

Long-Term FTR Proposal

Fixed Price Option Summary

MIWG

January 31, 2007

Overview

- ◆ The overall LTFTR proposal as presented at MSWG on 12/14/06 will remain largely unchanged.
- ◆ One change that will be incorporated into the base proposal in conjunction with the addition of a long-term fixed price option is that the initial or base set of Auction Allocation Rights (AARs) designated at implementation will be 25% of ORTCCs, ETCNL and previously terminated Grandfathered contract capacity where feasible.

Overview

- ◆ The Fixed Price Option is an enhancement to the base proposal and will be available to LSE holders of grandfathered contracts at the time of their contracts expiration.
- ◆ In addition, a one time option at the implementation of this proposal in Spring 2008 will be offered for any LSE whose grandfathered contract has previously expired but is subject to limitations on the feasibility of incorporating any such capacity associated with those contracts.

Long-Term Fixed Price TCC Description

- ◆ The Long-Term Fixed Price TCC is a 10-year instrument.
- ◆ Like all TCCs will be fully funded.
- ◆ The LSE who elects this option will pay for it annually over the 10 years.

Long-Term Fixed Price TCC Description

- ◆ The price of the long-term fixed price TCC will be based on the following:
 - *An average price will be determined based on the past 2 years annual TCC auction prices and the past 2 years DAM congestion costs for the POI and POW associated with the TCC being sold.*
 - *The price and the associated annual payments will be adjusted for inflation based on a published long-term risk free interest rate in effect during the timeframe in which the LSE will be making its election decision to take the long-term TCC.*
 - *Note that because capacity is not sold in the annual auction on Long Island, only congestion data will be used in the determination of the TCC price at the POW on Long Island.*