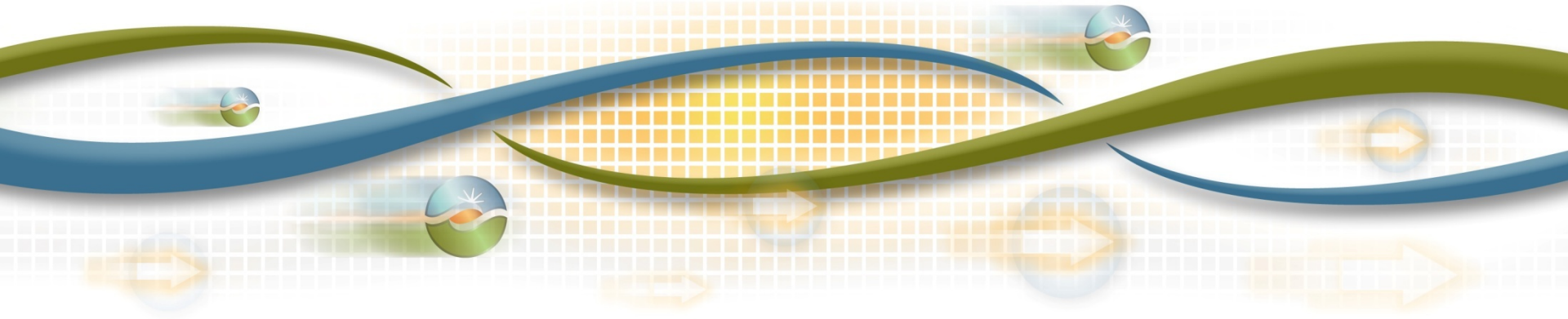


Decision on Modifications to Credit Reform Policy

Ryan Seghesio
CFO & Treasurer

Board of Governors Meeting
General Session
July 13-14, 2011



Review of market participant's risk management practices must include verification.

- FERC Order 741 – Minimum criteria for market participation
 - Board approved in May 2011, filed with FERC in June 2011
 - Ensure market participants have adequate risk management procedures in place
 - All ISOs and RTOs embraced a self-certification approach
- Indications from the CFTC and FERC are self-certification alone is insufficient
 - Verification process must be implemented
 - Timeline forced supplemental filing

We have developed a general framework for the risk management verification process.

- All market participants to submit annual officer self-certifications
- Congestion revenue rights entities:
 - Narrative response to risk management based questions
 - Certain entities required to submit a copy of risk management policies based upon risk-based threshold
- ISO in its discretion may require *any* market participant, *at any time*, to submit its risk management policies and internal controls for ISO review.

Management is accommodating stakeholders' request for longer process.

- We are seeking Board approval for general framework that we believe will satisfy the CFTC and FERC
- Stakeholder process to continue
 - Tariff language
 - Detailed content of annual certification form

Management recommends Board approve the general framework to the risk management verification process.

- Market participants to self-certify they meet a prescribed set of risk management practices
- ISO to retain authority to request documents at any time
- Congestion revenue rights entities to provide additional responses and certain firms to provide written risk management policies for ISO's review
- Management will continue to work with stakeholders on details of certification form and tariff language.