National Energy Marketers Association

By CRAIG GOODMAN

Restructuring Issues For 2003

IN 2002, THE WHOLESALE MARKETERS for natural gas and electricity have faced credit, liquidity, accounting, disclosure, pricing and credibility crises (of enormous proportion). And yet, the industry has survived, albeit humbled, reorganized, wiser and far more cautious. It is critical that our nation's wholesale markets are stable, reliable, liquid, transparent and financially credible. The FERC is attempting to fully integrate the nation's electricity grid and to establish uniform rules, trading hubs and operating processes, but time is of the essence.

In a very real sense the industry has returned to its basic strengths. Wholesale suppliers and traders are reducing debt, trading more around hard assets and implementing trading, risk management, credit and disclosure polices that will rebuild both investor and regulator confidence in the year(s) to come. None of these changes were optional—they were all mandatory—not by regulation, but by market forces.

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Make no mistake, 2003 will be a pivotal, perhaps defining, year for both energy suppliers and consumers. By the end of the first quarter, world energy prices should have discounted the effects of Iraq's actions, and many if not most of the fallout from past business, trading and accounting mistakes and failures should be obvious and hopefully behind us. Given the enormity of the stakes involved, a number of federal and state actions can be expected in the year(s) ahead.

FEDERAL AND WHOLESALE MARKET ISSUES

First, I firmly believe that the federal regulatory framework for a standardized, competitively neutral, liquid, transparent and price-competitive wholesale energy market will be well on its way to implementation. Second, tax and energy legislation will likely become two of the early issues for the 108th Congress. For instance, America's transmission infrastructure is sorely in need of upgrading to meet the needs of a high-tech 21st-century economy. I fully expect tax incentives for investments in energy-related products, services, information and technologies to be introduced in the 108th Congress.

In the interim before the final implementation of FERC's SMD rules, industry-based efforts to restore stability, reliability, liquidity, transparency and financial credibility to the markets will continue in 2003. NEM formed two new policy development teams on clearing, netting and settlement as well as risk management, disclosure, price indices and FASB 133 implementation. The Clearing, Netting and Settlement Policy Team developed a document explaining and comparing clearing options titled, "Solutions to Improve the Liquidity, and Creditworthiness of the U.S. Energy Industry," that was released in February 2003.

In the coming months, the risk management, disclosure, price indices and FASB 133 Implementation Policy Team will be examining the development and implementation of a generally accepted, neutral, transparent and auditable, valuation tool, based on indices and/or market transactions.

Furthermore, the new financial products, services, clearing, netting and settlement solutions, energy-price databases, electronic-trading exchanges, accounting expertise as well as expert risk management consulting services and software development expertise provided by NEM members will be critical in addressing both the credit and liquidity crises currently facing our industry.

STATE RETAIL-ENERGY MARKET ISSUES

Twenty-four states and D.C. have either enacted enabling legislation or issued regulatory orders to implement retail access. Fully allocated embedded cost-based unbundled rates are the foundation for a standard, competitive retail-energy-market design, and state commissions have determined such rates to be "just and reasonable." The quantification and implementation of unbundled rates for competitive products, services, information and technologies based on utilities embedded costs will continue to be issues of vital importance in 2003.

As many states are at or near the end of the deregulation transition period, the competition for and proper pricing of POLR services will also be a key issue. NEM and its members will also continue efforts to reform anti-competitive rules and practices that confront retail marketers in virtually every market that is opening to competition. It is hard to believe, but there are still basic operational issues like a marketer's ability to collect payments from customers in a timely fashion or to enroll customers on a cost-effective basis that continue to be debated.

We urge suppliers and consumers to contact our headquarters at 202.333.3288; or info@energymarketers.com to help us continue to help the FERC, CFTC and state PUCs to develop and implement competitively neutral and competitively priced markets for both wholesale and retail energy related products, services and technologies at the earliest possible time. ■

***Craig Goodman** is president of the National Energy Marketers Association. He can be reached at* cgoodman@energymarketers.com; 202.333.3288.