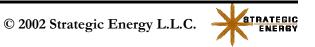
Enhancing Liquidity of NYISO Bilateral Markets

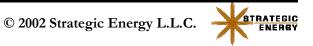
NYISO BIC, October 23, 2002

Michael Swider Strategic Energy, LLC



Review

- Net Settlement of Bilateral Contracts proposed at the BIC August 21, 2002
- BIC sent the issue to the BAWG
- BAWG felt it was an easy settlement issue, but cannot speak to credit, IT and scheduling issues.



Why didn't NYISO adopt bilateral settlement at start-up?

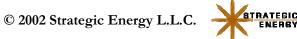
Ad Hoc Task Force on Market Liquidity studied the issue of bilateral settlement producing the "White Paper on Enhancing the Liquidity of the Proposed NYISO Bilateral Markets" - December 10, 1998

The Task Force recognized that "trading hubs/e-schedule concepts would support the liquidity of the NYISO bilateral markets." But the Task Force thought it was likely that a private power exchange would perform this function after start-up, and further study was needed. Referred the issue to BIC - four years ago!



Why adopt bilateral settlement?

- Net settlement will decrease the cost of bilateral contracting, boosting liquidity
- Eliminates a seam NYISO has with PJM and ISO-NE.
- Lower credit costs for ESCOs lowers the cost of energy for consumers.



Collateral Cost Comparison

Strategic Energy Posted Collateral @ August 31, 2002						
		NYISO	ERCOT	PJM	CA ISO	NEPOOL
MWh Served		636,651	1,877,999	1,673,172	2,003,253	362,934
Collateral Posted with ISO		\$30,310,000	\$4,400,000	\$500,000	\$1,500,000	\$535,000
Collateral per MWh Served		\$47.61	\$2.34	\$0.30	\$0.75	\$1.47

•Credit Cost per MWh served in NY is *20 times* greater than next nearest market!

•All markets outside of NY recognize firm energy contracts for settlement.



Settlement Examples

- CFD Transaction:
 - ESCO buys 100MWh at zone A from marketer at \$50 per MWh
 - ESCO buys 90MWh from NYISO at LMBP
 - -ESCO sells back 100MWh to marketer at LBMP
 - -ESCO has two credit requirements



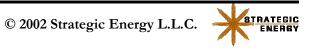
Settlement Examples

- Firm Energy Bilateral Transaction:
 - ESCO buys 100MWh at zone A from marketer at \$50 per MWh
 - Transaction submitted to NYISO
 - Marketer delivers 100MWh zone A
 - -ESCO consumes 90MWh zone A
 - -ESCO sells 10MWh to NYISO at LBMP



Credit Implications

- No NYISO credit exposure
- Market participants settling bilaterally have no claim against NYISO if their counter-party defaults
- Market participants adjust their bilateral credit risks accordingly



IT Implications

- No changes to SCUC
- May adopt software or self-code
- Task Force evaluated the adoption of PJM e-schedules and forecast a design and implementation time of 3 to 5 months (assuming the need for trading hubs, which may not be necessary)



Next Steps?

