

Credit & Billing Enhancements Project

Q1 2011

WebEx Conference Broadcast
January 4, 2011

Note: Revision to slide 33 (01/07/2011)

Before We Begin

- Presentation available on the ISO New England (ISO) Web site:
[Support > Training > Training Materials > Financial Assurance](#)
- General WebEx Usage
 - Interactivity
 - Questions & Answers
- Reference
- Evaluation

Disclaimer for Market Training

ISO New England provides training to advance participant and stakeholder understanding of the New England Markets.

Since not all issues and requirements are addressed by the training, participants and other stakeholders should not rely solely on this training for information but should consult the effective Markets, Services and Transmission Tariff (“Tariff”) and the relevant Market Manuals, Operating Procedures and Planning Procedures (“Procedures”).

In case of a discrepancy between training provided by ISO and the Tariff or Procedures, the meaning of the Tariff and Procedures shall govern.

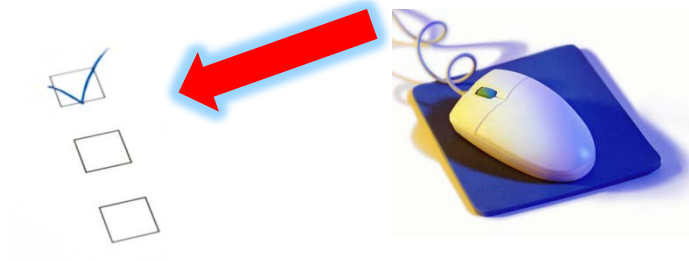
Session Details

- Presenters
 - Kelly Reyngold, Finance
 - Kendra Radner, Market & Credit Risk
- Panelists
 - Cheryl Arnold
 - Jeffrey Iafrati

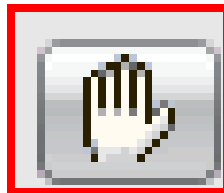
Company names and numerical values
are to be considered fictitious and are not to be associated
with any actual market customer.

Polling in Progress

- Presentation has been paused for 3 minutes



- Click the “raise hand” icon to indicate your Poll has been submitted



Credit & Billing Enhancements – Q1 2011

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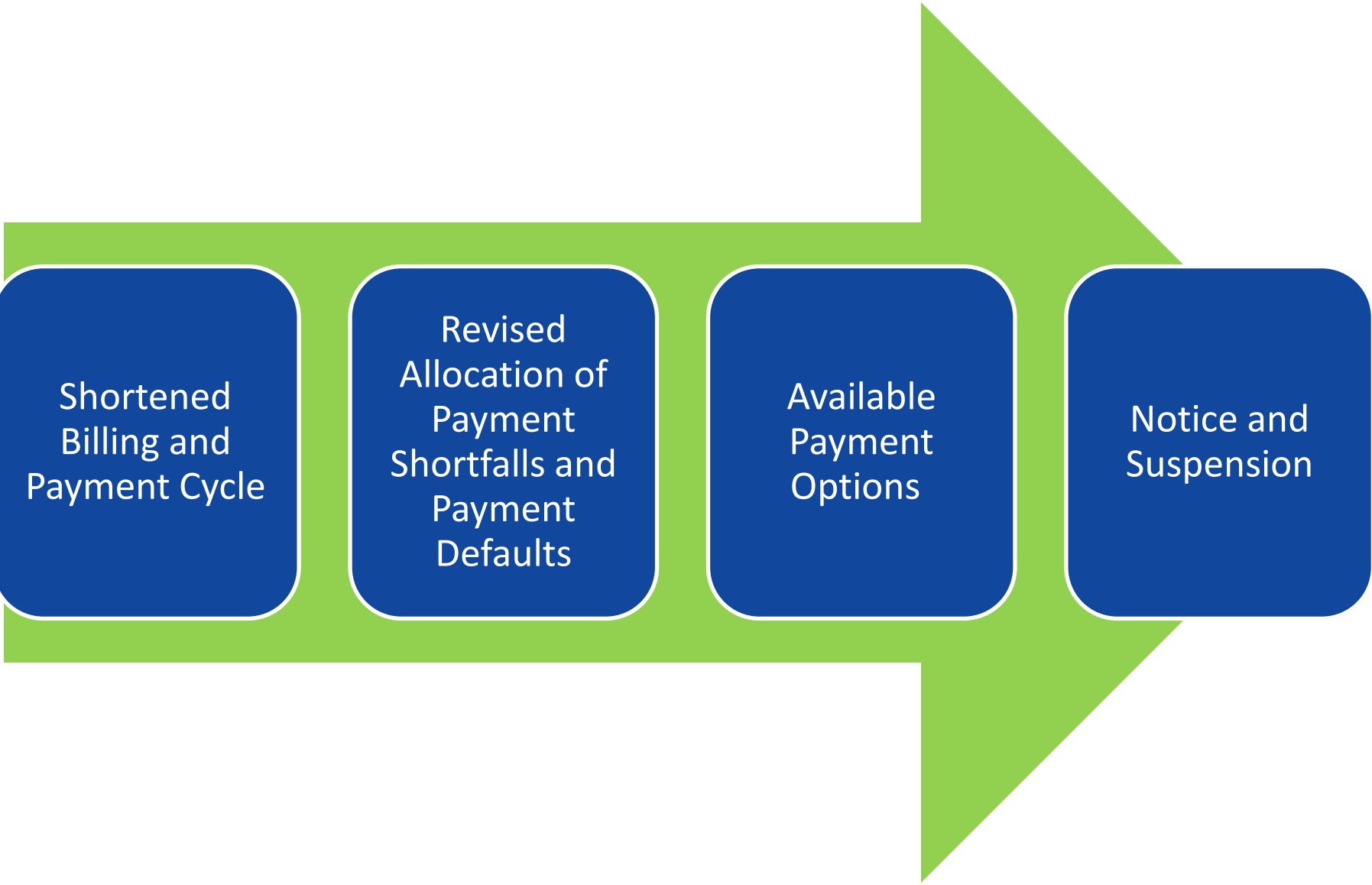
Objective

- To provide details of the recently approved changes to the **Billing** and **Financial Assurance** policies that will become effective in late January 2011



Session Goals

- At the completion of this session, you will have a better understanding of...
 - **Implications of twice weekly billing**
 - **How payment shortfalls and defaults will be allocated to participants**
 - New Financial Assurance obligation calculations and collateral requirements



Shortened
Billing and
Payment Cycle

Revised
Allocation of
Payment
Shortfalls and
Payment
Defaults

Available
Payment
Options

Notice and
Suspension

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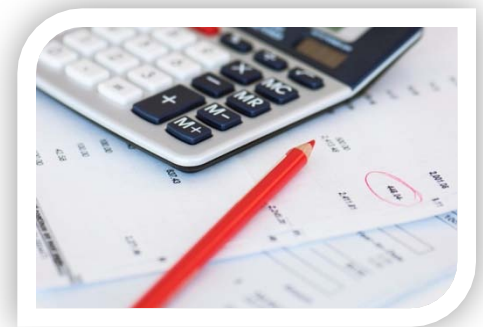
Available
Payment
Options

Notice and
Suspension

Shortened Billing and Payment Cycle

Weekly Statements

- ISO New England (ISO) will change weekly statements, containing hourly services only, to twice weekly statements
 - Issued on Mondays and Wednesdays, or the next business day, if Monday or Wednesday is a settlement holiday
 - Further reduces magnitude of default risk and amount of financial assurance required
- Weekly statement, including both hourly and non-hourly (monthly) services, will continue to be issued on first Monday, following tenth calendar day, of month



Shortened Billing and Payment Cycle

Invoices, Remittance Advices, and Amendments

- Invoices for amounts due shall generally be due no later than second business day following issuance of invoice
- Remittance advices shall generally be paid to market participants fourth business day from issue date of statement
- Additional amendments to Billing Policy will allow ISO to:
 - Issue separate statements for both ISO charges and transmission charges, or
 - Continue to combine them into a common statement



Shortened Billing and Payment Cycle

Calendar



- Reflection of:
 - ISO's estimate of the cycle for number of days, and which days would typically be included in a Monday/Wednesday issued bill under twice weekly billing
 - Based upon current settlement time frames
 - Fair representation of what billing will look like under twice weekly billing
- **Important**
 - The *Market Rule* contains the required time for settlement of the markets
 - The *Billing Policy* will prevail for actual due dates of settlement statement issuance and payment dues dates

December 10

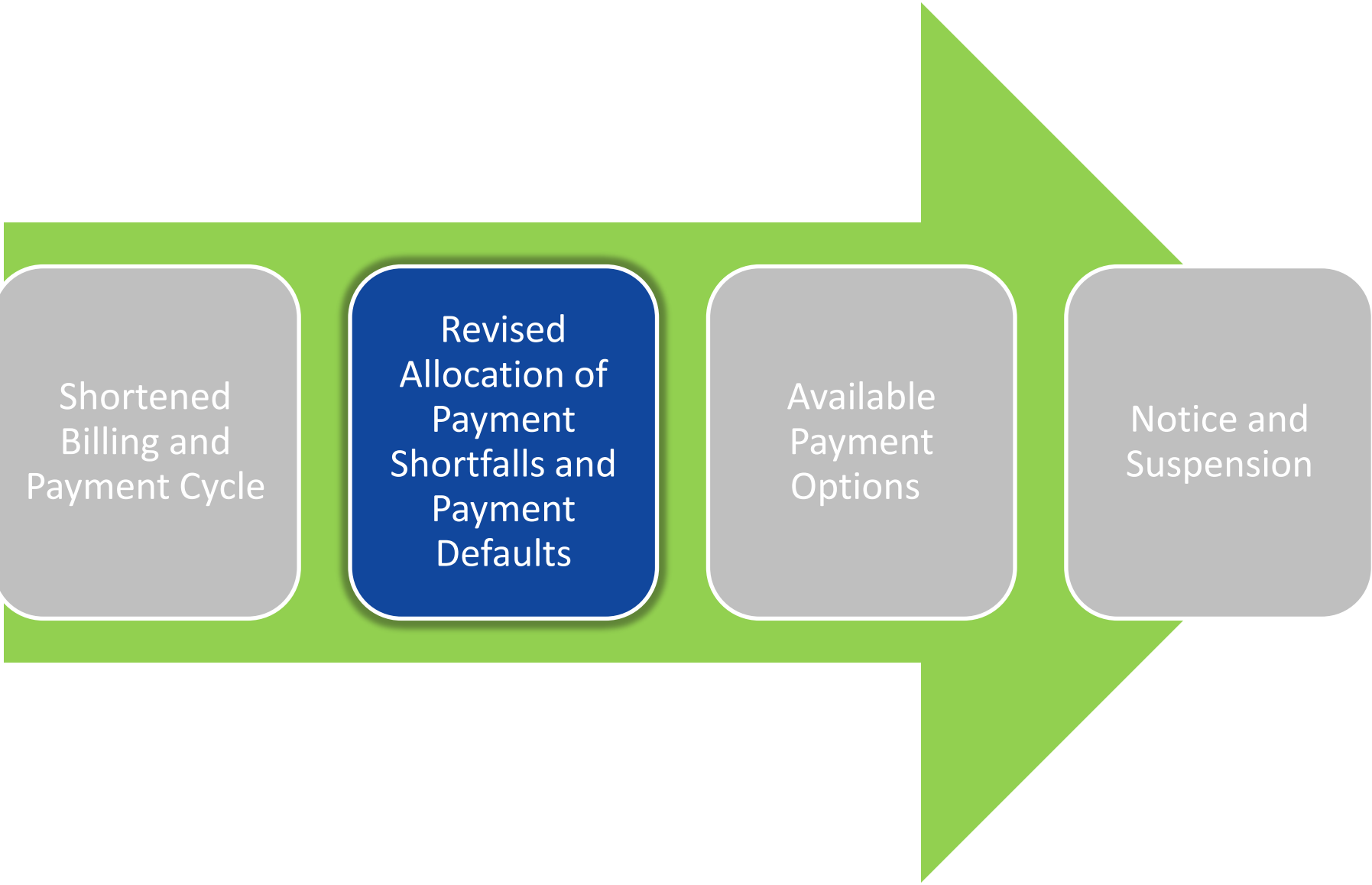
December 10						
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
November 29	30	December 1	2	3	4	5
	Ancillary		DA/RT			
			Ancillary			
6	7	8	9	10	11	12
DA/RT			DA/RT			
Ancillary		Ancillary			Ancillary	
		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Issued DA/RT 12/2-12/5 Ancillary 11/30-12/1</div>		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Due</div>		
13	14	15	16	17	18	19
DA/RT			DA/RT			
Ancillary		Ancillary			Ancillary	
<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Issued Non-hourly DA/RT 12/6-12/8 Ancillary 12/2-12/6</div>		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Issued DA/RT 12/9-12/12 Ancillary 12/7-12/8 <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 2px auto;">Invoice Due</div></div>		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Due</div>		
20	21	22	23	24	25	26
DA/RT			DA/RT			
Ancillary		Ancillary			Ancillary	
<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Issued DA/RT 12/13-12/15 Ancillary 12/9-12/13</div>		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Issued DA/RT 12/16-12/19 Ancillary 12/14-12/15 <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 2px auto;">Invoice Due</div></div>		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Settlement Holiday</div>		
27	28	29	30	31	January 1	2
DA/RT			DA/RT			
Ancillary		Ancillary			Ancillary	
<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Due</div>		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Invoice Issued DA/RT 12/23-12/26 Ancillary 12/21-12/22 <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 2px auto;">Invoice Due</div></div>		<div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Settlement Holiday</div>		

