

**Notes of NYISO Budget, Standards, and Performance Subcommittee Meeting
2/8/01
Credit Policy Issues**

The following attended in person:

Tom Rudebusch	NY Municipal Power Agency
Bill Heinrich	NY PSC
Hank Masti	NYSEG
Aaron Breidenbaugh	Navigant Consulting for PRLC
Jim Parmelee	LIPA
Ron Ungerer	NMPC
Marty Amati	NMPC
Janet Audunson	Orion Power New York
Kevin Jones	Hunton & Williams, counsel for NYISO
Howard Fromer	Enron
Mike Mackles	NYISO
Andy Ragogna	NYISO

The following participated via teleconference:

Mario Divalentino	Strategic Power
Khalid Abedin	Constellation Power
Hal Loomis	NYSEG
Tom Davis	NYP&A
Phyllis Kessler	New Rochdale Group
Patricia Douglas	Con Ed
Bob Stelben	Con Ed
Alan Batt	PPL
Jace Cochran	Strategic Energy
Jim Donnelly	NMPC

1. The following major issues surrounding the BSP proposal made at the 2/1/01 Management Committee meeting were identified, and then individually addressed by the 2/8/01 BSP meeting participants for potential solutions/compromises. Those discussion points are also captured below:
 - a. Should a maximum line of credit be established such that any market participant, regardless of how good its debt rating and/or other financial indicators are, must post collateral if its expected payment obligations exceed that line of credit? (The premise being that extending an unlimited line of credit no longer makes sense given the volatility of today's marketplace.)

Discussion points:

- If such a provision is aggressively put in place, the requirement for an increased contingency fund should be reduced. (NOTE: it was decided to re-name what had been previously referred to as "working capital fund" to the more appropriate term of "contingency fund".)
- Some argue it is really the large NYISO customers that contribute to the NYISO risk. This approach would require them to post more collateral. However, the large customers oppose having to post credit collateral beyond what is the norm for investment grade companies.
- If a collateral posting requirement in concert with establishment of a maximum line of credit is adopted, it should be on a sliding scale considering factors such as:

- . bond or debt rating
 - . ability to pay
 - . “pass through rates” ability
 - . net monthly bill exposure
 - . any credit insurance offset, if applicable
 - . net worth
 - . etc.
- Collateral for exposure up to the credit line could still be required if the market participant failed the current tariff requirements.
 - 10 of the 14 committee representatives participating in the 2/8/01 meeting supported the sliding scale collateral concept.
- b. Should a market participant’s collateral obligation be offset by any contributions it is required to make to a contingency fund?
- Discussion points:
- The committee agreed with this concept
 - The NYISO cautioned that certain adjustments might have to be made if this policy were to reduce the contingency fund below a comfortable level.
- c. What level of contingency funding is appropriate?
- Discussion points:
- NYISO staff stated this is a function of the amount of collateral they have, i.e., the more collateral, the smaller the contingency fund.
 - NYISO staff will develop proposals for the next BSP meeting to illustrate these trade-offs.
- d. Should costs be shared among all market participants (not just LSE’s) to fund contingency fund?
- Discussion points:
- The current tariff provision only provides for loads to contribute.
 - Arguments were made that the generators benefit from a riskless market and should be contributing. Others argue suppliers in a market never are required to fund a credit policy.
 - A majority felt that all market participants should contribute to establishing a finite contingency fund, but only loads should be responsible to replenish it.
- e. How much weight should payment history be given in establishing collateral obligations?
- Discussion points:
- Some felt payment history should not be considered at all; some felt it should.
 - The consensus was that up to an exposure of a specified limit (i.e., \$1 million/month), payment history could apply as a factor to exempt a customer from collateral, but not above that limit.
 - NYISO staff will provide, by the next BSP meeting, analysis (without names) of the 8 or so market participants currently not posting collateral due to a payment history waiver for the purpose of seeing what the impacts of instituting a \$1 million/month cap would have.

- f. How should the interest refunding mechanism on the contingency fund work ?

Discussion points:

- It was agreed this is primarily mechanical rather than controversial and the NYISO should propose a methodology for the committee's consideration.

- g. If a market participant has both load and generation, should that participant's credit exposure be based on the net, the higher of the two, or the sum of the two?

Discussion points:

- The question was further broken down to a more fundamental question, i.e., should a generator (without any load obligation) be required to post collateral. In most markets, suppliers are not exposed to failing to pay -- only the buyers. However, under the market rules, a generator that is given a forward contract in the day-ahead market that fails to generate for whatever reason must buy replacement energy in the real time market from the ISO, and could conceivably default on this obligation. In such an instance, a payment would be due to the NYISO by the generator.
- Some felt strongly for, and some against this. The compromise was based on an "innocent until proven guilty" policy. If there were valid reason to believe the market participant will not incur real time default payments in excess of its monthly payments normally made by the ISO, no posting of collateral would be required. In the case of a market participant with load and generation, the "net" exposure would be used to establish collateral requirements. However, any change in circumstances would allow the NYISO to require collateral.

- h. If a market participant has both load and generation, should its contribution to establishing a contingency fund be based on its net generation, total load plus generation, or the higher of load or generation.

Discussion point:

- For reasons similar to g., it was agreed the net should apply.

2. NYISO outside independent expert

- a. The NYISO intends to seek independent expert advice (could be supplied by one of the auditing firms employed by the NYISO) on the credit policy issues, specifically for the 2/20/01 NYISO Board meeting, and in general as a resource to assist the BSP subcommittee. Initial findings will be shared with the BSP on a 2/16/01 teleconference call.

3. Next steps

- a. NYISO staff will develop two proposals, one that assumes establishing a maximum credit line and one that does not. Contingency fund requirements will be determined for each (i.e., issues 1.a and 1.c above are interrelated). All other issues will be assumed to be resolved as described above with the understanding everything is still negotiable