

Attachment III

27 Attachment U – Declaration and Recovery of Bad Debt Losses

The ISO shall recover bad debt losses resulting from non-payment of money owed under this ISO OATT or the ISO Services Tariff by Transmission Customers or Customers (hereinafter, collectively referred to as “Transmission Customers” for purposes of this Attachment U) in accordance with this Attachment U.

27.1 Declaration Of A Bad Debt Loss

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 the net unpaid obligation is a bad debt loss that requires recovery by the ISO in accordance with this Attachment U through a Schedule 1 charge, and the ISO shall pursue available remedies for customer defaults under the ISO Tariffs.

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 Billing Period(s) for which settlement invoice obligations remain unpaid and are still owing to the ISO, and the future Billing Period(s) in which the ISO will recover the bad debt loss in accordance with this Attachment U through a Schedule 1 charge.

27.3 Recovery of Payment Defaults and 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, may use the Working Capital Fund to maintain the liquidity of the New York wholesale energy markets and pay all Transmission Customers who are owed monies in their settlement invoices under the ISO Tariffs . The ISO shall not use the Working Capital Fund to satisfy WTSC non-payments. In the case of WTSC non-payments, the ISO may draw upon collateral for the benefit of the affected Transmission Owners in accordance with Section 26.11 of the ISO Services Tariff.

The ISO will ordinarily first seek to recover the amount of a payment default by drawing upon the entire amount of collateral provided by the defaulting Transmission 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 payment default by drawing upon the defaulting Transmission Customer's contributions to the Working Capital Fund that is described in Attachment V to this ISO OATT. 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. After the ISO's Chief Financial Officer has declared a bad debt loss , and notified Market Participants in accordance with this Attachment U, the amount of the bad debt loss shall be allocated *pro rata* to all Transmission Customers pursuant to the following formula:

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

Where:

- CAR = Transmission Customer's gross accounts receivable, including WTSC in the Billing Period in which the payment obligation that resulted in the loss occurred.
- CAP = Absolute value of Transmission Customer's gross accounts payable, including WTSC, in the Billing Period in which the payment obligation that resulted in the loss occurred.
- NYAR = ISO's gross accounts receivable plus the Transmission Owners' accounts receivable from WTSC, in the Billing Period in which the payment obligation that resulted in the loss occurred.
- NYAP = Absolute value of ISO's gross accounts payable plus the absolute value of the Transmission Owners' accounts payable from WTSC, in the Billing Period in which the payment obligation that resulted in the loss occurred.

Notwithstanding any recovery of unpaid WTSC in accordance with this Attachment U through a Schedule 1 charge, a Transmission Owner shall be required to pursue reasonable debt collection efforts and remit to the ISO any such WTSC ultimately collected.

The ISO shall recover the bad debt loss through a Schedule 1 charge in a subsequent Billing Period after the Billing Period in which the bad debt loss is declared; provided, however, that the ISO may recover bad debt losses over several Billing Periods if, in its discretion, the ISO determines such method of recovery to be a prudent course of action.

Transmission Customers that are subject to a 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 Transmission 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 Transmission Customers. Any bad debt losses that are later recovered through insurance proceeds or from a defaulting Transmission Customer, or otherwise, shall be

allocated to all Transmission 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 the ISO Tariffs, a Transmission Customer whose previous default resulted in a 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 minimum participation criteria, registration requirements, and creditworthiness requirements, including posting of required collateral, prior to being re-admitted by the ISO to participate in the New York wholesale energy markets.

28 Attachment V – ISO Working Capital Fund

The ISO's Working Capital Fund shall be maintained according to the provisions of this Attachment V to the ISO OATT.

28.1 Purpose of the ISO Working Capital Fund

The ISO has accumulated and will maintain a Working Capital Fund through charges, as the ISO deems necessary, under Rate Schedule 1, Section 6.1.4 of the ISO OATT. The Working Capital Fund will be used, among other items, to offset temporary imbalances in ISO cash flow and to ensure the liquidity and stability of the markets administered by the ISO under the ISO Services Tariff. Pursuant to its authority under the ISO Agreement, the ISO Board will determine the ISO's working capital requirements. The ISO shall repay any draws from the Working Capital Fund as soon as reasonably practicable.

28.2 Monitoring and Reporting of Working Capital Fund

The ISO will monitor the activity of the Working Capital Fund, both in the aggregate and according to each Customer's pro rata share of the Working Capital Fund. With respect to each Customer's pro rata share of the Working Capital Fund, the ISO will make available to each Customer electronically, each month, a summary of the Customer's (i) opening balance, (ii) current month contributions, (iii) current month accrued interest, (iv) any other adjustments, and (v) ending balance. When practicable, the ISO will also provide a separate detailed working capital transaction history page for each Customer, in a format that can be downloaded for the Customer's use. The detailed working capital transaction history page will provide a complete history of all transactions relating to the Customer's contributions to the Working Capital Fund.

28.3 Customer Contributions to Increases of the Working Capital Fund

The ISO shall determine each Customer's pro rata share of any increase of the amount of the Working Capital Fund using the following formula:

$$\text{Customer's Percentage of Total Collection} = \frac{\text{CAR} + \text{CAP}}{\text{NYAR} + \text{NYAP}}$$

Where:

CAR = Customer's accounts receivable, including WTSC, for the service month prior to the month in which the billing invoice is issued.

CAP = Absolute value of Customer's accounts payable, including WTSC, for the service month prior to the month in which the billing invoice is issued.

NYAR = ISO's gross accounts receivable plus the Transmission Owners' accounts receivable from WTSC for the service month prior to the month in which the billing invoice is issued.