Calendar is for illustrative purposes only

January 11

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
December 27	28	29	30	31	January 1	2
<p style="background-color: #90EE90; padding: 2px;">DA/RT</p> <p style="background-color: #90EE90; padding: 2px;">Ancillary</p> <p style="background-color: #FFFF99; padding: 2px;">Invoice Due</p> <p style="background-color: #CCCCFF; padding: 2px;">Invoice Issued DA/RT 12/20-12/22 Ancillary 12/16-12/20</p>	<p style="background-color: #00BFFF; padding: 2px;">DA/RT</p> <p style="background-color: #00BFFF; padding: 2px;">Ancillary</p>	<p style="background-color: #CCCCCC; padding: 2px;">Invoice Issued DA/RT 12/23-12/26 Ancillary 12/21-12/22</p> <p style="background-color: #CCCCFF; padding: 2px;">Invoice Due</p>	<p style="background-color: #00BFFF; padding: 2px;">DA/RT</p> <p style="background-color: #FFD700; padding: 2px;">Ancillary</p>	<p style="background-color: #CCCCCC; padding: 2px;">Settlement Holiday</p>		
3	4	5	6	7	8	9
<p style="background-color: #FFD700; padding: 2px;">DA/RT</p> <p style="background-color: #FFD700; padding: 2px;">Ancillary</p> <p style="background-color: #CCCCCC; padding: 2px;">Invoice Due</p> <p style="background-color: #90EE90; padding: 2px;">Invoice Issued DA/RT 12/27-12/29 Ancillary 12/23-12/27</p>	<p style="background-color: #FFD700; padding: 2px;">DA/RT</p> <p style="background-color: #FFD700; padding: 2px;">Ancillary</p>	<p style="background-color: #00BFFF; padding: 2px;">Invoice Issued DA/RT 12/30-1/2 Ancillary 12/28-12/29</p> <p style="background-color: #90EE90; padding: 2px;">Invoice Due</p>	<p style="background-color: #FFD700; padding: 2px;">DA/RT</p> <p style="background-color: #FF0000; padding: 2px;">Ancillary</p> <p style="background-color: #00BFFF; padding: 2px;">Invoice Due</p>			
10	11	12	13	14	15	16
<p style="background-color: #FF0000; padding: 2px;">DA/RT</p> <p style="background-color: #FF0000; padding: 2px;">Ancillary</p> <p style="background-color: #FFD700; padding: 2px;">Invoice Issued DA/RT 1/3-1/5 Ancillary 12/30-1/3</p>	<p style="background-color: #800080; padding: 2px;">DA/RT</p> <p style="background-color: #800080; padding: 2px;">Ancillary</p>	<p style="background-color: #FFD700; padding: 2px;">Invoice Issued DA/RT 1/6-1/9 Ancillary 1/4-1/5</p> <p style="background-color: #FFD700; padding: 2px;">Invoice Due</p>	<p style="background-color: #800080; padding: 2px;">DA/RT</p> <p style="background-color: #ADD8E6; padding: 2px;">Ancillary</p> <p style="background-color: #FFD700; padding: 2px;">Invoice Due</p>			
17	18	19	20	21	22	23
<p style="background-color: #ADD8E6; padding: 2px;">DA/RT</p> <p style="background-color: #ADD8E6; padding: 2px;">Ancillary</p> <p style="background-color: #CCCCCC; padding: 2px;">Settlement Holiday</p>	<p style="background-color: #8B4513; padding: 2px;">DA/RT</p> <p style="background-color: #8B4513; padding: 2px;">Ancillary</p> <p style="background-color: #FF0000; padding: 2px;">Invoice Issued Non-hourly DA/RT 1/10-1/12 Ancillary 1/6-1/10</p>	<p style="background-color: #800080; padding: 2px;">Invoices Issued DA/RT 1/13-1/16 Ancillary 1/11-1/12</p>	<p style="background-color: #8B4513; padding: 2px;">DA/RT</p> <p style="background-color: #FF0000; padding: 2px;">Invoice Due</p>	<p style="background-color: #800080; padding: 2px;">Invoice Due</p>		
24	25	26	27	28	29	30
<p style="background-color: #ADD8E6; padding: 2px;">Invoice Issued for 24th DA/RT 1/17-1/19 Ancillary 1/13-1/17</p>		<p style="background-color: #8B4513; padding: 2px;">Invoice Issued DA/RT 1/20-1/23 Ancillary 1/18-1/19</p> <p style="background-color: #ADD8E6; padding: 2px;">Invoice Due</p>		<p style="background-color: #8B4513; padding: 2px;">Invoice Due</p>		
31						

Calendar is for illustrative purposes only



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Revised Allocation of Payment Shortfalls and Payment Defaults

- Payment defaults creating need to short pay market participants receiving remittance advice(s) during billing cycle for which a payment default has occurred, will be allocated as follows:

Category of defaulting market participant

Type of charge within market participant category

Note: Both categories and types are further defined in the Billing Policy

Revised Allocation of Payment Shortfalls and Payment Defaults (cont.)

Category of defaulting market participant



- All municipal participants with ISO and/or transmission credit limits
(Unsecured municipal market participants)
- All non-municipal participants with ISO and/or transmission credit limits
(Unsecured non-municipal market participants)
- All other market participants

Type of charge within market participant category



- Charges for Schedules 1, 8, and 9 under Section II of the ISO Transmission, Markets and Service Tariff *(Transmission Charges)*
- All charges other than transmission charges *(ISO Charges)*

Note: Both categories and types are further defined in the Billing Policy

Revised Allocation of Payment Shortfalls and Payment Defaults (cont.)

- If a participant defaults, the following process will ensue to cover for the default:
 1. The use of right of off-set
 2. Draw on any liquid financial assurance
 3. Draw on either the late fee account for ISO charges or the late fee account for transmission charges to the extent that such amount is available
 4. Draw on the shortfall funding arrangement or participant payment default shortfall fund (if established), to the extent funds are available

Revised Allocation of Payment Shortfalls and Payment Defaults (cont.)

- If a participant defaults, the following process will ensue to cover for the default (cont.):
 5. To the extent the above does not cover the default(s), participants with a remittance advice will be short paid. Those participants short paid will receive a line item titled “Remittance for Shortpay” on the next subsequent weekly bill following the default period in order to be paid back.
 6. To the extent the default remains unpaid, a payment default allocation will be allocated to all the participants with a invoice or remittance advice from the default period. A line item titled “ ISO Pmt Default Allocation” and/or “Transmission Pmt Default Alloc” will appear on the next subsequent weekly bill following the default period.

Revised Allocation of Payment Shortfalls and Payment Defaults (cont.)

- The following items will remain unchanged and will appear on the weekly statement that includes both hourly and non-hourly (monthly) services:

Interest Charges



Defaulting participant will receive an interest charge for outstanding balance due to the ISO based on the FERC Prime Rate for the number of days outstanding

Remit for Interest



Interest charges collected from all defaulting participants shall be remitted back to any participant affected by a short pay

Late Fee



- Defaulting participant will be charged a late fee if they are delinquent two or more times within any period of 12 months.
- Late fee charge is the greater of 2% of the late payment or \$500 (change from current policy of \$1,000)

Changes to the Use of the Late Payment Account

- Any defaults that are related to ISO Charges only can be drawn from the late payment account (LPA)
- Defaults will be segregated by market participants that have a credit limit (unsecured) and market participants that do not have a credit limit (uncovered)
- To the extent there is money in the LPA, the funds will be first applied on a pro rata basis to the uncovered defaults
 - Remaining monies in the LPA will then be applied on a pro rata basis to the unsecured defaults up to the extent of the defaulter's credit limit
 - Any portion of the default that is greater than the credit limit is considered uncovered

Creation of the Transmission Late Payment Account

- A transmission late payment account (TLPA) will be created for any defaults that are related to Transmission Charges only
- Defaults will be segregated by unsecured and uncovered market participants
- To the extent there is money in the TLPA, the funds will first be applied on a pro rata basis to the uncovered defaults
 - Remaining monies in TLPA will then be applied on a pro rata basis to the unsecured defaults up to the extent of the defaulter's credit limit
 - Any portion of the default that is greater than the credit limit is considered uncovered

Changes to the Use Shortfall Funding Arrangement or Participant Payment Default Shortfall Fund (if established)

- Defaults will be segregated by unsecured and uncovered market participants and applied first to defaults of ISO charges and then to defaults of transmission charges as follows:

To the extent there is money available on the shortfall funding arrangement or the participant payment default shortfall fund, the funds will be first applied on a pro rata basis to the uncovered defaults for **ISO charges** and then applied on a pro rata basis to the unsecured defaults for **ISO charges** up to the extent of the defaulter's credit limit. Any portion of the default that is greater than the credit limit is considered uncovered.

To the extent there is still money available on the shortfall funding arrangement or the participant payment default shortfall fund, the funds will be then applied on a pro rata basis to the uncovered defaults for **transmission charges** and then applied on a pro rata basis to the unsecured defaults for **transmission charges** up to the extent of the defaulter's credit limit. Any portion of the default that is greater than the credit limit is considered uncovered.

Changes to the Short Payment of the Participant Remittance Holders

- If the defaulting participant is an unsecured municipal market participant, default will be short paid based on a pro rata basis among those unsecured municipal market participants up to the credit limit of the defaulting participant
- If the defaulting participant is an unsecured non-municipal market participant, default will be short paid based on a pro rata basis among those unsecured non-municipal market participants up to the credit limit of the defaulting participant
- Any remaining default will be short paid based on a pro rata basis among all remittance holders

Changes to the Payment Default Allocation

- If the default remains unpaid, a payment default allocation will be issued on the next weekly invoice
- Allocation is based on the absolute value of all invoice and remittance advice holders from the billing period in which the default occurred

Changes to the Payment Default Allocation

(cont.)

- Changes to the allocation are as follows:
 - If the defaulting participant is an unsecured municipal market participant, payment default will be allocated on a pro rata basis among those unsecured municipal market participants up to the credit limit of the defaulting participant, excluding the defaulting participant
 - If the defaulting participant is an unsecured non-municipal market participant, default will be allocated on a pro rata basis among those unsecured non-municipal market participants up to the credit limit of the defaulting participant, excluding the defaulting participant
 - Any remaining default will be allocated on a pro rata basis among all invoice and remittance holders, excluding the defaulting participant

Market Information Server Report

Short Payment to Remittance Holders

Detail Shortfall Allocation Customer Report

BL_SHORTFALL_<customer id>_<invoicedate>00_<version>.CSV
<Customer Name>

Date: <mm/dd/yyyy> and Version: <mm/dd/yyyy hh:mm:ss> GMT

ISO Charge Remittance Total (A)	UNSEC MMP Pool ISO Remittance Total (B)	UNSEC MMP Pool ISO Remittance Total Reduction (C)	UNSEC MMP ISO Remittance Total Reduction (D=(A/B)*C)	UNSEC NMMP Pool ISO Remittance Total (E)	UNSEC NMMP Pool ISO Remittance Total Reduction (F)	UNSEC NMMP ISO Remittance Total Reduction (G=(A/E)*F)	Pool ISO Remittance Total (H)	Pool ISO Remittance Total Reduction (I)	ISO Remittance Total Reduction (J=((A-(D+G))/H)*I)	Transmission Remittance Total (K)
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Detail Shortfall Allocation Customer Report

BL_SHORTFALL_<customer id>_<invoicedate>00_<version>.CSV
<Customer Name>

Date: <mm/dd/yyyy> and Version: <mm/dd/yyyy hh:mm:ss> GMT

UNSEC MMP Pool Transmission Remittance Total (L)	UNSEC MMP Pool Transmission Remittance Total Reduction (M)	UNSEC MMP Transmission Remittance Total Reduction (N=(K/L)*M)	UNSEC NMMP Pool Transmission Remittance Total (O)	UNSEC NMMP Pool Transmission Remittance Total Reduction (P)	UNSEC NMMP Transmission Remittance Total Reduction (Q=(K/O)*P)	Pool Transmission Remittance Total (R)	Pool Transmission Remittance Total Reduction (S)	Transmission Remittance Total Reduction (T=((K-(N+Q))/R)*S)	Remittance Total (U)	Pool Remittance Total (V)	Pool Excess Transmission Remittance Total Reduction (W)	Excess Transmission Remittance Total Reduction (X=(U/V)*W)	Total Remittance Reduction (Y=D+G+J+N+Q+T+X)
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Market Information Server Report

