



## MSWG Exchange Meeting

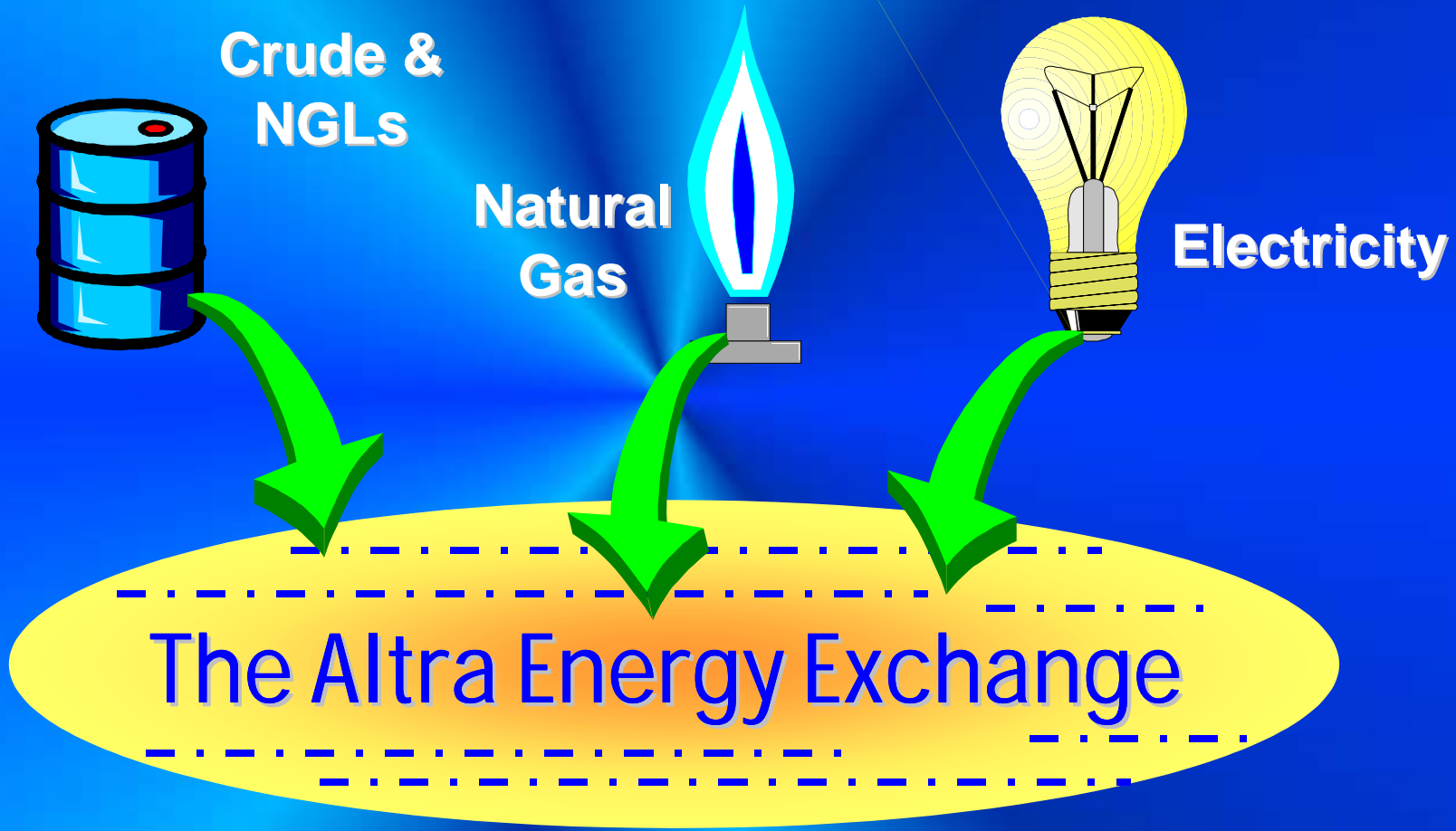
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### Today's Topics

- What we do
- Who uses ALTRADE™
- How our system works
- Products we trade
- Our presence
- What NYISO is doing right? Wrong?
- What needs to be done?

