on the historic Congestion Rent value of such TCCs; and
3. Update the credit requirements for the second year of a two-year TCC sooner than the current credit policy provides.

III. Description of Proposed Tariff Revisions

A. Hold the Higher of the Payment Obligation or Holding Requirement for the Second Year of a Two-Year TCC

Under the NYISO's current credit policy, for all TCC durations except the second year of a two-year TCC, the NYISO holds the higher of the auction payment obligation or the Holding Requirement.⁸ In other words, the NYISO holds the amount owed for the TCC until it is paid for, unless the Holding Requirement is higher. In contrast, for the second year of a two-year TCC, the NYISO solely holds a margin to cover declines in value relative to auction determined market-clearing prices. The NYISO recommends holding as collateral the higher of the payment obligation or Holding Requirement until such time the second year of a two-year TCC is paid. This change will bring the credit requirement for two-year TCCs in line with the requirements for all other TCC durations and provide better coverage against potential payment defaults with respect to the second year of a two-year TCC.

To implement this change, the NYISO proposes to revise Section 26.4.2.4 of the Services Tariff to remove the current exception for the second year of a two-year TCC from the requirement to hold the greater of the payment obligation or Holding Requirement until the NYISO receives payment for the second year of the TCC. The NYISO also proposes to revise calculations of the two-year TCC Holding Requirement as set forth in Section 26.4.2.4.1.1 of the Services Tariff to reflect holding the higher of the payment obligation or Holding Requirement until the second year of the TCC is paid.

B. Utilize TCC Auction Prices to Calculate Credit Requirements for All TCCs

Under Section 26.4.2.4 of the Services Tariff, the TCC credit requirement is equal to the greater of (a) the auction Holding Requirement, which is calculated using updated market-clearing prices as set forth in Section 26.4.2.4.1 of the Services Tariff or (b) the "mark-to-market calculation," which is the average of historical Congestion Rents for the relevant TCC over the previous 90 days. Currently, certain TCCs not awarded through TCC auctions, such as

⁸ See Services Tariff Section 26.4.2.4.1.1.

Incremental TCCs and Grandfathered TCCs, are only subject to the historical Congestion Rent calculation.

The NYISO proposes to extend the use of TCC auction-derived market-clearing prices as the basis for determining credit requirements for all TCCs by eliminating the historical Congestion Rent calculation alternative. Historic Congestion Rents over the prior 90 days are, by their nature, retrospective and therefore do not account for expected changes in future market conditions, such as fuel prices, available generation or transmission outages, and expected changes in power demand and supply, including seasonal variations. Market-clearing prices set through TCC auctions, which are forward looking, provide a more appropriate predictor of future payments due than historic Congestion Rent values.

To implement this change, the NYISO proposes to remove the historic Congestion Rent calculation in Services Tariff Section 26.4.2.4.2 and the reference to the “mark-to-market calculation” in Services Tariff Section 26.4.2.4. NYISO also proposes to insert references to Incremental TCCs, Grandfathered TCCs, Existing Transmission Capacity for Native Load (“ETCNL”) TCCs, and Residual Capacity Reservation Right (“RCRR”) TCCs as appropriate in Section 26.4 to reflect that the Holding Requirement for such TCCs will now be calculated under Section 26.4.2.4.1.

C. Conduct Earlier Recalculation of the Collateral Requirements for the Second Year of a Two-Year TCC

1. Purpose of Earlier Recalculation for the Second Year of a Two-Year TCC

The NYISO currently does not recalculate the credit requirement for the second year of a two-year TCC until approximately one year after the initial award of the TCC. Earlier repricing of the second year of a two-year TCC will better capture changes in actual market exposure of such TCCs over time and thereby provide for improved credit coverage against potential declines in future value of the second year of two-year TCCs.

