

# ISO New England Inc.

NEPOOL Budget & Finance Subcommittee  
FCM and Financial Assurance

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November 13, 2006

# Overview of Key Design Elements

- Existing Capacity Financial Assurance
  - Section II.G.2.a. of the Settlement Agreement
- New Capacity Financial Assurance
  - Section II.G.2.b. of the Settlement Agreement
  - Timeline Overview
    - Types:
      - New Capacity General (i.e. typical generating resources)
      - Demand Resources
      - Intermittent Resources
      - Import Resources
- Load Serving Entity Financial Assurance
  - Section II.G.1. of the Settlement Agreement
- Miscellaneous Financial Assurance
- Examples

# Financial Assurance

- **Collateral Options**

- Cash Deposit – Short-Term Investments managed by BlackRock as directed by Participants (requires opening a BlackRock Account)
- Letter of Credit – Bank must have a minimum corporate debt rating of an “A-” by S&P\* or better
- Corporate Guaranty – Affiliate must have a rating of “BBB-” by S&P\* or better
- Credit Limit – Participant must have a rating of “BBB-” by S&P\* or better

- **Financial Assurance specific to the Forward Capacity Market:**

- To mitigate the risk to the RTO and the Participants of undelivered Capacity Offers.

\* Comparable ratings from Moody's and Fitch are acceptable

# Comparison of Existing Capacity Requirements to New Capacity

## 1. Deposit (Initial FA)

- No specific requirement
- Generally subject to the financial assurance requirements contained in the current Financial Assurance Policy (FAP)

## 2. New Capacity FA Amount

- No specific requirement
- Exception: Existing Capacity that has been allowed to retire under Section I.3.9. of the Tariff at the end of the relevant Commitment Period
  - Shall be required to provide additional Financial Assurance (FA) in an amount equal to 2.5 times the FCA payment for a month
  - FA obligation shall be due five (5) business days prior to the start of the applicable Commitment Period

## 3. Failure to Provide Financial Assurance

- Consistent treatment of defaults as in existing FAP

# Comparison of Existing Capacity Requirements to New Capacity

## 4. Failure to Meet a Qualification Milestone

- Not applicable

## 5. Release of Financial Assurance

- Subject to existing FAP

# New Capacity

New Capacity - General

Demand Resources

Intermittent

## 1. Deposit (Initial FA)

- ISO provides notice of qualification including qualified kW
- Deposit =  $\$2/\text{kW} \times \text{total qualified kW}$  (kW to be bid into the Forward Capacity Auction (FCA))
- Due within 10 business days of date of notice of qualification

## 2. New Capacity Financial Assurance (FA) Amount

- If offer does not clear - Deposit will be returned per the terms of the existing Financial Assurance Policy (FAP)
- If offer is accepted - Deposit will be applied to the New Capacity FA Amount
- New Capacity FA Amount (NCFA)
  - Additional FA is due within 5 business days of the announcement of winning offers
  - NCFA Amount = CONE (Cost of New Entry) for that FCA  $\times$  awarded capacity (the first FCA CONE price is  $\$7.50$  per kW)
  - Additional installments equal to the initial NCFA are due 15 days prior to next 2 Annual FCAs
  - Aggregate NCFA will eventually equal 3 times the initial NCFA amount

# New Capacity

## 3. Failure to Provide Financial Assurance

- If not cured:
  - Results in the loss of awarded capacity
  - Forfeit any financial assurance previously provided with respect to that award
- Assumptions
  - Defaults treated consistent with existing FAP

## 4. Failure to Meet a Qualification Milestone

- If not cured:
  - loss of awarded capacity
  - forfeit any financial assurance previously provided with respect to that award

# New Capacity

## 5. Release of Financial Assurance

- Released once:
  - New Capacity has been declared commercial, and
  - New Capacity has been tested for its capacity rating (Manual 20)
- Follows existing capacity FAP requirements thereafter
- Financial assurance will be forfeited for any portion of capacity accepted in the FCA that does not demonstrate

