Update on Proposed Revisions to Credit Requirements for Virtual Transactions

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February 5, 2007

For Discussion Only

Outline

- Overview
- Recap of current credit requirements in the Virtual Transactions market
- Recap of revised proposal presented on January 22, 2007
- Review of original charts demonstrating seasonally-adjusted price delta
- Presentation of varied methods calculating the Virtual Transactions credit requirement

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Overview

- NYISO presented a revised proposal to the MIWG on January 22, 2007 to make modifications to the Virtual Transactions credit requirements.

- Generally, Market Participants were in favor of the proposal, however, MP's requested that NYISO develop variations of the of the seasonally-adjusted replacement of the 90-day rolling calculation.

- NYISO has run a series analyses using a range of weighted combinations of the maximum of the two previous years as modified by a 10-day and 15-day rolling adjustment at the 97th percentile.

Current Credit Requirements

- Credit requirements for Virtual Transactions as currently established in the NYISO's tariffs.

- Credit Requirement Calculation:

    (Daily Trading Limit in MWhs) x (Price per MWH) x (Factor of 2)

- Daily Trading Limit is indicated by the customer, subject to availability of adequate credit.

- Price per MWh is determined based on the difference between the Day-Ahead and Real-Time energy prices over the previous ninety days at the 97th percentile.

    Example:
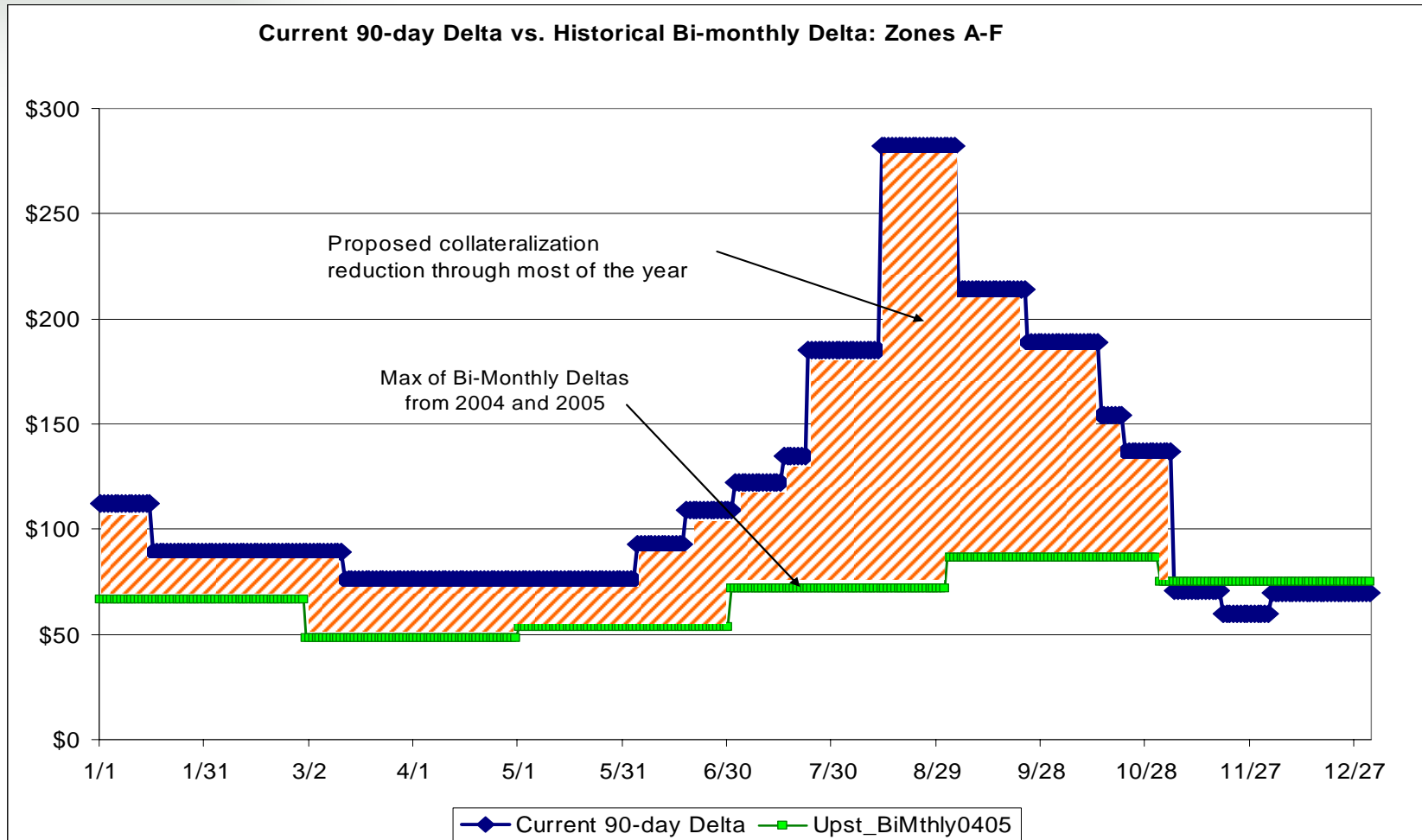
    Customer A desires to trade 1,000 MWhs daily.