To reprice the second year of a two-year TCC earlier, the NYISO recommends administering a one-year round for TCCs covering the same time period as the second year of a two-year TCC five to six months earlier than is currently performed. This new auction round will generate prices upon which the credit requirement for the second year of a two-year TCC can be calculated, which will ensure more current pricing is utilized in determining the applicable credit requirements.

2. Changes to TCC Market Administration to Facilitate Earlier Recalculation of the Collateral Requirements for the Second Year of a Two-Year TCC

To facilitate the proposed earlier re-evaluation of the credit requirements for the second year of a two-year TCC, the NYISO proposes revisions to certain TCC auction and related TCC market administration procedures. The NYISO proposes to revise Section 19.8.4 of Attachment

M of the OATT to include authority to conduct a single round Sub-Auction for one-year TCCs with an effective period equivalent to the second year of previously sold two-year TCCs. The proposed revisions require that such single round Sub-Auction occur as part of the Centralized TCC Auction that immediately follows a Centralized TCC Auction in which the NYISO sold two-year TCCs. For example, if the NYISO sold two-year TCCs in the Centralized TCC Auction conducted prior to the Summer Capability Period (*i.e.*, commonly referred to as the “Spring Centralized TCC Auction”), it would then conduct, as part of the Centralized TCC Auction held prior to the Winter Capability Period (*i.e.*, commonly referred to as the “Autumn Centralized TCC Auction”), a single round Sub-Auction for one-year TCCs valid for the same period as the second year of the two-year TCCs sold in the Spring Centralized TCC Auction.

Given that the primary purpose of this single round Sub-Auction is to support re-evaluating the credit requirements for the second year of previously sold two-year TCCs, the proposed revisions to Section 19.8.4 limit the amount of transmission Capacity that will be made available to support the sale of one-year TCCs in this single round Sub-Auction. The NYISO proposes to limit the amount of transmission Capacity made available to support the sale of one-year TCCs in such a single round Sub-Auction to the lesser of: (1) 5% of the transmission Capacity not otherwise required to support already existing and valid Grandfathered Rights, Grandfathered TCCs, Incremental TCCs, ETCNL TCCs, and RCRR TCCs; and (2) the amount of transmission Capacity that was made available to support the sale of two-year TCCs in the Centralized TCC auction conducted immediately prior to the auction containing such single round Sub-Auction.

Conducting the proposed single round Sub-Auction for one-year TCCs that are valid for a period equivalent to the second year of previously sold two-year TCCs also requires clarifying revisions to certain other TCC auction and TCC market administration processes. The NYISO proposes to revise the definition of “Sub-Auction” in Section 1.19 of the OATT to clarify that: (1) a Sub-Auction may consist of a single round; and (2) Sub-Auctions are defined based on the period for which TCCs made available in a particular Sub-Auction are valid. For example, if a Centralized TCC Auction includes the opportunity to purchase one-year TCCs with different start and end dates, each valid period for one-year TCCs would constitute a separate Sub-Auction.

The NYISO also proposes to clarify the limitations on the ability for applicable Transmission Owners to convert ETCNL to ETCNL TCCs as set forth in Section 19.4 of Attachment M of the OATT. The proposed revisions clarify that ETCNL used to support previously sold TCCs that remain valid for any part of the Capability Period that commences immediately following the completion of a Centralized TCC Auction is unavailable for potential conversion to ETCNL TCCs. This Capability Period is equivalent to the six-month period for which ETCNL converted to an ETCNL TCC would be valid.

Similarly, the NYISO proposes to clarify in Section 19.5 of Attachment M of the OATT that the period assessed by the NYISO in evaluating potential RCRRs is the Capability Period that commences immediately following the completion of a Centralized TCC Auction. This Capability Period is equivalent to the six-month period for which a RCRR converted to a RCRR TCC would be valid.