# New Capacity

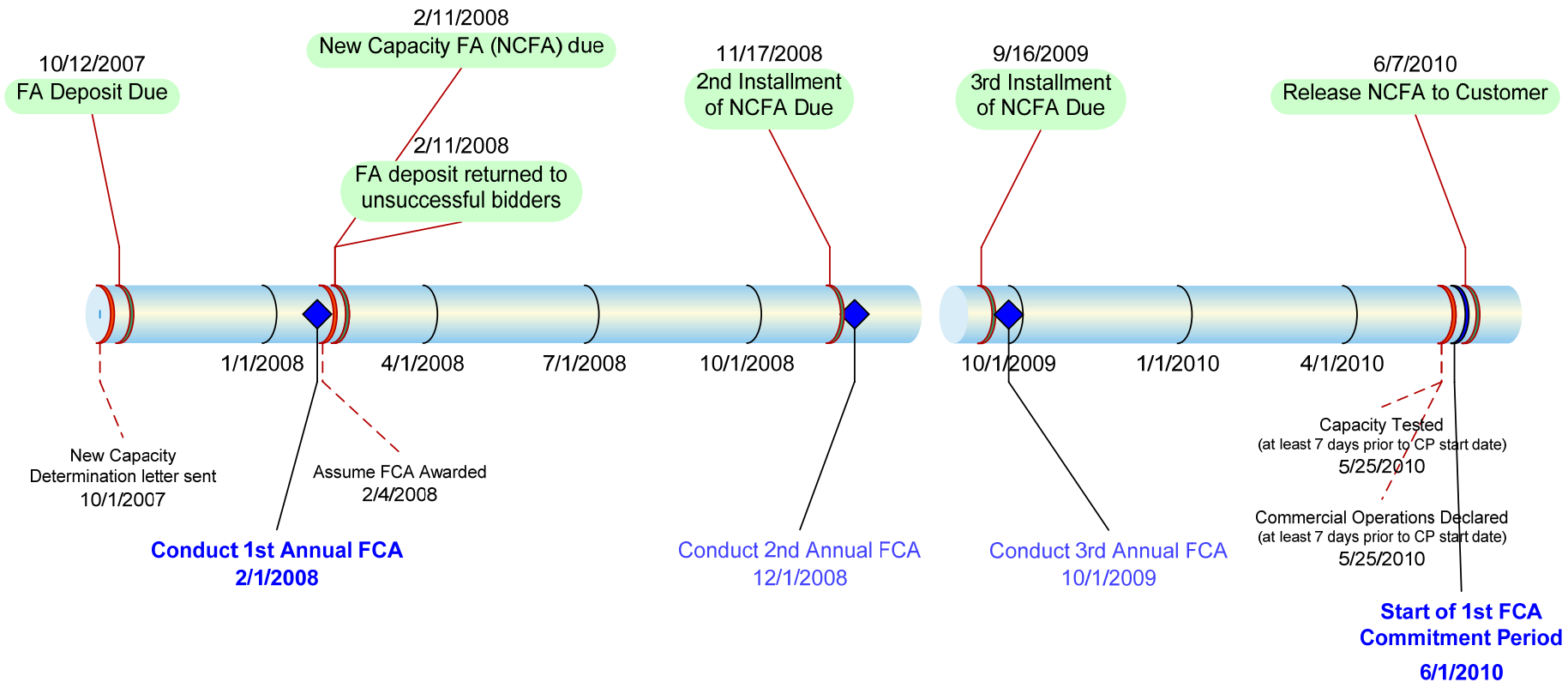
## 6. Capacity Rating Testing for Purposes of Financial Assurance Release

- Resource which becomes commercial during a winter rating period must meet its winter qualified CC in order for all FA to be returned
- If Resource does not meet the entire winter CC rating then FA will be returned in the following proportion:
  - $\text{Capacity Demonstrated by Resource} / \text{Qualified Capacity of Resource} * \text{Resource's Summer Qualified CC} = \text{MW's of Summer CC Demonstrated}$
  - $\text{Difference between MW's of Summer CC demonstrated (as calculated above) and Summer CC Qualified for} * \text{total amount of FA held} = \text{Amount of FA retained}$
  - The New Capacity Resource will be required to demonstrate its summer CC during the first month of the summer period that follows the date the New Capacity Resource was declared commercial