    Credit requirement (as of 1/1/2007) = *1,000 MWhs x $70 x 2 = $140,000*

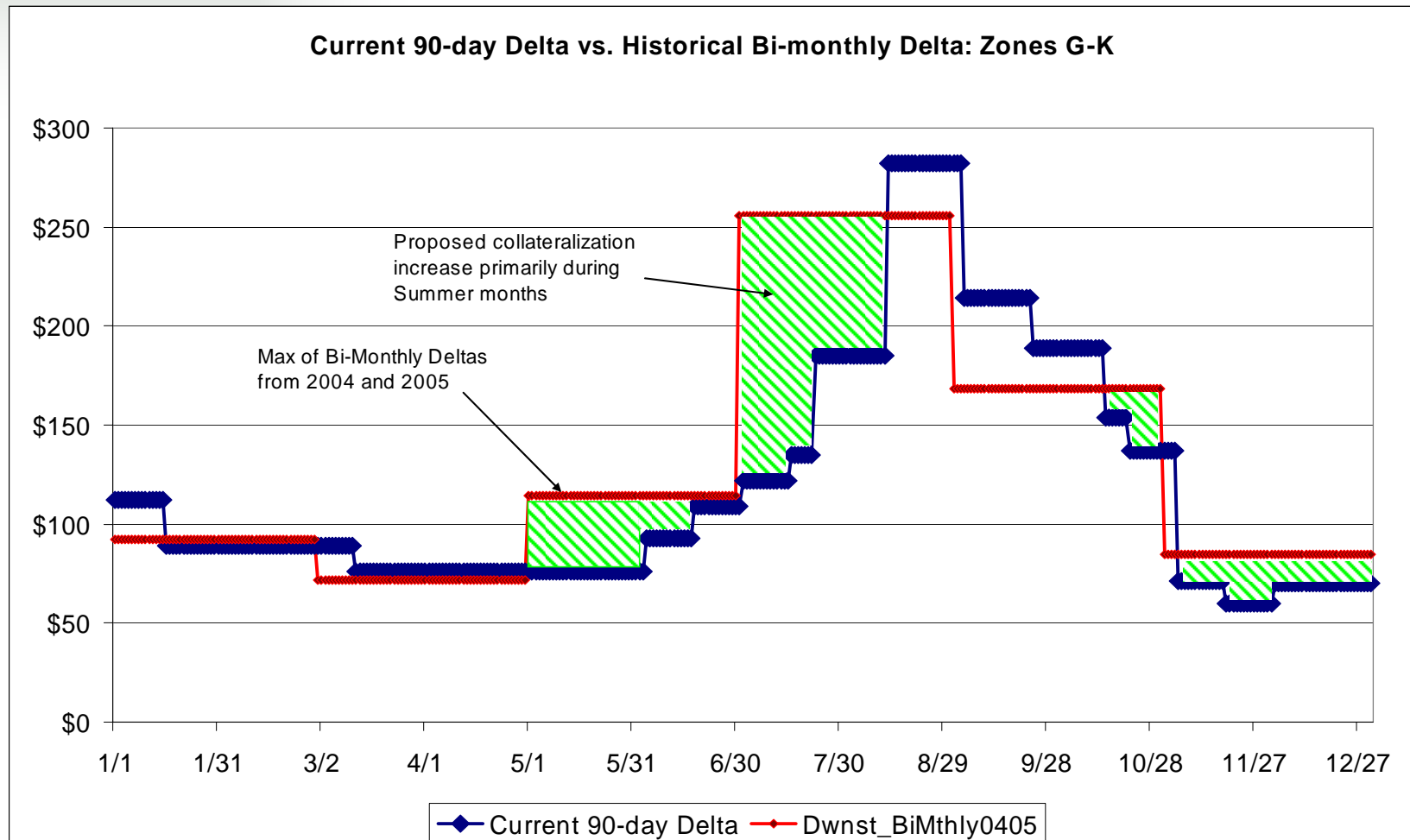*For Discussion Only – February 5, 2007*

Proposal Presented on January 22nd

- Based upon MP feedback, further NYISO analysis of market characteristics, and MP bidding behavior, NYISO staff is submitting a composite proposal as follows:

  - Replace the 90-day rolling with a seasonally adjusted calculation based on prior year equivalent periods and current price delta information

    1. Divide the year into (6) two-month intervals [January-February, March-April, May-June, July-August, September-October, November-December] and extract the maximum price differential at the 97th percentile for each interval from the previous two years.

    2. For the months of May through August, the aforementioned price differential would be compared to the maximum price differential at the 97th percentile for the previous 10 days and the higher of the two values will be used. This would address the historically volatile summer period.

  - Determine price differentials separately for trading in each of the 11 virtual trading zones.

  - An MP's overall collateral requirement will be based upon the highest price differential in any zone in which that particular MP has elected to trade.

  - Suspension timeframes for Customers that have eroded available credit support would be shortened.

