INC/DEC Credit Policy Suggestions

Credit Subcommittee
June 10, 2014
Harold Loomis
• Three proposals made, with request to analyze each to determine if any one stands out above the others

• Current virtual transactions credit policy:
  – Additive across all transactions for 1 day bid and 3 days cleared (“1+3”)
    • Could be lower if two days bid is less than the 1+3 calculation
    • Timeframe may be reduced subject to separate discussion
  – Credit requirement per transaction equal to MWH times 97th percentile of absolute value of hourly DA-RT price differential in two-month period last year
INC/DEC Credit Policy Suggestions

• Proposal 1
  – Same as current virtual calculation (based on DA-RT LMP differential) except:
    • Separate peak and off-peak requirements
    • Separate INC and DEC requirements
      – INC exposure is DEC profit and vice-versa
      – Uses actual prices instead of absolute value difference
    • Replace 97th percentile with new confidence interval based on new analysis of 50, 70, 80, 90, 95, 97 percentiles

• Proposal 2
  – Same as Proposal 1 except incorporate bid/cleared prices into calculation
Proposal 3

- Same as Proposal 1 except historical DA-RT price calculation is split into two components that are additive for each node
  - Energy price component
    - Uses only RTO-wide energy price component of LMP, but adjusts for fuel price (nat. gas) changes from last year
  - Congestion and losses price component
    - Same as Proposal 1, but using only congestion and losses components of LMP
    - The two components may incorporate different percentiles for historical prices
      - To be determined by analysis of different confidence intervals