

Comprehensive Financial Assurance Requirements

Working Draft of Proposed Revisions to NYISO Financial Assurance Requirements

**Presented to the
Management Committee
December 16, 2002**

Presentation Materials

- I. Power Point Presentation
- II. Key Terms of Proposed Financial Assurance Requirements (FAR)
- III. Credit Assessment Methodology (CAM)

Power Point Presentation

➤ What it should do –

- *Provide an overview of the FAR & CAM*
- *Highlight significant points*

➤ What it will NOT do –

- *Be a substitute for a careful reading of the FAR*

Financial Assurance Requirements (FAR)

➤ Three Components

- *Proposed Comprehensive Revisions to Credit Requirements*
- *Bad Debt Recovery Formula*
- *Working Capital Contribution Formula*

FAR – Highlights

I. Preamble

- *The attached FAR will serve as the basis for a filing to amend the NYISO's tariffs*

II. Definitions

- *17 newly defined terms*

III. Applicability

- *The proposed revisions apply to **all** Customers.*

FAR – Highlights (Cont'd)

IV. Ratings & Rating Agencies

- *Currently use S&P and Moody's*
- *Adding Two Rating Agencies (Fitch and Dominion)*
- *Ratings considered*
 - ▶ Long-Term Unsecured Debt or, if not available,
 - ▶ Issuer Rating adjusted downward by one notch (from A- to BBB+)
- *Application of Ratings*
 - ▶ Investment Grade
 - ▶ Non-Investment Grade (Below BBB – Baa³ – From any of the Rating Agencies)
- *Equivalency Ratings Available*

FAR – Highlights (Cont'd)

V. Reporting Requirements

- *Financial Statements (for Unsecured Credit)*
 - ▶ Three years audited statements
 - ▶ Most recent quarterly statement
- *References*
- *Affiliate relationships*
 - ▶ Currently a NYISO Customer
 - ▶ Applying to become a NYISO Customer
- *Prior Bankruptcy or default within five years of*
 - ▶ The Customer
 - ▶ Predecessors
 - ▶ Subsidiaries
 - ▶ Affiliates
- *Ongoing Investigations*
- *Material change in Financial Status - within five business days*
- *Change in Peak Load*

FAR – Highlights (Cont'd)

VI. Unsecured Credit Limit

- *The NYISO will determine the amount of Unsecured Credit, if any, as provided*
- *Unlimited Unsecured Credit eliminated*
- *All credit lines subject to a Market Concentration Cap*
- *Credit Assessment Methodology will be posted on the Web*

FAR – Highlights (Cont'd)

VII. Pay-down and Pre-payment Agreements

- *Pay-down Agreements*
 - ▶ An alternative to providing collateral
 - ▶ Late fees (in addition to interest) and other consequences for violation of agreement
- *Pre-payment Agreements*
 - ▶ A way to reduce (not eliminate) the collateral requirement
 - ▶ Late fees (in addition to interest) and other consequences for violation of agreement

FAR – Highlights (Cont'd)

VIII. Operating Requirement

- *Purpose and Function*
 - ▶ Reflects the level of a Customer's participation in the NYISO's markets
 - ▶ Determines the amount of Unsecured Credit and/or collateral the Customer must maintain
 - ▶ It is determined separately from the Unsecured Credit and Collateral requirements for Virtual Transactions and for bidding into the NYISO-administered auctions.
- *Calculation*
 - ▶ Separate calculations for each market
 - Energy and Ancillary Services Component
 - UCAP Components
 - TCC Components
 - ▶ The calculation for the Energy and Ancillary Services Components varies:
 - Investment Grade Customer
 - Non-Investment Grade and Unrated Customers
 - » Without a Prepayment Agreement
 - » With a Prepayment Agreement
 - New Customers

FAR – Highlights (Cont'd)

IX. Financial Assurance for Virtual Transactions

- *No Change from current requirements*

FAR – Highlights (Cont'd)

X. Financial Assurance Requirements for NYISO Auction

- *A Customer must allocate a portion of it's Unsecured Credit and/or existing collateral (or provide new collateral) to cover it's participation in TCC and UCAP Auctions*
- *TCC Auction – Must cover the amount of all*
 - ▶ Positive bids submitted to purchase TCCs
 - ▶ The Absolute Value of all negative offer prices for sales of TCCs
- *UCAP Auction – Must cover the amount of all:*
 - ▶ Bids to purchase UCAP in the strip auctions and/or the monthly auctions
 - ▶ MAXIMUM AMOUNT a Customer may be required to pay for UCAP in an upcoming Deficiency Procurement Auction pursuant to Section 5.14 of the Services Tariff
 - Credit and/or collateral must be provided at least five business days prior to the Deficiency Auction

FAR – Highlights (Cont'd)

XI. Additional Security

- *A Customer must provide additional collateral or make payment if its Operating Requirement exceeds its current level of Unsecured Credit and collateral by more than \$10,000.*

XII. Forms of Collateral:

- *Acceptable Types:*
 - ▶ Cash
 - ▶ Letters of Credit (LOC)
 - ▶ Affiliate Guarantees (Guarantees)
- *Qualifications:*
 - ▶ LOCs and Guarantees must be in a form acceptable to the NYISO and from a bank or guarantor approved by the NYISO
- *Change to Current Policy*
 - ▶ Surety Bonds will NOT be considered an acceptable form of collateral
- *Alternative Security Arrangement*
 - ▶ May be made in exigent circumstances to protect the financial position of the NYISO if approved by the NYISO

FAR – Highlights (Cont'd)

XIII. Payment History Waiver

- *The waiver of collateral requirements on the basis of payment history shall be eliminated immediately upon the effectiveness of the revised FAR*

XIV. Customer Default, Termination, and Withdrawal

- *Reasons for Termination*
 - ▶ Failure to cure a non-payment default within 2 business days of notice
 - ▶ Failure to cure other credit-related default within 3 business days of notice
- *Notice to the POLR of Possible Load Transfer*
 - ▶ As soon as the NYISO reasonably believes it will have to transfer the load to the TO
- *Notice to the Market*
 - ▶ The NYISO shall notify all Customers in the event that it terminates service to a Customer due to default

XV. Material Adverse Change

- *The amount of Unsecured Credit granted to a Customer, if any, and the amount of the Customer's Operating Requirement shall be subject to change, at the discretion of the NYISO, in the event that there is a material adverse change affecting the risk of nonpayment by the Customer*

Key Terms of Additional Provisions

I. Recovery of Loss

- *Sequence of Recovery Actions*
- *Bad Debt Loss Allocation Formula*

II. Working Capital

- *Formula for Contribution to Working Capital*
 - ▶ Same as the formula for the Allocation of Bad Debt Loss

Credit Assessment Process

- I. Narrative describes the methodology of the Credit Assessment Process
- II. Review of the exhibits (A through K)
- III. The Credit Assessment Narrative plus exhibits will be posted to the NYISO Web Site