# New Capacity

- If Resource fails to meet the summer CC it was qualified for that portion of the FA related to the MW's unable to be demonstrated will be forfeited in accordance with the terms of the Settlement Agreement
- Example:
  - Winter qualified CC = 280 MW & Summer qualified CC = 240 MW
  - New Capacity FA posted 240Mw's \* \$7.5 (CONE) \* 3 = \$5,400,000 Total
  - Test in March – only demonstrate 250 MW
  - Calculate Return of FA:
    - $250/280 * 240 = 214$  MW's demonstrated – Return upon request \$4,815,000
    - retain the difference of 240Mws less the 214Mws \* \$7.5 (CONE)\*3= \$585,000 until and if they demonstrate their SCC (demonstration required to be made in the first month of the Summer Rating Period)

# Timeline for Posting Financial Assurance



- Dates are illustrative assuming initial FCA auction commences on 2/1/08
- Applies to the following participant types
  - New Capacity Resources – General
  - New Capacity Demand Resources – “All-at-Once” projects

# New Capacity – Demand Resources

## “All at Once” Project

- “All at Once” Project defined as:
    - No Capacity prior to the start of the Commitment Period.
    - Examples include:
      - distributed generation
      - some types of energy efficiency or load management
1. Deposit (Initial FA)
    - ISO provides notice of qualification including qualified kW
    - Deposit =  $\$2/\text{kW} \times \text{total qualified kW}$  (kW to be bid into the FCA)
    - Due within 10 business days of date of notice of qualification

# New Capacity – Demand Resources

## “All at Once” Project

New Capacity - General
Demand Resources
Intermittent

### 2. New Capacity FA Amount

- If offer does not clear - Deposit will be returned per the terms of the existing FAP
- If offer clears - Deposit will be applied to the New Capacity FA Amount
- New Capacity FA Amount (NCFA)
  - Additional FA is due within 5 business days of the announcement of winning bidders
  - NCFA Amount = CONE (Cost of New Entry) for that FCA x awarded capacity (the first FCA CONE price is \$7.50 per kW)
  - Additional installments equal to the initial NCFA are due 15 days prior to next 2 Annual FCAs
  - Aggregate NCFA will eventually equal 3 times the initial NCFA amount

### 3. Failure to Provide Financial Assurance

- If not cured:
  - Results in the loss of awarded capacity
  - Forfeit any financial assurance previously provided with respect to that award
- Assumptions
  - Defaults treated consistent with existing FAP

# New Capacity – Demand Resources

## “All at Once” Project

### 4. Failure to Meet a Qualification Milestone

- If not cured:
  - loss of awarded capacity
  - forfeit any financial assurance previously provided with respect to that award

### 5. Release of Financial Assurance

- Released once:
  - New Capacity has been declared commercial, and
  - New Capacity has been tested for its capacity rating (Manual 20)
- Follows existing capacity FAP requirements thereafter
- Financial assurance will be forfeited for any portion of capacity accepted in the FCA that does not demonstrate

# New Capacity

## 6. Capacity Rating Testing for Purposes of Financial Assurance Release

- Resource which becomes commercial during a winter rating period must meet its winter qualified CC in order for all FA to be returned
- If Resource does not meet the entire winter CC rating then FA will be returned in the following proportion:
  - $\text{Capacity Demonstrated by Resource} / \text{Qualified Capacity of Resource} * \text{Resource's Summer Qualified CC} = \text{MW's of Summer SCC Demonstrated}$
  - $\text{Difference between MW's of Summer SCC demonstrated (as calculated above) and Summer CC Qualified for} * \text{total amount of FA held} = \text{Amount of FA retained}$
  - The New Capacity Resource will be required to demonstrate its summer CC during the first month of the summer period that follows the date the New Capacity Resource went commercial

# New Capacity

- If Resource fails to meet the summer CC is was qualified for that portion of the FA related to the MW's unable to be demonstrated will be forfeited in accordance with the terms of the Settlement Agreement
- Example:
  - Winter qualified CC = 280 MW & Summer qualified CC = 240 MW
  - New Capacity FA posted 240Mw's \* \$7.5 (CONE) \* 3 = \$5,400,000 Total
  - Test in March – only demonstrate 250 MW
  - Calculate Return of FA:
    - $250/280 * 240 = 214$  MW's demonstrated – Return upon request \$4,815,000
    - retain the difference of 240Mws less the 214Mws \* \$7.5 (CONE)\*3= \$585,000 until and if they demonstrate their SCC (demonstration required to be made in the first month of the Summer Rating Period)

