

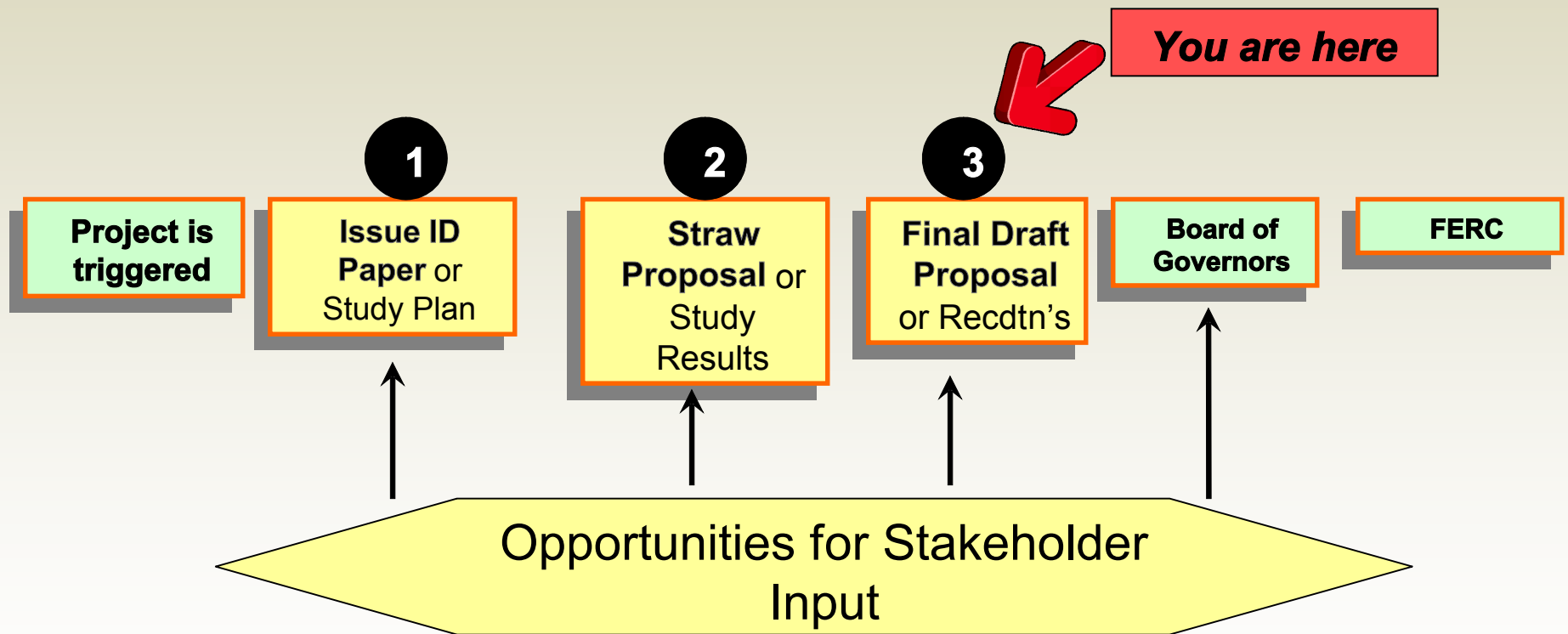


Credit Policy Enhancements Final Draft Proposal

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Credit Policy Enhancements Stakeholder Call
November 17, 2008

We are currently in the final stages of the credit policy enhancements stakeholder process.



Today's agenda focuses on a review of changes to the Business Practice Manual for Credit Management.

TIME	TOPIC	PRESENTER
10:00 – 10:05	Welcome	M. Parker-Helget
10:05 – 11:45	Opening remarks Final Draft Proposals <ul style="list-style-type: none">• Unsecured Credit Limit Calculation• Definition of Tangible Net Worth• Maximum Unsecured Credit Limit• Foreign Guarantees• Affiliate Guarantees• Time to post additional Financial Security• Available Credit for CRR Auctions• Enforcement actions for late payments• Enforcement actions for late posting of Financial Security	K. King
11:45 – 11:55	Recap remaining activities	K. King
11:55 – 12:00	Wrap Up	M. Parker-Helget

The objectives for today's call is to develop stakeholder understanding of

- The ISO's path forward on the loss sharing issue (develop understanding not necessarily concurrence)
- The impact of the credit policy enhancements on the Business Practice Manual for Credit Management

Even though we remain on schedule for early 2009, MRTU rollout activities may impact this timeline.

Activity	Estimated Target Date
Publish Market Notice for on-site stakeholder meeting	8/29/2008
Post whitepaper of proposed credit policy enhancements	9/8/2008
Post on-site stakeholder meeting agenda and presentation	9/18/2008
Conduct on-site stakeholder meeting (stakeholder meeting 1 of 3)	9/22/2008
Obtain stakeholder written comments resulting from on-site stakeholder meeting	10/7/2008
Post response to stakeholder written comments in the form of a straw proposal and publish Market Notice for stakeholder conference call	10/20/2008
Post stakeholder conference call agenda and presentation	10/23/2008
Conduct stakeholder conference call (stakeholder meeting 2 of 3)	10/27/2008
Receive stakeholder written comments resulting from stakeholder conference call	11/4/2008
Post draft final credit policy enhancement whitepaper and publish Market Notice for final stakeholder conference call	11/11/2008
Post stakeholder conference call agenda and presentation	11/12/2008
Conduct final stakeholder conference call (stakeholder call 3 of 3)	11/17/2008
Receive stakeholder written comments resulting from stakeholder conference call	11/24/2008
Post final credit policy enhancements whitepaper	12/1/2008
Present credit policy enhancements to ISO Board of Governors	12/16/2008
File Tariff language for FERC approval	1/6/2009
Obtain FERC order	3/3/2009
Post BPM changes; credit policy enhancements effective date	3/3/2009



The calculation of unsecured credit limits was simplified.

