

Issues and ISO positions regarding Working Capital and Credit Loss allocation
Joint S&P and MS Working Group meeting 2/6/03

1. Should the same allocation method apply to both?
No. Working capital is a cash flow management tool utilized by the ISO and Credit loss sharing is an action taken in response to an event that is the result of a single market participant's behavior. As such these assessments or distributions have different sources and different purposes even though in the event of a credit loss it is likely that prior to declaring the loss, the ISO would use working capital to cover short-term cash requirements.

Therefore we recommend that Credit Loss be allocated as described in subsequent paragraphs and that Working Capital assessments be treated as an ISO business expense and allocated as part of Schedule 1.(subject to 85/15% distribution?)

2. Recommended alternate Credit Loss allocation.
The allocation would be based on the following formula:

$$\% \text{ paid by customer} = (CAW + CI)/(NYAW + NYI)$$

Where:

CAW = Price adjusted Withdrawals = The sum of the Customers Actual Energy Withdrawals for all Transactions to supply Load in the NYCA and hourly Energy schedules for all Wheels Through and Exports in MWHs times the average DAM zonal LBMP of the applicable withdrawal zone(s) or proxy bus(es) during the month of loss or collection

CI = Price adjusted Injections = The sum of the Customers Actual Energy Injections for all Transactions to supply Load in the NYCA and hourly Energy schedules for all Imports in MWHs times the average DAM zonal LBMP of the applicable injection zone(s) or proxy bus(es) during the month of loss or collection

NYAW = Price adjusted statewide Actual Withdrawals = The total of the NYISOs Actual Energy Withdrawals and hourly Energy schedules for all Wheel Throughs and Exports in MWHs times the average DAM zonal LBMP of the applicable withdrawal zone(s) or proxy bus(es) during the month of loss or collection

NYI = Price adjusted statewide Actual Injections = The total of the NYISOs Actual Energy Injections and transactions to Import Energy into the LBMP market in the New York Control Area in MWHs times the average DAM zonal LBMP of the applicable injection zone(s) or proxy bus(es) during the month of loss or collection

3. Should supply (actual energy injection) share at all in the distribution of credit loss since they would seldom, if ever be the cause?

An arguable point. The ISO suggests that supply should participate in that they are benefiting participants in the market and credit loss coverage is necessary for the continued operation of the market for all participants and **all** contributors to covering such a loss are innocent parties including other stakeholders in the defaulting party's group.

4. Any concerns associated with the inclusion of virtual bidders and TCC holders or the method of determining their allocation?

Yes. The ISO recommends that virtual bidders and TCC holders not be included in the distribution because their contribution to covering the cost of credit loss will not be justified by the cost of developing a means of computing their share of the contribution.