Original Proposal of Changes On Price Deltas

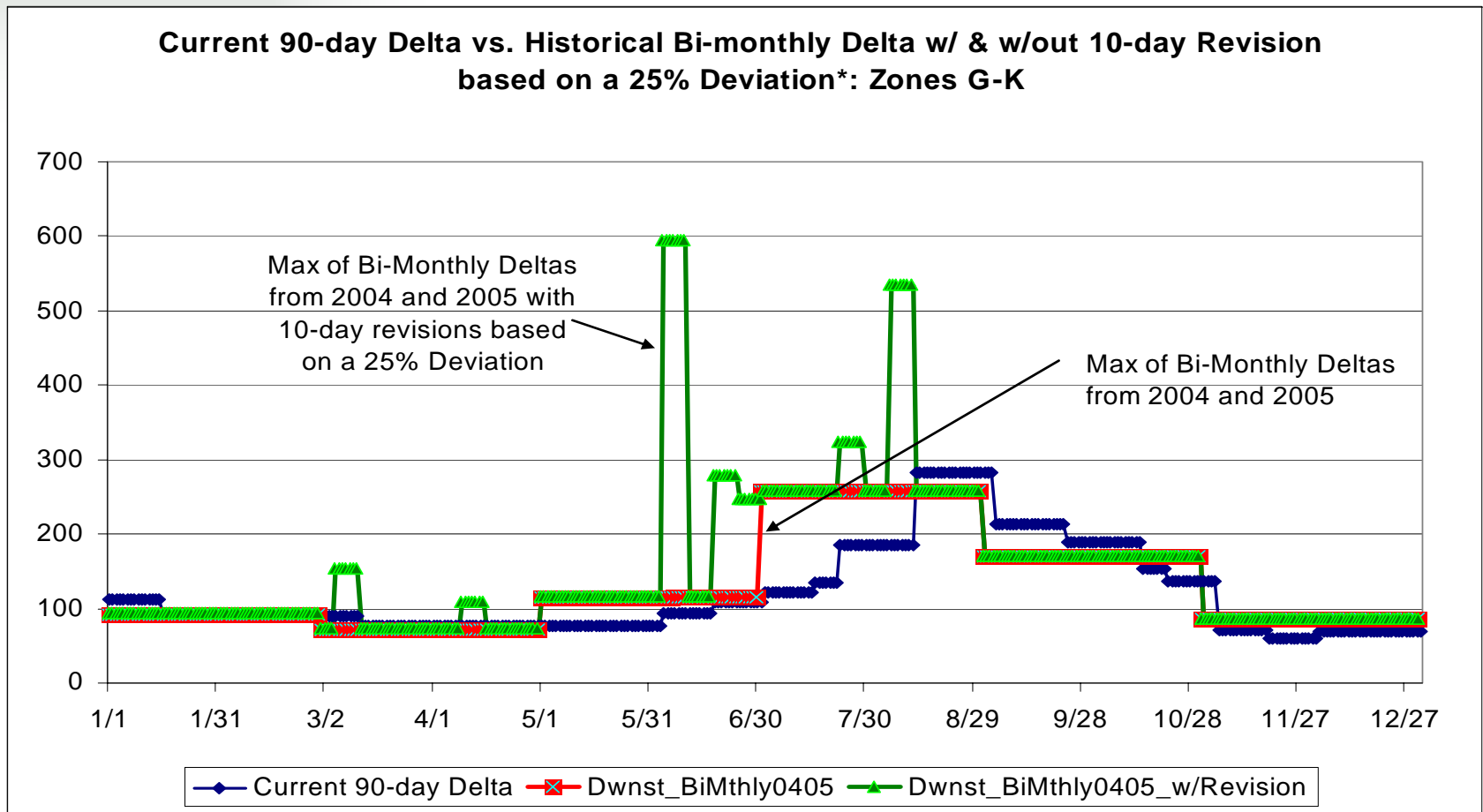Current 90-day Delta vs. Historical Bi-monthly Delta: Zones A-F

Proposed collateralization reduction through most of the year

Max of Bi-Monthly Deltas from 2004 and 2005

Legend: Current 90-day Delta — Upst_BiMthly0405

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Original Proposal of Changes On Price Deltas

Current 90-day Delta vs. Historical Bi-monthly Delta: Zones G-K

Proposed collateralization increase primarily during Summer months

Max of Bi-Monthly Deltas from 2004 and 2005

Legend: Current 90-day Delta — Dwnst_BiMthly0405

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Original Proposal of Changes On Price Deltas

Current 90-day Delta vs. Historical Bi-monthly Delta w/ & w/out 10-day Revision based on a 25% Deviation*: Zones G-K

