
Proposal on Accepting Bilateral Contracts for Energy Settlement

Strategic Energy

Presentation to

NYISO Business Issues Committee

Agenda #10

September 9, 2003

Benefits of Net Settlement

- ❖ Accepting Firm Bilateral Contracts (“Firm LD”) for settlement significantly lowers credit costs.
- ❖ Reduces spot market transactions thereby reducing the impact of price volatility.
- ❖ More liquid energy market.
- ❖ Less cash flow through NYISO results in lower risks to all market participants.

Other Benefits

- ❖ Flexibility: Eliminates need for special case settlements.
- ❖ Certainty: Allows customers to hedge future true-ups by assigning ancillary costs.

Procedural History

- ❖ 2002: Strategic Energy presented this issue to the BIC and BAWG.
- ❖ April – September 2003: NYISO staff studied energy settlement systems; including meeting with PJM to review eSchedules.
- ❖ September 2003: Strategic Energy presented this issue to S&P working group.

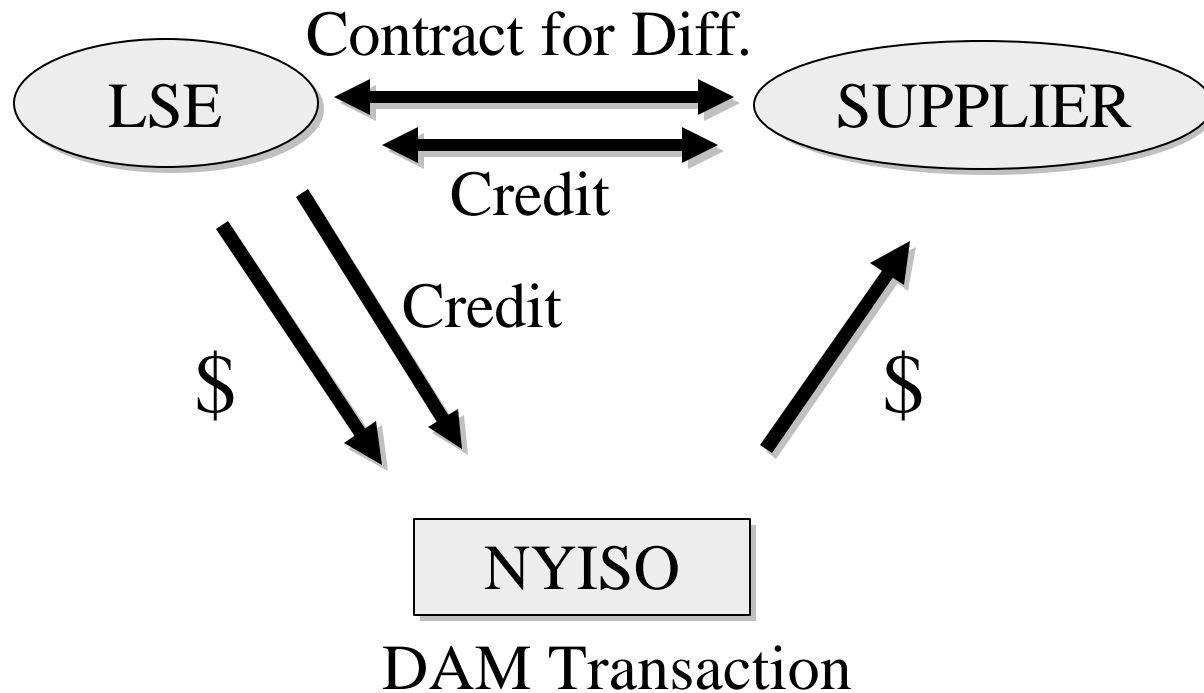
Current NYISO Practice

- ❖ NYISO accepts Unit Contracts, and some other resource specific contracts for energy settlement.
- ❖ Firm LD contracts not accepted for energy settlement, therefore, LSEs and marketers often must sign a contract for differences (CFD) to hedge energy bilaterally.

NYISO “Gross” Settlement

- ❖ LSE enters into a financial swap transaction (CFD) with its wholesale supplier to fix the commodity cost.
- ❖ LSE schedules its aggregated customer load in the DAM.
- ❖ LSE settles with the NYISO based upon the DAM price in accordance with OATT.
- ❖ LSE settles with its supplier.

NYISO Gross Settlement



NYISO “Gross” Settlement

	Seller	Buyer	Other	Total
Actual Generation	110		10	120
Actual Consumption		-120		-120
Contract Notified to NYISO	—	—	—	—
Imbalance Settled with NYISO	110	-120	10	0
Contract amount Settled Bilaterally with CFD	-100	100		
Difference Settled at Spot Price	10	-20	10	0

Comparison: Other ISO

- ❖ NYISO settlement requires an ESCO to post financial assurance to both the supplier and the NYISO.
- ❖ All other ISO's recognize physical energy contracts as part of their net settlement process.

Collateral Cost Comparison

Strategic Energy Posted Collateral as of December 31, 2002					
	NYISO	ERCOT	PJM	CAISO	NEPOOL
MWh Served (YTD)	1,007,698	2,830,099	2,557,189	3,246,037	531,814
Collateral Posted at ISO	\$30,310,000	\$1,000,000	\$150,000	\$1,500,000	\$535,000
Collateral/Mwh Served	\$30.08	\$0.35	\$0.06	\$0.46	\$0.99

- ❖ Cost/MWh in NY is **30.4x** greater than next nearest market.
- ❖ Posted collateral in NY is **20.2x** greater than any other market served.
- ❖ All markets outside of NY recognize firm energy contracts for settlement.

