

Credit Issues – Clearing & Other Solutions

FERC's Overview

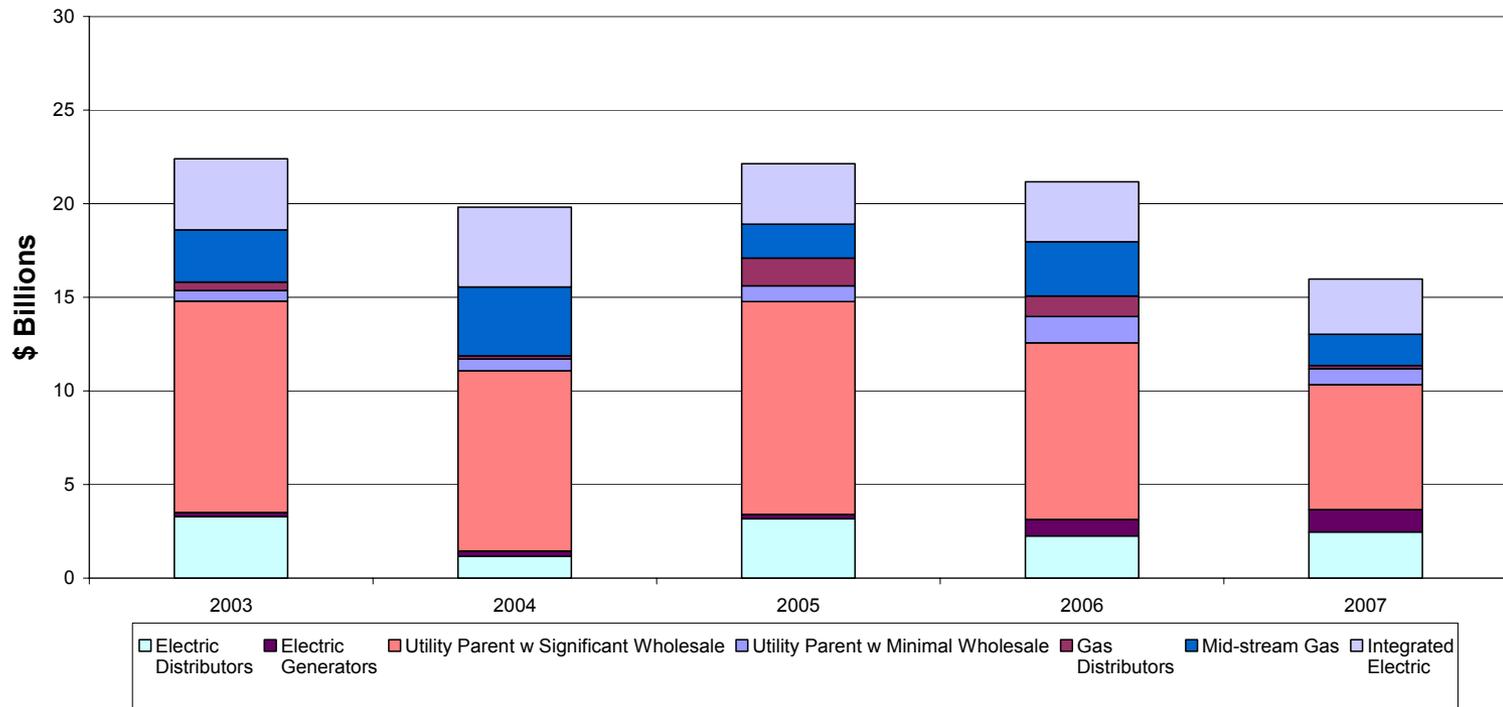
William F. Hederman
Director,
Office of Market Oversight and Investigations

CFTC/FERC Technical Conference on
Credit Issues – Clearing & Other Solutions
February 5, 2003

