



Decision on Credit Policy and Payment Acceleration

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The stakeholder process has recently concluded for several proposed credit policy enhancements.

- I. Modify rules to reduce unsecured credit limits and how they are set
 - Simplify unsecured credit limit calculation
 - Exclude certain assets from Tangible Net Worth calculation
 - Reduce maximum unsecured credit limit
- II. Change guarantees acceptable to the ISO
 - Allow foreign guarantees with significant safeguards
 - Guaranty must be drawable in the event of any affiliate default



The stakeholder process has recently concluded for several proposed credit policy enhancements.

- III. Additional measures to reduce credit risk
 - Reduce time to post financial security
 - Limit credit available for CRR auction to 90% available credit
 - Penalties for Market Participants who pay late or fail to post additional collateral in the prescribed time



Stakeholders generally agree with the proposed credit policy enhancements, however...

- Many stakeholders want further tightening of credit standards.
- Net creditors believe they bear a disproportionate amount of the risk due to:
 - High unsecured credit limits
 - Exposure to potential payment defaults
 - Uncertainty given MRTU market changes and the effect on credit risk
 - Long settlement cycle



Management is also requesting a decision on Payment Acceleration.

To further address credit concerns and enhance efficiency, we are also implementing Payment Acceleration.

- Shortens the time to settle and pay out the market
- Accelerates meter data submission
- Requires no additional submittal or compliance process
- Leverages current metering infrastructures and file formats
- Provides a “Sunset Provision” on the adjustments after a 36 month period – allowing for lower cost storage and reduction in costs for long-term maintenance of data



The average cash clearing time is reduced from approximately 80 to 25 calendar days.

- Invoicing occurs semi-monthly for initial settlements statements
- Invoicing occurs monthly for month-end charges and true-up settlements statements
- Interest will be charged on differences between initial settlements and first two true-up statements



Interest helps ensure that no financial incentives exist to submit unreasonable estimates.

- Interest applied between the initial invoice & first true-up invoice
- Interest also applied between the first true-up invoice & second true-up invoice
- Interest applies equally to all parties and all situations
- Same practice used at New York ISO



The market participants are in general agreement on Payment Acceleration with some exceptions.

- Market participants are divided on the need for interest charges
- The implementation plan is seen as too aggressive by some market participants
- Implementation workshops will begin in January 2009 to further define the implementation plan and exit criteria



Management requests Board action on the Credit Policy and Payment Acceleration proposals.

- The changes reduce credit risk and move toward industry best practice, and we recommend adoption of both policies.
 - We achieved consensus on key elements of the proposals
 - The changes are reasonable and appropriate
 - Timing and extent of changes reflects balance of interests and ISO constraints