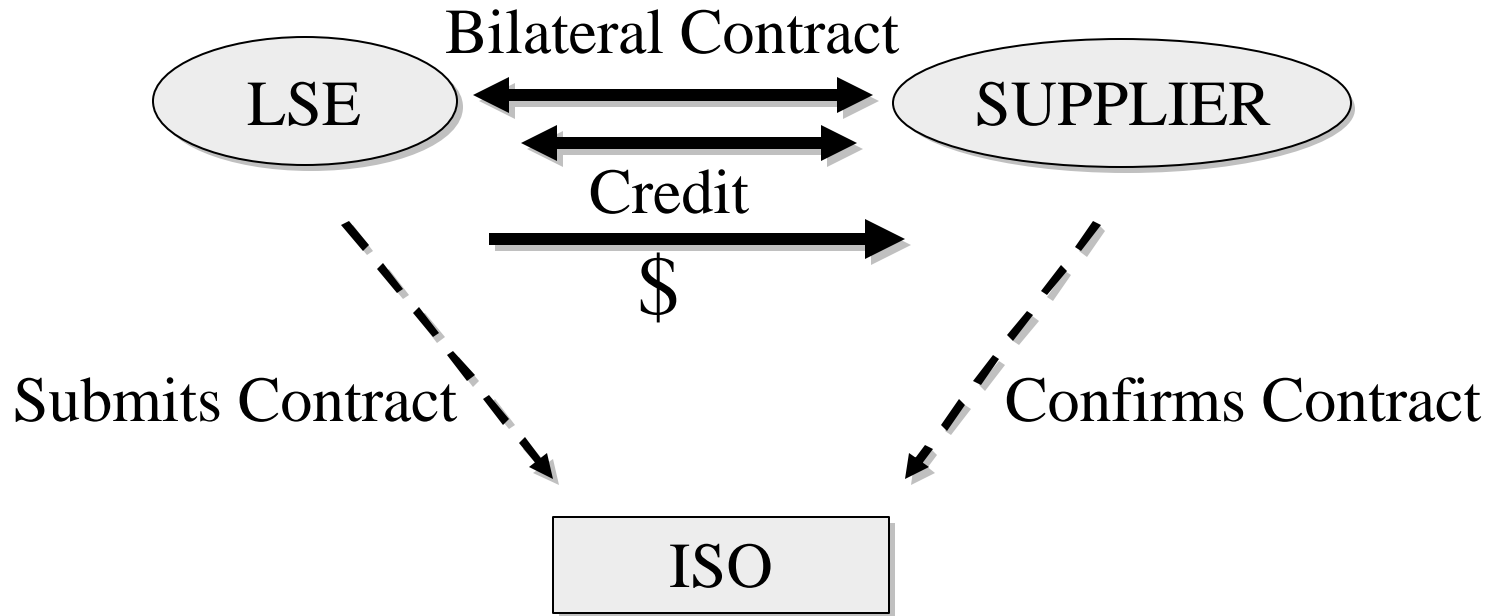
Operation of PJM eSchedules

- ❖ Firm LD scheduled on day ahead basis through PJM.
- ❖ Ability to settle in DAM or Real-time.
- ❖ All contracts must be confirmed by both parties.
- ❖ Contracts may be established with dual or unilateral schedule confirmation.
- ❖ Terms of all contracts are the responsibilities of the parties involved.

eSchedules Offers Flexibility

- ❖ Small municipal utility preferring all-requirements service may submit a Retail Load Responsibility (RLR) contract (designates the counter-party as being responsible for energy and ancillary services).
- ❖ LSE may submit an Internal Bilateral Transaction (IBT) for energy only.
- ❖ Utility with a PURPA contract may submit a Generation (GEN) transaction to designate that resource as serving its load.
- ❖ No special settlement procedures are needed.

Net Settlement



“Net” Settlement

	Seller	Buyer	Other	Total
Actual Generation	110		10	120
Actual Consumption		-120		-120
Contract Notified to NYISO	-100	100		
Imbalance Settled with NYISO at Spot Price	10	-20	10	0

- ❖ Less cash flow through NYISO results in lower risks to all market participants.
- ❖ Significantly lowers credit costs.

Benefits of Net Settlement

- ❖ Reduces credit costs for market participants.
- ❖ Reduces risk to all market participants.
- ❖ Reduces risk to the NYISO.
- ❖ Transmission Customers still must meet Financial assurance requirements (OATT Attach. W).
- ❖ Unlike CFD, no International Swaps and Derivatives Agreement needed.
- ❖ Eliminates need for mark-to-market accounting and FASB 133 calculations.

Proposal

- ❖ RTS will allow net settlement.
- ❖ Enhance SMD 2.0 software to accept Firm Energy Liquidated Damages contracts for settlement purposes.
- ❖ Scheduling & Pricing Working Group will examine credit, technical and cost issues.
- ❖ Return to upcoming BIC meeting with proposal for action.