# What We Do



The Altra Energy Exchange

# The Altra Exchange

## Information Portal

- Third party news feeds
- Market analysis
- Price indices
- Weather
- Analytics

## Energy Trading

- Match buyers and sellers
- On-line negotiation
- Credit management and clearing
- Broker assisted trades

## Transaction Services

- Deal entry
- Confirmations
- Scheduling
- Contract administration
- Operational Accounting

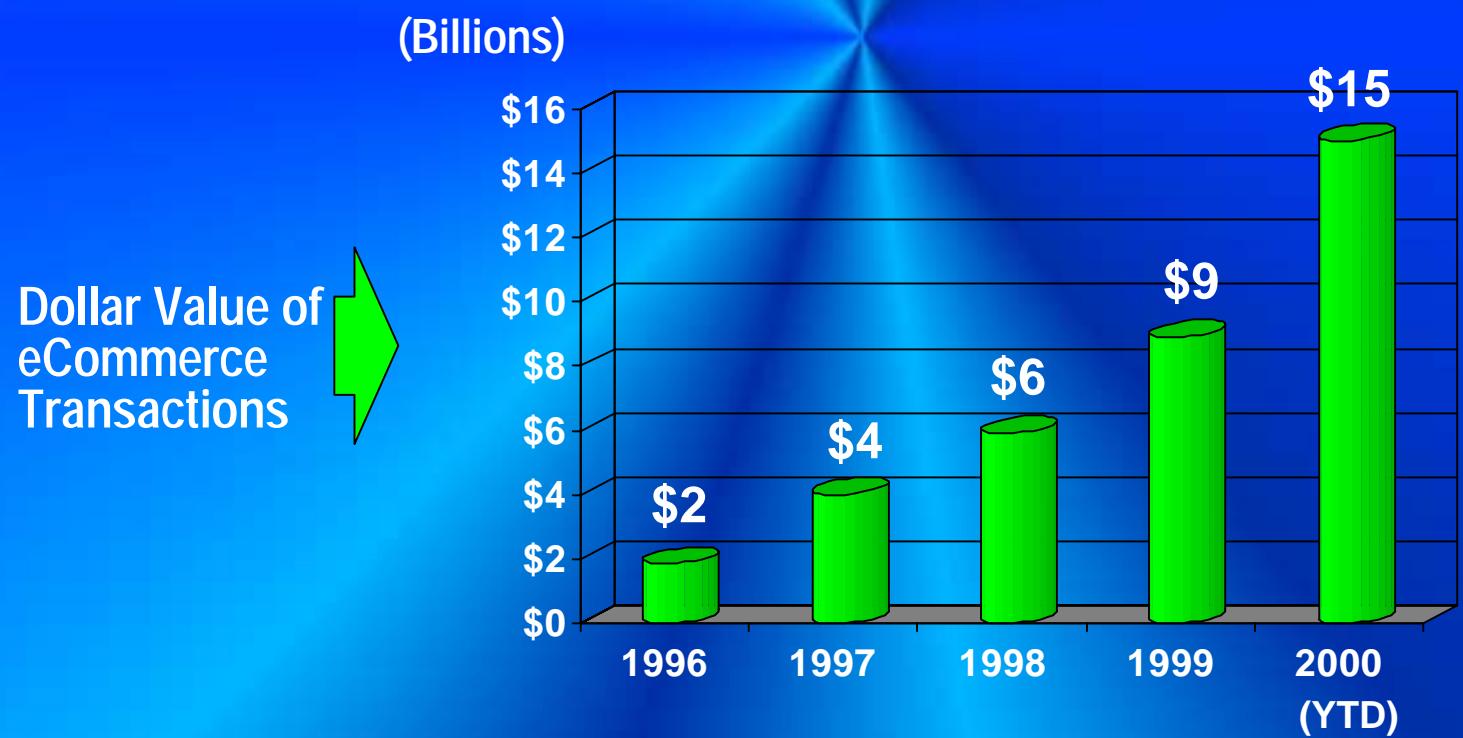
# End-to-End Solution



- **Founded** ..... 1996
- **Employees**..... 250
- **Headquarters**..... Houston, TX



