

A horizontal decorative bar with a gradient of colors including green, blue, and brown.

# Intercontinental Exchange

January 13, 2009

# ICE Overview

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- Started as the Continental Power Exchange (CPEX).
- In 2000, CPEX became ICE. ICE was founded to provide an open, accessible, multi-dealer, around-the-clock electronic energy exchange.
- ICE is now a leading operator of global derivatives exchanges and OTC markets.

# ICE Segments

## IntercontinentalExchange

### ICE OTC (OTC Clearing)

1. Energy: NA Natural Gas and Power
2. OTC and OTC Clearing
3. Commercial or professional traders only (ECE or ECP)
4. Non-Regulated: ECM under CEA

### ICE Futures Europe

1. Energy: WTI, Brent Gasoil, Heating Oil, UK Nat Gas, etc.
2. Futures only
3. All traders
4. FSA regulated

### ICE Futures US

1. Softs and Financials: CSCC&OJ, DX and R1K/R2K
2. Futures Only
3. All traders
4. CFTC regulated

### ICE Futures Canada

1. Canola, Barley
2. Futures & Options
3. All traders
4. MSC regulated

# Coordination with FERC

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- ICE OTC lists swaps and physicals for trading.
- ICE provides FERC with ICE trading screens for market monitoring.

# ICE OTC Clearing

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## OTC and OTC Clearing

- Over 700 OTC Products offered, OTC Clearing for over 100 of these
- OTC and OTC Clearing in the same price stream
  - (OTC = bilateral, OTC Clearing = cleared)

# ICE OTC Clearing

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- **1: Available Products**
  - Natural Gas:
    - Henry Hub (NYMEX Swap)
    - Natural Gas Basis Swaps
    - Natural Gas Index Swaps and Swing Swaps
  - Power (Financial Only):
    - East and West
    - Peak and Off Peak
    - Daily and Monthly
  - Oil:
    - First Line Swaps
    - Gas Oil Swaps, Fuel Swaps, Jet Diffs

# Power Volumes on ICE

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- Volume Growth
  - 2005: 1.9B MWh
  - 2006: 3.8B MWh
  - 2007: 5.5B MWh
  - 2008: 6.5B MWh
    - Physical power 3.6%

# ICE Counterparty Credit filter

Counterparty Filter - Credit Summary - Microsoft Internet Explorer

Address: https://webotc.staging.theice.com/webcpapp/webcpapp.class

ICE OTC-Credit Clearing Brokers Password Help Log Out

Counterparty Filter Credit Summary mike1@ Test Company 1

Credit Settings by Market Type Credit Settings by Counterparty Change Log Preferences

Market Type: Financial Power Bilateral Credit Settings: Both Open Export Printable Version

Acting As The: Buyer/Seller Settlement: Financial

Their Bilateral	Their Clearing	Counterparties	Contact Info	Max Days	My Bilateral	My Clearing	DL On	Daily Limit (DL)	Remaining DL	DL Alert Threshold	Open Credit Count	Legal Name Over-ride
Open	Cleared	Fulcrum Power Services L.P.		10,000	Open	Cleared					100	
Open	Cleared	Fulcrum Power Services L.P.		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	Fulcrum Power Services L.P. as agent for Formosa Plastics Corporation USA		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	Gafney Houston Industries		10,000	Open	Bilateral		0	0	0	480	
Open	Cleared	Gazprom Marketing & Trade Ltd		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	GBK Trading Company		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	Gelber Group Inc.		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	GGL Trading		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	GGL Trading 2		10,000	Closed	Cleared		0	0	0	480	
Open	Cleared	Giants		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	Global Advisors Commodity Investment Fund "GALI" c/o Admiral Administration		10,000	Closed	Cleared		0	0	0	480	
Open	Cleared	Global Advisors Commodity Investment Fund Limited		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	Global Advisors Commodity Investment L.P. "GALI L.P." c/o Rothstein and Kass		10,000	Open	Cleared		0	0	0	480	
Open	Cleared	Green		10,000	Open	Cleared		0	0	0	480	

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# Two Ways to Trade

## ICE Transaction

### OTC BILATERAL

1. Parties must have existing contract (i.e. NAESB, ISDA)
2. Credit pre-approves eligible counterparties
3. White prices mean good, red prices were inaccessible
4. Parties revealed after deal is consummated

### OTC CLEARED

1. Use of financial intermediary (FCM) to bridge credit gap
2. Exposure to fewer parties
3. Credit/risk management consolidated for efficiency
4. More counterparties available
5. 100% anonymous throughout

# ICE – Benefits of Clearing

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- Multilateral netting
- Reduction in counterparty risk
- Free up bilateral credit lines
- Increase in trading liquidity
- Standardized contracts
- **Streamlining operations** — established operational expertise, transaction netting, efficient risk offset and capital efficiency across multi-market positions
- Ability to provide trade and/or delivery anonymity

# ICE OTC Clearing Mechanics

## Margin

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- Margin - Initial & Variation
  - For BPA purposes – 2 types of margin
- Initial - Returnable deposit in respect of net open positions
- Variation – based on daily movement
- Rates set by Risk Management Department
  - Taking account of current and expected volatility
  - Reviewed at least quarterly

# ICE OTC Clearing Mechanics Margin

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- Default: The Need for Margining
- Pre-default
  - equal number of longs and shorts
  - no market risk
- Post-default
  - ICE Clear inherits defaulting member's positions
  - Market risk to ICE Clear
  - Close out positions/Seek to transfer where possible
  - ICE Clear may incur losses
- As a result, ICE Clear requires up-front financial protection = need for margining

# ICE OTC Clearing Mechanics Margin

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## Backing (Default) Arrangements-

- Defaulting clearing member's margin contributions
- Defaulting clearing member's Default Fund contribution
- \$50M ICE Default fund
- ICE Clear Guaranty Fund
- Insurance
- Remaining assets of the Clearing House

# ISO Effect on Liquidity?

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- Real Time or Day Ahead LMP?
- Settlement Time Frame
- Adjustments to Settles?
- Each ISO does things their own way

# Questions and Answers

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