**evaluated weekly; no change made unless deviation exceeds 25%*

Zones A-F Analysis – Weighting of Previous Years to Current 10-day rolling
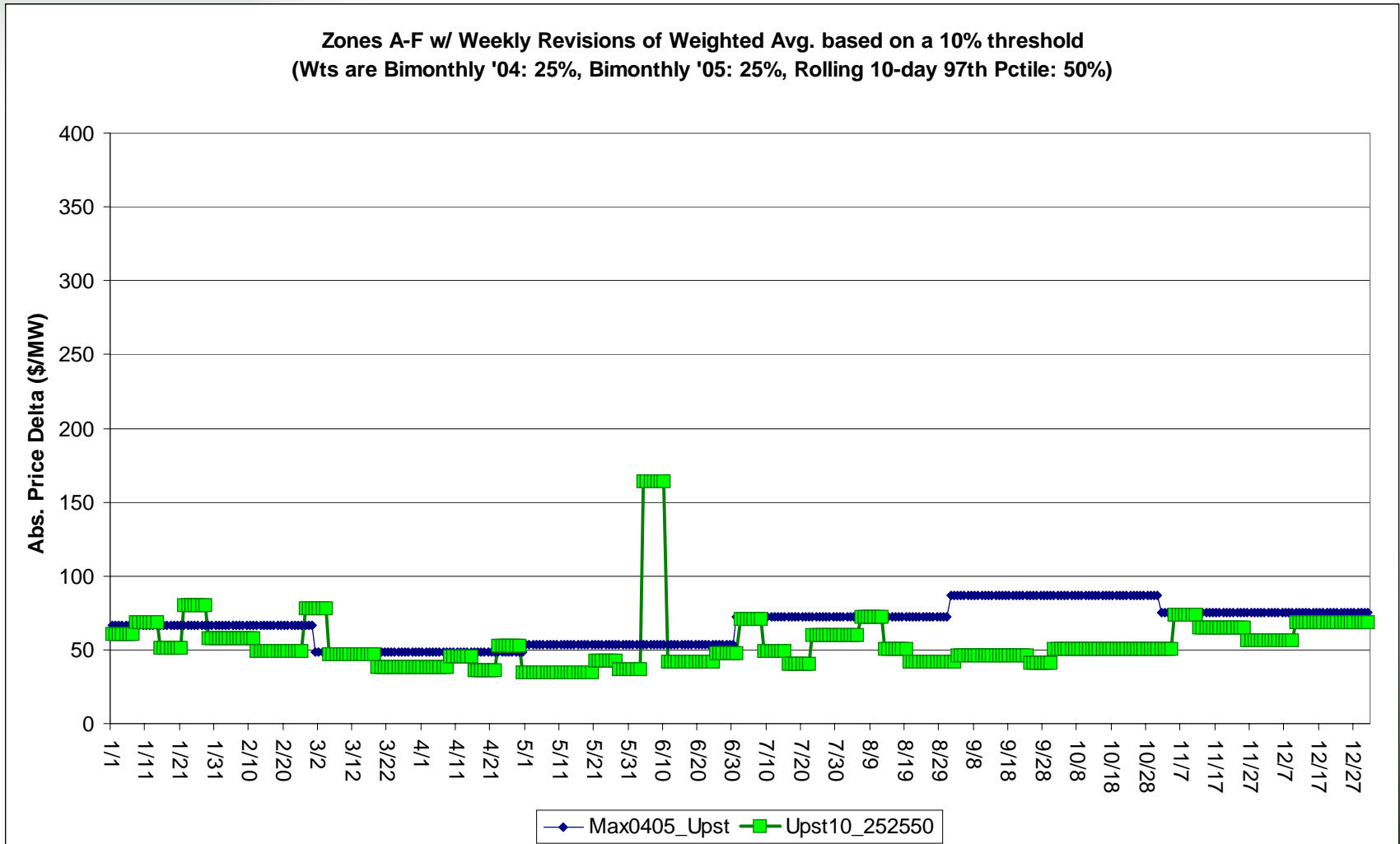
Zones A-F w/ Weekly Revisions of Weighted Avg. based on a 10% threshold
(Wts are Bimonthly '04: 25%, Bimonthly '05: 25%, Rolling 10-day 97th Pctile: 50%)
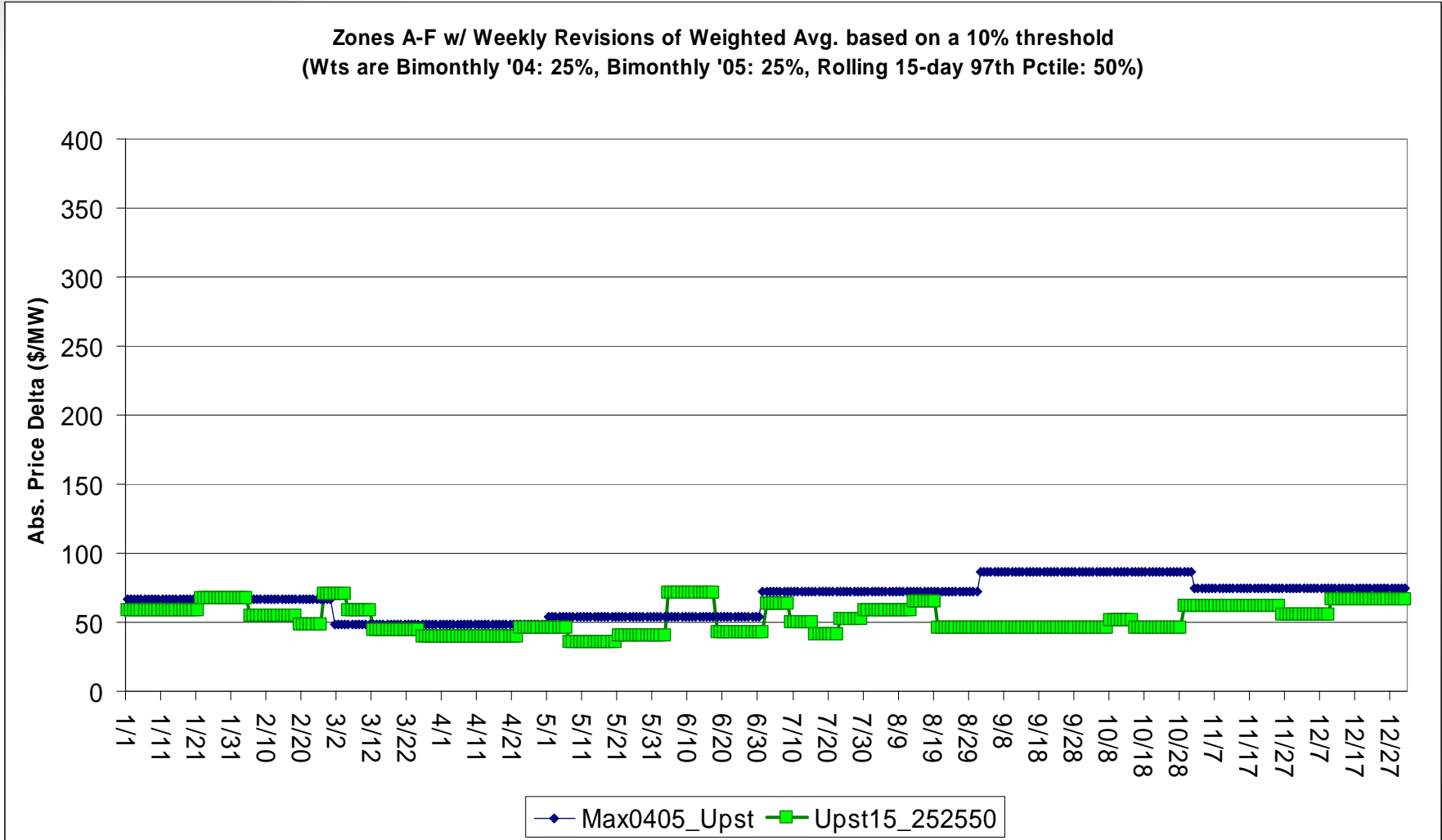
Zones G-K Analysis – Weighting of Previous Years to Current 10-day rolling

Zones G-K w/ Weekly Revisions of Weighted Avg. based on a 10% threshold
(Wts are Bimonthly '04: 25%, Bimonthly '05: 25%, Rolling 10-day 97th Pctile: 50%)

Zones A-F Analysis – Weighting of Previous Years to Current 15-day rolling

**Zones A-F w/ Weekly Revisions of Weighted Avg. based on a 10% threshold
(Wts are Bimonthly '04: 25%, Bimonthly '05: 25%, Rolling 15-day 97th Pctile: 50%)**

Legend: Max0405_Upst, Upst15_252550

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Zones G-K Analysis – Weighting of Previous Years to Current 15-day rolling

Zones G-K w/ Weekly Revisions of Weighted Avg. based on a 10% threshold
(Wts are Bimonthly '04: 25%, Bimonthly '05: 25%, Rolling 15-day 97th Pctile: 50%)

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