

DC ENERGY

Alternative Collateral Proposal

October, 2004

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CURRENT CREDIT POLICY

- ACCEPTABLE FORMS OF COLLATERAL:
 - CASH; or
 - LETTER OF CREDIT (LC)

PROPOSAL

- PROPOSE AN ADDITIONAL FORM OF COLLATERAL - ACCOUNT CONTROL AND PLEDGE AGREEMENT
 - Cash substitute - stronger than letter of credit
 - Commonly used by banks for collateral

BENEFITS

- LOW COST
 - Almost zero cost relative to letter of credit
- HIGHER INTEREST
 - Can invest in safe securities with higher interest than overnight funds/money market
- PORTFOLIO MANAGEMENT
 - Easier to manage investment portfolio, less disruptive than cash disbursements
- COMMON USAGE IN BANKING
 - Lot's of real world experience
- SAFE SOURCE OF COLLATERAL FOR NYISO
 - Safer than credit-based collateral because NYISO controls the account
 - Perfected security
- FLEXIBLE
 - Standard agreements can be modified to NYISO specific constraints - e.g. disallowed securities, cash withdraws.

THIS COLLATERAL HAS TWO ELEMENTS

- The PLEDGE AGREEMENT is a contract between an obligor (e.g., the market participant) and a creditor (e.g., the ISO) in which the obligor grants the creditor a security interest in certain of the obligor's assets as collateral for an obligation owed to the creditor.
- The ACCOUNT CONTROL AGREEMENT is a contract among the obligor, a financial institution holding the obligor's assets and the creditor. In this agreement the financial institution recognizes the creditor's security interest in the specified assets of the obligor, agrees to hold them subject to the instructions of the creditor, and creates a perfected security interest in them for the benefit of the creditor.

DETAIL

- The agreement can impose limitations on the types of assets that may be purchased for the obligor's account (e.g., only bonds of a certain rating). In addition, the agreement will prohibit withdrawals from the account either completely or below a specified dollar threshold.