BPM sections affected: 1.3, 3.3, 4.3.1.1 through 4.3.1.3, 4.3.2, 4.3.3.1 through 4.3.3.3, 4.4.1, 4.4.1.1

- Conversion of short term rating → lowest equivalent long term rating
- Added blending of Moody's KMV equivalent rating and lowest credit agency issuer rating
- Replaced default probability table with fixed percent of Tangible Net Worth or Net Assets based on rating
- Simplified 8-step process to six steps and updated examples

The definition of Tangible Net Worth was changed to exclude assets not available to satisfy a claim.

BPM sections affected: 1.3, 4.3.1.3, 4.3.2

- Definition expanded to exclude certain assets net of any matching liabilities
 - Assets reserved for a specific purpose (e.g., restricted assets, affiliate assets)
 - Derivative assets
 - Other assets reasonably believed to be unavailable to settle a claim in case of default
- Retained ability to reduce unsecured credit as part of the qualitative assessment step of “new” 6-step process

The maximum amount of unsecured credit has been reduced to \$150 million.

BPM sections affected: 4.1, 4.2, 4.4.2

- To be further reduced on a pro-rata basis when Payment Acceleration goes live
- To be reevaluated as part of the loss sharing discussion
- Will also be reassessed on a periodic basis after the rollout of MRTU

The ISO will accept guarantees from foreign entities, with significant safeguards.

BPM sections affected: new sections 5.4, 5.5

- All foreign guaranty and foreign guarantor conditions must be satisfied
- Guaranty limits of \$5 million to \$25 million based on credit ratings of A-/A3 or above
- Will not accept a Guaranty from Companies with a credit rating of BBB+/Baa1 or below
- Less restrictive criteria for Canadian Guarantors

Guarantors backing the obligations of one Affiliate must back all Affiliates by using an Affiliate Guaranty.

BPM section affected: 5.6

- Not intended to allow ISO offsetting of one Affiliate's defaulted amount due ISO against amounts due to other Affiliates
- All Affiliate losses backed by the parent Guarantor, up to the amount of the guaranty
- ISO sees no issue with affiliate transaction regulations
- Another form of collateral may still be used if the Guarantor finds the Affiliate Guaranty unacceptable

The ISO is reducing the time to post additional Financial Security to three business days.

BPM sections affected: 7.1, 9.1, 10.2

- Shorter posting periods are consistent with other ISOs
- Further reductions possible; a shorter posting period
 - May not further reduce any inherent risk
 - May inhibit collateral call dispute process
- Many companies can post cash collateral while another form of Financial Security is being processed
- Companies can maintain somewhat higher collateral levels to avoid collateral calls

The maximum amount of collateral available for a CRR auction will be limited to 90% of Available Credit.

BPM section affected: 7.4.2

- Available Credit is calculated as
$$(\text{Aggregate Credit Limit} - \text{Estimated Aggregate Liability}) * 0.90$$
- Applies to all Candidate CRR Holders
- No exclusion for Candidate CRR Holders who otherwise do not participate in the ISO market
 - Developing the business rules and system requirements to implement an exclusion too complex
 - Will result in a higher posting requirement for some (i.e., \$556K to meet minimum \$500K requirement to participate in the auction)

Market Participants who pay late may be subject to enforcement actions, including financial penalties.

BPM section affected: new section 8.2

- Progressive discipline program to be put into effect immediately for late payers during rolling 12-month period
 - Interest assessed based on number of days delinquent
 - Warning letters for first two occurrences
 - Revoking of unsecured credit and requiring cash collateral for a period of 12 months of on-time payments on the third occurrence
 - Other enforcement actions, including termination, may apply
- Financial penalties to follow after MRTU (subject to system implementation)
 - Greater of 2% of invoiced amount or \$1,000; not to exceed \$20K per occurrence
 - Penalties will fund a market reserve account to a predetermined level
 - Excess penalties will reduce GMC revenue requirement

Market Participants who post collateral late may be subject to enforcement actions, including financial penalties.

BPM section affected: new section 8.3

- Progressive discipline program to be put into effect immediately for posting late during rolling 12-month period
 - Warning letters for first two occurrences
 - Require cash collateral based on highest EAL during preceding 12 month period for the third and subsequent occurrences for a period of 12 months of on-time postings
 - Other enforcement actions, including termination, may apply
- Financial penalties to follow after MRTU
 - Greater of 2% of requested amount or \$1,000; not to exceed \$20K per occurrence
 - Penalties will fund a market reserve account to a predetermined level
 - Excess penalties will reduce GMC revenue requirement

A number of activities remain to see these credit policy enhancements implemented.

- The ISO is committed to assessing the merits of loss sharing and related credit policies that contribute to market risk
 - Potential items for a Credit Working Group
 - For those who wanted even stricter standards, current and planned credit policy enhancements should be viewed as movement in the right direction
 - Full assessment and implementation unlikely before the rollout of MRTU
- Other activities include
 - Two additional rounds of stakeholder comments
 - Board decision at December 16th-17th meeting
 - Tariff development, filing and comment period (may be impacted by MRTU rollout priorities)
- The ISO continues to assess opportunities to align the timeline of this initiative with the rollout of MRTU