Recent Conditions in Energy Markets

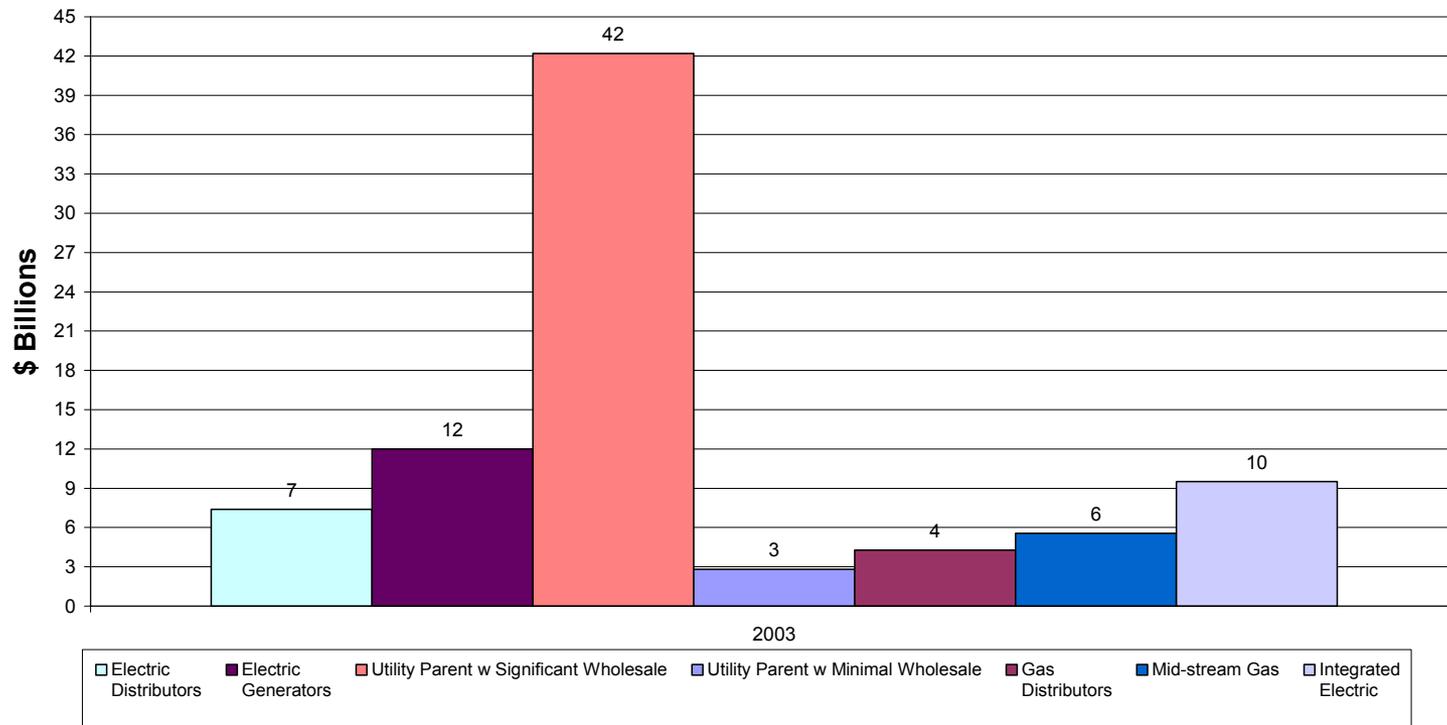
- Companies in severe financial distress
- High level of debt maturity in 2003
- Investigations of participant misbehavior
- Loss of confidence by stakeholders
- Decline in liquidity at most locations
- Reduced efficiency of pricing and markets
- Huge credit exposures from bilateral transactions
- Limited credit available for new transactions
- Credit Solutions critical to restoration of markets emerging

