

Revised Prepayment Program Proposal

Con Edison

Business Issues Committee

6-14-06

Consistency with Other Energy Related Payment Programs and Creditworthiness Requirements


- The Operating Requirement and Paydown Agreement both have several days of credit coverage built into its method to protect the market during any default and cure period.
- The Prepayment Program does not have any days of credit coverage built in to protect the market during the default and cure period.
 - Built into the design is seven days of credit exposure

Proposal – Eliminate the seven days of credit exposure

- Two days: Shift the prepayment due date from Friday to Monday
- Two days: Reduce the cure period from three days down to one day
- Three days: Expand credit requirement to require three days of collateral coverage to cover default and cure period

NYISO Proposal

	Fri	Sat	Sun	Mon	Tues	Weds	Thurs	Fri	Sat	Sun
Current	7-day payment Due 4PM	1	2	3	4	5	6	7		
					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	1 day Cure Terminate Service	DAM Bids from Wed. settled						

 Day of Credit Risk

 Day of No Credit Risk

Transition Period

- One time prepayment for 3 days (covering Sat to Mon) to “catch-up” to new billing period
- Meet the three day energy credit requirement utilizing available unsecured credit or collateral

Ongoing

- MP makes weekly prepayments each Monday
- Calculate three-day credit requirement similar to operating requirement method, prorated to three days.
- Pre-payer credit requirement:
 - **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

Proposal Comparisons

	Current	5/19 BIC Approved	6/14 Proposal
Prepayment	7 day	7 day	7 day
Collateral	True-up	True-up	3-day prorated
Days to cure default	3	1	1
Total days credit risk	7	3	0

Benefits of Proposal

- Reduces the identified credit risk
- Proposal was discussed and modified at two CPTF meetings and supported by most participants
- Meets FERC goal as referenced in June 2004 order; “ it is necessary to require only enough collateral to protect the NYISO from the risk of non-payment by its customers”
- Remains a voluntary program since customers can choose alternative programs

BIC Motion

The Business Issues Committee (BIC) hereby approves modifications to the May 17, 2006 BIC motion addressing the NYISO Prepayment Agreement Cure Period. The modifications, as presented to the BIC on June 14, 2006, will reduce the credit risk in the NYISO markets by replacing the true-up collateral with a pro-rated three-day energy collateral. BIC recommends a consolidated proposal be presented to the Management Committee on June 28th for consideration and approval.