## ISO Credit Policy for SCs

## *Comments from NCPA*

1. The three IOUs don't have to post security when scheduling their own generation to meet their own loads. Is this fair? Why aren't all entities who schedule their own load offered this same benefit?

2. Why does the ISO recommend security postings of 130% of the estimated aggregate liability? Does the ISO expect its estimates to be that far off? Is there empirical evidence to support such a conclusion?

3. The ISO suggested using a credit limit based on Total Net Worth. This is a quantitative approach and it does not take into account the qualitative factors as described in FERC's Policy Statement.

4. The ISO is confusing the terms Total Net Worth and Tangible Net Worth. Tangible net worth does not include intangible items such as regulatory assets or goodwill. You may also want to remove secured obligations from the net.

5. Total Net Worth is not a good indicator of an entity's ability to pay a monthly invoice. Tangible net worth works better, and current tangible net worth is an even better indicator if this path is chosen. An entity is not going to sell its plant and equipment to pay monthly bills. The difference between current tangible assets and current tangible liabilities shows the amounts available, in the short-term, for paying bills.

6. The City of Riverside mentioned using a "cash flow" approach in rating munis since Moody's KMV does not work for munis. A good cash flow forecast – identifying when revenues will be received and when obligations come due – requires a great deal of assumptions and hard work. I'd like more information on how Riverside's cash flow approach would work.

7. The ISO mentioned using a 1% penalty for late payments with a maximum amount of $10,000. If an entity's cost of money, the cost of obtaining money to pay the invoice, exceeds the penalty, it will not be an effective penalty.

8. Forming a stakeholder advisory group for credit issues is a good idea. I'd recommend it has a good representation of the market participants.

9. Shorter payment cycles are the best way to reduce the liability. The easiest way to shorten the payment cycle is to bill on estimates. A second billing cycle would true up the difference between the estimated bills and actual bills.