Payment Default Allocation

Detail Payment Default Allocation Customer Report

BL_PMTDEFAULT_<customerid>_<invoicedate>00_<version>.CSV
<Customer Name>

Date: <mm/dd/yyyy> and Version: <mm/dd/yyyy hh:mm:ss> GMT

ISO Bill Line Items (A)	UNSEC MMP Pool ISO Bill Items (B)	UNSEC MMP Pool ISO Default Amount (C)	UNSEC MMP ISO PDA (D=(A/B)*C)	UNSEC NMMP Pool ISO Bill Items (E)	UNSEC NMMP Pool ISO Default Amount (F)	UNSEC NMMP ISO PDA (G=(A/E)*F)	Pool ISO Bill Items (H)	Pool ISO Default Amount (I)	ISO PDA (J=(A/H)*I)	Transmission Bill Line Items (K)
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Detail Payment Default Allocation Customer Report

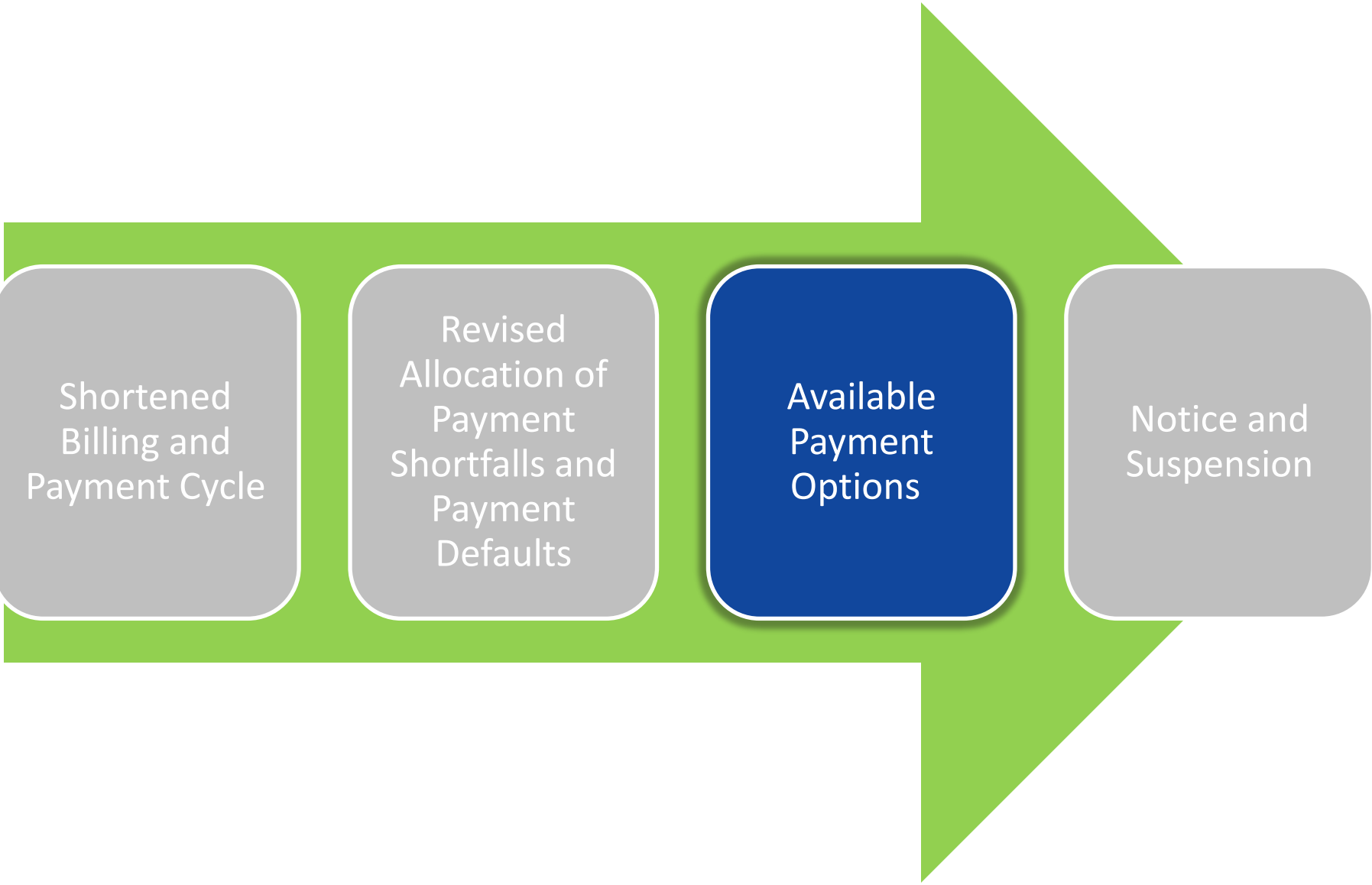
BL_PMTDEFAULT_<customerid>_<invoicedate>00_<version>.CSV
<Customer Name>

Date: <mm/dd/yyyy> and Version: <mm/dd/yyyy hh:mm:ss> GMT

UNSEC MMP Pool Transmission Bill Items (L)	UNSEC MMP Pool Transmission Default Amount (M)	UNSEC MMP Transmission PDA (N=(K/L)*M)	UNSEC NMMP Pool Transmission Bill Items (O)	UNSEC NMMP Pool Transmission Default Amount (P)	UNSEC NMMP Transmission PDA (Q=(K/O)*P)	Pool Transmission Bill Items (R)	Pool Transmission Default Amount (S)	Transmission PDA (T=(K/R)*S)	Total ISO PDA Amount (U=D+G+J)	Total Transmission PDA Amount (V=N+Q+T)
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Market Information Server Report Sample

ISO Bill Line Items (A)	UNSEC MMP Pool ISO Bill Items (B)	UNSEC MMP Pool ISO Default Amount (C)	UNSEC MMP ISO PDA (D=(A/B)*C)
\$	\$	\$	\$



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Available Payment Options

- Participants may pay their invoice using the following methods of payment:

Wire or ACH*

Checks are not an acceptable form of payment

Standing Instruction

Form letter instructing ISO to pay all of the participant's invoices through their Black Rock account

Individual Payment Instruction

One-time form letter instructing ISO to pay a participant's current invoice through their Black Rock account

Auto-debit Authorization

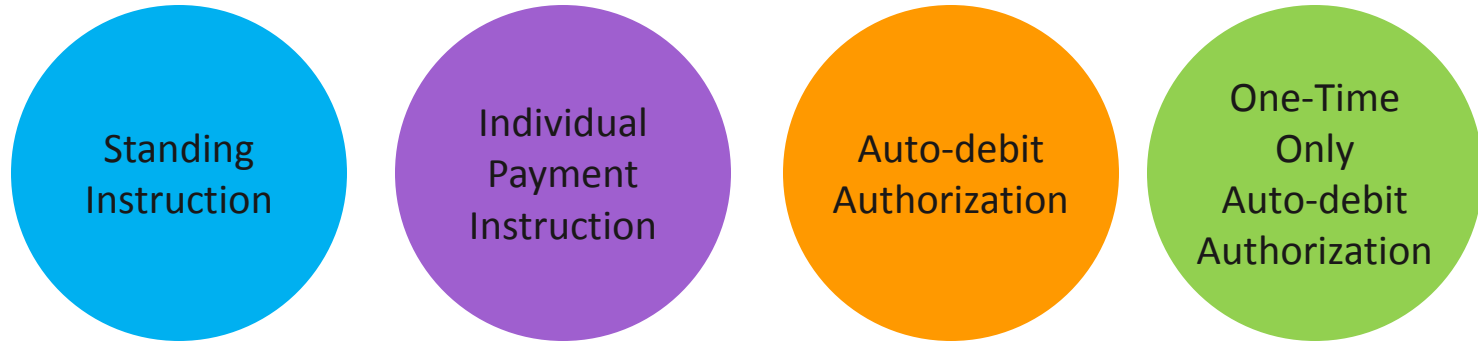
Form letter instructing ISO to pay all of the participant's invoices by debiting the bank account instructed on the form

One-Time Only Auto-debit Authorization

One-time form letter instructing ISO to pay a participant's current invoice by debiting the bank account instructed on the form

*Automatic Clearing House

Available Payment Options (cont.)

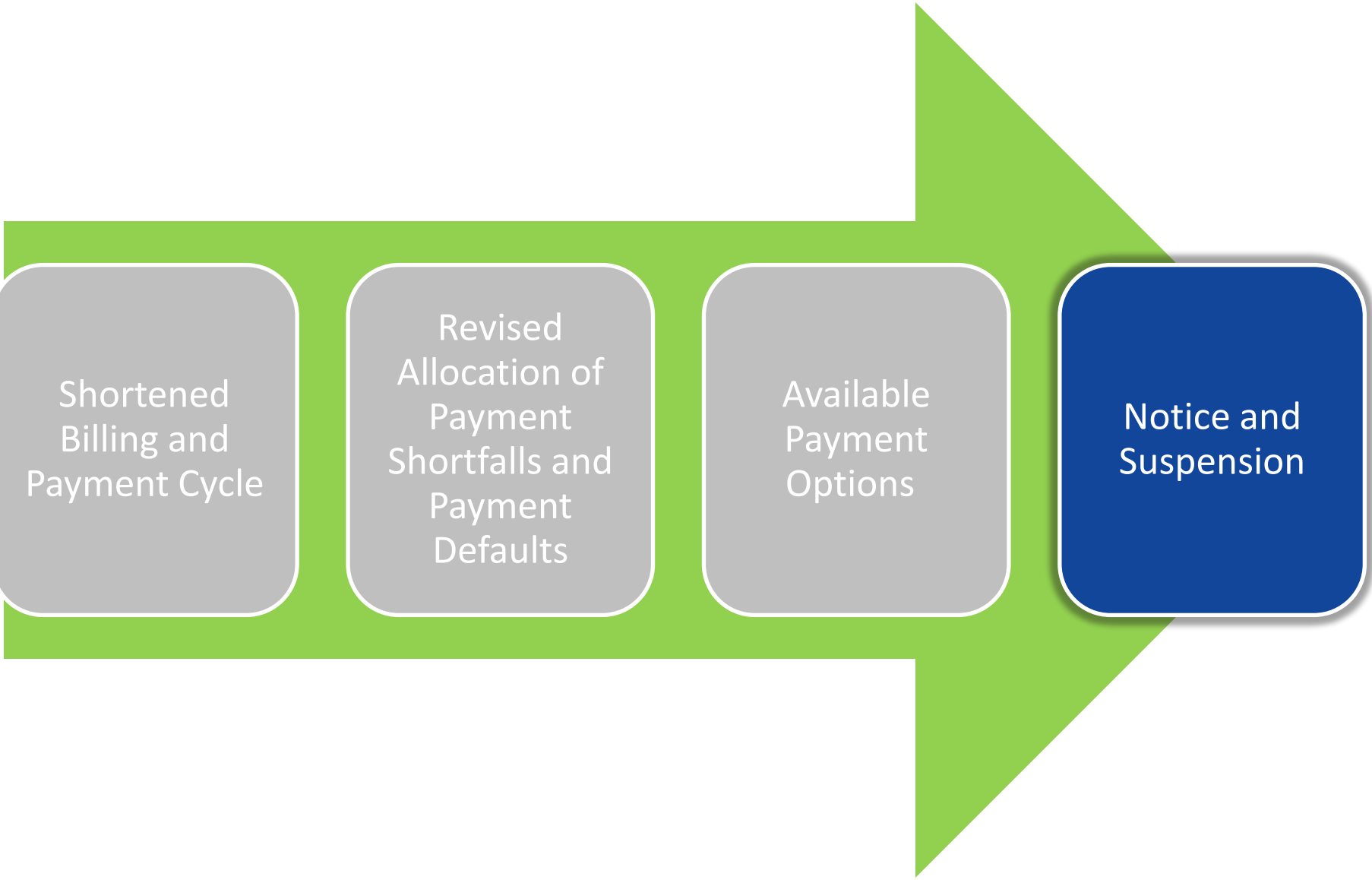


- Above methods of payment are also available for Qualification Process Cost Reimbursement Deposit (QPCRD) charges that appear on an invoice
 - Note: If this charge appears on your invoice and you currently have any of the payment options described above in place with the ISO, a separate payment option for the QPCRD charges will need to be submitted to the ISO in order for these costs to be paid

Available Payment Options (cont.)