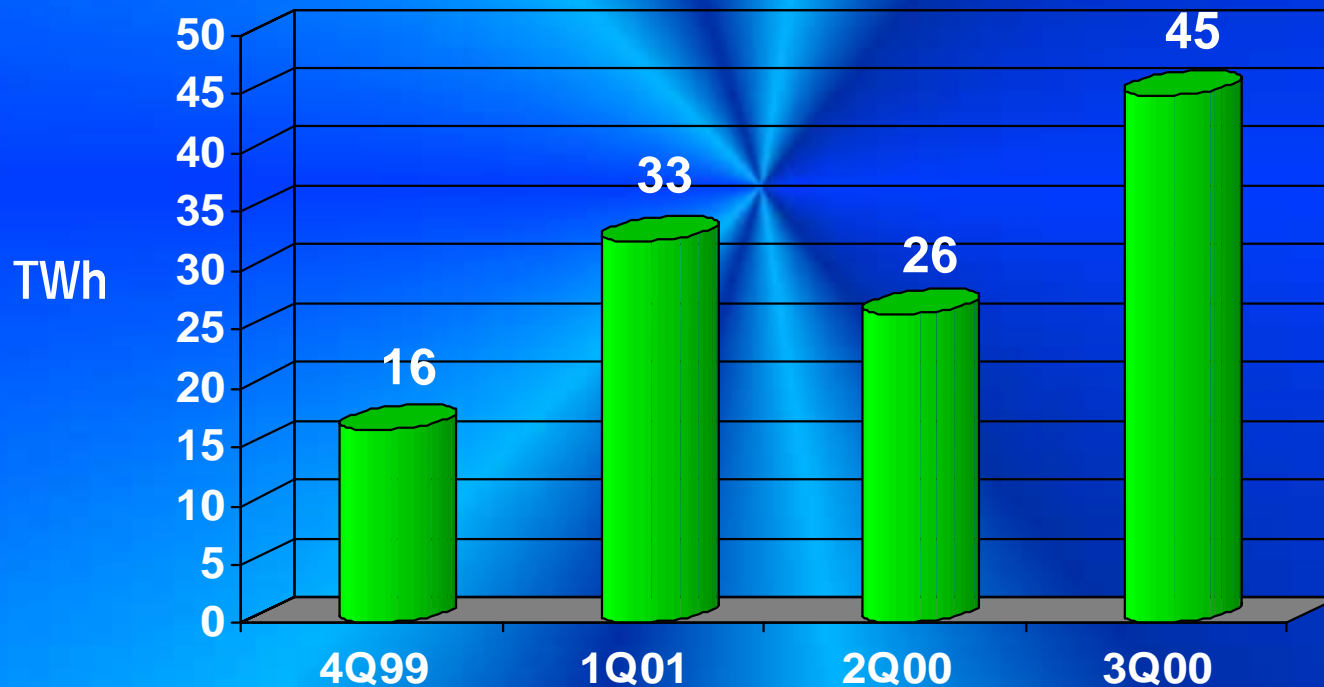
- 2,200 individual buyers and sellers at 500 of the largest energy companies
- 7,000 total system users



