

Proposal on Accepting Bilateral Contracts for Energy Settlement

NYISO Business Issues Committee

Agenda Item 7

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Benefits of Net Settlement

- Reduces credit costs for market participants.
- Less cash moving through NYISO equals less risk to all market participants.
- Transmission Customers still must meet OATT Attachment W Financial assurance requirements.
- Financial only; PJM “eSchedules” and NEPOOL “IBT” internal bilateral energy transactions bear no relationship to security constrained dispatch of units.

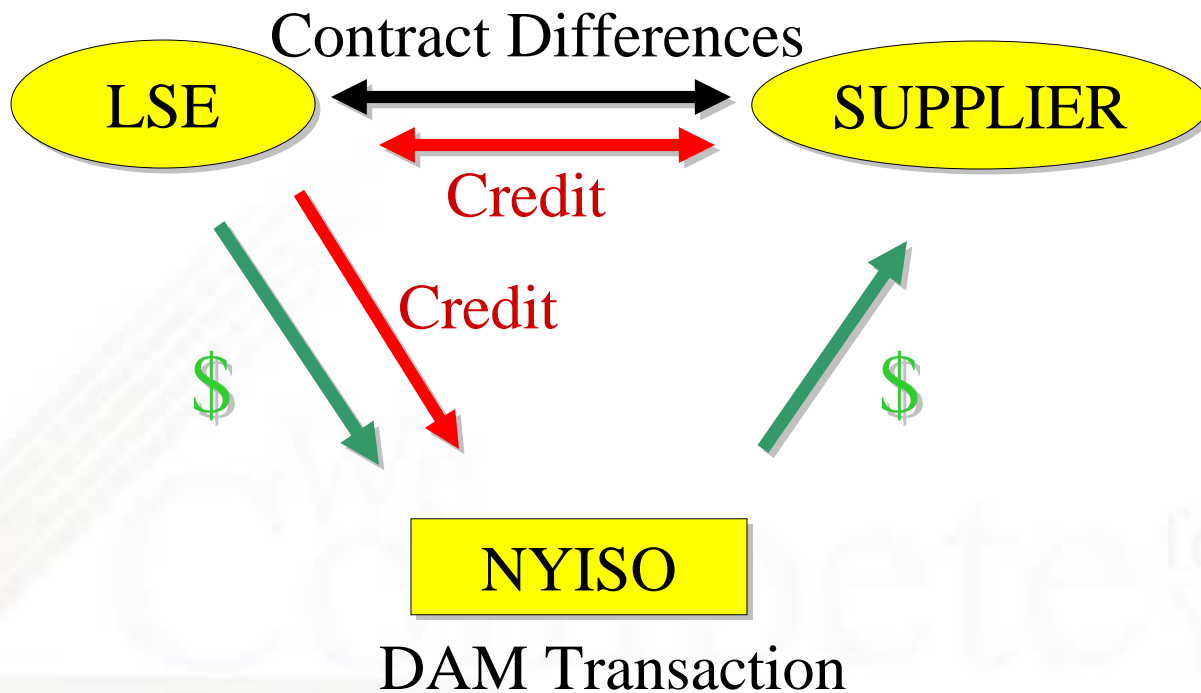
Other Benefits

- Reduces spot market transactions thereby reducing the impact of price volatility.
- More liquid energy market.
- Flexibility: Eliminates need for special case settlements.
- Certainty: Allows customers to hedge future true-ups by assigning ancillary costs.

Current NYISO Practice

- NYISO accepts Unit Contracts, and some other resource specific contracts for energy settlement, without LSE posting credit.
- 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



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

Source: Sally Hunt, Making Competition Work in Electricity, 2002.

Collateral Cost Comparison

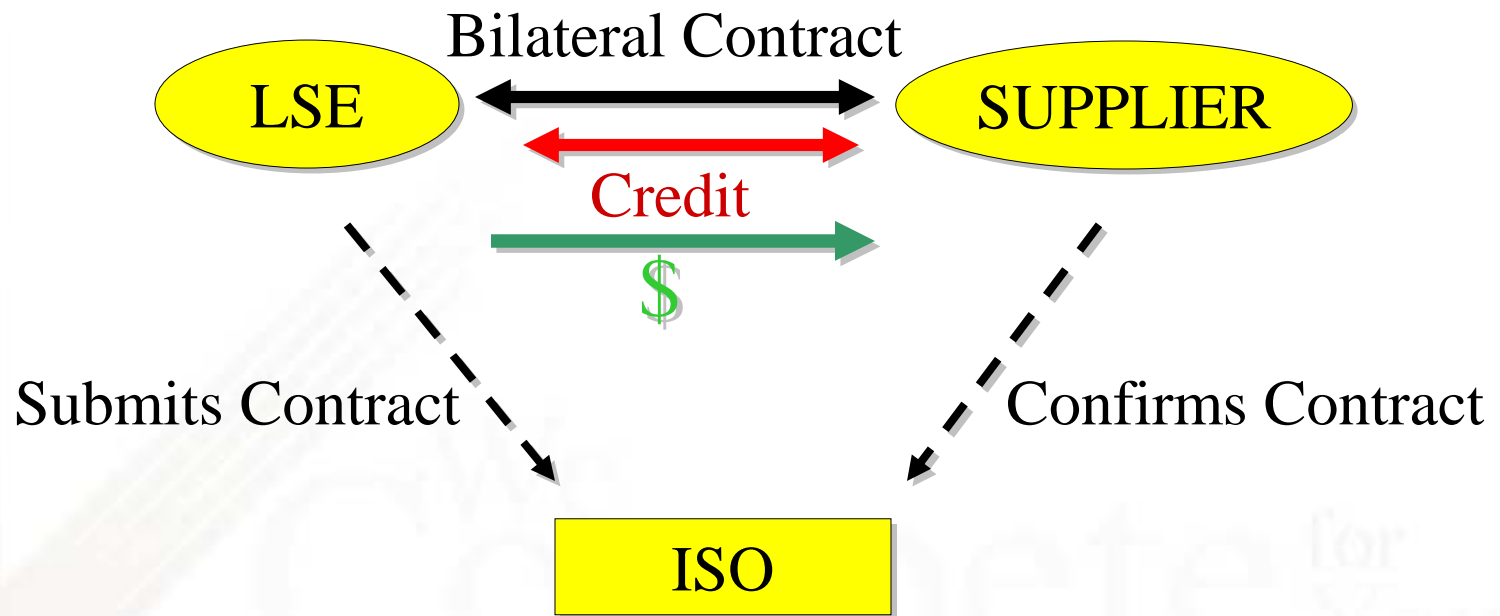
Strategic Energy Posted Collateral as of December 31, 2002					
	NYISO	ERCOT	PJM	CAISO	NEPOOL
MWh Served (YTD)	1,007,698	2,830,099	2,557,189	3,246,037	531,814
Collateral Posted at ISO	\$30,310,000	\$1,000,000	\$150,000	\$1,500,000	\$535,000
Collateral/Mwh Served	\$30.08	\$0.35	\$0.06	\$0.46	\$0.99

- 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.

PJM 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

Source: Sally Hunt, Making Competition Work in Electricity, 2002.

- Supplier's negative net obligation to ISO requires no financial security be posted.
- Significantly lowers credit costs.

Motion

Enhancement of SMD 2.0 to allow net settlement of physical (non-derivative) internal bilateral contracts.

- Day ahead scheduling and settlement in day-ahead or real-time;
- Dual or unilateral scheduling of contracts with confirmation by both parties; and
- Contract terms remain between counter parties.
- Credit Policy Task Force will periodically review project during development.