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February 4, 2010

By Hand

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street N.E.
Washington, D.C. 20426

**Re: New York Independent System Operator, Inc.'s Proposed Tariff Revisions to
Establish Credit Requirements for Two-Year Transmission Congestion
Contracts; Docket No. _____**

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act,¹ the New York Independent System Operator, Inc. ("NYISO"), by counsel, hereby submits revisions to its Open Access Transmission Tariff ("OATT") and its Market Administration and Control Area Services Tariff ("Services Tariff") to establish credit requirements for bidding on and holding transmission congestion contracts ("TCC") with a term of two years.² The tariff revisions proposed in this filing are described in detail in Section V below.

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).

¹ 16 U.S.C. § 824d (2009).

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



Kimberly D. Bose, Secretary

February 4, 2010

Page 2

II. Copies of Correspondence

Copies of correspondence concerning this filing should be served on:

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III. Service List

The NYISO will electronically send a 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 the New Jersey Board of Public Utilities, and send a copy of this filing by first class mail to the Pennsylvania Public Utilities Commission. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com. The NYISO will also make a paper copy available to any interested party that requests one. To the extent necessary, the NYISO requests waiver of the requirements of Section 35.2(d) of the Commission's Regulations (18 C.F.R. § 35.2(d) (2009)) to permit it to provide service in this manner.

³ The NYISO respectfully requests waiver of 18 C.F.R. § 385.203(b)(3) (2009) to permit service on counsel for the NYISO in both Washington, D.C. and Richmond, VA.

Kimberly D. Bose, Secretary

February 4, 2010

Page 3

IV. Background

The NYISO currently auctions TCCs with durations of one-month, six-months, and one-year. The NYISO's tariffs authorize the NYISO, at its discretion, to also auction TCCs with durations of two, three, four, and five years.⁴ Over time, a number of market participants have expressed interest in the NYISO auctioning TCCs with a two-year duration. Prior to auctioning two-year TCCs, however, the NYISO must first establish credit requirements for this TCC product.⁵

The NYISO's tariffs prescribe credit requirements for bidding on, and for holding, TCCs with durations of one-month, six-months, and one-year.⁶ The bidding requirement is designed to ensure that a customer bidding on a TCC provides sufficient credit support to cover the cost of any TCC awarded to the customer.⁷ The holding requirement is designed to ensure that a customer awarded a TCC provides sufficient credit support to cover payments owed over the term of the TCC.⁸ The NYISO developed the methodologies for calculating these credit requirements based on a statistical analysis of its historical TCC auction data. The NYISO cannot develop methodologies for calculating the credit requirements for two-year TCCs based on a similar approach because the NYISO lacks the requisite auction data for two-year TCCs to statistically validate alternative methodologies.

⁴ See OATT, Attachment M, Section 8.4 at Sheet No. 575. Fixed Price TCCs are also available to certain LSEs that have, or had, transmission rights under ETAs, but the NYISO does not auction Fixed Price TCCs. *Id.* at Section 2A.1.

⁵ The NYISO's tariffs also lack credit requirements for three, four, and five-year TCCs; however, at the request of Market Participants, the NYISO agreed to defer the development of credit requirements for them until Market Participants express interest in pursuing those TCC products.

⁶ See Services Tariff, Attachment K, Sections III.B.(iii) and III.C.(i).

⁷ The bidding requirement equals the greater of (i) the absolute value of the customer's bid, or (ii) the term-based minimum bidding requirement set forth in the NYISO's tariffs. See Services Tariff Attachment K Section III.C.(i). See also *New York Independent System Operator, Inc.'s Filing of Proposed Tariff Revisions Regarding the Credit Requirements for Transmission Congestion Contract Auctions*, Docket No. ER08-334 (December 14, 2007).

⁸ The holding requirement calculation is based on TCC path-specific characteristics and is designed to result in a 97% probability for one-month and six-month TCCs, and a 95% probability for one-year TCCs, that the amount of credit support provided by the customer to hold the TCC will cover the payments due the NYISO over the term of the TCC. 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).