- For the ISO to execute these payment methods, all forms must be submitted before the end of business on the first business day following the issuance of an invoice to the Billing Department at billingdept@iso-ne.com or fax it to (413) 535-4024
- Forms are available from the ISO Web site under [Settlements > Financial Assurance & Credit > Bill Payment with Cash Collateral](#)

Above items are not part of the recent Billing Policy changes.



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Notice and Suspension – Reminder

- If a payment default is not cured by 10:00 a.m., within one business day of due date of invoice, ISO will send out a notice to each of the following:
 - Market participant
 - Participant’s billing and credit contacts
 - NEPOOL Budget and Finance Subcommittee
 - Members and alternates of the NEPOOL Participants Committee
 - New England Governors
 - New England Utility Regulatory agencies

Above items are not part of the recent Billing Policy changes.

Notice and Suspension – Reminder (cont.)

- If a payment default is not cured by 10:00 a.m., within two business days of invoice due date, suspension for defaulting entity as described in the Financial Assurance Policy (FAP) will include, but is not limited to the following actions:
 - No ability to be reflected in the ISO's settlement system that cause such suspended participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or market participant
 - No ability to submit demand bids, decrement bids, or increment offers in the New England Markets
 - Any load asset registered will be terminated
 - Suspension from entering into any future transactions in Financial Transmission Rights system or submitting any offers in Forward Capacity Auction

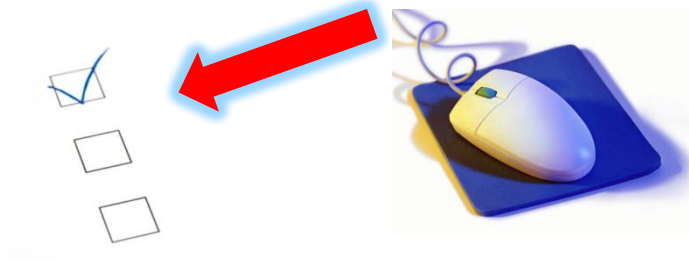
Above items are not part of the recent Billing Policy changes.

Reference

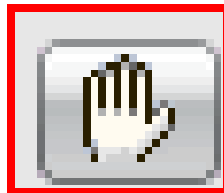
- Refer to the [Financial Assurance](#) and [Billing Policy](#) on the ISO Web site for the complete **Notice and Suspension Policy**.

Polling in Progress

- Presentation has been paused for 3 minutes



- Click the “raise hand” icon to indicate your Poll has been submitted





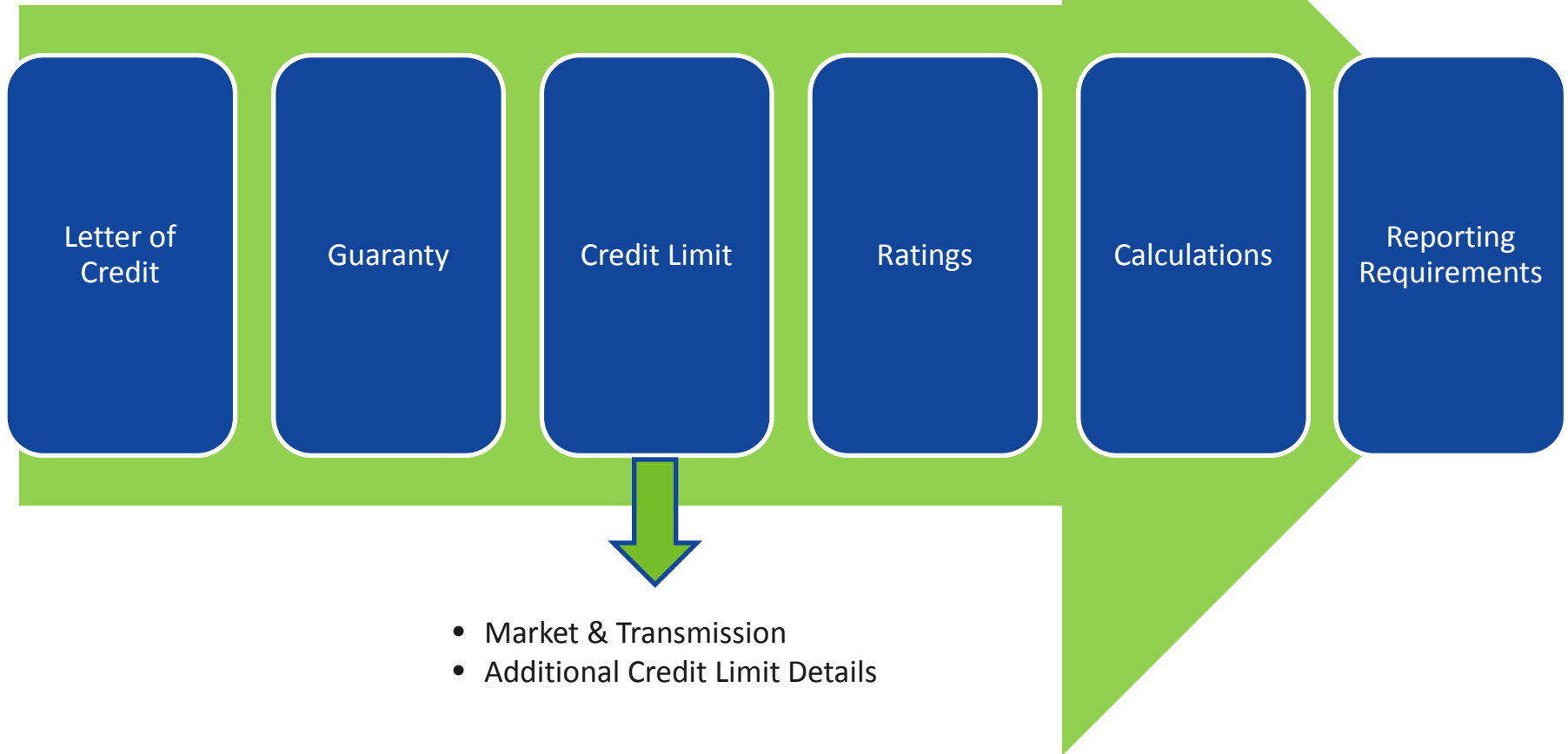
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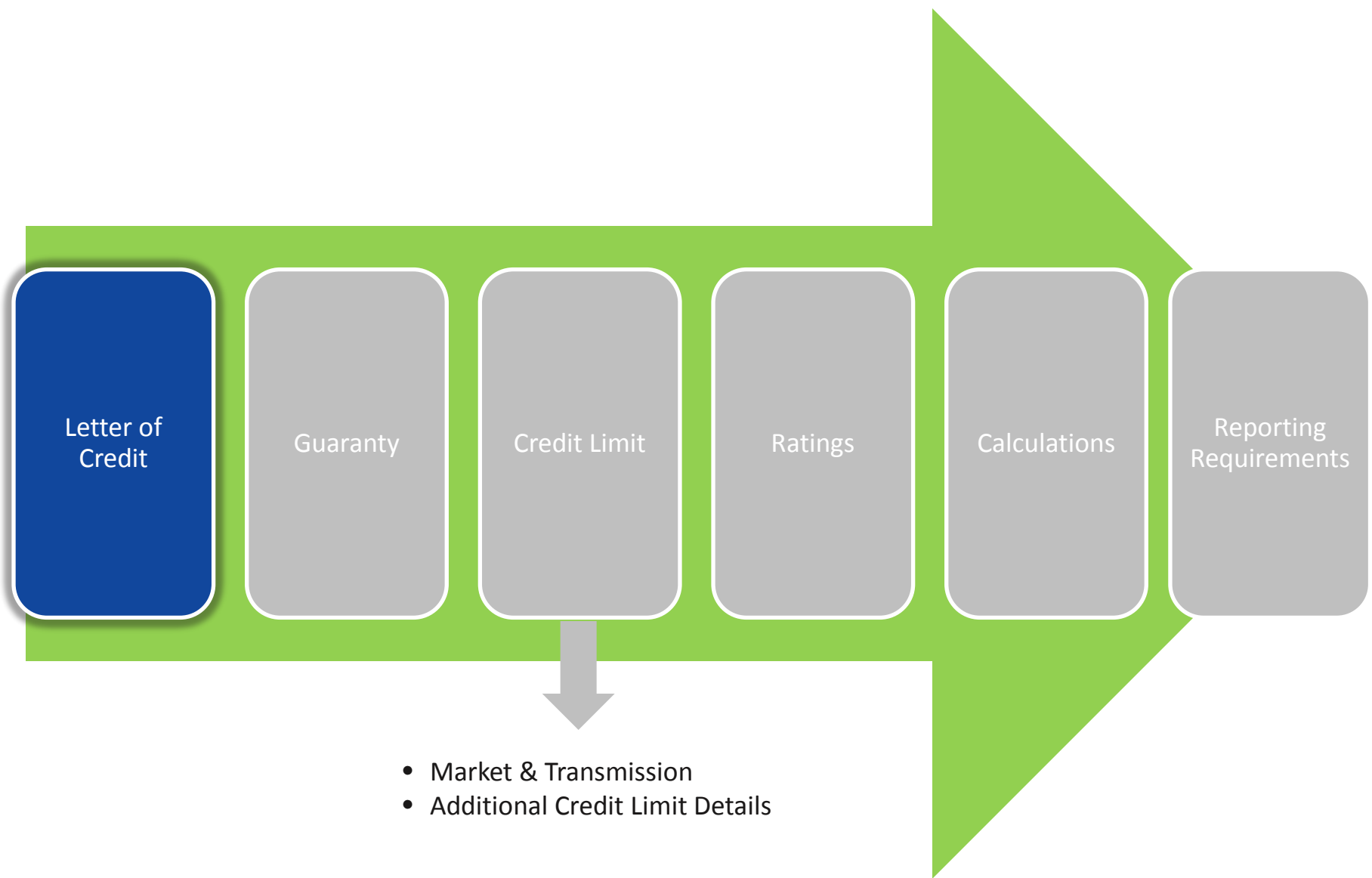
Financial Assurance Policy Changes

Session Goals

- At the completion of this WebEx you will have a better understanding of...
 - Implications of twice weekly billing
 - How payment shortfalls and defaults will be allocated to participants
 - **New Financial Assurance obligation calculations and collateral requirements**

Section Topics





Eligibility

Bank listed on ISO's "List of Eligible Letter of Credit Issuers"

- Bank organized under laws of United States or the United States branch of a foreign bank
- Must satisfy one of the following conditions:
 - Be recognized by the Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; OR
 - Have a minimum long-term debt rating (or minimum corporate rating if no long-term debt rating) of an "A-" by S & P, or "A3" by Moodys, or "A-" by Fitch and have its letter of credit confirmed by a bank that is recognized by CME as an approved letter of credit issuer; OR
 - Have a minimum long-term debt rating (or minimum corporate rating if no long-term debt rating) of an "A-" by S & P, or "A3" by Moodys, or "A-" by Fitch and be approved by the ISO in its sole discretion

Failure to Meet Eligibility Requirements

Failure to continue meeting the “List of Eligible Letter of Credit Issuer” criteria

- ISO will notify participant of such failure
 - Within five (5) business days*, participant must provide an alternate form of financial assurance or obtain a letter of credit from a bank satisfying the List of Eligible Letter of Credit Issuer criteria

***ISO, in its sole discretion, may extend the five (5) business day requirement to twenty (20) business days in the case of a letter of credit issuer being removed from the CME list of approved letter of credit bank**

