

# Unsecured Credit for Public Power and Other Government Entities

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# NYISO Proposal and Request for Feedback

- **At the BACWG meeting on February 20, 2020, the NYISO presented revisions to Section 26.5.3.6 of the Services Tariff that would:**
  - Allow a Government Entity to qualify for \$1.0M in Unsecured Credit without regard to its Tangible Net Worth or Credit Assessment.
  - Require that a Public Power Entity or Government Entity be an Investment Grade Customer to receive the \$1.0M in Unsecured Credit.
  - Add a definition of “Government Entity” for purposes of this section.
- **The NYISO requested feedback on its February 20, 2020 proposal.**

# Feedback and NYISO Response

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## ■ Market Participant Feedback:

- Consider increasing the \$1.0M cap on Unsecured Credit for Public Power Entities that has been in place for almost 20 years.

## ■ NYISO Response:

- The NYISO does not support increasing the \$1.0M cap on Unsecured Credit.
- Historically the \$1.0M cap has not served as a barrier to Government Entities receiving sufficient Unsecured Credit to meet their credit requirements.

# Feedback and NYISO Response

## ■ Market Participant Feedback:

- Similar to joint action agencies, allow aggregations of municipalities that join under Article 5-G of NY General Municipal Law to aggregate \$1.0M per qualifying member.

## ■ NYISO Response:

- The NYISO agrees that Government Entities operating through a joint action agency or similar municipal affiliation agreement acceptable to the ISO should be able to aggregate Unsecured Credit amounts of \$1.0M per member that meet the ratings requirements of an Investment Grade Customer.

# Feedback and NYISO Response

## ■ Market Participant Feedback:

- Allow Public Power Entities and Government Entities to obtain an Equivalency Rating to meet the requirements for Investment Grade Customers using certified financial statements if they do not have audited financial statements.

## ■ NYISO Response:

- Section 26.2.2.1 of the Services Tariff currently requires all entities requesting Unsecured Credit to provide audited annual financial statements to the NYISO.
- Audited financial statements provide a higher level of assurance that the financial statements are free of material misstatements.
- All entities receiving Unsecured Credit should provide this same level of assurance with respect to their financial statements.

# Feedback and NYISO Response

## ■ Market Participant Feedback:

- Public Power Entities are low credit risks because they are regulated distribution utilities that have the obligation to serve customers and recover rates that reflect the cost of their distribution facilities and service. The NYISO should not impose the Investment Grade Customer requirement on Public Power Entities.

## ■ NYISO Response:

- The NYISO agrees that Public Power Entities reflect lower credit risk profiles than many other customers, therefore, allowing them to receive \$1M in Unsecured Credit without regard to their Tangible Net Worth is appropriate.
- These entities, however, present some credit risk. Requiring such entities to be Investment Grade Customers represents an appropriate balance between extending Unsecured Credit to these entities and protecting against default.

# Feedback and NYISO Response

## ■ Market Participant Feedback:

- The NYISO has inappropriately conflated Public Power Entities with Government Entities and should not change requirements for Public Power Entities in response to issues related to Unsecured Credit for Government Entities.

## ■ NYISO Response:

- The NYISO has proposed revisions to Section 26.5 of the Services Tariff that provide for separate sections related to Unsecured Credit for Public Power Entities and Government Entities.
- The NYISO continues to propose that Public Power Entities be Investment Grade Customers to appropriately balance extending Unsecured Credit to these entities and protecting against default.



# Feedback and NYISO Response

## ■ Market Participant Feedback:

- Public Power Entities may not have debt and would therefore have no credit ratings to allow them to demonstrate that they are Investment Grade Customers.

## ■ NYISO Response:

- An entity that does not have a senior long-term unsecured debt rating or issuer rating may be deemed an Investment Grade Customer if its audited financial statements demonstrate an Equivalency Rating of BBB or higher.

# NYISO Proposal

# NYISO Proposal

- **The NYISO believes that its current practice appropriately balances the credit risk presented by government entities with the challenges such entities face with providing traditional forms of secured credit acceptable to the NYISO (*i.e.* cash, Letter of Credit, Surety Bond).**
- **Government entities may lack access to credit support readily available to other entities.**
  - Legal restrictions may inhibit their ability to obtain letters of credit or surety bonds, which limits options to provide collateral.
  - Local finance and general business laws govern municipal financial transactions.
    - Government entities operate according to governance processes that can make meeting collateral calls with cash difficult.

# NYISO Proposal

- **A government entity's status as a municipally owned electric system that owns or controls distribution facilities and provides electric service does not materially affect the credit risks presented by a government entity.**
- **Moreover, government entities generally do not present significant risk of nonpayment because:**
  - They generally have authority to raise taxes and raise revenue by other means not available to private companies.
  - The nature of their market participation is low risk because it is typically limited to purchasing electricity off the wholesale market to provide electric service to the government entity.
- **These factors generally result in a lower risk profile that supports the extension of up to \$1.0M in Unsecured Credit to government entities.**

# NYISO Proposal

- **However, the NYISO recognizes there is some inherent risk associated with extending Unsecured Credit as a general matter. As such, to further mitigate credit risk, the NYISO proposes requiring that an entity be an Investment Grade Customer to be eligible for \$1.0M in Unsecured Credit.**
  - Consistent with all other Customers who qualify for Unsecured Credit under the MST.
  - Investment Grade Customers are those with a senior long-term unsecured debt rating of BBB- or higher by Standard & Poor's or Fitch, or Baa3 or higher by Moody's under MST Section 26.3.1.
  - A customer without a rating may request a NYISO Equivalency Rating under MST Section 26.3.3.

# Proposed Tariff Language

- **Revise Section 26.5.3.6 of the Services Tariff to:**
  - Allow a Government Entity to qualify for \$1.0M in Unsecured Credit without regard to its Tangible Net Worth or Credit Assessment.
  - Require that a Public Power Entity or Government Entity be an Investment Grade Customer to receive the \$1.0M in Unsecured Credit.
  - Add definition of “Government Entity” for purposes of this section.
  - To address comments received from Market Participants, allow Government Entities that operate through a joint action agency or similar municipal affiliation agreement acceptable to the ISO to aggregate Unsecured Credit amounts of \$1.0M per member that meets the ratings requirements of an Investment Grade Customer.

# Next Steps

- BACWG February 2020
- BACWG August 2020
- BIC September 2020
- MC September 2020
- Board of Directors October 2020
- FERC 205 Filing October 2020

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- Planning the power system for the future
- Providing factual information to policymakers, stakeholders and investors in the power system





# Questions?