

Comprehensive Financial Assurance Requirements

Working Draft of Proposed Revisions to NYISO Financial
Assurance Requirements

Presented to the
Billing Issues Committee
December 13, 2002

This presentation was given to the S&P Working Group on
November 15, 2002

Presentation Materials

- I. Power Point Presentation
- II. Key Terms of Proposed Financial Assurance Requirements (FAR)
- III. Credit Assessment Methodology (CAM)

Power Point Presentation

- What it should do –
 - Provide an overview of the FAR & CAM
 - Highlight significant points
- What it will NOT do –
 - Be a substitute for a careful reading of the FAR

Financial Assurance Requirements (FAR)

- Three Components
 - Proposed Comprehensive Revisions to Credit Requirements
 - Bad Debt Recovery Formula
 - Working Capital Contribution Formula

FAR – Highlights

I. Preamble

- The attached FAR will serve as the basis for a filing to amend the NYISO's tariffs

II. Definitions

- 17 newly defined terms

III. Applicability

- The proposed revisions apply to **all** Customers.

FAR – Highlights (Cont'd)

IV. Ratings & Rating Agencies

- Currently use S&P and Moody's
- Adding Two Rating Agencies (Fitch and Dominion)
- Ratings considered
 - Long-Term Unsecured Debt or, if not available,
 - Issuer Rating adjusted downward by one notch (from A- to BBB+)
- Application of Ratings
 - Investment Grade
 - Non-Investment Grade (Below BBB – Baa³ – From any of the Rating Agencies)
- Equivalency Ratings Available

FAR – Highlights (Cont'd)

V. Reporting Requirements

- Financial Statements (for Unsecured Credit)
 - Three years audited statements
 - Most recent quarterly statement
- References
- Affiliate relationships
 - Currently a NYISO Customer
 - Applying to become a NYISO Customer
- Prior Bankruptcy or default within five years of
 - The Customer
 - Predecessors
 - Subsidiaries
 - Affiliates
- Ongoing Investigations
- Material change in Financial Status - within five business days
- Change in Peak Load

FAR – Highlights (Cont'd)

VI. Unsecured Credit Limit

- The NYISO will determine the amount of Unsecured Credit, if any, as provided
- Unlimited Unsecured Credit eliminated
- All credit lines subject to a Market Concentration Cap
- Credit Assessment Methodology will be posted on the Web

FAR – Highlights (Cont'd)

VII. Pay-down and Pre-payment Agreements

- Pay-down Agreements
 - An alternative to providing collateral
 - Late fees (in addition to interest) and other consequences for violation of agreement
- Pre-payment Agreements
 - A way to reduce (not eliminate) the collateral requirement
 - Late fees (in addition to interest) and other consequences for violation of agreement

FAR – Highlights (Cont'd)

VIII. Operating Requirement

■ Purpose and Function

- Reflects the level of a Customer's participation in the NYISO's markets
- Determines the amount of Unsecured Credit and/or collateral the Customer must maintain
- It is determined separately from the Unsecured Credit and Collateral requirements for Virtual Transactions and for bidding into the NYISO-administered auctions.

■ Calculation

- Separate calculations for each market
 - Energy and Ancillary Services Component
 - UCAP Components
 - TCC Components
- The calculation for the Energy and Ancillary Services Components varies:
 - Investment Grade Customer
 - Non-Investment Grade and Unrated Customers
 - Without a Prepayment Agreement
 - With a Prepayment Agreement
 - New Customers

FAR – Highlights (Cont'd)

IX. Financial Assurance for Virtual Transactions

- No Change from current requirements

FAR – Highlights (Cont'd)

X. Financial Assurance Requirements for NYISO Auction

- A Customer must allocate a portion of it's Unsecured Credit and/or existing collateral (or provide new collateral) to cover it's participation in TCC and UCAP Auctions
- TCC Auction – Must cover the amount of all
 - Positive bids submitted to purchase TCCs
 - The Absolute Value of all negative offer prices for sales of TCCs
- UCAP Auction – Must cover the amount of all:
 - Bids to purchase UCAP in the strip auctions and/or the monthly auctions
 - MAXIMUM AMOUNT a Customer may be required to pay for UCAP in an upcoming Deficiency Procurement Auction pursuant to Section 5.14 of the Services Tariff
 - Credit and/or collateral must be provided at least five business days prior to the Deficiency Auction

FAR – Highlights (Cont'd)

XI. Additional Security

- A Customer must provide additional collateral or make payment if its Operating Requirement exceeds its current level of Unsecured Credit and collateral by more than \$10,000.

XII. Forms of Collateral:

- Acceptable Types:
 - Cash
 - Letters of Credit (LOC)
 - Affiliate Guarantees (Guarantees)
- Qualifications:
 - LOCs and Guarantees must be in a form acceptable to the NYISO and from a bank or guarantor approved by the NYISO
- Change to Current Policy
 - Surety Bonds will NOT be considered an acceptable form of collateral
- Alternative Security Arrangement
 - May be made in exigent circumstances to protect the financial position of the NYISO if approved by the NYISO

FAR – Highlights (Cont'd)

XIII. Payment History Waiver

- The waiver of collateral requirements on the basis of payment history shall be eliminated immediately upon the effectiveness of the revised FAR

XIV. Customer Default, Termination, and Withdrawal

- Reasons for Termination
 - Failure to cure a non-payment default within 2 business days of notice
 - Failure to cure other credit-related default within 3 business days of notice
- Notice to the POLR of Possible Load Transfer
 - As soon as the NYISO reasonably believes it will have to transfer the load to the TO
- Notice to the Market
 - The NYISO shall notify all Customers in the event that it terminates service to a Customer due to default

XV. Material Adverse Change

- The amount of Unsecured Credit granted to a Customer, if any, and the amount of the Customer's Operating Requirement shall be subject to change, at the discretion of the NYISO, in the event that there is a material adverse change affecting the risk of nonpayment by the Customer

Key Terms of Additional Provisions

I. Recovery of Loss

- Sequence of Recovery Actions
- Bad Debt Loss Allocation Formula

II. Working Capital

- Formula for Contribution to Working Capital
 - Same as the formula for the Allocation of Bad Debt Loss

Credit Assessment Process

- I. Narrative describes the methodology of the Credit Assessment Process
- II. Review of the exhibits (A through K)
- III. The Credit Assessment Narrative plus exhibits will be posted to the NYISO Web Site