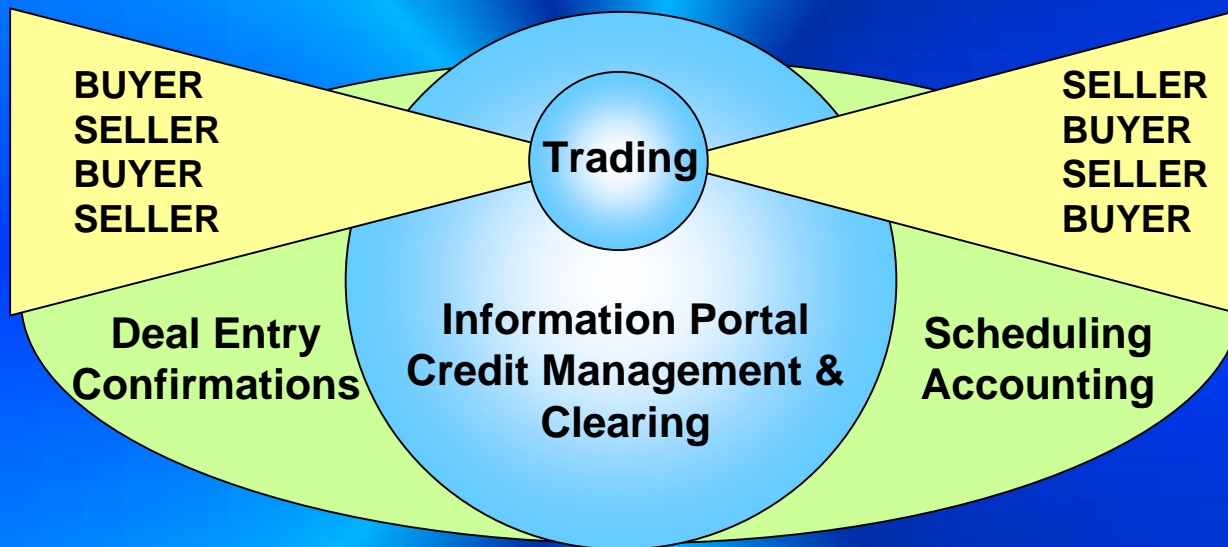


# Altra Power Exchange

Volume Growth Since Market Launch

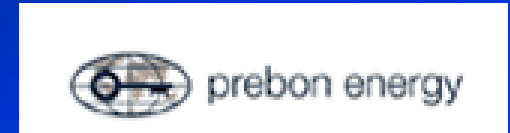


# Metamediary Strategy Drives Sustainable Advantage



“Metamediaries provide online business-to-business marketplaces that go beyond aggregating vendors and products to include additional services required to help facilitate the transaction.”

## e-Trading Broker Alliance



- Formed in August of 1999 to promote voice-assisted electronic trading in North American power market
- Combines efficient online trade execution with market insight and analysis provided by brokers
- Alliance partners have succeeded in building the most liquid power trading platform in North America, with broadest market coverage (300+ user log-ins each day)
- Personal contact between brokers and traders ensures that e-trading platform continues to meet needs of the market



# Who Uses ALTRA Products/Services?







# How Our System Works

# Altrade™ Power System Overview

- Hub-based trading of physical power
- Designed specifically for bilateral block trading
- Rapid order entry and control features - fast, efficient trading
- Users can filter markets and customize “look and feel”
- Can support additional commodities and multiple currencies
- Multiple product categories
- Access via public Internet or dedicated lines



# Trading System Controls

- Company administrator manages credit approvals for each counterparty
  - Can set buy only, sell only, tenor, value of trade
  - Administrator credit updates allowed once per day
  - Credit can be changed by market control center in real time
- Company administrator also controls trader access to system
  - Full Trading Rights
  - View only
- Market Control Center
  - Live support for operational questions, trader assistance
  - Monitors market activity for trading abuses
  - Facilitates resolution of disputed transactions
  - Technical system support - application and network configuration

# Products Traded

## Products Traded

- Altrade™ Power offers a full range of block trading products at each point
  - On-peak, Off-peak & Baseload
  - Minimum blocks of 25MW in West, 50MW in East/Central regions
  - Tenor ranges from one hour up to one year
  - Majority of trading in daily, monthly and quarterly on-peak blocks
- Altra offers a NYPP delivery point, but has seen little interest in trading these products as currently designed
- Altra adds new products and locations as demanded by market
  - Market clearly needs a different type of trading product to make NYISO points work
  - With NYISO input, interested in trying new product types to help build liquidity

# Our Presence

# Altrade™ Power Trading Hubs



# What NYISO is Doing Right and Wrong






## What NY is Doing Right

- **????**

- Working toward more internally consistent markets
  - Fixing market rules
  - Fixing market algorithms
- Recognizing changes needed to “level the playing field”, encouraging participation by more members.
- Obtaining input from all constituents - regulators, market participants and third-party exchanges/technology vendors



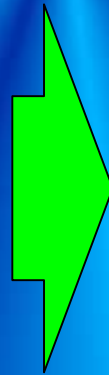
## **NYISO Structure Which Adversely Impacts NY Liquidity**