Long Term Debt Maturity



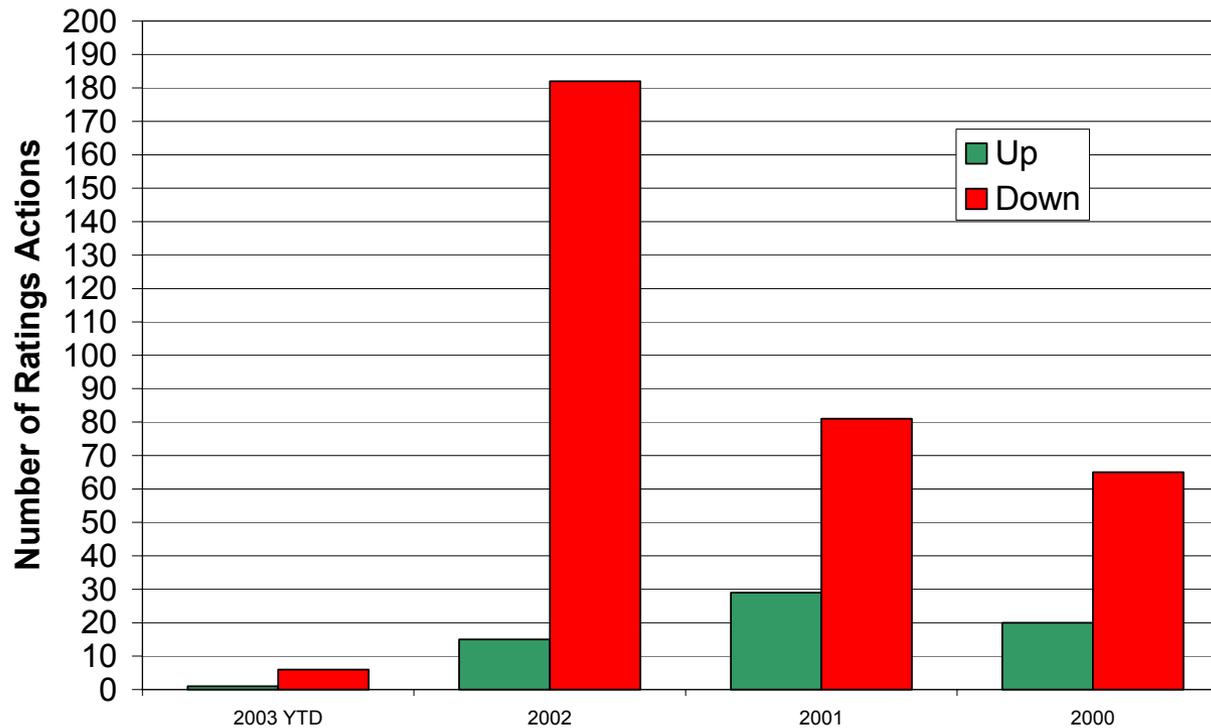
Source: Bloomberg data applied to OMOI index

Short Term Debt Maturity



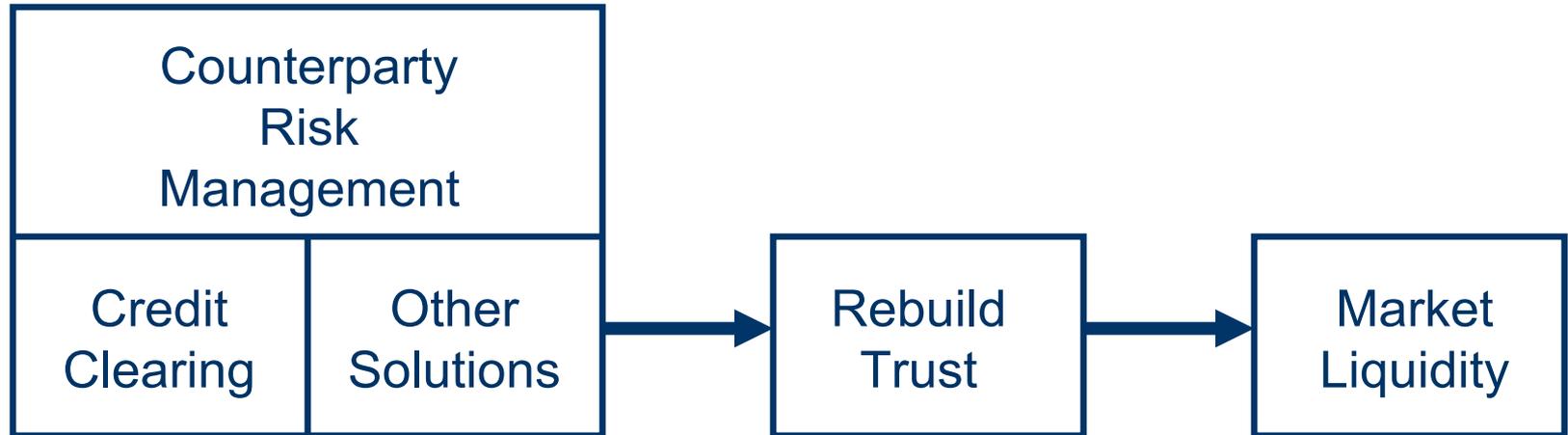
Source: Bloomberg data applied to OMOI index