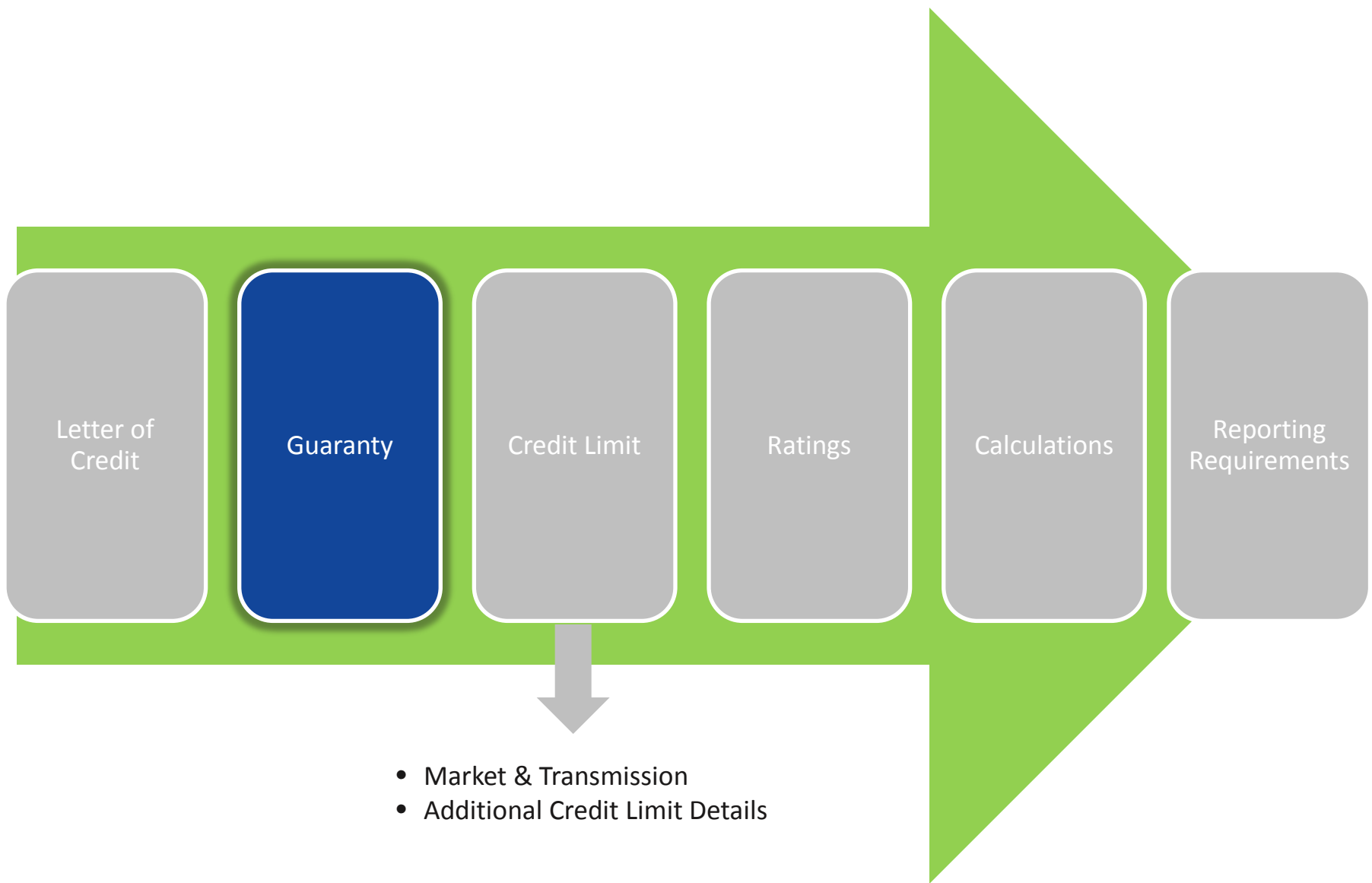
Additional Letter of Credit Criteria

No bank may issue or confirm letters of credit in an amount exceeding:

- \$100 million in aggregate for any single market participant
- \$150 million in aggregate for a group of affiliated entities

Letter of credit cannot be issued or confirmed by an affiliate* of the market participant

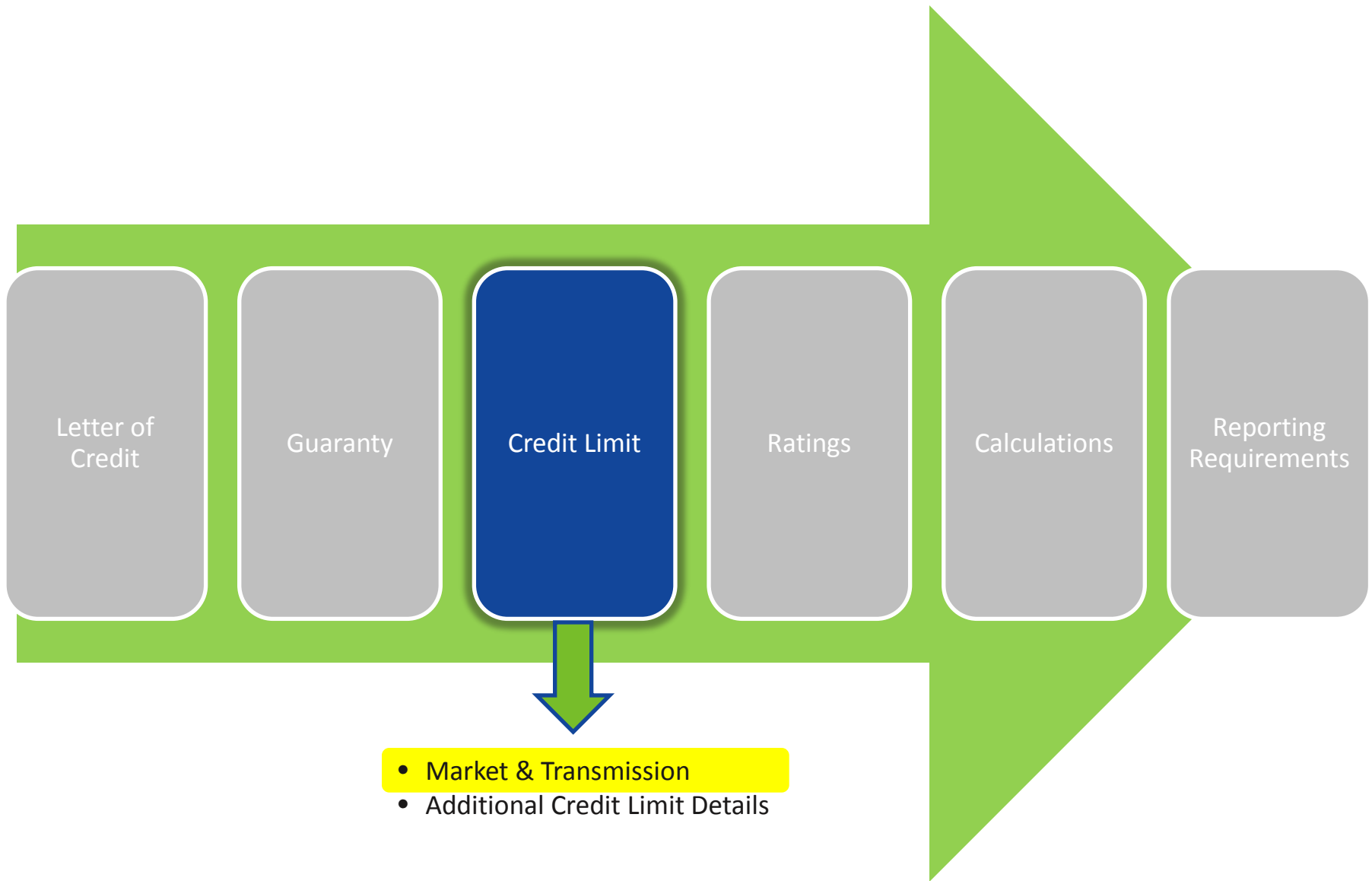
*Affiliate, for purposes of Section I of the Tariff, is any person or entity which controls, is controlled by, or is under common control by another person or entity. For purposes of this definition, "control" means the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct the management or policies of a person or entity. A voting interest of ten percent or more shall create a rebuttable presumption of control.



Guaranty as Financial Assurance

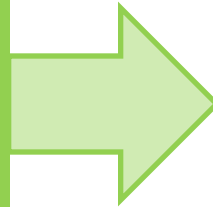
Effective January 26, 2011, Guarantees will no longer be an acceptable form of financial assurance

- Prior to January 26, 2011, participants utilizing a guaranty will need to provide an alternate form of financial assurance
- Letter of Credit: Template can be found at: [Settlements > Financial Assurance & Credit > FA Policies & Amendments > Letter of Credit Template](#)
- BlackRock (cash): Instructions for opening a BlackRock account can be found at: [Settlements > Financial Assurance & Credit > BlackRock Documents > BlackRock Account Documents > Procedures for BlackRock Account](#)



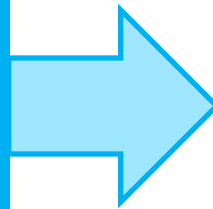
Types of Credit Limits

Market Credit Limit



For a market participant's obligations except Financial Transmission requirements

Transmission Credit Limit



For a market participant's transmission obligation

Market participant obligations and transmission obligations will be discussed later in this training.

Market & Transmission Credit Limits

Qualifying Rated & Unrated Municipal

Qualifying Rated & Unrated Municipal*

- Market Credit Limit
 - Lesser of:
 - 20% NEPOOL TADO
 - \$25 million
- Transmission Credit Limit
 - \$25 million

*Note: To qualify for a Municipal Market or Transmission credit limit an entity must meet the requirements of Qualifying Municipal Market Participant as defined in the FAP.

TADO = Total amount due and owing

Market & Transmission Credit Limits

Qualifying Rated Non-Municipal

Qualifying Rated Non-Municipal

- Market Credit Limit

- Lesser of:

- Calculated tangible net worth cap
- \$50 million
- 20% of NEPOOL TADO
- Customer designated value

- Transmission Credit Limit

- Lesser of:

- Calculated tangible net worth cap
- \$75 million
- Customer designated value

Market & Transmission Credit Limits

Qualifying Unrated Non-Municipal

Qualifying Unrated Non-Municipal

- Market Credit Limit

- Lesser of:

- 0.5% of customer's tangible net worth
- \$25 million
- 20% of NEPOOL TADO

- Transmission Credit Limit

- Lesser of:

- 0.5% of customer's tangible net worth
- \$25 million

Market & Transmission Credit Limits

Qualifying Rated Non-Market Participant Transmission Customer

Qualifying **Rated** Non-Market Participant Transmission Customer

- Market Credit Limit

- Lesser of:
 - Calculated tangible net worth cap
 - \$50 million
 - 20% of NEPOOL TADO
 - Customer designated value

- Transmission Credit Limit

- Lesser of:
 - Calculated tangible net worth cap
 - \$75 million
 - Customer designated value

Market & Transmission Credit Limits

Qualifying Unrated Non-Market Participant Transmission Customer

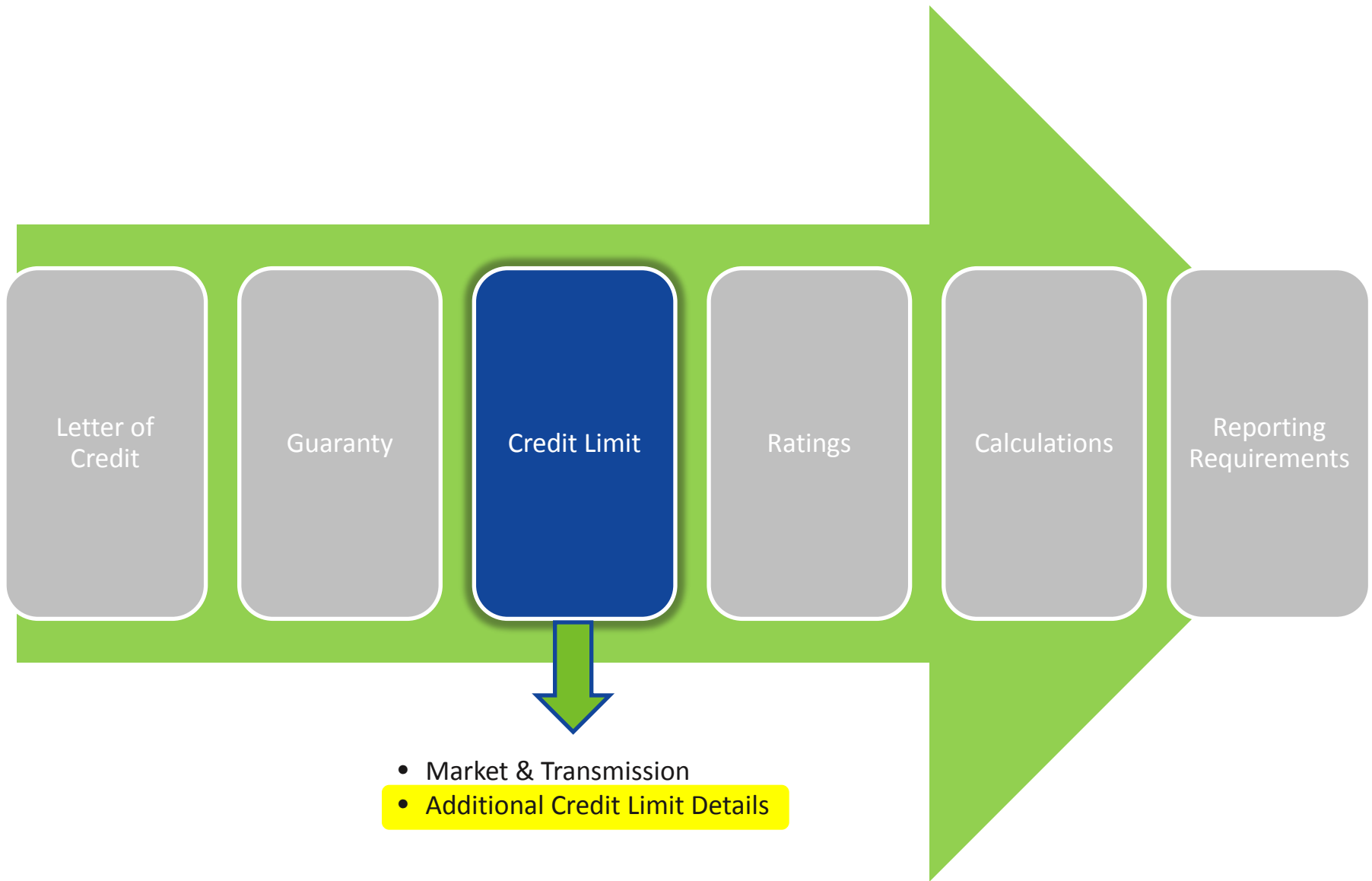
Qualifying Unrated Non-Market Participant Transmission Customer

