
Proposal on Accepting Bilateral Contracts for Energy Settlement

Strategic Energy
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Why address this issue?

- ❖ Not accepting Firm Bilateral Contracts for settlement significantly inflates credit costs for ESCOs.
- ❖ Overstating spot market transactions overstates the impact of price volatility.
- ❖ A more liquid bilateral market.
- ❖ An opportunity to reduce financial exposure to market participants.

Current NYISO Practice

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

Procedural History

- ❖ In 2002, Strategic Energy presented this issue to the market participants at the BIC and BAWG.
- ❖ This year, NYISO staff have reviewed how to implement a system for bilateral contract settlements.

“Fixed Price” Energy in NYISO

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

Comparison to other ISO's

- ❖ All other ISO's recognize physical energy contracts as part of their settlement process.
- ❖ Settlement methodology requires an ESCO to post financial assurance to both the supplier and the NYISO.
- ❖ Financial obligations are settled on a net basis in other markets.

“Double Counting Collateral”

Recent Example:

- ❖ SE recently signed a new 20 Mw customer in Zone J
- ❖ SE posted \$2.5 million Letter of Credit to SWAP counterparty.
- ❖ Monthly delivery charges will approximate \$650,000 per month.
- ❖ NYISO will seek approximately \$1.95 million of additional collateral from SE by the end of summer 2003.

Collateral Cost Comparison

Strategic Energy Posted Collateral @ 12/31/02					
	NYISO	ERCOT	PJM	CAISO	NEPOOL
MWh Served (YTD)	1,007,698	2,830,099	2,557,189	3,246,037	531,814
Collateral Posted with ISO	\$30,310,000	\$1,000,000	\$150,000	\$1,500,000	\$535,000
Collateral per Mwh Served	\$30.08	\$0.35	\$0.06	\$0.46	\$0.99

- ❖ Cost per MWh served 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.

PJM Practice

PJM eSchedules

- ❖ Supports Interchange Energy Market.
- ❖ Provides ability to create PJM internal energy contracts and schedules.
- ❖ Facilitates Marketers and Load Serving Entities buying or selling energy.
- ❖ Load Aggregators are responsible for entering, confirming and updating contracts and schedules.

Benefits of PJM eSchedules

- ❖ Firm LD is scheduled on a 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.

Benefits of Adopting PJM Practice

- ❖ Reduces credit costs for market participants.
- ❖ Reduces risk to all market participants.
- ❖ Reduces risk to the NYISO
- ❖ Unlike CFD, no International Swaps and Derivatives Agreement needed.
- ❖ Eliminates need for mark-to-market accounting and FASB 133 calculations.

Proposal

- ❖ As market participants may limit their credit requirements through various bilateral contracts for energy, the ISO will accept Firm Energy Liquidated Damages contracts for settlement purposes.
- ❖ Proposed system and implementation deadline.