In the recap of the RMI Tech Conference held on 10/27, Kirk House asks the following question regarding Appropriate Credit Instruments:

 House: Reviewed Met-Ed credit standards in supplier tariff. Seem

 appropriate. Comments? Additions? Discuss on next RMI cc.

RESA would like to submit the following response:

 The credit requirements found in the Met-Ed Supplier Tariff (pg. 22)

 offer a good start to establishing optimal flexibility for the credit

 instruments EGS can submit to cover their definable and appropriate

 credit obligations with the EDC. However, to achieve the goal of

 optimal flexibility as RESA proposed in its comments on the subject,

 the tariff requires a slightly expanded list of eligible credit

 vehicles that can be used to meet the EGS credit obligation.

 RESA believes that Met-Ed should be commended for allowing an EGS to

 meet its credit obligation by demonstrating that it has investment

 grade long-term bond ratings from two of the four major rating

 agencies (i.e. S&P, Moody’s, Fitch, or Duff & Phelps). Met-Ed uses a

 table in its Supplier Tariff to clearly show the ratings that must be

 maintained for an EGS to meet its obligation in this manner. EGS

 that maintain these long-term bond ratings do not have submit

 additional credit vehicles to the EDC (i.e. an unsecured credit

 limit). All EDCs in the Commonwealth should adopt this standard if

 they have not already done so.

 However, RESA believes that Met-Ed needs to update its Supplier

 Tariff to include more eligible credit vehicles. Currently, the

 tariff reads as follows:

 The EGS may choose from any of the following credit

 arrangements in a format acceptable to the Company: an

 irrevocable Letter of Credit; a cash deposit established with

 the Company; including the Company as a beneficiary; or other

 mutually agreeable security or arrangement.

 RESA believes that it would be more appropriate to include a more

 comprehensive list of eligible credit vehicles while maintaining the

 flexibility of the “mutually agreeable security or arrangement”

 option. RESA would like to propose the following tariff language

 that could be adopted by all EDCs in the Commonwealth:

 The EGS may choose from any of the following credit

 arrangements in a format acceptable to the Company: an

 irrevocable Letter of Credit; a Parental Guarantee from a

 credit-worthy corporate parent; a Surety Bond; a cash deposit

 established with the Company; including the Company as a

 beneficiary; or other mutually agreeable security or

 arrangement.

 RESA suggests that the same standard that is used to judge whether an

 EGS can receive an unsecured credit limit (i.e. demonstrable ratings

 from 2 agencies as specified in the table on pg. 22) can be used to

 determine the creditworthiness of a corporate parent that provides a

 Parental Guarantee. RESA also notes that the First Energy Supplier

 Services Creditworthiness web site (for PA) already seems to allow

 Parental Guarantees as a mutually agreeable security or arrangement

 although it is not currently explicitly listed in the Supplier

 Tariff.

 RESA notes that Met-Ed (and the other First Energy companies as well

 as Duquesne) requires an initial credit amount of $250,000 from an

 EGS doing business in its territory. RESA would like to compare that

 initial credit requirement to the credit standards that First Energy

 has agreed to submit for the 11/17/2011 RMI conference call to

 determine if the risks identified by First Energy are commensurate

 with the credit obligation.

 Finally, RESA would like to reiterate that standardized credit

 practices that are based on unambiguous, transparent credit analysis

 that identifies definable credit risks that are directly incurred by

 the EDC as a result of EGS activity are the key to assuring that

 credit requirements do not become an obstacle to EGS entry and

 participation in the competitive retail market in Pennsylvania.