The NYISO proposes to clarify certain auction procedures in Sections 19.8 and 19.9 of Attachment M of the OATT. The tariff currently requires the NYISO to conduct Sub-Auctions in declining duration of TCCs offered for sale (*e.g.*, the NYISO sells two-year TCCs prior to one-year TCCs, and one-year TCCs are sold prior to six-month TCCs). This design, in part, facilitates the ability of Market Participants to purchase longer duration TCCs and seek to sell a portion of such duration in subsequent Sub-Auctions for shorter duration TCCs. The proposal to conduct, in certain Centralized TCC Auctions, a single round Sub-Auction for TCCs that are valid for a period equivalent to the second year of previously sold two-year TCCs introduces the sale of a product with a start date that is different from all other TCCs offered for sale in such Centralized TCC Auction. The proposed revisions in Sections 19.8.4 and 19.9.1 clarify that: (1) the requirement to conduct Sub-Auctions in declining duration of the TCCs to be offered for sale; and (2) the ability of Market Participants to resell TCCs purchased in a subsequent round of the same Sub-Auction and/or offer shorter duration TCCs with the same path as longer duration TCCs purchased in a previous Sub-Auction of the same Centralized TCC Auction apply to TCCs with the same start date.⁹ These clarifying revisions afford the NYISO flexibility to determine the appropriate timing to conduct the single round Sub-Auction for TCCs that are valid for a period equivalent to the second year of previously sold two-year TCCs. For example, these revisions would permit the NYISO to conduct the single round Sub-Auction for one-year TCCs with a different effective period after the completion of all other Sub-Auctions for TCCs that share a common start date.

Conducting a single round Sub-Auction for one-year TCCs with an effective period that differs from other one-year TCCs sold in the same Centralized TCC Auction also requires clarification of certain procedures related to Fixed Price TCCs. The purchase price of Historic Fixed Price TCCs (including Historic Fixed Price TCC extensions), as well as the procedures for allocating the revenues derived from the sale of Historic Fixed Price TCCs (including Historic Fixed Price TCC extensions) and renewals of Non-Historic Fixed TCCs utilize data and results from one-year Sub-Auctions. Because the single round Sub-Auction for one-year TCCs supporting the re-evaluation of the credit requirements for the second year of two-year TCCs relates to a separate effective period for such TCCs, the NYISO proposes to clarify that the results of this single round Sub-Auction will be excluded from consideration in the procedures for Fixed Price TCCs that rely on one-year Sub-Auction data and results. Consistent with current practices, these procedures will continue to utilize one-year Sub-Auction data and results related to one-year TCCs that commence on the first day of the Capability Period that immediately follows the completion of a particular Centralized TCC Auction.

Sections 19.2.1.2 and 19.2.1.4 of Attachment M of the OATT include the procedures to calculate the purchase price for Historic Fixed Prices TCCs and Historic Fixed Price TCC extensions, respectively. The NYISO proposes revisions to these sections to exclude consideration of the market-clearing price results from any single round one-year Sub-Auction for TCCs with a start date that is after the first day of the Capability Period that commences

⁹ The NYISO also proposes ministerial revisions in Sections 19.9.5 and 19.9.6 to ensure consistent use of the phrase “market-clearing price” throughout Attachment M of the OATT.

immediately following the completion of the Centralized TCC Auction including such single round one-year Sub-Auction.

Similarly, the NYISO proposes to clarify that the procedures for the allocation of revenues to the applicable Transmission Owners resulting from the sale of Historic Fixed Price TCCs (including Historic Fixed Price TCC extensions) and renewals of Non-Historic Fixed Price TCCs. The proposed revisions exclude consideration of the data and results from any single round Sub-Auction for one-year TCCs with a start date that is after the first day of the Capability Period that commences immediately following the completion of the Centralized TCC Auction including such single round one-year Sub-Auction. Section 20.4 of Attachment N of the OATT includes clarifying revisions to the revenue allocation procedures for Historic Fixed Price TCCs (including Historic Fixed Price TCC extensions). The clarifying revisions to the revenue allocation procedures for renewals of Non-Historic Fixed Price TCCs are set forth in Section 20.5 of Attachment N of the OATT.

