

Working Draft – For Discussion Purposes Only

New York Independent System Operator Proposed Comprehensive Financial Assurance Requirements Additional Provisions - Key Terms

I. Preamble

This document contains the key terms of proposed revisions to the NYISO's bad debt loss and working capital policies, as they were filed with the Federal Energy Regulatory Commission on November 13, 2002, and November 14, 2002, respectively.

II. Recovery of Losses

- A. The NYISO Board of Directors shall have the authority to procure credit insurance, as it may deem reasonably necessary, to protect against losses attributable to nonpayment by NYISO Customers. The cost of any credit insurance procured by the NYISO shall be included as part of the NYISO's annual operating budget.
- B. In the event of a default by a NYISO Customer, the NYISO shall seek to recover the amounts owed as follows:
- (i) First, the NYISO shall seek to draw upon the entire amount of collateral provided by the Customer.
 - (ii) Second, the NYISO shall seek to draw upon the Customer's contribution to working capital.
 - (iii) Third, the NYISO shall make claims against any available loss protection insurance according to the policy terms.
 - (iv) Fourth, any remaining losses shall be allocated to all Customers, except Virtual Transactions Customers, *pro rata* according to the following formula:

$$\text{Percentage of Loss Paid by Customer} = \frac{\text{CAR} + \text{CAP}}{\text{NYAR} + \text{NYAP}}$$

Where:

- CAR = Customer's gross accounts receivable in month of loss
- CAP = Absolute value of Customer's gross accounts payable in month of loss
- NYAR = NYISO's gross accounts receivable in month of loss, less receivables attributable to Virtual Transactions
- NYAP = Absolute value of NYISO's gross accounts payable in month of loss, less payables attributable to Virtual Transactions

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- C. The NYISO shall not be required to determine the outcome of any insurance claim before allocating losses to Customers.
- D. Any losses recovered through insurance proceeds or from a defaulting Customer shall be allocated to Customers previously charged for the loss in proportion to each Customers original allocation of the loss.
- E.

III. Working Capital

Working capital shall be funded according to the following formula:

$$\text{Percentage of Total Collection Paid by Customer} = \frac{\text{CAR} + \text{CAP}}{\text{NYAR} + \text{NYAP}}$$

- Where:
- CAR = Customer's accounts receivable in month of collection
 - CAP = Absolute value of Customer's accounts payable in month of collection
 - NYAR = NYISO's gross accounts receivable in month of collection
 - NYAP = Absolute value of NYISO's gross accounts payable in month of collection