

## **BRIEF HISTORY OF ATTEMPTS TO IMPLEMENT NET SETTLEMENT**

While Strategic Energy first raised this issue to NYISO and market participants in August of 2002, other market participants proposed net settlement years earlier through a PJM eSchedules types solution. Here is a timeline of events significant to implementation in New York of the netting of energy for all physical bilateral contracts:

August 13, 1998

NYISO Locational Based Marginal Pricing, LBMP98, Functional Definition Document, Revision 1.2, §2.2.2. NYISO recognizes that, with a CFD, “the ISO treats the energy as ordinary LBMP energy, paying the generator and charging the load accordingly.”

December 10, 1998

NYISO White Paper on Enhancing the Liquidity of the Proposed NYISO Bilateral Markets.

Before the startup of NYISO operations, a task force issued a white paper on liquidity in New York’s bilateral market. Among the paper’s many observations, it found that an “electronic transaction scheduling software package would allow the ISO to provide the transaction tracking services required to implement multi-part/multi party transactions for the Market Participants.” The task force characterized the PJM eSchedules as this kind of software that enables counter parties to transmit “a request to the ISO to send the market participant a bill as if it had a bilateral schedule between these two locations. The e-schedule is not used for physical scheduling or dispatch, rather it is used only to reallocate the billing for the physical dispatch among the market participants.” The task force recommended postponing the implementation of trading hubs or scheduling software so as not to delay the launch of the ISO. The white paper also cautioned that if NYISO offered trading hubs and scheduling software like eSchedules, that action might discourage formation of private Power Exchanges.

September 13, 2000

eSchedules Functionality for NY through Third-Party Providers, Ellen Wolfe, Altra Software Services, Discussion Paper and Slide Show to Market Structures Working Group. The paper proposes solutions for the inability of NYISO market participants to schedule and settle internal bilateral transaction as part of their ISO activities.

August 21, 2002

Proposal to Accept Bilateral Contracts for Energy Settlement, Strategic Energy presentation to BIC.

October 23, 2002

Enhancing Liquidity of NYISO Bilateral Markets, Strategic Energy presentation to BIC.

April 23, 2003

Discussion on Accepting Bilateral Contracts for Energy Settlement, Strategic Energy and NYISO staff. Agreement reached that the NYISO would report back to Strategic Energy within 60 days with an answer on the IT improvements necessary to implement the proposal.

August, 2003

NYISO fails to report on needed improvements; NYISO requests joint meeting with PJM staff to discuss PJM eSchedules.

September 3, 2003

Discussion on PJM sSchedules and Net Energy Settlement, Strategic Energy, NYISO staff, and PJM staff at PJM offices.

September 4, 2003

Proposal on Accepting Bilateral Contracts for Energy Settlement, Strategic Energy presentation to Scheduling & Pricing Working Group (“S&PWG”).

September 9, 2003

Proposal on Accepting Bilateral Contracts for Energy Settlement, Strategic Energy presentation to BIC.

September 22, 2003

New York Independent System Operator, Inc., Order Conditionally Accepting Tariff Revisions, 104 FERC ¶ 61,311 (2003)

The FERC approved amendments to the NYISO Tariffs that includes changes to creditworthiness requirements and allocation of new working capital contributions and bad debt losses among NYISO customers. The FERC also directed the NYISO to file revised tariff sheets so that the amount of security required of a non-investment grade customer reflects the actual non-payment exposure from default to termination of service and uses the same time period as for investment grade customers. In the Order, FERC expressed concern about practices that “unnecessarily inhibit access to the marketplace”. The FERC also held that the method for assessing the amount of security should be the same for all customers.

November 4, 2003

Proposal on Accepting Bilateral Contracts for Energy Settlement, Strategic Energy presentation to S&PWG.

December 3, 2003

Strategic Energy successfully moved proposal at BIC directing the NYISO to develop a Concept of Operations document for implementation of the net settlement of internal bilateral energy contracts. Motion passes BIC with overwhelming support.

March 16, 2004

At meeting of S&PWG, agreement reached that the NYISO would report back to Strategic Energy by the end of April with date of completion of the COO.

March 29, 2004

Compliance Filing of New York Independent System Operator, Inc. in Docket Nos. ER03-552-008 and ER03-984-006 et al. (March 29, 2004)

The NYISO filed its report in compliance with the September 22, 2003, Order in which FERC required the NYISO to explore changes to the NYISO's settlement or credit procedures that should be made and to submit a report on the results of that stakeholder process or to file revised tariff provisions.

The NYISO filing, regarding Potential Settlement and Customer Credit Enhancements, included Strategic Energy's net settlement proposal among possible projects to ease collateral burdens on market participants.

The report affirmed that the Strategic Energy net settlement proposal "would significantly reduce the purchasing customer's credit requirement with the NYISO." The filing stated that the NYISO will report back to stakeholders by the end of next month as to a timeline for development of a COO. Two months later, instead of providing that timeline, NYISO directed Strategic Energy back to the stakeholder process despite already having secured stakeholder approval.

April 13, 2004

Strategic Energy sends letter to NYISO President and Board Chairman urging swift implementation of this proposal by directing the NYISO to complete the COO by this summer.

April 20, 2004

Joint Meeting of the Management Committee and Board of Directors included a panel topic on enhancement of the settlement process. Strategic Energy's proposal for net settlement of bilaterals was presented to the Board by a sector representative (Constellation Power Source) as a proposal supported by the Other Supplier sector.

April 28, 2004

At BIC monthly meeting, NYISO indicates that, despite their commitment made at the March, 2004, S&PWG meeting, they had not set a completion date for the COO and took an action item to follow up on this issue.

May 9, 2004

NYISO President William Museler, responding to the Strategic Energy letter, made no mention of the NYISO pledges at the March, 2004, S&PWG and in its March 29, 2004, FERC filing to provide a completion date for a COO on net settlements by the end of April, 2004. President Museler directed Strategic Energy to return to stakeholder process for additional stakeholder approval of the proposal.

June 2004

NYISO Credit Policy Task Force held teleconference meetings on June 9 and 17, 2004, to review issues and questions related to the upcoming July, 2004, FERC Technical Conference on Electric Creditworthiness Standards (Docket No. AD04-8). Strategic Energy net settlement proposal discussed at these meetings.

July 13, 2004

Strategic Energy delivers presentation at FERC Technical Conference on Electric Creditworthiness Standards on the benefits of the netting internal bilateral energy contracts.

November 4, 2004

PPT changes the status of the Project from “the non-priority list where no work was planned in 2005 to the non-priority list, where some work may be undertaken in 2005 if possible using baseline resources.”

November 19, 2004

Policy Statement on Electric Creditworthiness, 109 FERC ¶ 61,186 (2004)

Statement advocates “three basic types of netting should be adopted, to the extent practicable, by ISOs/RTOs,” including the netting internal bilateral energy contracts.

March 23, 2005

New York Independent System Operator, Inc., Letter order accepting NYISO status report on its work with the stakeholders, 110 FERC ¶61,309 (2005).

FERC urged NYISO to implement the “Netting Bilaterals Project” as soon as possible, and required NYISO to file a status report on its progress within 120 days.