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.