Virtual Bidding Credit Policy

Proposal to Set Collateral
Requirement Based Upon the
Bidders Virtual Bidding Zone

Objective

- Make the collateral required from a market participant taking part in virtual bidding based upon the risk associated with their bidding
- Since risk exposure depends upon the zone where virtual bidding takes place, collateral requirement should also vary by zone.

Considerations of Original Virtual Bidding Collateral Policy

- Designed to cover the following Exposure Components
  - The Price Delta (DAM vs. RTM) per MWH
  - Number of MWHs Bid In A Day
  - Number of Days to include in Exposure Calculation

Collateral Calculation

- June-August 2001 Peak Hours
- Based upon 97 percentile price delta observed
- Highest Zone or Proxy Bus Delta
- Collateral Requirement Set to 159.33/MWh based upon observed Price Delta in New York City zone

Collateral Should Be Based Upon a MPs Virtual Bidding Zone

- Market Participants are required to identify the zones in which they will enter Virtual Bids when signing up for program
- Market Participants cannot bid outside the approved zones.
- The price delta exposure is not the same in all zones

Concern

- Credit Policy has two financial impacts on market participants
    1. Cost of posting the letter of credit
    2. Reduction in accessible working capital
- Requiring MPs participating only in lower risk zones to post based upon NYC price deviation unreasonably penalizes the MP
- This reduces the participation in Virtual Bidding and consequently the benefits of virtual bidding.

97th Percentile Deviation

CAPITL	100.81	$/MWh
CENTRL	71.61	$/MWh
DUNWOD	158.52	$/MWh
GENESE	69.96	$/MWh
HUD VL	109.52	$/MWh
LONGIL	156.87	$/MWh
MHK VL	72.76	$/MWh
MILLWD	155.46	$/MWh
N.Y.C.	**159.33**	$/MWh
NORTH	71.52	$/MWh
WEST	71.37	$/MWh
H Q	77.14	$/MWh
NPX	103.10	$/MWh
O H	74.78	$/MWh
PJM	87.27	$/MWh

Conclusion

- Basing a MP's collateral requirement upon the price deviation in the zones it bids is more fair
- It corrects an inappropriate limitation on virtual bidding from the current policy
- It is a minor change to the current policy