

# NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

## BAD DEBT LOSSES POLICY AND PROCEDURE

Rate Schedule 1 of the NYISO Open Access Transmission Tariff (“OATT”) allows NYISO to recover “costs that the ISO incurs as a result of bad debt, including finance charges” from transmission customers. Attachment I of the NYISO Market Administration and Control Area Services Tariff (“Services Tariff”) discusses the recovery of bad debt losses associated with virtual bidding transactions. Sections 7.3 of the OATT and 7.5 of the Services Tariff discuss the remedies available for a customer default.

Other than these references, the NYISO tariffs are essentially silent with respect to the particulars for treatment of bad debt losses. The purpose of this document is to outline the specific policies and procedures related to bad debt losses.

Note that the declaration of a bad debt loss in the context of this policy may differ from the guidelines of generally accepted accounting principles (“GAAP”). NYISO seeks to minimize the impact of bad debt losses on market participants, to recover the loss from the market participants in NYISO’s markets at the time of the loss, and to provide timely notifications to market participants. In contrast, the declaration of a bad debt loss under GAAP typically occurs over a much longer time horizon, which may not allow NYISO to meet these objectives.

### **1. Declaration of a Bad Debt Loss**

Immediately following a date where payments are due to the NYISO for settlement invoices, NYISO’s Finance department determines which market participants have not remitted payment in full and initiates collections procedures. Shortly after collections efforts begin, a list of market participants with past due balances will be reviewed with a committee consisting of the Chief Finance & Compliance Officer, Controller & Assistant Treasurer, Corporate Credit Manager, and a member of the General Counsel’s staff.

The aforementioned committee will consider the actions to be taken with respect to these past due balances, and will determine if a bad debt loss has been incurred that requires recovery from Rate Schedule 1. Among the factors that will weigh into this committee’s decision are:

- results of collections efforts for these market participant(s)
- available collateral for these market participant(s)
- available contributions to working capital from these market participant(s)
- materiality of the outstanding balance(s)

If this committee does not reasonably expect payment in full in the immediate future, then a bad debt loss will be declared for future recovery under Rate Schedule 1, and NYISO will undertake steps to pursue available remedies under the OATT and Services Tariffs for customer defaults.

## **2. Notification to Market Participants**

NYISO will notify market participants of the declaration of bad debt losses by a posting to the NYISO website and the market participant subscriber e-mail lists. Details to be provided will include the name of the defaulting market participant, the dollar amount of the unpaid balance, and the applicable billing month for recovery.

## **3. Recovery of Bad Debt Losses**

During the time between the date payments are due to NYISO and the date a bad debt loss is recovered, NYISO will utilize amounts previously collected as working capital to maintain the liquidity of its markets. The purpose of this treatment is to allow NYISO to make payment in full to suppliers according to dates specified in the OATT and Services Tariffs. (See additional details on working capital treatment in the NYISO's Working Capital Policy.)

After NYISO has declared a bad debt loss and has notified market participants, NYISO will recover the amount of the loss from transmission customers that were subject to Rate Schedule 1 of the OATT during the month of the bad debt loss. NYISO will make every effort to recover this Rate Schedule 1 charge will occur in the next billing month. To illustrate, assume the following scenario:

- A balance due to NYISO for a February invoice on March 16 is not remitted.
- In order to make payment in full to NYISO suppliers on March 20, the amount of the outstanding balance is drawn from the working capital fund.
- After pursuing collections efforts, the aforementioned committee declares a bad debt loss on this receivable on March 30.
- On April 7, NYISO will include an adjustment to Rate Schedule 1 on the March invoices for the amount of the outstanding balance. The adjustment will affect transmission customers that were subject to Rate Schedule 1 during the month of the loss (in this case, February).
- On April 16, the recovered funds are returned to the working capital fund.
- If NYISO is able to recover the funds from the defaulting market participant at some point in the future, a refund through Rate Schedule 1 will be issued to those customers who were subject to the loss.