- |   |  |  |
|---|--|--|
| <b>1. Too many trading points</b>                 |    | <b>Market fragmentation,<br/>No clear price signals</b>          |
| <b>2. Trades themselves<br/>influence markets</b> |    | <b>Reluctance of parties to<br/>inquire with counter parties</b> |
| <b>3. Counterparty Credit<br/>issues</b>          |    | <b>Reluctance of parties to deal</b>                             |
| <b>4. Complexity in Scheduling</b>                |   | <b>Hassle factor and<br/>transaction costs too high</b>          |
| <b>5. Unpredictability of NY<br/>ISO prices</b>   |  | <b>Unwillingness to take<br/>positions in market itself</b>      |



## Liquidity Problem #1

- Fragmented markets (300+ points)
- Traditional phone/fax based trading
- Critical time sensitive products
- Volatile prices



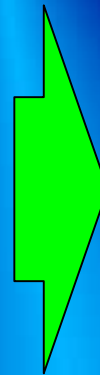
## Altra Solution

- Commercially significant NY trading points: I.e. West (A), Hudson Valley (G), NYC (J), ...?
- Immediate price discovery
- Eyeballs of hundreds of traders
- Fast execution



## Liquidity Problem #2

- Trading information influences prices
- Traditional phone/fax based trading



## Altra Solution

- Anonymity
- Market Depth

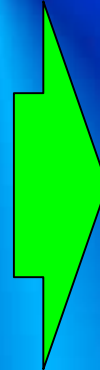


## Liquidity Problem #3

- Concerns regarding counterparty credit

## Altra Solution

- Online, real time credit exposure management





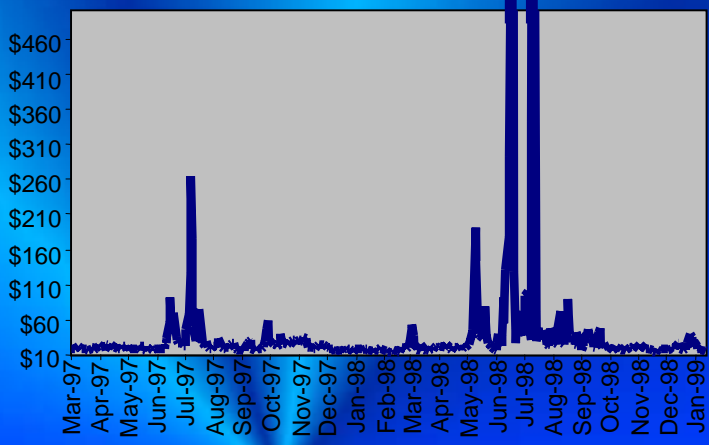
## Liquidity Problem #4

- Complex Scheduling Processes
- Real Time Delivery Demands
- FERC Mandates for Operational Transactions

## Altra Solution

- End-to-End Transaction Processing
- Integration of Altrade™ with Altra Power NYISO scheduling interface





### Liquidity Problem #5

- Unpredictability of Prices  
DAM to HAM to RT
- Unpredictability of dispatch/delivery



### Altra Solution

- ISO Solutions still needed here
- Financially settled products could improve liquidity without delivery issues

# What Needs to Be Done



## What Would We Propose?

- Primarily financial trades (CFD prices around LMP results)
  - Addresses most causes of ill-liquidity
    - Price discovery, anonymity, forward risk, etc.
- Parties' trades scheduled with the NYISO only if hedge across temporal markets is desired
  - Requires Virtual trading for non asset (loads or gen.) holders

*Virtual loads and generators may not be required to resolve many of the liquidity issues*



# Market Structure with an Exchange



## What would make forward markets more attractive to us?

- Either remove inconsistencies and unpredictability in NYISO's market pricing, or....worst case...
- Make all possible information available to identify sources of risks and evaluate risks
- Market participants can help identify small number of significant trading mini-hubs within NY
- Otherwise make development of NY ISO more attractive than other exchange development options

*Risks, and low volume tend to make exchange expansion seem less desirable than other development options. Somehow the ISO or NY participants have to make that not the case.*



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