# New Capacity – Proposed Demand Resources

## “Ramp-Up” Project

- “Ramp-Up” Project defined as:
    - Capacity is delivered prior to the start of the Commitment Period as installations are completed on individual homes or businesses.
    - Examples include many type of large scale energy efficiency or load management programs.
1. Deposit (Initial FA)
    - ISO provides notice of qualification including qualified kW
    - Deposit =  $\$2/\text{kW} \times \text{total qualified kW}$  (kW to be bid into the FCA)
    - Due within 10 business days of date of notice of qualification

# New Capacity – Proposed Demand Resources “Ramp-Up” Project

## 2. New Capacity FA Amount

- If offer does not clear - Deposit will be returned per the terms of the existing FAP
- If offer clears - Deposit will be applied to the New Capacity FA Amount
- New Capacity FA Amount (NCFA)
  - Additional FA is due within 5 business days of the announcement of winning bidders
  - NCFA Amount = CONE (Cost of New Entry) for that FCA x awarded capacity (the first FCA CONE price is \$7.50 per kW)
  - Additional installments equal to the initial NCFA are due 15 days prior to next 2 Annual FCAs
    - Where interim milestones of load reduction have been satisfied *prior to the due date* of the additional FA requirement, the subsequent NCFA installments will be reduced commensurate with the then effective New Capacity (load reduction) remaining to be met

# New Capacity – Proposed Demand Resources “Ramp-Up” Project

## 3. Failure to Provide Financial Assurance

- If not cured:
  - Results in the loss of awarded capacity
  - Forfeit any financial assurance previously provided with respect to that award
- Assumptions
  - Defaults treated consistent with existing FAP

## 4. Failure to Meet a Qualification Milestone

- If not cured:
  - loss of awarded capacity
  - forfeit any financial assurance previously provided with respect to that award

# New Capacity – Proposed Demand Resources “Ramp-Up” Project

## 5. Release of Financial Assurance

- On the date of pre-defined milestones, provided that the ISO is satisfied through a verification process that at least 75% of the amount of prescribed load reduction (as stated in the qualification package submitted) has been met, financial assurance in an amount equivalent to the kW's of load reduction achieved at the milestone x (times) the CONE amount for that FCA Commitment Period, will be released to the customer, if less than 75% achieved no release of collateral.
- On the date of the pre-defined milestones, should the verification of load reduction, prove to be less than 75% of the cumulative milestone reduction, planned at that time, but more than a previously achieved individual milestone, no financial assurance will be returned at that time.
- On the date of the pre-defined milestones, should the verification of load reduction, prove to be less than 75% of the cumulative milestone reduction, planned at that time, and less than 75% of a previously achieved milestone, the customer will be required to reinstate the full amount of financial assurance required for the total amount of Capacity awarded in the FCA for that Commitment Period.

# New Capacity – Proposed Demand Resources “Ramp-Up” Project

## 5. Release of Financial Assurance

- Remaining FA released once:
  - New Capacity (load reduction) has been measured and verified (demonstrated) to ISO’s satisfaction
- Follows existing capacity FAP requirements thereafter
- Financial assurance will be forfeited for any portion of capacity accepted in the FCA that does not demonstrate

# New Capacity – Intermittent Resources

- Intermittent Resources Defined as:
  - Any wind, solar, or run-of-the river hydroelectric capacity resource
- 1. **Deposit (Initial FA)**
  - ISO provides notice of qualification including qualified kW
  - Deposit = \$2/kW x total qualified kW (kW to be bid into the FCA)
  - Due within 10 business days of date of notice of qualification
- 2. **New Capacity FA Amount**
  - If offer does not clear - Deposit will be returned per the terms of the existing FAP
  - If offer clears - Deposit will be applied to the New Capacity FA Amount
  - New Capacity FA Amount (NCFA)
    - Additional FA is due within 5 business days of the announcement of winning bidders
    - NCFA Amount = CONE (Cost of New Entry) for that FCA x awarded capacity (the first FCA CONE price is \$7.50 per kW)
    - Additional installments equal to the initial NCFA are due 15 days prior to next 2 Annual FCAs
    - Aggregate NCFA will eventually equal 3 times the initial NCFA amount