Ratings Action

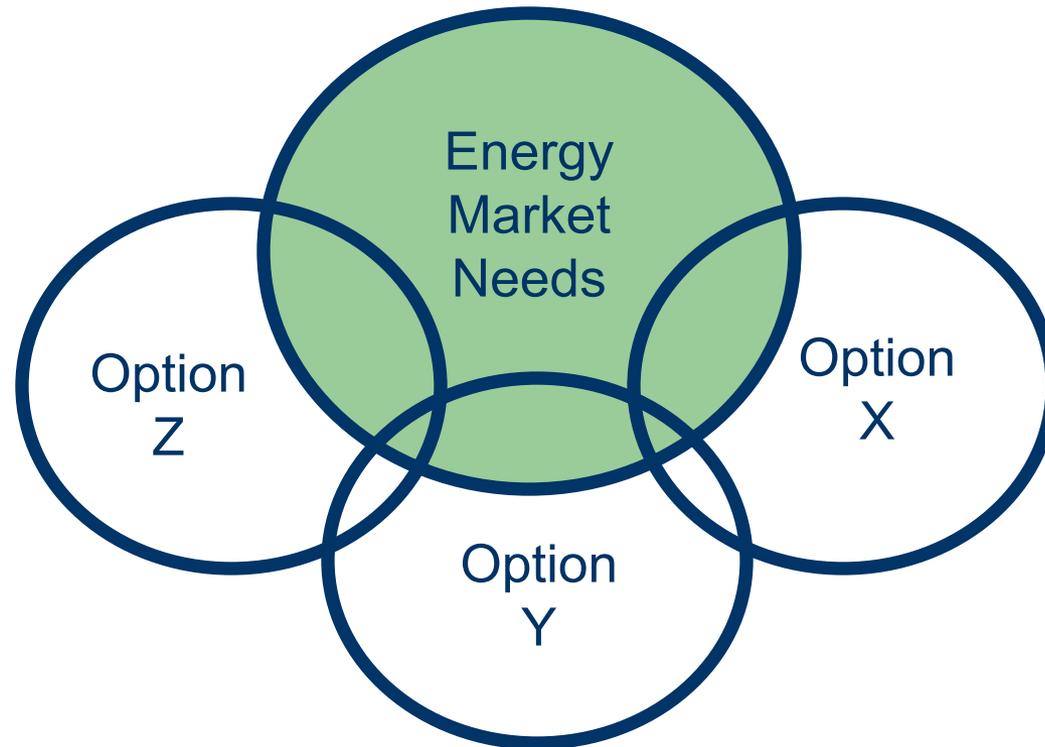


Source: Standard's and Poor's
Utilities and Perspectives

Market Liquidity Requires Rebuilding Trust



Clearing Options and Energy Market Needs Must Match



Purpose of Today's Conference

- Review several of the proposed credit solutions, including clearing
- Help the market participants & FERC appreciate the advantages and disadvantages in the context of energy
- Provide basis for industry to move forward expeditiously
- Identify potential government role