FTR Credit Working Group Recommendations

Prepared For Consideration by

FTR Credit Working Group

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Financial Assurance Policy Language to Improve FTR Bankruptcy Protections

Agenda Item #2

Recommended Language Insertion to Financial Assurance Policy

Include following language* in FAP to better position ISO & NEPOOL in the event of FTR participant bankruptcy

Forward Contract / Swap Agreement

All FTR transactions constitute "forward contracts" and/or "swap agreements" within the meaning of the United States Bankruptcy Code (the "Bankruptcy Code"), and the ISO shall be deemed to be a "forward contract merchant" and/or "swap participant" within the meaning of the Bankruptcy Code for purposes of those FTR transactions.Without limiting any other rights of the ISO or obligations of any Market Participant under this Policy, the ISO Tariff or any Market Participant Service Agreement, upon the commencement of a voluntary or involuntary proceeding for a Market Participant under the Bankruptcy Code, the ISO may, without limitation 1) terminate and/or liquidate any FTR transaction held by that Market Participant; 2) immediately proceed against any collateral of the Market Participant, 3) set off any obligations due and owing to the Market Participant pursuant to any forward contract , swap agreement and/or or master netting agreement against any amounts due and owing by the Market Participant with respect to an FTR including as a result of the actions taken by the ISO pursuant to 1 above, and 4) suspend that Market Participant from entering into future transactions in the FTR system.

*Draft language subject to further review/revision by FERC / ISO counsel

ISO Rights to Terminate & Liquidate Upon Default

- Recommend additional changes to provide ISO right to terminate FTRs held by Market Participant in the event of market suspension resulting from default of the ISO's Financial Assurance Policy (credit test default) or Billing Policy (payment default).
- Questions remain as to mechanics of liquidation
  - Current FTR market design does not permit liquidation of entire forward FTR position
    - If margin default, recommend defaulted participant be permitted limited time to arrange for bilateral work-out to cure position
    - If unable to cure via bilateral trade, recommend the ISO effectuate liquidation of defaulted portfolio via special auction
    - Recommend entire portfolio be offered for auction with buyers bidding for "all-or-nothing"

Qualifications for FTR Market Participation

Agenda Item #3

Agenda Item #4

FTR Eligibility Requirements

Establish CWG recommendation on whether ISO should establish additional eligibility criteria for FTR market participation

Option A: No change. Do not institute additional eligibility criteria

Option B: Institute quantitative & qualitative eligibility criteria for FTR market participation

- Quantitative:
  - Qualify as an "Eligible Contract Participant" under U.S. Commodity Exchange Act
- Qualitative:
  - Obtain "FTR Trader Certification" by:
    - Completing ISO training
    - Passing ISO administered certification exam
- Consequence of failure to meet criteria:
  - Fail Quantitative Criteria:
    a) Denial of FTR market rights; or
    b) FTR FA margin premium; or
    c) FTR position limit; or
    d) FTR FA margin premium & FTR position limit
  - Fail Qualitative Criteria:
    - Denial of FTR market rights

FTR Eligibility Requirements (cont'd)

Establish CWG recommendation on whether ISO should establish additional eligibility criteria for FTR market participation

Option C: Alternate proposal(s) supplied by FTR CWG member(s)

- ISO received no additional proposals

Limit Available Forms of FA For Meeting FTR Margin Requirements to Cash & Letters of Credit

Agenda Item #5

Available Forms of Financial Assurance for FTR Margin Requirements

Establish CWG recommendation on whether ISO should prohibit the use of non-secure forms of financial assurance (e.g., credit limit & guaranty) for purposes of meeting FTR related margin requirements.

Option A: No change. Do not prohibit the use of credit limit or guaranty for the purpose of meeting FTR related financial assurance requirements.

Option B: Require that any FTR related financial assurance requirements be met through the posting of liquid forms of collateral (e.g. cash, letter of credit).

- Must post liquid collateral regardless of whether qualify for credit limit or possess valid guaranty
- Prohibition is limited to FTR FA requirements.
- All forms of FA, including credit limit & guaranty, continue to be eligible for use in covering non-FTR related requirements