Kimberly D. Bose, Secretary

February 4, 2010

Page 4

As a result, the NYISO is proposing to calculate the credit requirements for two-year TCCs, in general, by doubling the credit requirements for one-year TCCs with similar characteristics as the two-year TCCs. NYISO stakeholders, with one abstention, unanimously approved the methodologies for calculating these credit requirements. The one-year TCC credit requirements are a reasonable starting point for determining two-year TCC credit requirements because the risk of loss during the first year of a two-year TCC is identical to the risk of loss for a one-year TCC covering the same time period, with the same source and sink. Once the NYISO accumulates enough data to statistically validate other methodologies for establishing the credit requirements for two-year TCCs, the NYISO will evaluate alternative approaches and decide whether a revised methodology is warranted.

V. Description of Proposed Revisions

With this filing, the NYISO is proposing to revise Attachment K to the Services Tariff to establish credit requirements for bidding on, and for holding, two-year TCCs.⁹ The proposed revisions to Section III.C.(i) of Attachment K (Sheet No. 499A) establish a minimum bidding requirement for bidding on a two-year TCC that equals twice the amount of the minimum bidding requirement for a one-year TCC. As a result, upon the effectiveness of the proposed tariff revisions, the bidding requirement for a two-year TCC would equal the greater of (i) the absolute value of the customer's bid, or (ii) \$3,000.

The NYISO is also proposing revisions to Section III.B.(iii) of Attachment K (Sheet Nos. 497-497A) to establish the methodology for calculating the holding requirement for a two-year TCC. Under the proposed tariff revisions, the NYISO will essentially determine the holding requirement for a newly awarded two-year TCC by first calculating the holding requirement for a one-year TCC with the same source and sink as the two-year TCC, and then multiplying that credit requirement by a factor of two.

The NYISO is proposing a two-step process for calculating the holding requirement for a two-year TCC because the NYISO will not have the one-year TCC information required to calculate the holding requirement for the two-year TCC at the time of its award. The NYISO's tariffs require the NYISO to auction TCCs with the longest duration first.¹⁰ This means that in

⁹ The NYISO recently revised its tariffs to eliminate the right to use unsecured credit in its TCC market, which revision is consistent with the Commission's proposed Credit Reforms in Organized Wholesale Electric Markets. See 130 FERC ¶ 61,055.

¹⁰ See OATT, Attachment M, Section 8.4 at Sheet No. 576. By auctioning TCCs with the longest duration first, a purchaser of TCCs in any sub-auction may resell a subset of those TCCs in a subsequent sub-auction. *Id.*

Kimberly D. Bose, Secretary

February 4, 2010

Page 5

any TCC auction, the NYISO will award two-year TCCs prior to auctioning one-year TCCs. To resolve this timing issue, the NYISO is proposing to calculate an interim holding requirement for a two-year TCC based on the holding requirement for a one-year TCC awarded in the prior capability period auction with the same source and sink as the two-year TCC.¹¹ The NYISO would then adjust the two-year TCC interim holding requirement, as appropriate, after the final stage 1 round of the current capability period auction for one-year TCCs. The final holding requirement for each of the previously awarded two-year TCCs would equal two times the holding requirement for a one-year TCC, awarded in the current TCC auction, with the same source and sink.

In addition, the NYISO is proposing to adjust the holding requirement for a two-year TCC at the beginning of the second year of the two-year TCC term. The holding requirement for the final year of a two-year TCC would equal the holding requirement for a one-year TCC, with the same source and sink as the two-year TCC, awarded in the most recently completed capability period auction. This adjustment would better align the holding requirement for the remaining duration of the two-year TCC with actual market risk.

Commission approval of these proposed tariff changes would allow the NYISO to establish reasonable credit requirements for two-year TCCs that are rationally based on the credit requirements for one-year TCCs with similar characteristics.

VI. Effective Date

The NYISO respectfully requests that this filing become effective on April 6, 2010, which date complies with the Commission's notice requirements.¹²

¹¹ From time to time the NYISO adds new TCCs as new generating units are added to the NYCA. In such case, the NYISO will need to calculate an interim two-year TCC holding requirement based on a proxy price for the one-year TCC price because the NYISO will not have awarded a one-year TCC with the same source and sink as the two-year TCC in the prior capability period auction. The proxy price is intended to represent the price at the new bidding points as closely as possible. The interim holding requirement would apply for a period of approximately five weeks. The NYISO would then calculate the final holding requirement for that two-year TCC using the actual market clearing price for the like, newly created one-year TCC awarded in the current capability period TCC auction.

¹² 18 C.F.R. § 35.3 (2009).



