

Virtual Transactions Collateral Reduction Update

NYISO
Schedule & Pricing Working Group
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Virtual Transactions Collateral Reduction Update

Overview of FERC Docket for Virtual Transactions (“VT”)

- **Original Virtual Transactions Credit Calculation:**
 - Daily trading limit (MWHs) x \$ price delta at 97th percentile x 7 days

- **In response to NYISO’s request to reduce the multiplier from 7 to 4 days, FERC required the following:**
 1. Reduce the multiplier of collateral from 7 days to 2 days;
 2. Consider a reduction of the price delta used in the calculation from the 97th percentile to the 50th percentile; and
 3. Examine and report on effects of further reducing the multiplier to 1 day.

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Overview of FERC Docket for Virtual Transactions - continued

	NYISO Proposal	FERC Response	Due Dates
<i>Net Receivable</i>	Acceptable form of collateral	Accepted	Immediately
<i>Price Differential Percentile</i>	Silent [Implies Status Quo of Maintaining 97 th]	Ordered NYISO to evaluate and report on why 97 th percentile is proper	Compliance filing made 8/15/2005
<i>Multiplier</i>	4 days	2 days	Compliance filing made 7/22/05
		1 day [work with MPs to evaluate effects of reducing to 1 day]	Report due December 29, 2005

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Actions:

1. **NYISO is analyzing 2005 data regarding potential credit losses for the following scenarios:**
 - 97th percentile and 2 days;
 - 97th percentile and 1 day;
 - 50th percentile and 2 days; and
 - 50th percentile and 1 day
2. **After a competitive request for proposal, NYISO retained LECG to perform comprehensive study of current VT credit requirements. Using empirical research, LECG will examine appropriateness of:**
 - Percentile calculation [97th vs. 50th or somewhere in between]
 - 90-day rolling average of percentile calculation
 - 2 day factor vs. 1 day factor

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Actions – (continued):

3. **Report will be done by end of December, however NYISO may request 30-day extension for the FERC report due December 29th to allow review of results with NYISO stakeholders and inclusion of study results in the report to FERC**

4. **Other Items to Review with CPTF/S&P Working Group Related to Virtual Transactions**
 - **Allowance of a Corporate Guaranty as a form of collateral and unsecured credit**
 - **Reduce time in which MP must comply with a margin call from 24 hours to same day [only when MP's cumulative losses have exceeded 50% of collateral posted]**
 - **Replace Virtual Transactions Certification form with email to increase or decrease daily trading limit**