

FTR Minimum Capitalization Proposal

FTR Credit Working Group

Meeting #7

July 14, 2008

Min Capitalization Criteria for FTR Market Participation Only

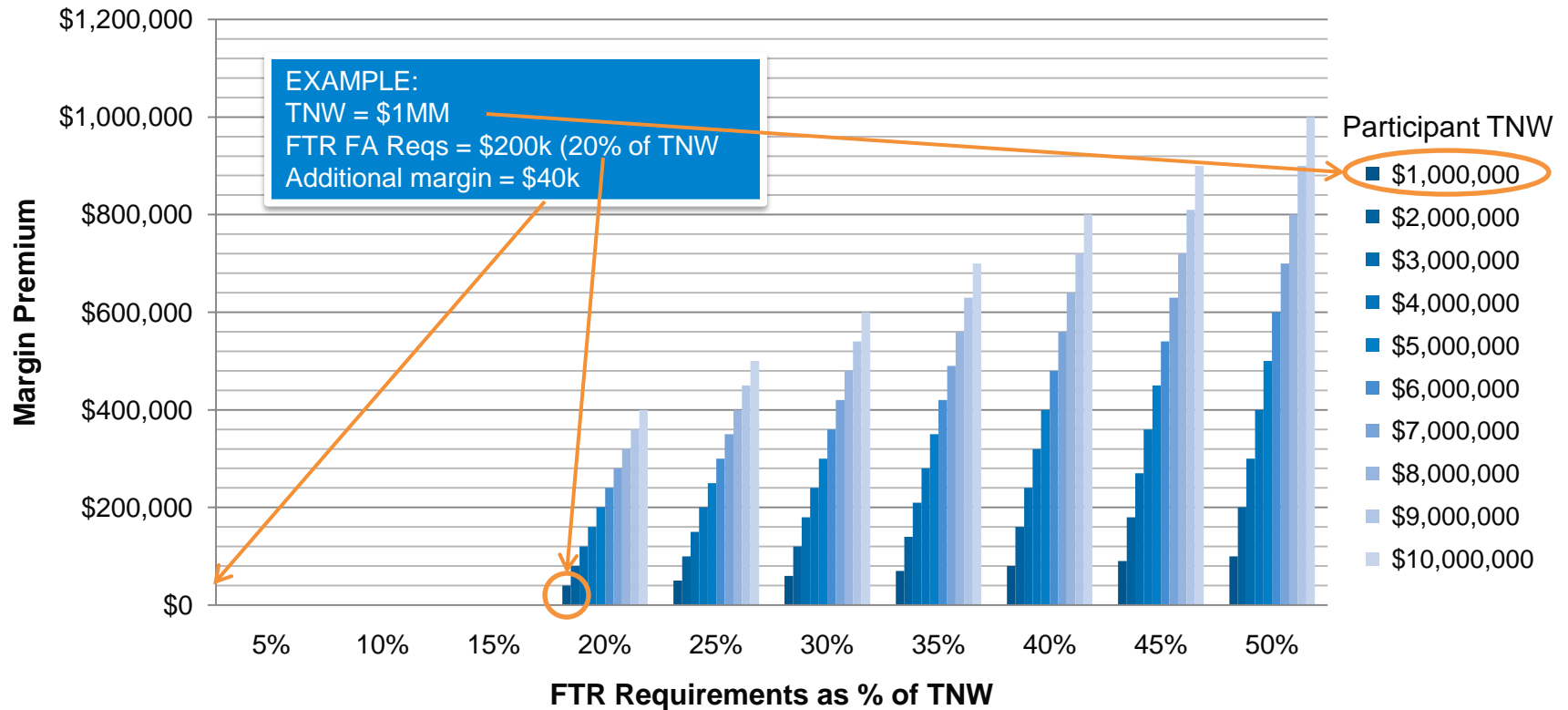
- Thinly capitalized Participants at greater risk of failing to meet prospective margin calls
- Uniqueness of FTR market merits targeted application of requirement
 - Lengthy forward exposure
 - High price volatility
 - Lack of adequate market liquidity
 - Few players – total of 46 FTR holders (Jan – Jun '08)
 - High concentration of FTR ownership – 6 participants owned ~ 80% of FTR MWs in '08
 - No effective means to sell out of forward positions
 - No forward price curve
- Failure to meet criteria does NOT preclude FTR market participation