Kimberly D. Bose, Secretary

February 4, 2010

Page 6

VII. Requisite Stakeholder Approval

The NYISO's Business Issues Committee unanimously approved the tariff revisions proposed in this filing at its meeting on March 11, 2009. The NYISO's Management Committee unanimously approved these revisions, with one abstention, at its meeting on March 25, 2009. On April 21, 2009, the NYISO's Board of Directors approved a motion directing the NYISO to file the proposed tariff revisions approved by the Management Committee. The NYISO did not file the proposed tariff revisions with the Commission in 2009 because it had not finished developing the software necessary to automate the proposed two-year TCC credit requirements. The NYISO now plans to implement this software in the second quarter of 2010.

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,

Ted J. Murphy
Counsel for
New York Independent System Operator, Inc.

cc: Michael A. Bardee
Gregory Berson
Connie Caldwell
Anna Cochrane
Lance Hinrichs
Jeffrey Honeycutt
Michael McLaughlin
Kathleen E. Nieman
Rachel Spiker

Attachment I

- (a) The sum of the amounts calculated in accordance with the appropriate per TCC term-based formula listed below for TCC purchases less the amounts calculated in accordance with the appropriate per TCC term-based formula listed below for TCC sales:

for two-year TCCs:

- (1) upon initial award of a two-year TCC until completion of the final Stage 1 round of the current one-year TCC auction:

$$2 \quad \times \quad \text{the amount calculated in accordance with the one-year TCC formula listed below}$$

where:

$$\text{Pijt} = \text{auction price of a one-year TCC in the final Stage 1 round of the prior Capability Period TCC auction with the same POI and POW combination as the two-year TCC; provided, however, in the event there is no price for a one-year TCC with the same POI and POW combination as the two-year TCC, then "Pijt" shall equal a proxy price, assigned by the NYISO, for a one-year TCC with like characteristics}$$

- (2) upon completion of the final Stage 1 round of the current one-year TCC auction until commencement of year two of a two-year TCC:

$$2 \quad \times \quad \text{the amount calculated in accordance with the one-year TCC formula listed below}$$

where:

$$\text{Pijt} = \text{auction price of a one-year TCC in the final Stage 1 round of the current one-year TCC auction with the same POI and POW combination as the two-year TCC}$$

(3) upon commencement of year two of a two-year TCC:

1 x the amount calculated in accordance with the one-year TCC formula listed below

where:

P_{ijt} = auction price of a one-year TCC in the final Stage 1 round of the most recently completed one-year TCC auction with the same POI and POW combination as the two-year TCC

for one-year TCCs, representing a 5% probability curve:

$$+1.909 \sqrt{e^{10.9729 + .6514 (\ln(|P_{ijt}| + e)) + .6633 * Zone J}} - .9696 P_{ijt}$$

for six-month TCCs, representing a 3% probability curve:

$$+2.565 \sqrt{e^{11.6866 + .4749 (\ln(|P_{ijt}| + e)) + .4856 * Zone J - .0373 Summer}} - .8166 P_{ijt}$$

for one-month TCCs, representing a 3% probability curve:

$$+2.221 \sqrt{e^{11.2682 + 0.3221 (\ln(|P_{ijt}| + e)) + 1.3734 * Zone J + 2.00 * Zone K + Month}} - .8152 P_{ijt}$$

where:

P_{ijt} = auction price of i to j TCC in round t of the auction in which the TCC was purchased;

Zone J = 1 if TCC sources or sinks but not both in Zone J, zero otherwise;

Zone K = 1 if TCC sources or sinks but not both in Zone K and does not source or sink in Zone J, 0 otherwise;

Summer = 1 for six-month TCCs sold in the spring auction, 0 otherwise; and

C. Calculation of Bidding Requirement. The Bidding Requirement shall be an amount equal to the sum of:

(i) the amount of bidding authorization that the Customer has requested for use in an upcoming ISO-administered TCC auction, which shall account for all positive bids to purchase TCCs and the absolute value of all negative offers to sell TCCs; *provided, however*, that the amount of credit required for each TCC that the Customer bids to purchase, whether positive, negative, or zero shall not be less than (a) (2 x \$/MW for one-year TCCs) per MW for two-year TCCs, (b) \$1,500 per MW for one-year TCCs, (c) \$2,000 per MW for six-month TCCs, and (d) \$600 per MW for one-month TCCs;

(ii) the approximate amount that the Customer may owe following an upcoming TCC auction as a result of converting expired ETAs into TCCs pursuant to Section 2A of Attachment M to the OATT, which shall be calculated in accordance with the provisions of Section 2A regarding the purchase of TCCs with a duration of ten years;

(iii) the amount of bidding authorization that the Customer has requested for use in an upcoming ISO-administered ICAP auction; and

(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.

