



Today's Focus

- Today's presentation describes the CEO's proposal to enhance the Non-Commercial Capacity Financial Assurance (NCFA) design and introduces key design concepts of the proposed improvements
- The proposed concept is to add a new NCFA element: "trading NCFA" in addition to the existing structure
- A more detailed discussion on the design mechanics will take place at the August 2019 Budget and Finance Subcommittee meeting

BACKGROUND

NCFA and the FCA qualification process determine which projects can participate in an FCA

- Forward Capacity Auction (FCA) qualification and the interconnection process establish a MW quantity and timeframe for when a proposed project can be reasonably expected to be delivered
- NCFA collateral requirements for proposed projects put capital at risk until the proposed project is delivered
- Both qualification and NCFA are intended to ensure that proposed projects are “real” without creating an inefficient barrier to entry

Example: NCFA associated with the FCA

For a proposed project in FCA 13 with 100MW of qualified non-co ()5 (3)JTJ3 Tw 5 0.004 Tw:04 Tw \$ <<MTJ3 T. DS1 .()-5 (a

NCFA confirms a participant's continued intent to deliver the project

- Additional NCFA installments increase the collateral requirement and thus the financial consequences if the project continues to elect to participate but does not deliver
- Each subsequent year ten business days ahead of each FCA, a participant's collateral requirement is increased for any projects that are not delivered
- Additionally, a participant's collateral requirement is increased for each six-month period after the start of the Capacity Commitment Period (CCP) for which the project initially cleared and is not delivered

Example: NCFA increases over time

When a proposed project becomes commercial NCFA is reduced

- As projects with FCA cleared non-commercial capacity achieve commercial operation, participant's collateral requirements are reduced based upon how much of the project is delivered
- Projects that do not achieve commercial operation for FCA cleared non-commercial capacity (and are terminated or withdraw from monitoring) forfeit the associated collateral

Participants with delayed projects may also trade out of their CSO

- Participants are able to trade their Capacity Supply Obligation (CSO) in an annual reconfiguration auction (ARAs), monthly reconfiguration auctions (MRAs) or through monthly bilateral contracts
- Depending on market conditions, a participant can incur a gain or loss associated with trading a CSO
- Regardless of the trading outcomes, NCFA is retained until the project is delivered or terminated/withdrawn

Example: Trading a CS@ positive trading revenue

Building on the prior example:

- FCA price and quantity = \$3.80/kWh for 100 MW (acquire)

AREAS FOR IMPROVEMENT



Trading revenues weaken incentives to deliver projects or exit market promptly

- Participants may have incentives to stay in the market (and trade out of their CSO) rather than exiting the market
 - Participants that have positive trading revenues in excess of their NCFA have reduced (or no) financial exposure for delivery of a proposed project
- The existing NCFA design does not consider potential trading revenues in its collateral calculations
 - Historically, many ARAs and MRAs clear at prices below the associated FCA price for a given CCP resulting in the potential for a participant to have positive trading revenues

DESIGN OVERVIEW

Design Objectives

Objective 1: Ensure that participants with noncommercial projects maintain collateral at risk until the project is delivered

- The net financial obligation of a project should minimally equal the NCFA collected by the ISO

Objective 2: Ensure that participants with noncommercial MW face increased financial consequences for not delivering a project if they clear in additional FCAs

- Participants should be evaluating if they should continue to clear in the auction based upon their ability to deliver the project, not based upon potential trading profits

Proposed design will ensure that collateral is always at risk until the project becomes commercial

- Proposal: Increase the total NCFA to include any positive trading revenues made by the participant when trading out of their CSO (i.e., “trading NCFA”) in addition to the existing NCFA (i.e., “base NCFA”)
 - Once the project is delivered, the collateral requirements will be reduced following a similar process to today
 - No changes are required to the existing FCM settlement processes
- The proposed modifications remove financial incentives for participants with noncommercial capacity to remain in the market to trade out of their CSO to capitalize on favorable market conditions
 - The longer the project remains qualified the greater the collateral requirements and increased financial consequences for non-delivery

Example: Interaction between NCFA and Trading Revenues

- Building upon the prior examples recall that a project that is more than six months late and decides to cover for the year would have the following:
 - NCFA (or Base NCFA): \$1.90M
 - ARA3 Trading Revenue: \$2.4M
- Trading NCFA: \$2.4M
ARA3 Trading Revenue
- Total NCFA: \$4.3M $\$2.4M + \$1.9M$
Trading NCFA + Base NCFA
- Total NCFA equals \$4.3M and trading revenues equal to \$2.4M, which nets to a negative cash flow of \$1.9M equal to the base NCFA

Proposed design maintains collateral at risk until the project is delivered

- The proposed changes achieve both design objectives since trading revenues can no longer offset NCFA
 1. Ensure that participants with noncommercial projects maintain collateral at risk until the project is delivered
 2. Ensure that participants with noncommercial projects face increased financial consequences for not delivering a project if they clear in additional FCAs

STAKEHOLDER SCHEDULE

Stakeholder Schedule