

# National Energy Marketers Association



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## Solutions to Liquidity, Price Transparency, Risk Management, Creditworthiness and FASB 133 Compliance Issues

Once FERC's Standard Market Design is fully implemented it will bring much-needed standards, uniformity and independent, competitively neutral management to the nation's electricity grid. However, in the interim, we must proactively address the financial crisis currently facing our industry and the issues of credit, risk management and financial accountability that have been raised in the wake of the Enron collapse. Resolution of these issues is vital to the short-term well-being and long-term growth of the industry and the economy.

NEM members have developed and implemented a number of products and services that can help restore investor confidence and financial integrity into the energy markets. NEM's inter-industry taskforce includes members of the energy, telecom, risk management and financial services industries. Virtually all of the members have developed new financial products, services, clearing functions, energy price databases, electronic trading exchanges, accounting expertise as well as expert risk management consulting services and software that address and correct many of the underlying issues that arose in the wake of

the Enron collapse. In April, NEM initiated a Risk Valuation, Management and Financial Accountability Task Force and published a strawman entitled, "Energy Market Stability Framework." Since then, NEM has been working with other groups to develop netting solutions and best practices for risk management, disclosure and financial governance.

NEM pooled its resources with EEI to augment the "Master Power Purchase & Sale Agreement," that is widely used throughout the industry, with a "Master Netting Agreement." Top attorneys in finance and bankruptcy law have come together to identify the complex issues that arose in the wake of the Enron bankruptcy and drafted a "Master Netting Agreement." While the agreement does permit cross-commodity netting, it has yet to be tested under existing bankruptcy laws. NEM urges consideration of modifications to the bankruptcy laws to permit cross-entity netting as well. Regulators, investors and the consuming public should know that the best minds in the business from the National Energy Marketers Association, other trade associations and professional risk officers have worked hard and continue to work to develop best practices to address the needs for disclosure, price transparency, liquidity, risk valuation and credit management. These initiatives when added to the new financial products, services, exchanges, and clearinghouses available to the industry will form a comprehensive solution to the issues our industry is currently facing.

NEM members like energy brokers Prebon Yamane and Amerex have teamed up to provide a comprehensive historical database of transactional data that will provide credible pricing information to use for mark-to-market accounting. Other members like TradeSpark, NYMEX and IntercontinentalExchange (ICE) have established robust many-to-many electronic energy exchanges with clearing capabilities, providing the industry much needed price transparency and liquidity. One of our newest members, EnergyClear has teamed up with VMAC's AAA rated credit assur-

ance program to provide clearing with increased credit protection. Other members like LODESTAR, Excelergy, SPI group, Caminus, ICF, FEA, KWI and Deloitte and Touche bring world-class expertise on issues of risk management, software solutions, capital adequacy and accounting issues.

In my opinion, the trading platforms, clearing functions and risk management expertise provided by our members, plus the use of the EEI/NEM Master Netting Agreement could be the silver bullet that the industry has been seeking to reverse the crisis of confidence and bring much-needed price transparency, liquidity, more secure creditworthiness, and reliable marks back into the energy market.

It is absolutely critical that our nation's wholesale energy markets are stable, reliable, liquid, transparent and financially credible. Investors, Wall Street, the banking community and the regulatory community must be able to rely on our industry's balance sheets and financial integrity. The Enron bankruptcy created an unprecedented crisis in the nation's wholesale electricity markets and underscored the need for new standards, guidelines, and a standard market design that will provide the country with a stable, reliable electricity market. FERC is moving as quickly as possible to fully integrate the nation's electricity grid and to establish uniform rules, trading hubs and operating processes. However, time is of the essence to reverse the crisis that has shaken the equities market. NEM members are proactively moving to provide the solutions that the energy industry requires. ■

*For additional information on membership and participation in task forces on Competitive Wholesale and Retail Market Design and/or Credit, Risk Management and Financial Accountability, call our headquarters at (202) 333-3288, e-mail us at [info@energymarketers.com](mailto:info@energymarketers.com) or visit our website at [www.energymarketers.com](http://www.energymarketers.com).*