

27 Attachment U – Declaration and Recovery of Bad Debt Losses

The provisions of this Attachment U of this ISO OATT shall apply to all bad debt losses recoverable under Rate Schedule 1 of the Services Tariff and Schedule 1 of this ISO OATT.

27.1 Declaration Of A Bad Debt Loss

Section 2.7.3.2. of this ISO OATT requires Transmission Customers to pay monthly settlement invoices by the first banking day common to all parties after the 15th day of the month in which the invoice is rendered by the ISO. At such time that the ISO's Chief Financial Officer concludes that the ISO does not reasonably expect payment in full from a defaulting Transmission Customer within an acceptable time period, then the ISO's Chief Financial Officer shall declare that such unpaid obligation is a bad debt loss that requires recovery by the ISO under Section 6.1.3 of Rate Schedule 1 of this ISO OATT, and the ISO shall pursue available remedies for customer defaults under the ISO Tariffs. All funds held by the ISO relative to the defaulting Transmission Customer (e.g., working capital, collateral, etc.) shall be set aside pending determination of ISO's counsel and/or the appropriate bankruptcy courts as to the appropriate disposition of such funds.

27.2 Notice To Market Participants

The ISO shall notify Market Participants of the declaration of a bad debt loss under Section 27.1 of this Attachment U by a posting to the ISO website and to the Market Participant subscriber e-mail lists. Such notification shall identify the defaulting Transmission Customer, the dollar amount of the unpaid balance, the applicable month of services for which settlement invoice obligations remain unpaid and are still owing to the ISO, and the future billing month(s) in which the ISO will recover the bad debt loss through a Rate Schedule 1 charge.

27.3 Recovery of Bad Debt Losses

Whenever all or any portions of any settlement invoices remain unpaid to the ISO after the invoice due date, the ISO, at its discretion, shall utilize the Working Capital Fund to maintain the liquidity of the New York wholesale energy markets and ensure that all Transmission Customers who are owed monies in their settlement invoices under Section 2.7.3. (iii) of this OATT are paid in full. The ISO shall not utilize the Working Capital Fund to satisfy WTSC non-payments.

After the ISO's Chief Financial Officer has declared a bad debt loss (other than a bad debt loss relating to WTSC), and notified Market Participants in accordance with this Attachment U, the ISO will ordinarily first seek to recover the amount of the bad debt loss by drawing upon the entire amount of collateral provided by the defaulting Customer. If the ISO were unable to promptly recover the full amount of the debt in this way, the ISO would ordinarily seek to recover the amount of the bad debt loss by drawing upon the defaulting Customer's contributions to the Working Capital Fund that is described in Attachment V. If the ISO were unable to promptly recover the full amount of the debt through this measure, it would then ordinarily make claims against any available loss protection insurance in accordance with the insurance's terms. The ISO may deviate from the sequence of steps above, or pursue alternative cost-recovery measures, if it determines that doing so would be more likely to minimize the size of, or avoid, a bad debt loss. In the case of a bad debt loss relating to WTSC, the ISO shall draw upon collateral pursuant to Section 29 of Attachment W. Any remaining losses shall be allocated *pro rata* to all Customers pursuant to the following formula:

$$\text{Percentage of Loss to Be Paid by Customer} = \frac{\text{CAR} + \text{CAP}}{\text{NYAR} + \text{NYAP}}$$

Where:

CAR = Customer's gross accounts receivable, including WTSC in the month of loss.

CAP = Absolute value of Customer's gross accounts payable, including WTSC, in the month of loss.

NYAR = ISO's gross accounts receivable plus the Transmission Owners' accounts receivable from WTSC, in the month of loss.

NYAP = Absolute value of ISO's gross accounts payable plus the absolute value of the Transmission Owners' accounts payable from WTSC, in the month of loss.

For purposes of this formula, the "month of loss" shall be the service month in which a bad debt loss occurred.

Notwithstanding any recovery of unpaid WTSC through Rate Schedule 1, a Transmission Owner shall be required to pursue reasonable debt collections efforts and refund through Rate Schedule 1 any such WTSC ultimately collected.

Whenever practicable, the ISO shall recover this Rate Schedule 1 charge in the billing month after the month in which the bad debt loss is declared; provided, however, that the ISO may recover bad debt losses over several months if, in its discretion, the ISO determines such method of recovery to be a prudent course of action.

Customers that are subject to a Rate Schedule 1 charge for a bad debt loss will be assessed the outstanding balance owing to the ISO, as originally reflected in the defaulting Transmission Customer's invoice, including any accrued interest through the date of such invoice, but exclusive of any additional interest on the unpaid balance that accrued subsequent to the original due date. The ISO shall have the option to adjust Customers' shares of bad debt loss recovery costs, on a ratable basis, if necessary to fully recover a loss. The ISO shall not be required to determine the outcome of any insurance claim

before allocating bad debt loss recovery costs to Customers. Any bad debt losses that are later recovered through insurance proceeds or from a defaulting Customer shall be allocated to all Customers previously charged for the loss according to the same allocation method originally used to collect the loss.

27.4 Re-Entry of Defaulting Transmission Customer

In addition to the provisions for curing a Transmission Customer default contained elsewhere in this ISO OATT, a Transmission Customer whose previous default resulted in a Rate Schedule 1 bad debt loss charge to other Transmission Customers must (i) cure such default by payment to the ISO of all outstanding and unpaid obligations and (ii) meet all ISO creditworthiness requirements, including posting of required collateral, prior to being re-admitted by the ISO to participate in the New York wholesale energy markets.