- Market Credit Limit

- Lesser of:
 - 0.5% of tangible net worth
 - \$25 million
 - 20% of NEPOOL TADO

- Transmission Credit Limit

- Lesser of:
 - 0.5% of tangible net worth
 - \$25 million



Total Credit Limit

A Rated Non-Municipal Market Participant's or a Rated Non-Market Participant Transmission customer's Market & Credit Limit and Transmission Credit Limit may not exceed \$75 million in aggregate

Customers may designate Market Credit Limit and Transmission Credit Limit values for up to four future calendar quarters

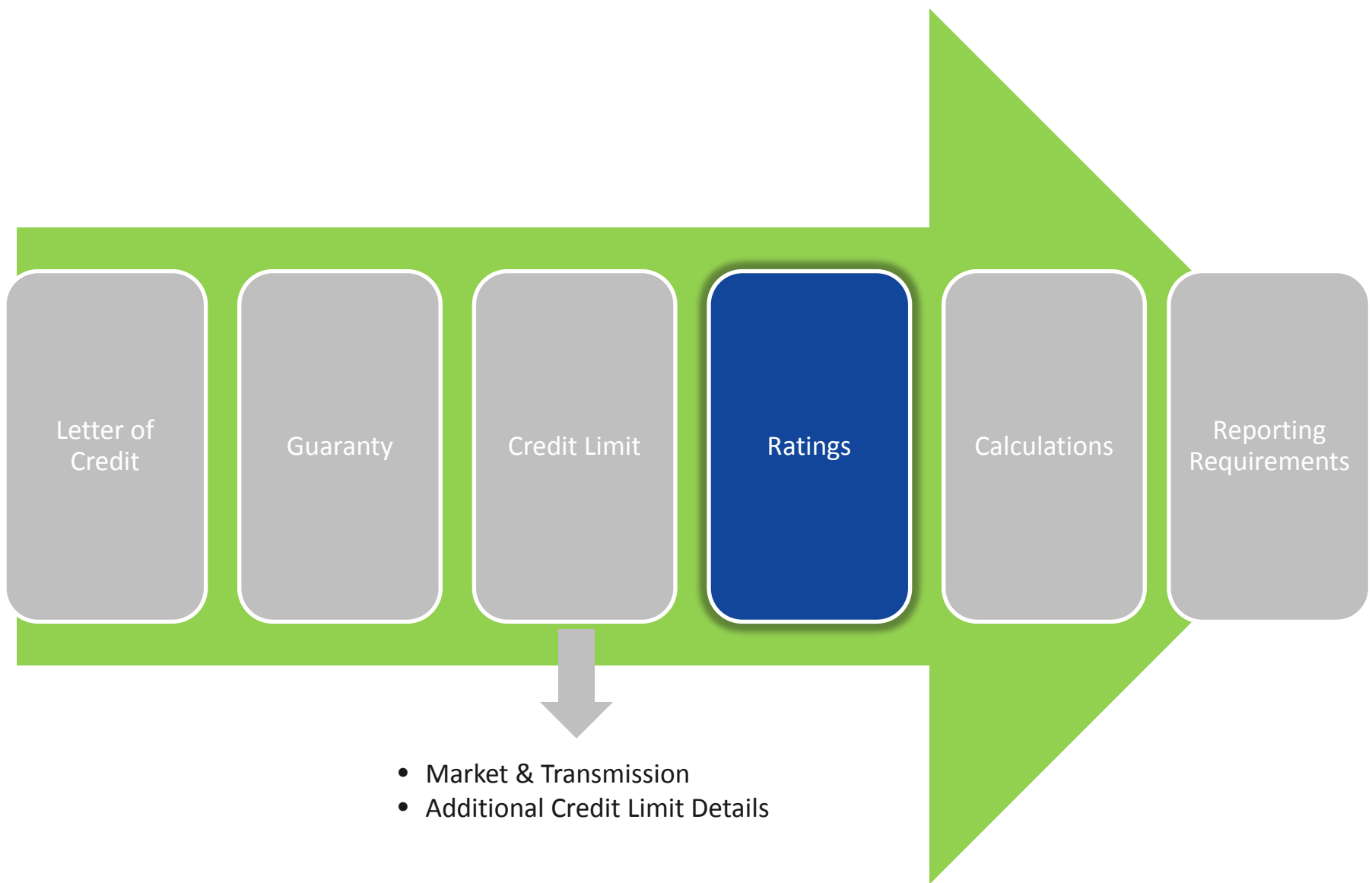
- Value must be received no later than five business days prior to the start of applicable quarter
- Value not to exceed:
 - \$50 million Market Credit Limit
 - \$75 million Transmission Credit Limit
 - \$75 million in aggregate
- If no values are provided, customer designated value set to:
 - \$50 million Market Credit Limit
 - \$25 million Transmission Credit Limit

Additional Credit Limit Details

NEPOOL TADO Credit Limit Cap

- OATT* charges will be excluded from the calculation of NEPOOL TADO and as such the 20% of NEPOOL TADO credit limit cap may be lower than it has been historically

*Open Access Transmission Tariff is Section II of the Transmission, Markets & Services Tariff



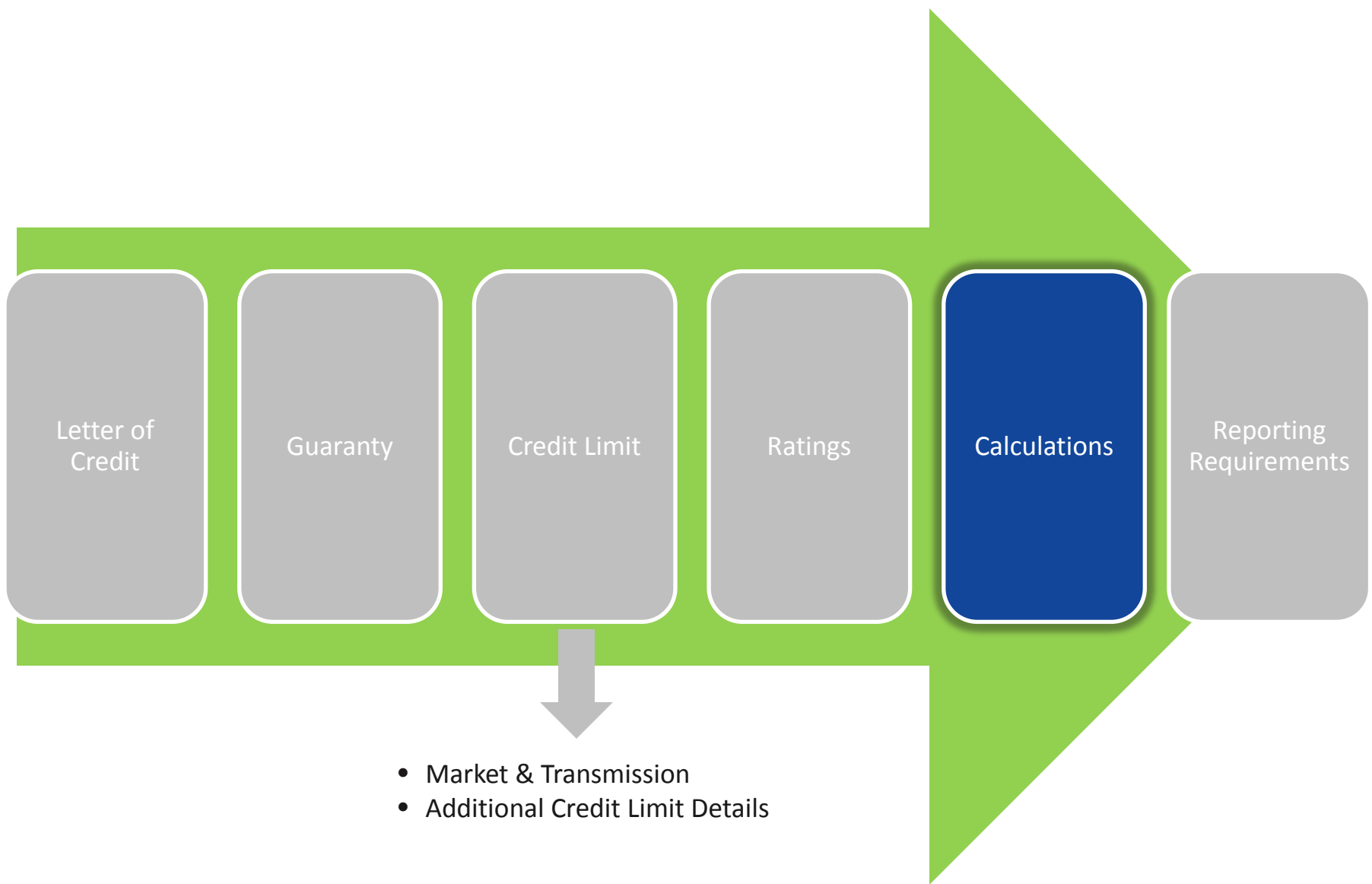
Ratings

Investment Grade Rating

Based upon issuer rating **OR** senior unsecured rating if issuer rating is unavailable

Governing Rating

Equal to the lowest investment grade rating available from Standard & Poors or Moody's or Fitch



Market Participant Obligations

Market Participant Obligations

- Hourly requirements; plus
- Non-hourly requirements times 2.5; plus
- Virtual requirements; plus
- FCM requirements; plus
- Disputed amounts
(as defined in the Billing Policy)

Note: Municipal Market Participant Obligations are conformed to Non-Municipal Obligations, as such, Obligations are subject to 80%, 90%, and 100% thresholds.

Please see the Financial Assurance Policy for additional details on requirement components.

Transmission Obligations

Transmission Obligations

- Transmission Requirements times 2.5
 - Transmission Requirements are equal to average of transmission charges (OATT Schedules 1, 8 & 9) over the two most recently invoiced calendar months; provided that such Transmission Requirements shall in no event be less than \$0

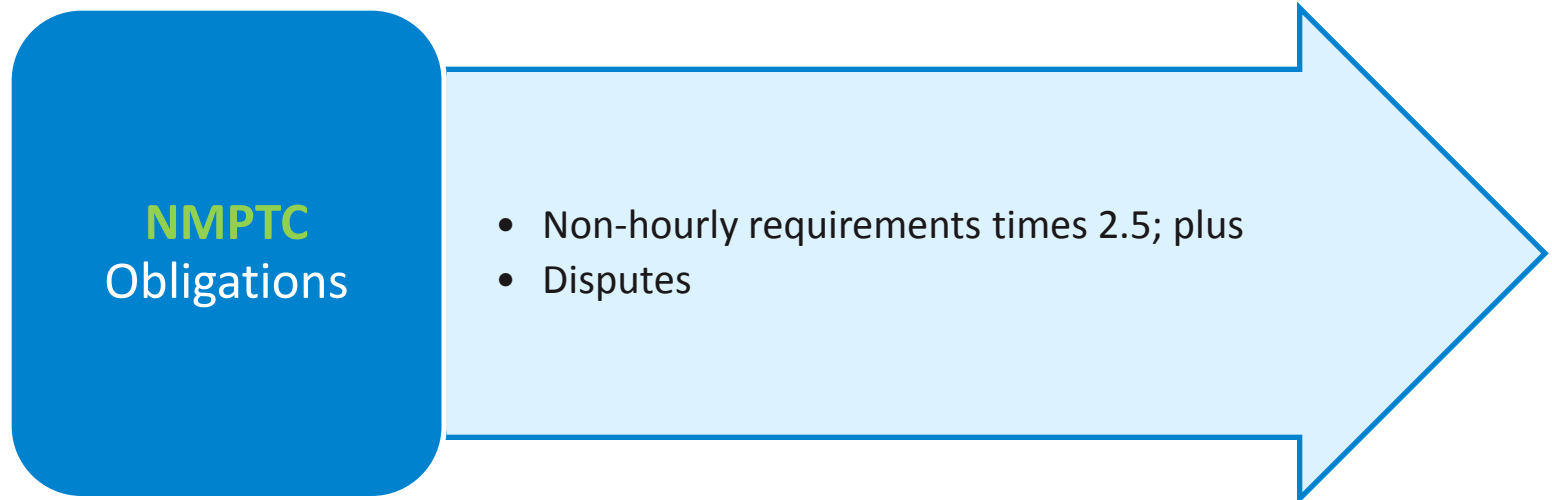
Market Credit Test: Market Participants



Market Participant Obligations

- Hourly requirements; plus
- Non-hourly requirements times 2.5; plus
- Virtual requirements; plus
- FCM requirements; plus
- Demand resource requirement (if applicable); plus
- Disputes