# New Capacity – Intermittent Resources

## 3. Failure to Provide Financial Assurance

- If not cured:
  - Results in the loss of awarded capacity
  - Forfeit any financial assurance previously provided with respect to that award
- Assumptions
  - Defaults treated consistent with existing FAP

## 4. Failure to Meet a Qualification Milestone

- If not cured:
  - loss of awarded capacity
  - forfeit any financial assurance previously provided with respect to that award

## 5. Release of Financial Assurance

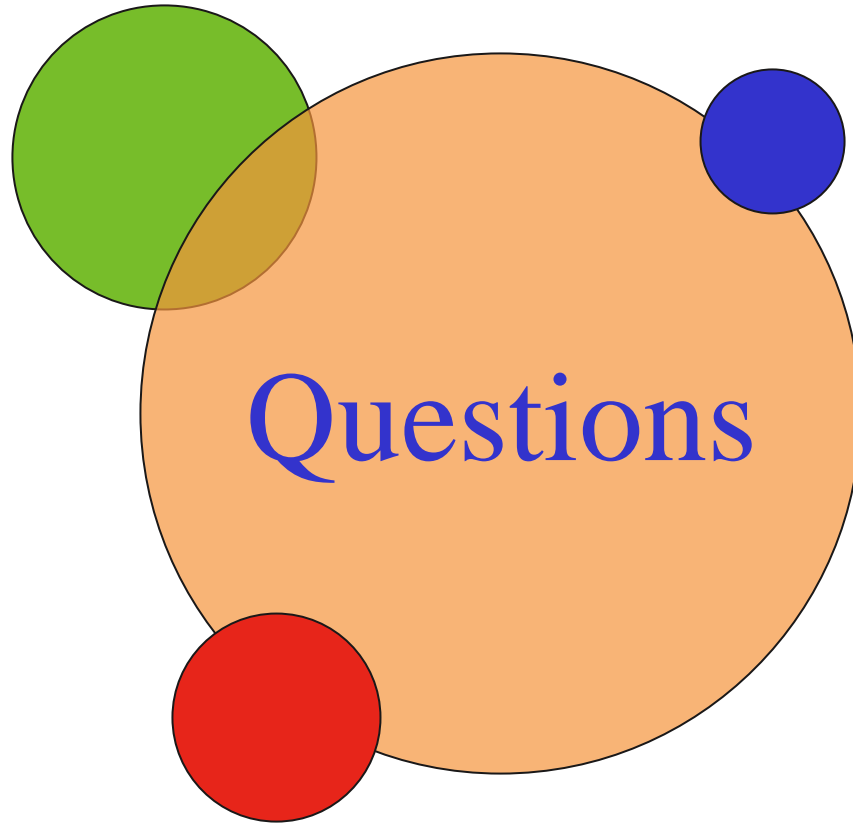
- Released once:
  - New Capacity has been declared commercial, and
  - New Capacity has been tested for its capacity rating (Manual 20)
- Follows existing capacity FAP requirements thereafter
- Financial assurance will be forfeited for any portion of capacity accepted in the FCA that does not demonstrate

# Load Serving Entity Obligation

- Financial Assurance Requirement
  - Equal to the amount due from the LSE on the next invoice to be issued by the ISO, there will not be any multiplier applied to this amount
  - Unless actual amount due is known prior to the applicable month in the Commitment Period for which FA is being collected, the ISO will base the amount of collateral due by averaging the two most recent monthly invoice amounts for capacity payments to arrive at the amount of FA required. This method is consistent with current FAP for determining the basis of non-hourly charges
  - Settlement Agreement Reference
    - Section II.G.1

# Miscellaneous – FA for Participation in the FCA

- New Capacity offering into a reconfiguration auction or any other auctions will be subject to the same financial assurance requirements as an annual FCA
- Existing Participants offering into any FCM auction will be checked to verify that they are not suspended. If suspended they will not be allowed to participate in the FCA



