LONG ISLAND POWER AUTHORITY

LIPA is a not-for-profit public utility with a mission to enable clean, reliable, and affordable electric service for our customers on Long Island and the Rockaways.

DRAFT

Long Island Power Authority

Project Highlights

Allow Market Purchase Hub Transactions

While existing hub energy transactions require a generator “source”, this project would allow a marketer to source an energy transaction from the wholesale market, before reselling it to an LSE.

Value Proposition

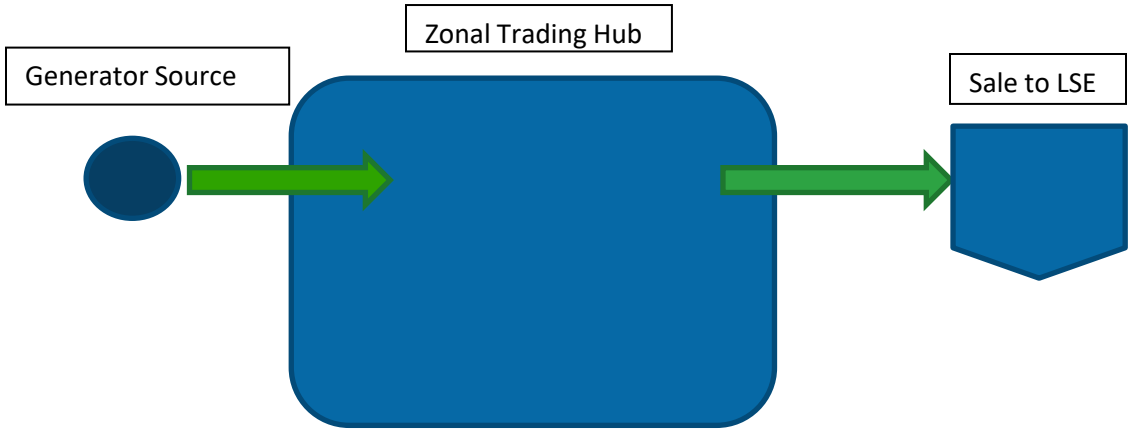
Allows marketers to enter long-term forward pricing and prepayment arrangements for market-priced power at widely-traded zonal trading hubs. Allows Municipalities to leverage tax-exempt financing for long-term market price energy purchases.

Market Protections

Limited to feasible physical deliveries to load rather than virtual transactions, the project will address collateral, energy imbalance, bad debt allocations, and will consider mechanisms to transfer these responsibilities to the ultimate load.

Market Purchase Hub Transactions

Current Trading Hub Energy Transactions

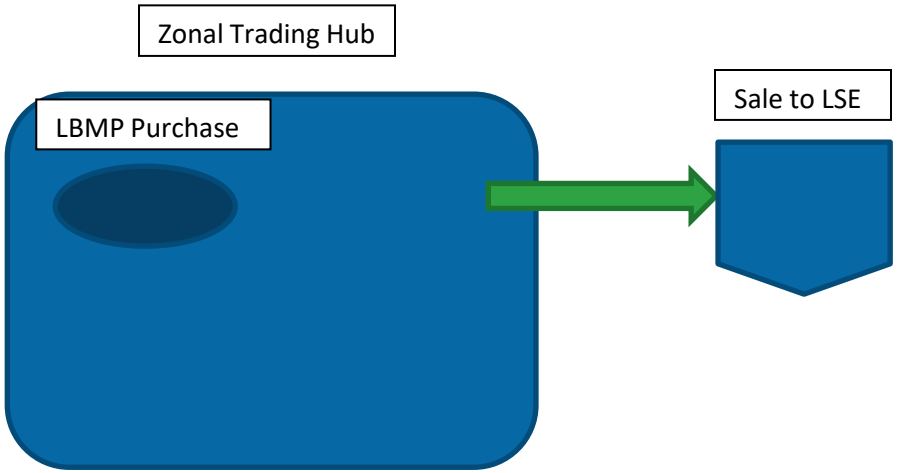


Zonal Trading Hub

- Generator Source and Sale to LSE must be balanced for each Trading Hub transaction
- Although NYISO schedules and settles with the Financially Responsible Party (FRP),the Hub Energy Owner (THEO) is considered owning the energy.
- For all alternatives, energy transferred in any transaction is limited to physical capability of the system, i.e. energy transferred to LSE.

Allow Market Purchase Hub Transactions

Proposed Market Purchase Hub Energy Transactions

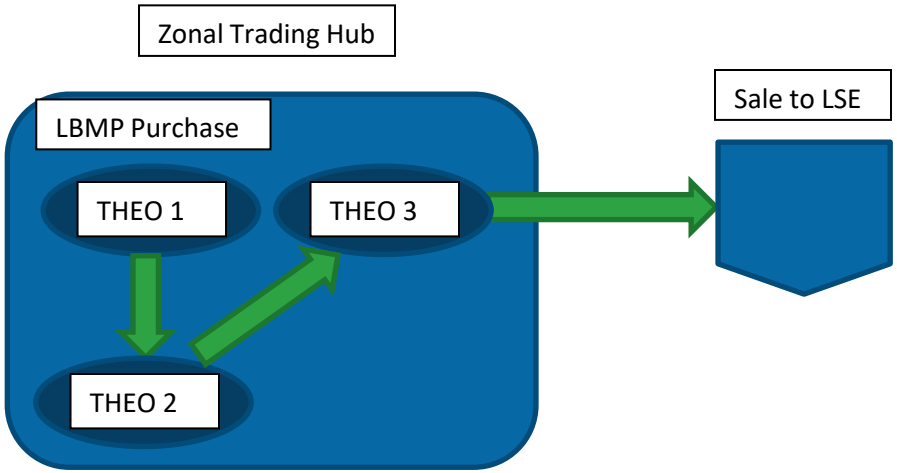


Zonal Trading Hub

- NYISO would recognize the marketer as The Hub Energy Owner (THEO) and the transaction as a purchase by marketer and sale for resale to the LSE
  - This will create an unbalanced transaction at the Trading Hub
- Project will explore passing collateral, bad-debt, imbalance requirements to LSE.

Allow Market Purchase Hub Transactions

Alternative Market Purchase Hub Energy Transactions



Zonal Trading Hub

- NYISO would recognize the purchase and transfer of energy ownership (from one THEO to another) among marketers within the hub and the transaction ultimately as a sale for resale to the LSE.
- Project will explore passing collateral, bad-debt, imbalance requirements to LSE.

Value Proposition

Improves Trading Flexibility/Liquidity

For Marketers

- Allows marketers to take delivery of market energy procured at a forward price for resale to LSEs
- Reduces the risk that a forward bilateral supply contract will cost more than market.

For Municipalities

- Allows municipalities to prepay for forward energy purchases leveraging their lower cost of tax-exempt debt, in much the same way that they are allowed under Treasury regulations to prepay for natural gas purchases.

Market Protections

Collateral

Assure that all purchases remain collateralized.

Imbalance Costs

Assures that marketer and or LSE remains responsible for imbalances when DAM schedule cannot be met.

Bad Debt Losses

Assures that LSEs and or those marketing on their behalf continue to be responsible for a proportionate share of bad debt losses.

Physical Transaction Limits

Assures that transactions are limited to the physical capability of the system, i.e. market purchase hub transaction is limited to the energy delivered to the LSE.

Parting Thoughts

Appropriately designed Market Purchase Hub Transaction capability can increase liquidity, flexibility, and can help reduce costs to load, while continuing market participant protections.