Market Credit Test: Non-Market Participant Transmission Customers (NMPTC)



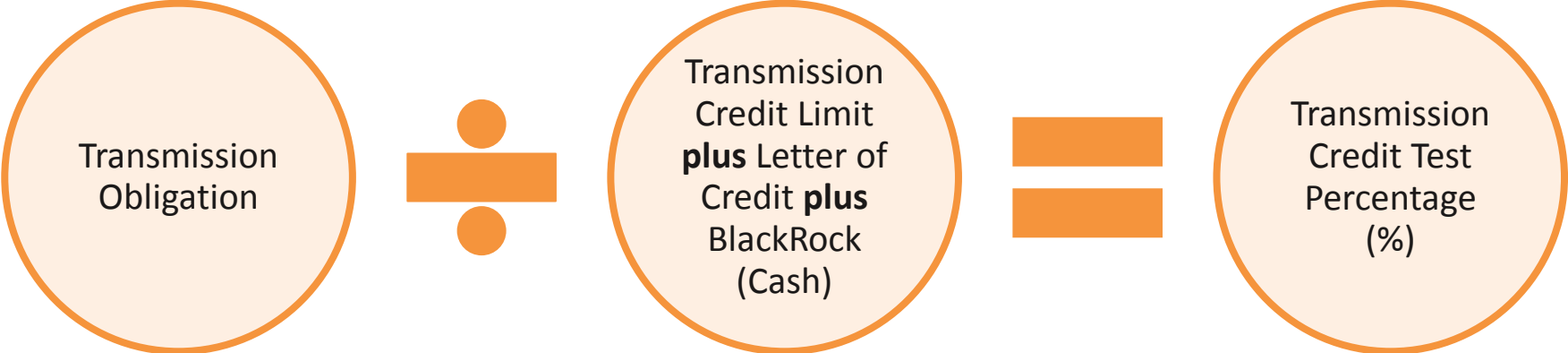
FTR Credit Test



FTR Requirements

- Settlement risk financial assurance; plus
- Bid financial assurance; plus
- Award financial assurance; plus
- Settlement financial assurance

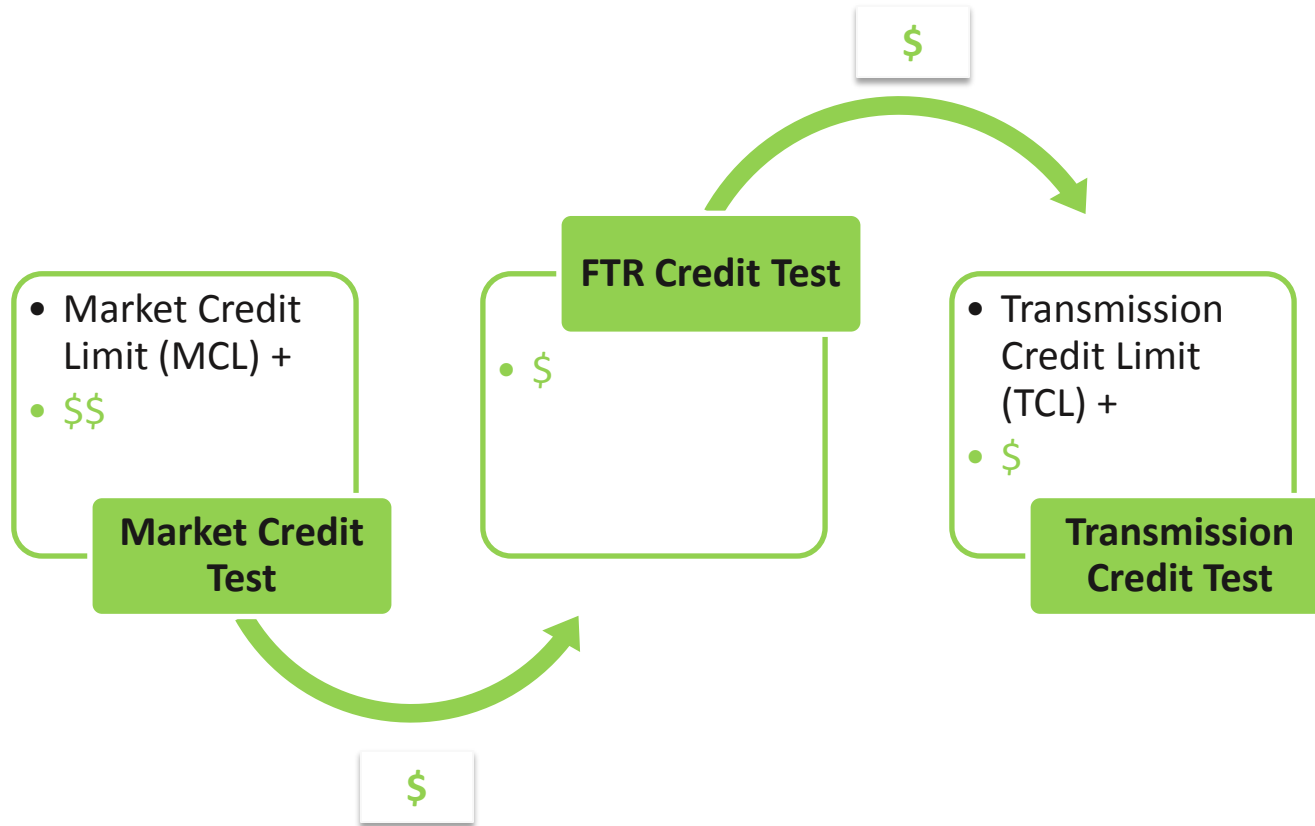
Transmission Credit Test



Transmission Obligation

- Transmission requirement times 2.5
- Transmission requirement is equal to the average of Transmission Charges (OATT Schedules 1, 8, and 9) over two most recently invoiced calendar months

Secured Collateral Allocation

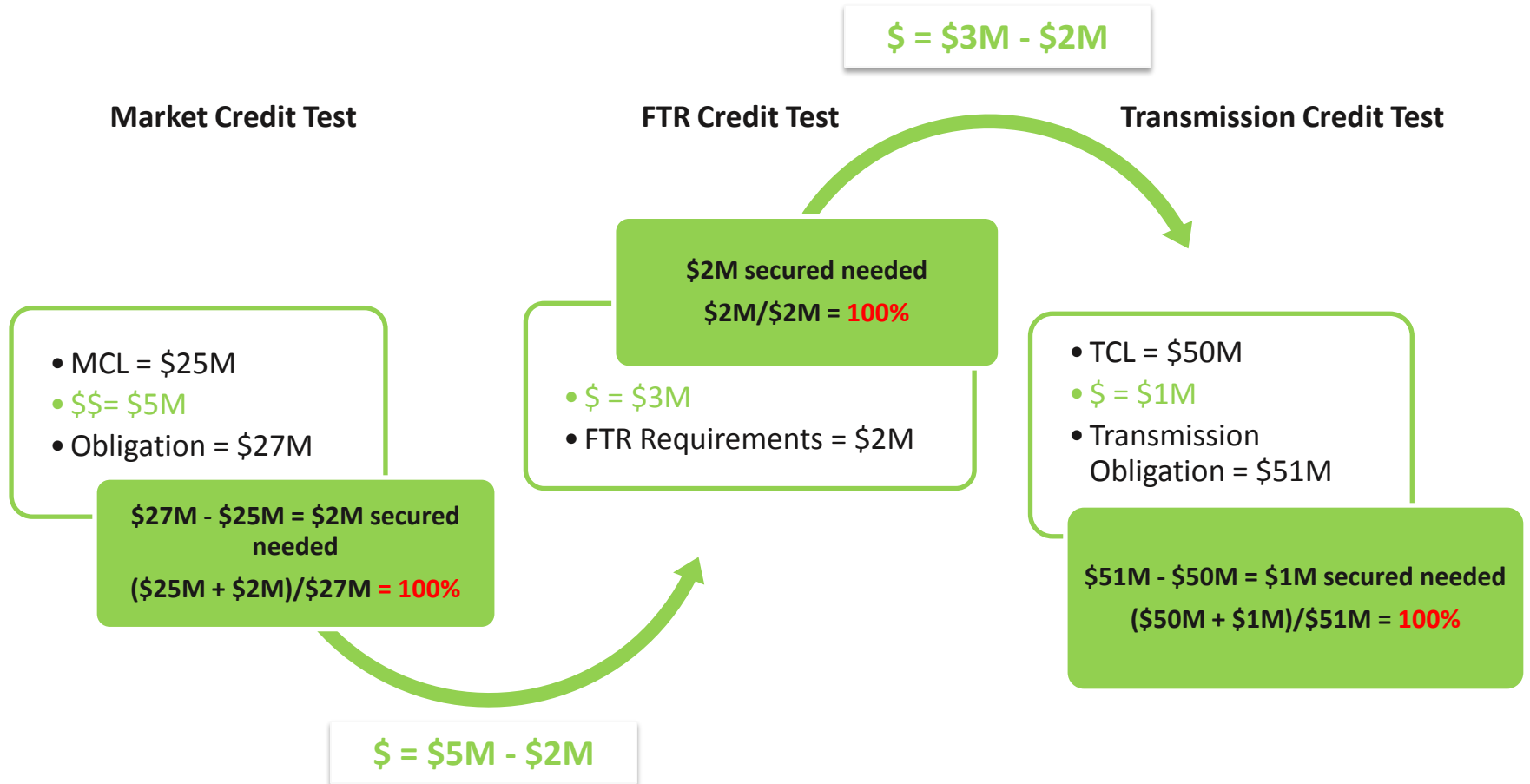


- Total Collateral \$\$ equals the sum of participant's Cash (BlackRock) and Letter of Credit
- Excess Collateral \$ is the remaining amount of collateral available after application to the preceding test

Example: Secured Collateral Allocation

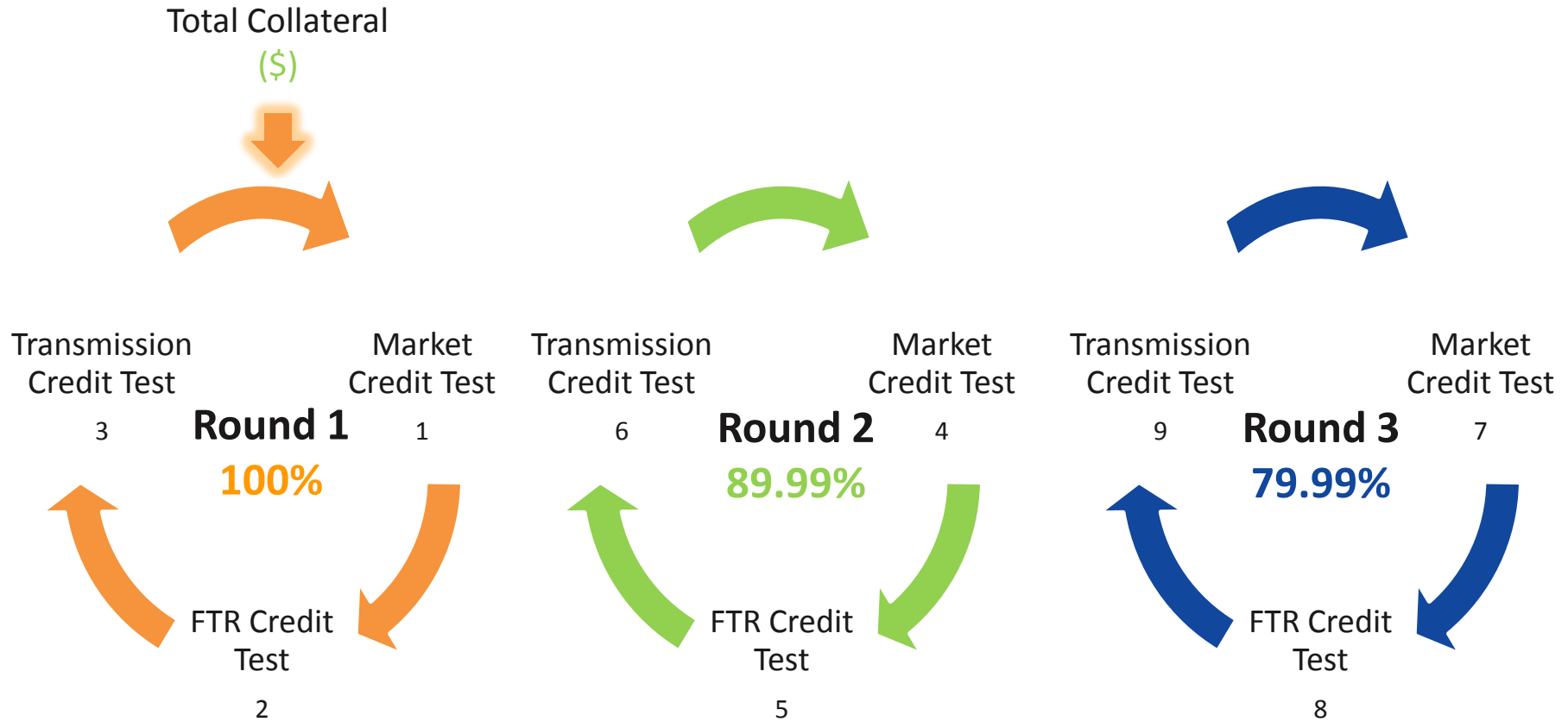
- Details
 - Market Credit Limit = \$25 million
 - Transmission Credit Limit = \$50 million
 - BlackRock (cash collateral) = \$0.00
 - Letter of Credit = \$5 million
 - Market Obligations = \$27 million
 - FTR Requirements = \$2 million
 - Transmission Obligations = \$51 million