# Examples

# Example 1 – Financial Assurance Policy Requirements and Timing

## Assumptions:

- This example applies to the following types of New Capacity:
  - New Capacity – General
  - New Capacity Demand Resource – “ All at Once” Project
  - New Imports
- New Generator with a Capacity Rating of 100 MW
- Participation is for the First Annual FCA

# Example 1 – Financial Assurance Policy Requirements and Timing

Date	Description of Event		Cumulative Amt due and posted
10/01/07	New Capacity Determination Letters are sent out		
10/12/07	Deposit Financial Assurance Due	100 MW * \$2,000 per MW	\$200,000
02/01/08	Conduct 1 <sup>st</sup> Annual FCA		
02/04/08	FCA Winners Announced	<b>You Won</b>	
02/11/08	New Capacity FA (NCFA) amt due	100 MW * CONE (\$7.50/kw)	\$750,000
11/17/08	2 <sup>nd</sup> Installment of NCFA due	100 MW * CONE (\$7.50/kw)	\$1,500,000
12/01/08	Conduct 2 <sup>nd</sup> Annual FCA		
09/16/09	3 <sup>rd</sup> Installment of NCFA due	100 MW * CONE (\$7.50/kw)	\$2,250,000
10/01/09	Conduct 3 <sup>rd</sup> Annual FCA		
06/1/10	Commercial Operations Declared and unit Tested and Start of Commitment Period for 1 <sup>st</sup> Annual FCA		
06/07/10	Release NCFA to Customer, who is now Existing Capacity	Refund Amount Includes interest of \$100,000	(\$2,350,000)

All dates contained on this slide are for illustrative purposes and are subject to change pending the filing of the Market Rules

# Example 2 – Financial Assurance Policy Requirements and Timing (Proposed)

## Assumptions:

- Example 2 applies to the following type of New Capacity:
  - **New Capacity – Demand Resource “Ramp-Up” Customer**
- Capacity offered 10 MWs (Load Reduction)
- Participation is for the First Annual FCA
- Milestones for Load Reduction
  - 12/15/08 – Reduce Load by 3 MWs
  - 6/15/09 – Reduce Load by 6 MWs
  - 6/1/2010 – Reduce Load by 10MWs

**Demand Resource “Ramp-up”  
customer**

# Example 2 – Financial Assurance Policy Requirements and Timing (Proposed)

Demand Resource “Ramp-up” customer

Date	Description of Event		Cumulative Amt due and posted
10/01/07	New Capacity Determination Letters are sent out		
10/12/07	Deposit Financial Assurance Due	10 MW * \$2,000 per MW (\$2.00/kw)	\$20,000
02/01/08	Conduct 1 <sup>st</sup> Annual FCA		
02/04/08	FCA Winners Announced	<b>You Won</b>	
02/11/08	New Capacity FA (NCFA) amt due	10 MW * CONE (\$7.50/kw)	\$75,000
11/17/08	2 <sup>nd</sup> Installment of NCFA due	10 MW * CONE (\$7.50/kw)	\$150,000
12/01/08	Conduct 2 <sup>nd</sup> Annual FCA		
12/15/08	Reduce Load by 3 MWs	Verified/Approved by ISO	
12/19/08	Release Financial Assurance	3 MWs * CONE (\$7.50/kw) * 2= \$45,000	\$105,000

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# Example 2 – Financial Assurance Policy Requirements and Timing (Proposed)

Demand Resource “Ramp-up” customer

Date	Description of Event		Cumulative Amt due and posted
06/15/09	Reduce Load by a total of 6 MWs	Verified/Approved by ISO	
06/19/06	Release Financial Assurance	3 additional MWs * CONE (\$7.50/kw) * 2= \$45,000	\$60,000
09/16/09	3 <sup>rd</sup> Installment of NCFA due	4 MW * CONE (\$7.50/kw) (balance of load yet to be reduced)	\$90,000
10/01/09	Conduct 3 <sup>rd</sup> Annual FCA		
06/01/10	Total Load Reduction reached and verified and Start of Commitment Period for 1 <sup>st</sup> Annual FCA		
06/07/10	Release NCFA to Customer, who is now Existing Capacity	Refund Amount Includes interest of \$4,000	(\$94,000)

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