NYAP = Absolute value of ISO's gross accounts payable plus the absolute value of the Transmission Owners' accounts payable from WTSC for the service month prior to the month in which the billing invoice is issued.

28.4 Decrease in the Amount of the Working Capital Fund

At the sole discretion of the ISO Board, the ISO periodically may decrease the amount of the Working Capital Fund and distribute to each Customer, on a pro rata basis, a portion of its cumulative principal contribution to the Working Capital Fund. Any such distribution will be made through adjustments to Customer billing invoices.

28.5 Interest Accrued on Working Capital Fund

Interest earned on the Working Capital Fund shall, on a monthly basis, be attributed to, and recorded for, each Customer based on the Customer's percentage share of the balance in the Working Capital Fund.

At the sole discretion of the ISO Board, the ISO periodically may distribute to Customers all or a portion of their pro rata shares of the accrued interest earned on the Working Capital Fund. Any such distribution of interest will be made through adjustments to Customer billing invoices and, if required by applicable federal tax law, the ISO shall issue to those Customers the appropriate federal tax form (e.g., an Internal Revenue Service Form 1099-INT) for the amount of interest distributed.

28.6 Other Adjustments to the Working Capital Fund

Other adjustments to the Working Capital Fund include, but are not limited to, the adjustments described in this Section.

28.6.1 Distributions to Customers Exiting the ISO Markets

The ISO will refund to a Customer terminating its ISO Service Agreements and exiting the ISO markets its cumulative principal contribution to the Working Capital Fund, along with any earned interest that has been accrued but not previously distributed, through the annual contribution adjustment process in Section 28.7 of this Attachment V; *provided, however*, that the ISO shall retain these amounts as security for any unsatisfied financial obligations to the ISO. Customers shall be responsible for providing the ISO with the wire transfer information necessary for the ISO to complete any refund of the Customer's Working Capital Fund contribution.

28.6.2 Customer Nonpayment and Default

In the event that part or all of a payment owed by a Customer remains unpaid after the payment is due, the ISO may use the Working Capital Fund as necessary to meet its cash flow requirements. If the ISO draws from the Working Capital Fund to meet its cash flow requirements in the event of a Customer nonpayment and then later declares the nonpayment to be a bad debt loss, the ISO shall recover the bad debt loss through the provisions of Rate Schedule 1 in accordance with Attachment U to the ISO OATT and shall replenish the Working Capital Fund through Rate Schedule 1.

The ISO shall pursue available remedies for Customer defaults under the ISO tariffs. After applying a nonpaying Customer's available collateral, if any, the ISO shall apply the

Customer's share of the Working Capital Fund to satisfy remaining amounts owed to the ISO, including amounts owed as a result of settlement corrections. Upon termination of service to the Customer and reconciliation by the ISO of final settlement corrections affecting the Customer, the ISO shall return the Customer's remaining share of the Working Capital Fund, if any, in accordance with the provisions of Section 28.5.1 of this Attachment V.

28.6.3 Differences between ISO Actual and Forecasted Loads

The ISO funds its operating costs by charging Customers according to Section 6.1.3.1 of Rate Schedule 1. In the event that differences between actual and forecasted ISO loads result in an insufficient recovery of its operating costs, the ISO may offset any shortfall in operating costs by (i) temporarily drawing from the Working Capital Fund or (ii) increasing the Rate Schedule 1 charge. Whenever practicable, the ISO shall provide notice to Market Participants of the potential need to offset a shortfall in operating costs in accordance with this Section 28.6.3.

28.7 Contributions to Working Capital Fund from New Customers

Customers that execute ISO Service Agreements and become approved ISO Customers after the effective date of this Attachment V will not be required to make an initial contribution to the Working Capital Fund, but will be required to (i) contribute, through a Rate Schedule 1 charge, their pro rata share of any subsequent increases of the Working Capital Fund as described in Section 28.3 of this Attachment V and (ii) make a contributions to the Working Capital Fund in connection with the next annual adjustment as described in Section 28.7 of this Attachment V.

28.8 Annual Adjustment of Working Capital Fund Contributions

During the month of January of each calendar year, the ISO shall determine and adjust, if necessary, the contributions to the Working Capital Fund required from each Customer during that year using the following formula, except as provided in Section 28.5.1 of this Attachment V.

$$\text{Customer's Annual Adjusted Percentage of Total Collection} = \frac{\text{CAR} + \text{CAP}}{\text{NYAR} + \text{NYAP}}$$

Where:

CAR = Customer's accounts receivable, including WTSC, during the prior calendar year.

CAP = Absolute value of Customer's accounts payable, including WTSC, during the prior calendar year.

NYAR = ISO's gross accounts receivable plus the Transmission Owners' accounts receivable from WTSC during the prior calendar year.

NYAP = Absolute value of ISO's gross accounts payable plus the absolute value of the Transmission Owners' accounts payable from WTSC during the prior calendar year.

In February of each calendar year, the ISO shall either refund or charge, as applicable, each Customer for the difference between the Customer's principal share of the Working Capital Fund at the conclusion of the prior calendar year and the Customer's adjusted principal share of the Working Capital Fund as calculated in accordance with this Section 28.8. The ISO shall have the discretion to amortize such refunds or charges over one or more months beyond February, based upon the magnitude of the annual adjustments.

28.9 Working Capital Fund Contributions Not Considered As Collateral

A Customer's contributions to, and its pro rata share of, the Working Capital Fund shall not be considered as, or counted towards, any collateral that may be required from the Customer.