

# **Market Evolution – Finance**

## **Collateral, Investment & Financing Initiatives**

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## Market Evolution – Finance

- Reduction in Virtual Transactions Market Collateral Requirements
- Improved Investment Opportunities for MP Collateral
- Lower Costs on Existing & Future Debt

- **Reduction in Virtual Transactions Market Collateral Requirements**

- 7 days' trading limits to 4 days (43% reduction or approximately \$98 million)
- Netting (up to an additional \$115 million reduction)
- Potential total reduction in MP Collateral Requirements in excess of \$200 million
- Results in improved market efficiency
  - *Lower barriers to entry*
  - *Increased transaction volume with fixed capital availability*
  - *Reduction in cost of doing business*
  - *Improved convergence between day-ahead and real-time prices*

- **Improved Investment Opportunities for MP Collateral**
  - Improved Money Market Fund (+ 70 Basis Points versus historical money market returns)
  - Additional Tax Free Money Market Fund to further increase after tax returns for taxable MPs
  - Short and Intermediate Term Bond Funds (5-Year historical returns approximately \$10 million - \$30 million, respectively, in excess of money market returns on average collateral balances)

- **Lower Costs on Existing and Future Debt**
  - Refinanced 2003 and 2004 Term Loans (savings of \$425K)
  - Renewing revolver at lower costs (savings of \$580K)
  - Locked in fixed rate on Phoenix building financing using interest rate swaps
  - Lower interest costs will contribute to our ability to hold Rate Schedule 1 fees in line with projected targets (virtually flat) over the next few years