

# **Proposal to Modify Bad Debt Loss Allocations and Working Capital Rebalancing Methodologies**

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Credit Policy Task Force  
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*For Discussion Only*

# Overview

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- ◆ Calculation Methodologies:  
Allocation of bad debt losses and annual working capital rebalancing is calculated using the absolute value of each MP's market volume to the total NYISO market volume for the period affected.
- ◆ Invoicing Elements Included:  
The invoicing elements included are inconsistent between the bad debt loss methodology for virtual transaction losses, non-virtual transaction losses, and the annual rebalancing of working capital.
- ◆ Recommendation:  
NYISO recommends combining the two bad debt loss allocation methodologies and utilizing the same allocation basis for bad debt losses and annual working capital rebalancing, as outlined further in this presentation.

# Bad Debt Losses for Virtual Transactions

- ◆ Source: Attachment I of Services Tariff
- ◆ Originated: October 2001
- ◆ Purpose: Bad debt loss allocation for virtual transaction losses

<u>Invoicing Elements Included:</u>	<u>Invoicing Elements Excluded:</u>
Power Supplier totals	ICAP Auction totals
Transmission Customer totals	Wholesale Transmission Service Charge totals
Transmission Owner totals	
Transmission Congestion Contract Holder totals	
Demand Response totals	
Virtual Bidding totals	
TCC Auction totals	
Manual Adjustments (excluding Prepayments, etc.)	

# Bad Debt Losses for Non-Virtual Transactions

- ◆ Source: Attachment U of OATT Tariff
- ◆ Originated: January 2003
- ◆ Purpose: Bad debt loss allocation for non-virtual transaction losses

<u>Invoicing Elements Included:</u>	<u>Invoicing Elements Excluded:</u>
Power Supplier totals	Virtual Bidding totals
Transmission Customer totals	
Transmission Owner totals	
Transmission Congestion Contract Holder totals	
Demand Response totals	
TCC Auction totals	
ICAP Auction totals	
Manual Adjustments (excluding Prepayments, etc.)	
Wholesale Transmission Service Charge totals	

# Working Capital Rebalancing

- ◆ Source: Attachment V of OATT Tariff
- ◆ Originated: January 2003
- ◆ Purpose: Annual rebalancing of working capital fund

<u>Invoicing Elements Included:</u>	<u>Invoicing Elements Excluded:</u>
Power Supplier totals	Virtual Bidding totals
Transmission Customer totals	Wholesale Transmission Service Charge totals
Transmission Owner totals	
Transmission Congestion Contract Holder totals	
Demand Response totals	
TCC Auction totals	
ICAP Auction totals	
Manual Adjustments (excluding Prepayments, etc.)	

# Rationale for Proposed Changes

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- ◆ Inconsistent approach between virtual market and all other markets
- ◆ Rationale for current methodology is unclear
- ◆ Virtual bidding market participants do not share in the majority of bad debt losses or in working capital participation
- ◆ Administrative issues in computing loss allocations re: applying partial payments to MPs participating in both virtual and other markets

# Recommendation

- ◆ Bad debt losses should be calculated using a consistent methodology for all markets.
- ◆ Working capital allocations should follow the same methodology as bad debt losses.
- ◆ NYISO recommends amending the tariffs to have all invoicing elements included in all such calculations:

<u>Invoicing Elements Included:</u>	<u>2005 Total in \$\$</u>	<u>2005 Total in %</u>
Power Supplier totals	\$7.4B	35%
Transmission Customer totals	\$10.5B	50%
Transmission Owner totals	\$140M	<1%
Transmission Congestion Contract Holder totals	\$730M	3%
Demand Response totals	<\$1M	<1%
→ Virtual Bidding totals	\$117M	1%
TCC Auction totals	\$579M	3%
→ ICAP Auction totals	\$1.5B	7%
Manual Adjustments (excluding Prepayments, etc.)	\$97M	<1%
→ Wholesale Transmission Service Charge totals	<u>\$35M</u>	<u>&lt;1%</u>
	\$21.1B	100%

# Proposed Schedule

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- ◆ Credit Policy Task Force: 10/13
- ◆ Scheduling & Pricing Working Group: 10/18
- ◆ Business Issues Committee: 11/8
- ◆ Management Committee: 11/29
- ◆ Board of Directors: 1/8
- ◆ FERC Filing: Late January
  
- ◆ Proposed Effective Dates:
  - Working Capital Rebalancing: 2007 Rebalancing in early 2008
  - Bad Debt Losses: Any losses incurred following FERC ruling