Illinois Power Agency
Mark Pruitt, Director
100 West Randolph Street
Suite 3-355
Chicago, IL 60601-3274

September 13, 2010

Dear Mr. Pruitt:

Nodal Exchange, LLC hereby submits its comments to the Illinois Power Agency (IPA) on the Draft Procurement Plan as presented by the IPA to the Illinois Commerce Commission (ICC) for the period June 2011 through May 2016 (hereinafter the "Draft Plan") in accordance with Section 16-111.5(d)(2) of the Public Utilities Act. 220 ILCS 5/16-111.5(d)(2). The Draft Plan describes a procurement approach to secure electricity commodity products, including swaps, to satisfy the supply needs of eligible retail customers served by Ameren and Commonwealth Edison to “ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time...” 220 ILCS 5/16-111.5(d)(4). In that the Draft Plan considers the use of swap products that Nodal Exchange clears as exchange traded products, Nodal Exchange recommends the ICC permit bids on the swap products to include central counterparty cleared exchange traded contracts at Nodal Exchange, in order for Ameren and Commonwealth Edison to meet the objectives of the Draft Plan.

Nodal Exchange is an interested party that offers services to manage certain risk variables that can affect the cost of energy over a period of time. Nodal Exchange is the first independent electronic energy exchange dedicated to offering financially settled locational (nodal) contracts in a cleared market, which enables its participants to effectively manage basis and credit risk. Nodal Exchange offers on-peak and off-peak power contracts at commercially significant hubs, zones, and nodes in the ISO/RTO markets including the relevant zones within the Draft Plan. The Nodal Exchange contracts relevant to the Draft Plan are available for periods over 48 months forward and provide increased liquidity in these markets. Nodal Exchange is currently the only central counterparty cleared market offering both the Ameren and Commonwealth Edison locations as cleared financial swaps. Bilaterally negotiated transactions, such as those considered in the Draft Plan, may be submitted to Nodal Exchange for clearing by LCH.Clearnet, the world’s leading independent clearinghouse. For all Nodal Exchange transactions, LCH.Clearnet
becomes the central counterparty between the two parties to the transaction and takes on the risk that any one counterparty defaults on its obligations.

The comments presented by Nodal Exchange herein are consistent with the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted July 21, 2010 (Dodd-Frank), which brings comprehensive reform to the regulation of over-the-counter derivatives. Dodd-Frank will require standardized derivative transactions be moved into central clearinghouses to lower risk in the financial system. By requiring clearing of over-the-counter transactions, Dodd-Frank extends the benefits of reduced counterparty risk that clearinghouses have been providing to the futures marketplace since the 1890s. These same benefits that reduce counterparty risks can be made available through the Draft Plan. Clearing services enable more service providers to participate in the procurement process without increasing the IPA portfolio risk factors. Instead, the increased competition will bring better pricing and lower costs to the eligible retail customers covered by the Draft Plan.

Dodd-Frank is now in the rulemaking phase and the Commodity Futures Trading Commission (CFTC) is engaged in this process. There may also be implications for collateral requirements for any non-cleared transactions for certain entities based on the final rules. For more information about Dodd-Frank and the CFTC please see their website at:

www.cftc.gov/LawRegulation/OTCDER/VATIVES/index.htm

It is our understanding that awarded market participants in the 2010 Procurement were required to post collateral in circumstances where the market price moved adversely to their position, although Ameren and Commonwealth Edison were not subject to a collateral posting requirement due to issues in the rate recovery regime for collateral. However, the premise underlying central counterparty clearing, and upheld by Dodd-Frank, is that all counterparties to a transaction must post margin as appropriate based on market prices. Although clearing requires margin, bids with a clearing requirement should result in better pricing. Clearing should result in better pricing for two reasons: A) because of more entities being able to bid creating greater price competition and B) economic benefits to the participants from clearing. The economic benefits that may lead to a participant bidding more attractively on a cleared contract are: 1) the entity will receive margin funds if market prices move against the position held by Ameren or Commonwealth Edison and 2) hedges to the position will either net (if the position is hedged on the same cleared market) or at least have offsetting margin (if the position is hedged on a different cleared market). Therefore, for bids specifying the cleared options, the ICC should expect more attractive bidding, and ultimately lower costs, for electricity customers. We suggest the IPA recommend to the ICC that any
additional costs Ameren and Commonwealth Edison may incur for posting margin in a cleared market be permitted in the rate recovery regime.

In order to include the risk reducing benefits of central counterparty clearing in the Draft Plan, Nodal Exchange recommends that under section A. Risk Discussion within “Portfolio Design” on page 17, subsection 3. Contract Terms be revised as follows (revisions noted in red):

3. Contract terms. Contract terms present risk to the portfolio to the extent that the underlying credit requirements for the bidders and the Utilities may increase direct and indirect costs due to the premiums associated with providing credit facilities that are ultimately borne by the end-use customer.

Contracts entered into as a result of the procurement process shall be executed through either one of the following methods:

1. International Swaps and Derivatives Association (ISDA) agreement for financial instruments such as fixed/floating rate swaps; or
2. Central counterparty clearing for standardized financial instruments on exchange traded contracts; or
3. Edison Electric Institute (EEI) agreement for physical products such as energy or capacity.

Individual transactions shall be memorialized utilizing standardized financial instruments on exchange traded contracts and standard transaction specification sheets, such that, to the extent practicable, purchasing decisions shall be made on the basis of price, rather than non-price factors.

The proposed revisions are in the best interest of the consumer and consistent with the design of the Draft Plan to “ensure adequate, reliable, affordable, efficient, and environmentally sustainable electric service at the lowest total cost over time…” 220 ILCS 5/16-111.5(d)(4). Nodal Exchange requests the IPA recommend that the ICC approve and adopt the proposed revisions.

Sincerely,

Paul Cusenza
Chief Executive Officer