

Scheduling and Pricing WG

Enhanced Collateral Proposal

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CURRENT CREDIT POLICY

- Credit Policy Included in NYISO's Market Administration and Control Area Services Tariff Attachment K and OATT Attachment W
- Acceptable Forms of Collateral:
 - Cash; or
 - Letter of Credit (LC)
- MP Cash Deposited in ISO Bank (Key Bank); Annualized Return in '04 < 1%
- LC Can Cost Market Participant (MP) As Much As 1.5% Annually

PROPOSAL PRINCIPLES

- MPs Continue to Provide Cash; Placed in ISO Account in Key Bank
- Maintain Same Level of Credit Protection to All MPs
- Lower Operating Cost to MPs

PROPOSAL

- Allow MPs to Choose How NYISO Invests Cash in a Menu of Acceptable High Quality Securities
- Amend Internal ISO Policy
 - Protocol Between ISO and MP to Implement MP Investment Strategy
 - Convert All Securities to Cash in the Event of a Bankruptcy

PROPOSAL

- Allowable Securities:

- Treasury Bills and Notes with a Duration No Greater than 2 Years
- Federal/State Agencies (e.g., Fannie Mae, Freddie Mac, Federal Farm Credit Bank, GNMA, Federal Home Loan Bank, etc.) with Duration No Greater than 2 Years
- A (or better) Rated Corporate, Mortgage-backed or other Securitized Issue with Duration No Greater than 2 Years
- Short-term Money Market Instruments (Commercial Paper, Repurchase Agreements, Bankers' Acceptances, Negotiated CDs, Guaranteed Investment Certificates, etc) Issued by Investment Grade (A or better) Companies
- A (or better) Rated Municipal Bonds with Duration No Greater than 2 Years
- An increase of collateral posted may be required based upon the securities selected by the MP

OTHER

- Key Bank Provides NYISO with Daily Mark-to-Market on Value of Securities for Each MP
- ISO, Same as Today, Determines if Value of MP Account is \geq MP Collateral Required Based on Market Activity. If Value $<$ More Collateral Posted by MP.
- Reference Point – NYMEX Allows Cash, Treasuries (of Duration up to 10 Years), LC or Money Market Mutual Funds.