

MEMORANDUM

TO: NEPOOL Budget and Finance Subcommittee
FROM: Paul N. Belval, NEPOOL Counsel
DATE: June 6, 2008
RE: Additional Change to ISO Financial Assurance Policy for Market Participants

At its June 12 teleconference meeting, the NEPOOL Budget and Finance Subcommittee will be asked to recommend to the NEPOOL Participants Committee that it support an additional minor change to the ISO New England ("ISO") Financial Assurance Policy for Market Participants, which is Exhibit IA to the ISO Tariff. That proposed change is included in Attachment 1 to this memorandum, and that Attachment is marked to show the changes from the currently effective Policy.

The Policy currently calculates a Non-Municipal Market Participant's financial assurance requirements based on a variety of inputs, including that Market Participant's most recent seven days of settled Hourly Charges. This language was included in the Policy in order to account for the lag in the ISO settlement system between when a charge is incurred and when that charge appears in the ISO Settlement System. The ISO recently completed changes to its Settlement System that shortened that lag period and, as a result, the ISO has concluded that it can shorten by one day the amount of Hourly Charges included in the financial assurance calculation. The ISO estimates that this change will result in a \$22 million reduction in the amount of financial assurance required to be posted by Non-Municipal Market Participants.

We deferred asking the Participants Committee to act on the clean-up changes to the ISO Financial Assurance Policies that the Subcommittee recommended at its last meeting so that we could include this proposed change in the materials to be considered by the Participants Committee. If the Subcommittee recommends the proposed revision described above to the Participants Committee, we will include it in the changes to the Financial Assurance Policies to be considered by the Participants Committee at its summer meeting on June 23.

EXHIBIT IA
ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY FOR MARKET PARTICIPANTS

II. FINANCIAL ASSURANCE REQUIREMENTS FOR NON-MUNICIPAL APPLICANTS AND NON-MUNICIPAL MARKET PARTICIPANTS

C. Financial Assurance Requirement for Non-Municipal Market Participant

For purposes of this Policy:

- (i) a Non-Municipal Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges¹ for such Non-Municipal Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly Charges for such Non-Municipal Market Participant that have been settled but not invoiced, plus (z) such Non-Municipal Market Participant’s most recent ~~seven (7)~~² six (6) days of settled Hourly Charges (whether these Hourly Charges have been invoiced or not) (which amount shall not in any event be less than \$0);

¹ As used in this Policy, the terms “Non-Hourly Charges” and “Hourly Charges” shall have the same meaning as ascribed to them in the ISO New England Billing Policy, and shall include both charges due from the Non-Municipal Market Participant and payments due to that Non-Municipal Market Participant.

~~² The number of days may be reduced if the ISO shortens its settlement cycle under the ISO New England Billing Policy.~~