3. Changes to TCC Credit Policy for Earlier Recalculation of the Collateral Requirements for the Second Year of a Two-Year TCC

The NYISO also proposes to revise Services Tariff Section 26.4.2.4.1.1 to adjust the two-year TCC credit calculations. The proposed revisions update the calculations as necessary to reflect that the market-clearing prices from a single round one-year Sub-Auction for TCCs that correspond to the time period covered by the second year of a two-year TCC would be used to calculate the Holding Requirement for the second year of a two-year TCC after completion of that auction round.

IV. Effective Date

The NYISO respectfully requests Commission acceptance of the proposed tariff revisions within the normal timeframe, i.e., sixty days from the date of this filing. Such timely action by the Commission will: (i) allow the NYISO to confidently proceed with the developing and deploying the software changes necessary to implement the proposed enhancements to the credit requirements; and (ii) enable the NYISO to achieve the desired effective date for these proposed changes.

The NYISO respectfully requests approval of a flexible effective date for the proposed tariff revisions. The NYISO proposes to submit a subsequent compliance filing specifying the date on which the revisions will take effect. This subsequent filing will be submitted at least two weeks prior to the proposed effective date. The NYISO, however, will be unable to propose precise effective dates until the software changes necessary to implement the proposed changes are ready for deployment and testing thereof is completed. The NYISO currently anticipates that the proposed revisions will become effective in October 2021 following the software deployment that month. Consistent with Commission precedent, the subsequent compliance filing obligation

will provide adequate notice to the Commission and Market Participants of the implementation dates for the tariff revisions.¹⁰

The NYISO requests a waiver of the Commission's regulations to allow the NYISO to make this filing more than 120 days prior to the date on which the proposed service is to become operational.¹¹ No Market Participant will be prejudiced by this request because the proposed implementation time frame was discussed with Market Participants. Furthermore, as noted above, the NYISO will provide at least two weeks prior notice before implementation of these proposed tariff revisions.

V. Stakeholder Process

The proposed amendments were approved by the NYISO Management Committee, without opposition and with one abstention, on September 23, 2020. The NYISO's Board of Directors approved the proposed revisions on October 20, 2020.

VI. Communications and Correspondence

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

Robert E. Fernandez, Executive Vice President & General Counsel
Karen G. Gach, Deputy General Counsel
Raymond Stalter, Director, Regulatory Affairs
*Amie Jamieson, Senior Attorney/Registered In-House Counsel
10 Krey Boulevard
Rensselaer, NY 12144
Tel: (518) 356-6000
Fax: (518) 356-7678
Email: 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.

¹⁰ See, e.g., *New York Independent System Operator, Inc.*, 106 FERC ¶ 61,111 at P 10 (2004); Docket No. ER11-2544-000, *New York Independent System Operator, Inc.*, Letter Order at 1 (February 10, 2011); Docket No. ER15-485-000, *New York Independent System Operator, Inc.*, Letter Order at 2 (January 15, 2015); *New York Independent System Operator, Inc.*, 151 FERC ¶ 61,057 at P 20 (2015); and *New York Independent System Operator, Inc.*, 154 FERC ¶ 61,152 at P 19 and 25 (2016).

¹¹ See 18 C.F.R. § 35.3(a)(1).

VIII. Conclusion

For the foregoing reasons, the NYISO respectfully requests that the Commission: (i) issue an order accepting the proposed revisions to the OATT and Services Tariff that are filed herewith within the normal timeframe, i.e., sixty days from the date of this filing; and (ii) permit the NYISO to subsequently establish the effective date for the proposed tariff revisions upon at least two weeks' prior notice, as described in Section IV above.

Respectfully submitted,

/s/ Amie Jamieson

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

cc: Jignasa Gadani
Jette Gebhart
Kurt Longo
John C. Miller
David Morenoff
Larry Parkinson
Douglas Roe
Frank Swigonski
Eric Vandenberg
Gary Will