Proposal to Accept Bilateral Contracts for Energy Settlement

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Strategic Energy, LLC

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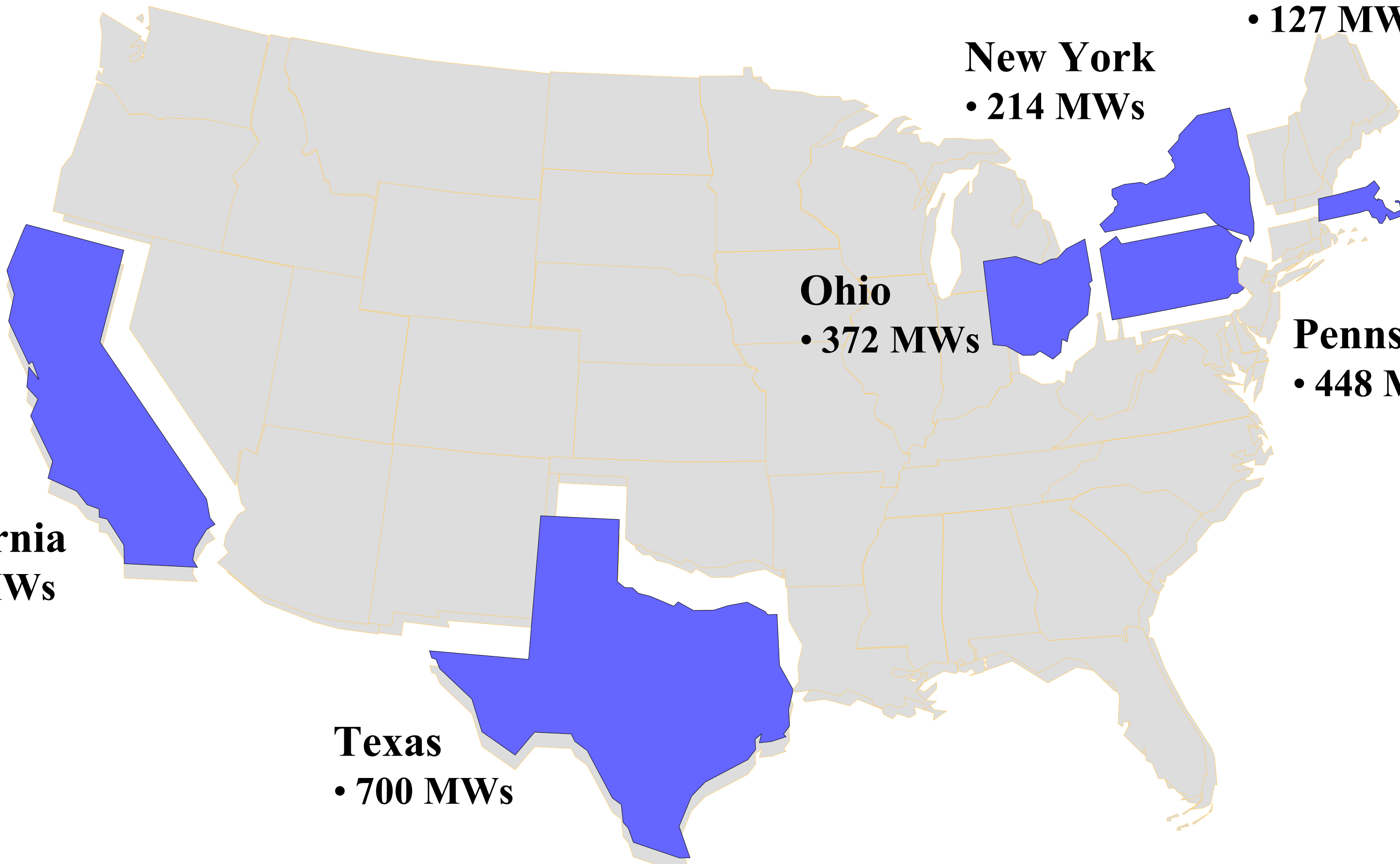
Company History

- Founded as an objective energy consulting practice within law firm in 1986.
- Introduced objective Power Supply Coordination concept in 1997 for Pennsylvania's pilot program. Currently serving 29,183 commercial and small manufacturing accounts in CA, PA, OH, NY, MA and TX.
- Currently procure and manage over 2,646 MWs of power through our Energy Management Center.
- Currently manage in excess of $1 Billion in energy purchases annually.
- Privately held company with majority ownership held by KLT Inc., the unregulated subsidiary of Great Plains Energy.