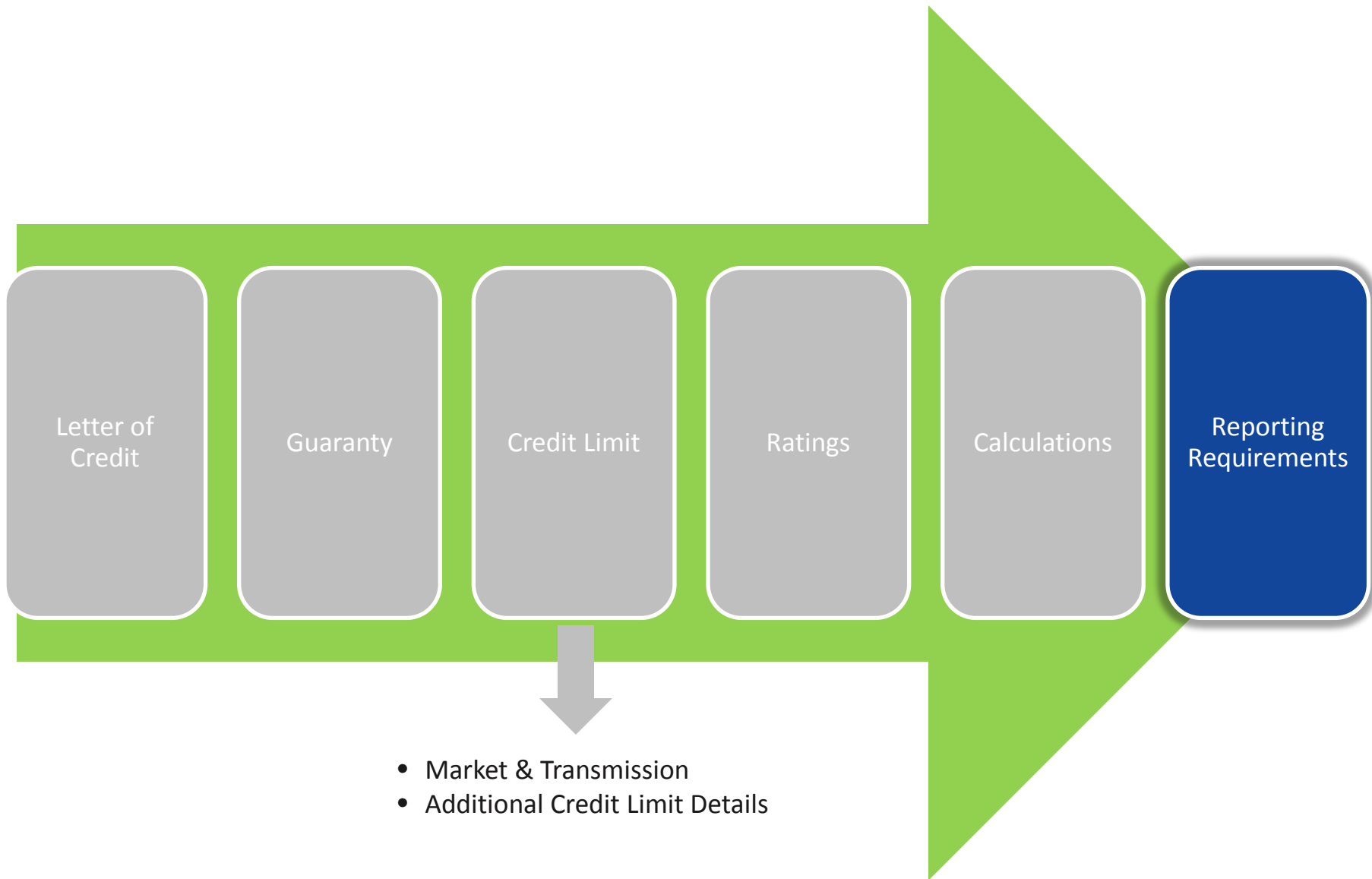
Secured Collateral Allocation Example



- Total Collateral $\$ \$$ equals the sum of participant's Cash (BlackRock) and Letter of Credit
- Excess Collateral $\$$ is the remaining amount of collateral available after application to the preceding test

Rounds of Secured Collateral Allocation





Municipal Applicants

New Requirements

*All applicants,
regardless of intent to establish a credit limit,
must submit to the ISO*:*

- Audited annual financial statements for the two most recent years
- Unaudited financial statements for its last concluded fiscal quarter certified as to their accuracy by a Senior Officer

*Requirement conforms rated municipal applicant requirements and municipal applicants choosing to post secured financial assurance requirements with requirements already applicable to all other applicant types. Please note however that in the case of certain Rated Municipal Market Participants, some of the information and documentation may not be available, and alternate requirements may be specified by the ISO.

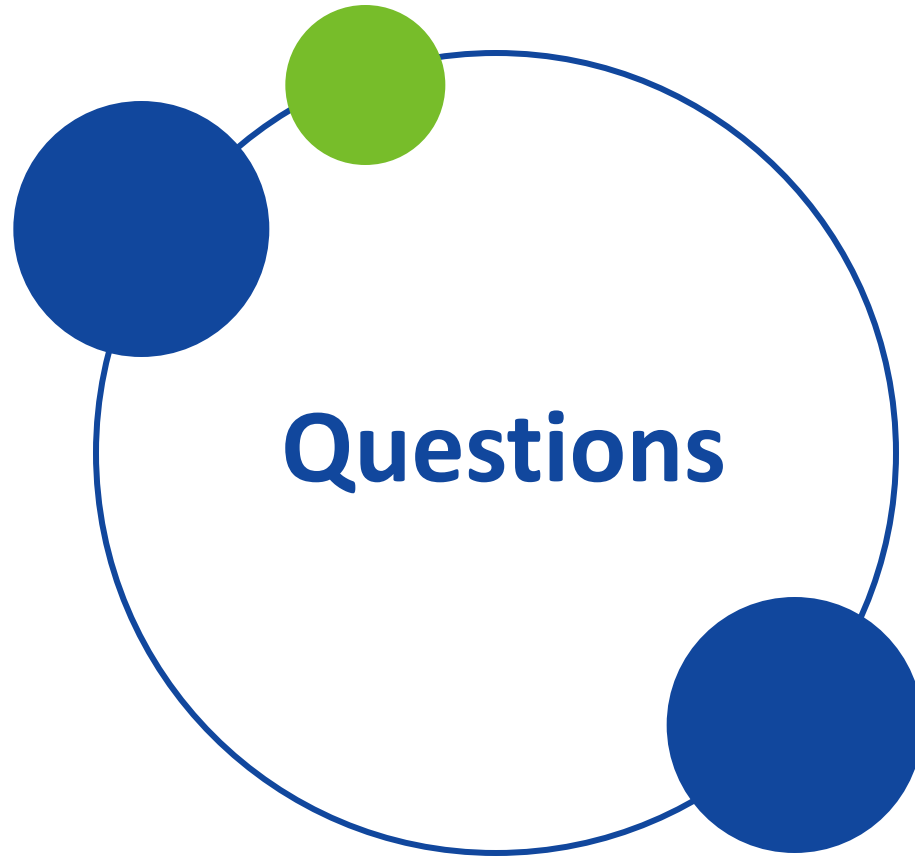
Municipal Market Participants

New Requirements

All participants maintaining unsecured credit must submit to the ISO:*

- A balance sheet on a quarterly basis certified as to its accuracy by a Senior Officer
- Its current rating agency reports, if available,
- Updates to the ISO within five (5) business days of any changes or updates to existing rating agency ratings, and
- Its audited financial statements & annual report annually

*Requirement conforms rated municipal requirements to requirements applicable to all other customer types maintaining unsecured credit. Please note however that in the case of certain Rated Municipal Market Participants, some of the information and documentation may not be available, and alternate requirements may be specified by the ISO.



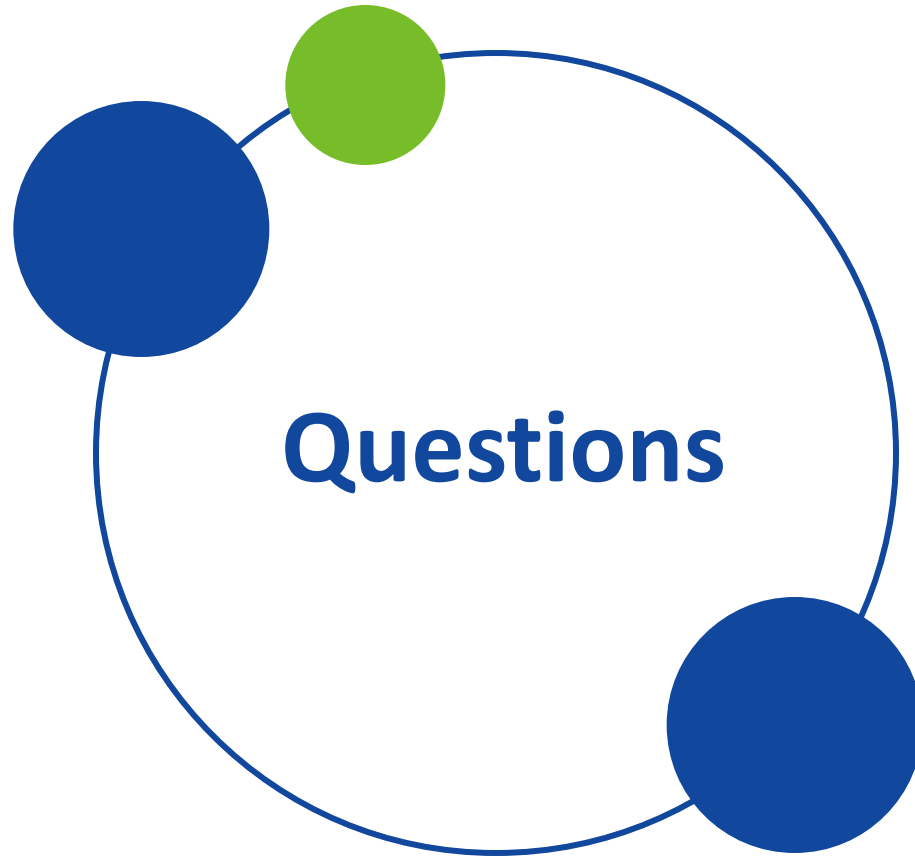
Broadcast has been paused for 4 minutes to allow evaluation submissions

Please raise your hand  to indicate we can proceed with final Q&As



References

- www.iso-ne.com
- Financial Assurance Policy & Billing Policy
 - [Regulatory > Transmission, Markets & Services Tariff > Section I – General Terms & Conditions](#)
- Transmission, Markets & Services Tariff
 - [Home > Regulatory > Transmission, Markets & Services Tariff](#)
- Customer Support
 - 413-540-4220
 - custserv@iso-ne.com
- [Training Materials](#)
 - [Support > Training > Training Materials > Financial Assurance](#)



Please submit your evaluation of today's WebEx



The Credit and Billing Enhancements broadcast has ended

The recorded file of the WebEx will be available within 5 business days here:

www.iso-ne.com > [Support](#) > [Training](#) > [Training Materials](#) > [Financial Assurance](#)