Proposed Approach

- **If** (1) a Designated FTR Participant has a TNW of less than \$10MM **and** (2) that Participant's FTR FA Requirements are greater than 20% of its TNW, **then** its total FTR FA Requirements will be automatically increased by 20%.
- FTR Participants are not permitted to obtain FTRs (via auction or ISO's secondary market) resulting in FTR Requirements in excess of 50% of TNW
 - No action taken if market conditions (including TNW values) change such that FTR Requirements become greater than 50% but less than 70% of TNW
 - If FTR FA requirements exceed 70% of TNW Participant must drop to below 50% at next available auction
- May utilize affiliate guaranty for purposes of establishing TNW value
 - Affiliate guaranties payment / margin obligations of FTR participant
 - Guaranty does not count as available margin
 - Only if FTR FA requirements must be met through posting of liquid collateral, otherwise guaranty may serve as FTR margin

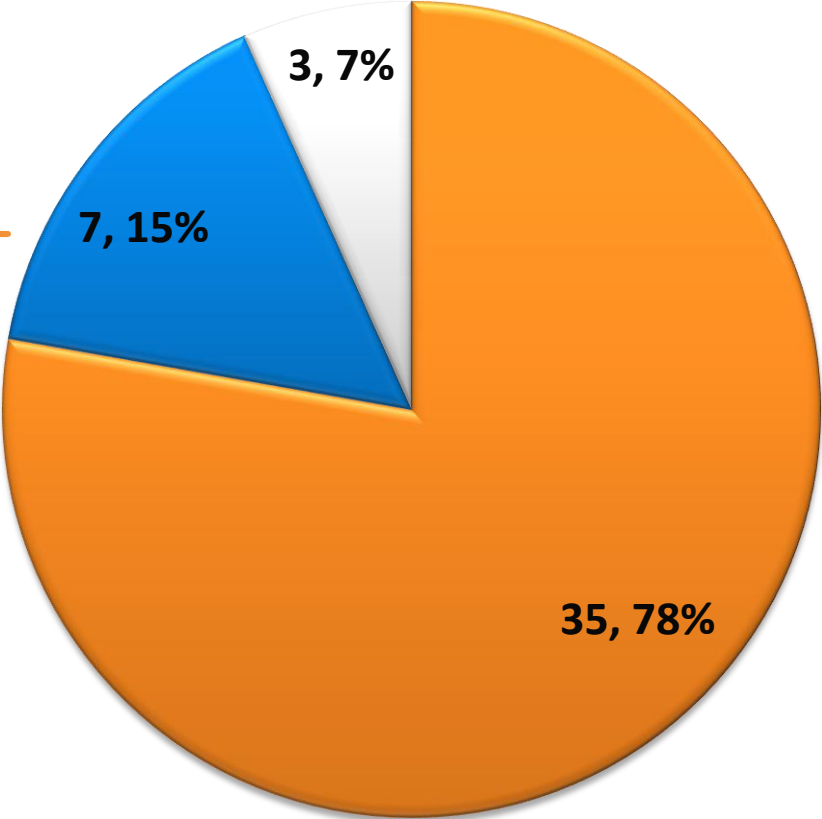
Incremental Margin Requirements at Various TNW Levels

Utilizing Assumptions from Prior Slide
 (% of TNW Trigger = 20%; Margin Premium = 20%)



TNW of 2008 FTR Participants

- 4 (of 7) have indicated Parent with TNW >\$10MM
 - Aggregate FTR FA reqs of group is <\$4MM
- 3 have not provided info on parent (if any)
 - Aggregate FTR FA reqs of group is <\$1MM



- > \$10MM
- < \$10MM
- No Response