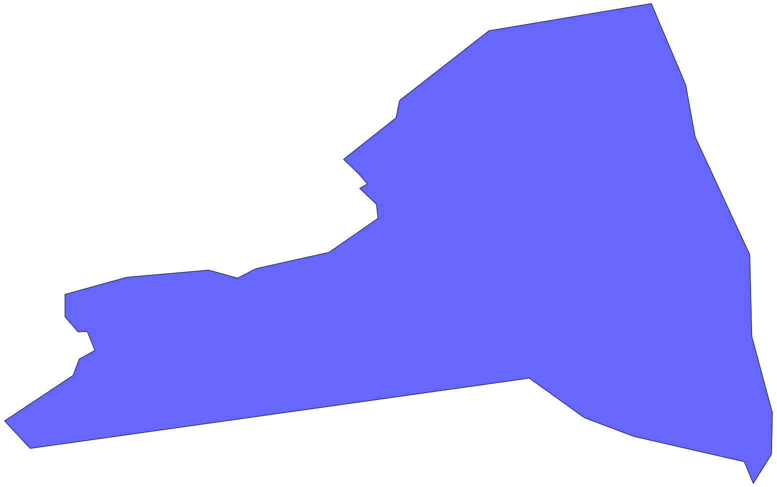
Serving These Markets Currently

2,646 MW Peak Load



Current New York Market Activity

471 Customers · 2,079 Accounts · 214 MWs Peak



- Entered New York retail market in 2000.
- Currently serving customers in ConEd and Orange & Rockland.
- Supplied over 400,000 MWh through first six months of 2002.

Why address this issue?

- Not accepting Firm Bilateral Contracts for settlement significantly inflates credit costs for ESCOs.
- Overstating spot market transactions overstates the impact of price volatility.
- A more liquid bilateral market.
- An opportunity to reduce financial exposure to market participants.

Current NYISO Practice

- NYISO accepts Unit Contracts, and some other resource specific contracts for energy settlement.
- Firm LD not accepted for energy settlement.
- ESCOs and marketers must sign a contract for differences (CFD) to settle bilaterally.

“Fixed Price” Energy in NYISO

- SE enters into a financial swap transaction pursuant to an ISDA with its wholesale supplier to fix the commodity cost.

- SE schedules its aggregated customer load in the DAM.

- SE settles with the NYISO based upon DAM price in accordance with OATT.

- SE settles with supplier in accordance with CFD.

Comparison to other ISO's

- All other ISO's recognize physical energy contracts as part of their settlement process.

- Settlement methodology requires an ESCO to post financial assurance to both the supplier and the NYISO.

- Financial obligations are settled on a net basis in other markets.

Collateral Cost Comparison

Strategic Energy Posted Collateral @ June 30, 2002					
	NYISO	ERCOT	PJM	CA ISO	NEPOOL
MWh Served (YTD)	400,353	1,269,107	1,234,646	1,404,629	239,004
Collateral Posted with ISO	$20,860,000	$4,250,000	$500,000	$1,500,000	$535,000
Collateral per MWh Served	$52.10	$3.35	$0.40	$1.07	$2.24

- Cost per MWh served in NY is ***15.5x*** greater than next nearest market.
- Posted collateral in NY is ***5.0x*** greater than any other market served.
- All markets outside of NY recognize firm energy contracts for settlement.

PJM Practice

PJM eSchedules

- Supports Interchange Energy Market.
- Provides ability to create PJM internal energy contracts and schedules.
- Facilitates Marketers and Load Serving Entities buying or selling energy.
- Load Aggregators are responsible for entering, confirming and updating contracts and schedules.

Benefits of PJM eSchedules

- Firm LD is scheduled on a day ahead basis through PJM.
- Ability to settle in DAM or Real-time.
- All contracts must be confirmed by both parties.
- Contracts may be established with dual or unilateral schedule confirmation.
- Terms of all contracts are the responsibilities of the parties involved.

Benefits of Adopting PJM Practice

- Eliminates a seam with PJM.
- Reduces credit costs for market participants.
- Reduces risk to all market participants.
- Reduces risk to the NYISO
- Unlike CFD, no International Swaps and Derivatives Agreement needed.
- Eliminates need for mark-to-market accounting and FASB 133 calculations.