

Alternative Form of Collateral

NYISO Schedule & Pricing Working Group November 29, 2005

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Overview

- **Several ESCOs have asked the NYISO to allow the pledging of payments from a Transmission Owner (“TOs”)** that result from the sale of the ESCO’s retail accounts sold without recourse (“POR”) as an alternative form of collateral for the energy and capacity markets.**

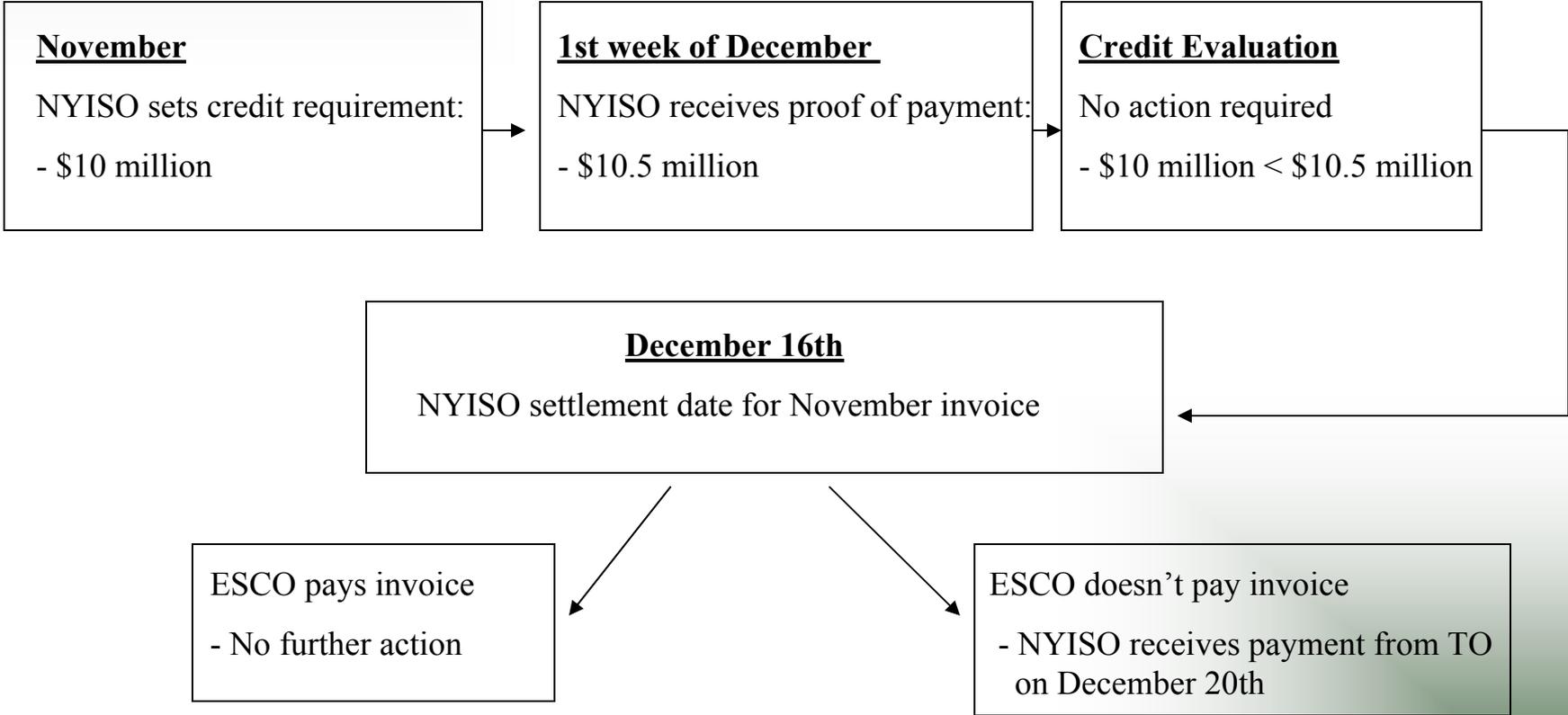
- **Current forms of credit support generally accepted by the NYISO:**
 1. Cash
 2. Letter of credit (“LC”)
 3. Surety bond
 4. Corporate guaranty
 5. Prepayment Program
 6. Paydown Program
 7. Sleeve arrangements

- **NYISO continues to try and reduce barriers to entry while still protecting the market against undue risk of loss.**

***Con Ed of NY, Orange & Rockland, Rochester Gas & Electric and Central Hudson Gas & Electric are the TO’s currently offering this program, however it is expected that all TO’s will participate by early 2006. Note that LIPA and NYPA will not participate in POR programs.*

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Diagram of Mechanics



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Example - Mechanics of Proposal

- **ESCO ABC has an energy credit requirement from prior equivalent capability period of November 2004 – April 2005 of \$10 million, for the current period of November 2005 – April 2006. This assumes current energy purchases across a 50 days period at any point in the billing cycle is consistent with \$10 million, based on prior equivalent capability period. If the price of energy peaks or ESCO A adds load, it is possible that the credit requirement can increase above the \$10 million.**
- **For the billing month of November, NYISO expects to receive proof of payment from TO by December 2nd or 3rd, for which the ESCO is scheduled to be paid by TO on December 20th.**

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Example - Mechanics of Proposal – (continued)

- Upon receiving electronic statement from TO evidencing amount of receivable, Credit Department determines if payment to be made to ESCO on December 20th is equal to credit requirement for energy of \$10 million. If amount is greater, then no action required. If amount is less, Credit Department makes a demand for additional collateral.
- Monthly invoice payments are due on the 1st business day after the 15th of every month, which usually 16th of the month. If ESCO ABC defaults on its payment to NYISO, then NYISO invokes a lock box on the receivable, so that NYISO receives funds directly in amount equal to ESCO's energy November energy settlement on December 20th instead of ESCO.

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Requirements of MP

1. **ESCO must provide a copy of the fully executed POR agreement with TO**
2. **ESCO must provide evidence of percentage of its total receivables in the POR program**
3. **ESCO must provide agreement(s) executed between itself and retail customers. NYISO needs to verify cost structure imposed on retail customer by ESCO (i.e., fixed price vs. variable price contracts)**
4. **UCC search must be performed to assure NYISO is in first security position**
5. **ESCO executes appropriate agreements between NYISO and bank**
6. **ESCO must provide two years of financial statements and compilation of projected cash flows for the year**
7. **ESCO must provide proof of receivable payment from TO monthly**

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Advantages of POR Program

- 1. More cost effective than securing standard forms of credit support**
 - Cost to MP includes UCC filing (<\$1,000) and annual costs of lock box (aka account control agreement (approximately \$20,000)
 - Letters of Credit cost 1.5% - 2% of face of instrument
 - Sleeve arrangements cost \$1.25 - \$1.50 per monthly MW consumed
- 2. During times of rising energy prices, or customer growth, the receivable will pace or match NYISO credit requirement.**
- 3. NYISO continues to reduce barriers to entry while still protecting the market from undue risk of loss.**

Possible Disadvantages of POR Program

- 1. Unknown administrative burden to NYISO.**
- 2. Credit risk is shifted from typically higher credit-rated banks to potentially lower credit-rated TOs.**
- 3. Letters of Credit are guaranteed for 1 year**
- 4. Termination of the POR agreement, by either ESCO or TO may pose risk to NYISO**

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Next Steps

- **NYISO Credit and Legal continue to work on details of program**
- **Refine the proposal for approval by the S&P working group for presentation to Business Issues Committee in the near future**