



# National Energy Marketers Association

## Year End Report to Members

To: General Membership  
From: Craig Goodman  
Re: Review of 2003 and Opportunities for 2004  
Date: December 31, 2003

### Executive Summary

In 2003, U.S. natural gas prices spiked and a major blackout cascaded across North America causing tens of billions of dollars in economic losses. Some members consider 2003 to have been a year of challenges and setbacks. However, 2003 may turn out to be the year in which the industry consolidated operations, expanded markets, product lines and potential customers, cut costs and enhanced both its balance sheets and credit lines. If the Energy Policy Act of 2003 is passed in 2004, the industry should be well-positioned to take advantage of PUHCA repeal as well as the incentives for new investments in energy supplies, infrastructure upgrades, efficiency products as well as advanced metering, information and power line transmission technologies.

### Events that Shaped Energy Policies in 2003

In the first quarter of 2003, the Federal Energy Regulatory Commission (FERC) issued its long-awaited Standard Market Design (SMD) Rulemaking. The House finished its negotiations on the Energy Bill (HR-4), and Chairman Barton reported the results to NEM members hours later at its Annual Restructuring Conference. Open-access States expanded choice programs, closed States considered initiating programs, and states proposing to terminate direct access, reversed course.

After natural gas prices spiked and remained higher than normal throughout the first half of the year, a series of analyses projected higher long-term gas prices, and greater than normal resource depletion rates. In response, a series of complaints and legislative proposals prompted FERC and CFTC to issue subpoenas, and initiate both civil and criminal investigations into natural gas prices, wholesale trading practices, potential market manipulations, the accuracy of price indexes as well as the industry's underlying price reporting practices. After considerable consensus building within the industry, FERC issued guidelines permitting voluntary reporting, index creation and adopted an NEM proposal for an industry Safe Harbor. Congress adjourned before Summer after a last minute impasse caused the Senate to pass its 2002 version of the Energy Bill as a substitute bill.

By late Summer, while the final energy bill was being negotiated in Conference, a major blackout changed both energy policy and politics, virtually overnight. The Conferees delayed SMD and added a new electricity reliability title plus significant tax incentives for investments in domestic energy supplies, conservation, upgrading infrastructure and advanced energy-related technologies. The bill was filibustered into 2004. However, at its last scheduled meeting in 2003, FERC put the industry on notice that it intends to aggressively pursue both reliability and market power issues in 2004.