Attachment II

- (a) The sum of the amounts calculated in accordance with the appropriate per TCC term-based formula listed below for TCC purchases less the amounts calculated in accordance with the appropriate per TCC term-based formula listed below for TCC sales:

for two-year TCCs:

- (1) upon initial award of a two-year TCC until completion of the final Stage 1 round of the current one-year TCC auction:

$$\frac{2}{\text{Pijt}} \times \text{the amount calculated in accordance with the one-year TCC formula listed below}$$

where:

Pijt = auction price of a one-year TCC in the final Stage 1 round of the prior Capability Period TCC auction with the same POI and POW combination as the two-year TCC; provided, however, in the event there is no price for a one-year TCC with the same POI and POW combination as the two-year TCC, then "Pijt" shall equal a proxy price, assigned by the NYISO, for a one-year TCC with like characteristics

- (2) upon completion of the final Stage 1 round of the current one-year TCC auction until commencement of year two of a two-year TCC:

$$\frac{2}{\text{Pijt}} \times \text{the amount calculated in accordance with the one-year TCC formula listed below}$$

where:

Pijt = auction price of a one-year TCC in the final Stage 1 round of the current one-year TCC auction with the same POI and POW combination as the two-year TCC

(3) upon commencement of year two of a two-year TCC:

$\frac{1}{\text{Zone J}}$ x the amount calculated in accordance with the one-year TCC formula listed below

where:

P_{ijt} = auction price of a one-year TCC in the final Stage 1 round of the most recently completed one-year TCC auction with the same POI and POW combination as the two-year TCC

for one-year TCCs, representing a 5% probability curve:

$$+1.909 \sqrt{e^{10.9729 + .6514 (\ln(|P_{ijt}| + e)) + .6633 * \text{Zone J}}} - .9696 P_{ijt}$$

for six-month TCCs, representing a 3% probability curve:

$$+2.565 \sqrt{e^{11.6866 + .4749 (\ln(|P_{ijt}| + e)) + .4856 * \text{Zone J} - .0373 \text{ Summer}}} - .8166 P_{ijt}$$

for one-month TCCs, representing a 3% probability curve:

$$+2.221 \sqrt{e^{11.2682 + 0.3221 (\ln(|P_{ijt}| + e)) + 1.3734 * \text{Zone J} + 2.00 * \text{Zone K} + \text{Month}}} - .8152 P_{ijt}$$

where:

P_{ijt} = auction price of i to j TCC in round t of the auction in which the TCC was purchased;

Zone J = 1 if TCC sources or sinks but not both in Zone J, zero otherwise;

Zone K = 1 if TCC sources or sinks but not both in Zone K and does not source or sink in Zone J, 0 otherwise;

Summer = 1 for six-month TCCs sold in the spring auction, 0 otherwise; and

C. Calculation of Bidding Requirement. The Bidding Requirement shall be an amount equal to the sum of:

(i) the amount of bidding authorization that the Customer has requested for use in an upcoming ISO-administered TCC auction, which shall account for all positive bids to purchase TCCs and the absolute value of all negative offers to sell TCCs; *provided, however*, that the amount of credit required for each TCC that the Customer bids to purchase, whether positive, negative, or zero shall not be less than (a) (2 x \$/MW for one-year TCCs) per MW for two-year TCCs, (b) \$1,500 per MW for one-year TCCs, (b) \$2,000 per MW for six-month TCCs, and (e) \$600 per MW for one-month TCCs;

(ii) the approximate amount that the Customer may owe following an upcoming TCC auction as a result of converting expired ETAs into TCCs pursuant to Section 2A of Attachment M to the OATT, which shall be calculated in accordance with the provisions of Section 2A regarding the purchase of TCCs with a duration of ten years;

(iii) the amount of bidding authorization that the Customer has requested for use in an upcoming ISO-administered ICAP auction; and

(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.