

Revisions to Prepayment Program

Management Committee

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Revision to Prepayment Program

Overview of Proposal:

1. Change the prepayment date from Friday to Monday
2. Reduce the period cure non-compliance under a prepayment agreement from three days to one day
3. Modify methodology used to calculate collateral required for a Market participant participating in the prepayment program from one based on historic true-ups, to one obtaining three-days of collateral (the new methodology will be consistent with the collateral calculations used for the normal operating requirement and the paydown program).

Revisions to Prepayment Program

Current Prepayment Program

- As a way to reduce required credit support for participation in the Energy market, a net purchaser of energy may enter into a prepayment program.
- The credit requirement for Market Participants (“MPs”) participating is reduced in return making a prepayment of their energy that is expected to be purchased the following week. The prepayment is based on the NYISO’s estimate of what the MP will purchase the following week.
- The collateral requirement for prepayers is calculated using the MP’s historic true-ups from previous six-months less one week’s average prepayment

Revisions to Prepayment Program

Current Prepayment Program - continued

- Payments are due every Friday for the next seven days of energy purchases.
- If a prepayer does not make its regular prepayment on Friday, NYISO may issue a demand for collateral due the following Monday.
- If MP does not meet the demand, the entity has three business days to cure the default resulting from its failure to comply with NYISO's collateral demand.
- The combination of Friday as due date for payment, and the cure period of three business days, results in seven additional days of exposure, before a MP can be terminated. The proposed modifications will minimize potential as discussed below.

Revisions to Prepayment Program

Revised Prepayment Program

- Payments will be due every Monday for the next seven days of energy purchases [Tuesday through the following Monday].
- If a prepayer does not make its regular prepayment on Monday, NYISO may issue a demand for collateral due the next day [Tuesday of same week].
- If MP does not meet the demand, the entity has one business day (Wednesday of same week) to cure the default resulting from its failure to comply with NYISO's collateral demand. NYISO may then terminate service on same day.
- Base credit support will be calculated as follows:
 - Higher of:*
 - 1. Month with greatest energy purchases in previous capability period extrapolated for three days or;
 - 2. Average purchases for previous 10 days extrapolated for three days

Revisions to Prepayment Program

Comparison of Current vs. Proposed Credit Calculation

<p><u>Current Calculation:</u></p> <p>Projected True-ups owed <u>less: average weekly prepayment</u> Base Credit Requirement</p>	<p><u>Proposed Calculation:</u></p> <p>Higher of:</p> <p>1. Highest month energy purchased <u>in previous capability period</u> x 3 # of days in month</p> <p>Or</p> <p>2. <u>Total Energy purchased for previous 10 days</u> x 3 10</p>
<p><u>Example No Collateral Required:</u></p> <p>Projected TU = \$100,000 Aver wkly pp = <u>(\$200,000)</u> (\$100,000) no collateral required</p> <p><u>Example of Collateral Required:</u></p> <p>Projected TU = \$ 300,000 Aver wkly pp = <u>(\$200,000)</u> \$ 100,000 collateral required</p>	<p><u>Example:</u></p> <p>Higher of:</p> <p>1. August 2005 is Highest Month: <u>\$800,000</u> x 3 = \$77,420 31</p> <p>Or</p> <p>2. Previous 10 days energy purchase: <u>200,000</u> x 3 = \$60,000 10</p>

Revisions to Prepayment Program

Summary Comparison

	Current Method	Proposed Method
Prepayment	7 day	7 day
Collateral	Projected True-up less 1-week average prepayment	3-day Pro-rated based on charges incurred
Days to cure default	3	1
Total days credit risk	7	0

Revisions to Prepayment Program

	Fri	Sat	Sun	Mon	Tues	Weds	Thurs	Fri	Sat	Sun
Current	7-day payment Due 4PM	1	2	3	4	5	6	7		
				Margin Call Due	3 day cure period		Terminate Service	DAM Bids from Thursday settled		
	Mon	Tues	Weds	Thur	Fri	Sat	Sun	Mon	Tues	Weds
Revised Proposal	7-day payment Due 4PM	1	2	3	4	5	6	7		
		3 day collateral								
		Margin Call Due	One day Cure— Terminate Service	DAM Bids from Wed. settled						

 Day of Credit Risk

 Day of No Credit Risk

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Next Steps

- NYISO presented this proposal to the Credit Policy Task Force (CPTF) and Scheduling & Pricing Working Group (SPWG) on May 5th
- Business Issues Committee (“BIC”) approved the proposal on May 17th and called for a discussion of issues raised by the Committee that was further reviewed with the CPTF and SPWG during a special meeting on May 25th
- Revised Proposal was presented and approved by BIC on June 14th and unanimously approved (with one abstention).

Desired Implementation:

- Tariff changes are required to implement NYISO proposal above.