
OTC Energy Trading: Multiproduct and Multidocument Issues

FERC/CFTC Conference
Credit Issues in the Energy Markets
Steven M. Bunkin
Co-Chair of ISDA's NA Energy and Developing Products Committee
steven.bunkin@gs.com

Summary

- ◆ Background
- ◆ ISDA and its Energy and Developing Products Committee
- ◆ Current Conditions: Multiple Products/Documents
- ◆ Potential Solutions
 - Integrating Separate Masters
 - Expanding Scope of Masters to Cover Additional Products/Commodities

ISDA and Energy Committee

- ✦ ISDA is the International Swaps and Derivatives Association
- ✦ Global membership includes a range of corporations, commercial banks, investment banks, funds, insurance companies
- ✦ Strong representation in energy sector, including producers, IPPs, utilities, merchant energy companies, exchanges
- ✦ Energy and Developing Products Committee focuses on issues of importance to market participants

Current Conditions

- ◆ Energy Market Participants trade multiple products (swaps, options, forwards, spot, day-ahead) on multiple commodities (power, natural gas, crude oil and products)
- ◆ Products all generate credit exposure tied to market prices
- ◆ Historically, trading and documentation developed on sector-specific basis
- ◆ Increasingly, there is a convergence of products/trading entities
- ◆ Legacy of separate master agreement forms
 - Different masters that are not integrated
 - Masters that do not cover full range of desired products
 - Strain on resources
 - Potential credit inefficiencies

Solutions to Current Conditions

- ◆ What is necessary to address current conditions
 - Cross-product default triggers
 - Cross-product netting
 - Cross-product margining
- ◆ Two ways to achieve this
 - Bridge different product/commodity-specific master agreements
 - Expand scope of existing master to accommodate other products/commodities
- ◆ Both are needed
 - First to address existing documentation between entities
 - Second to provide framework for new multiproduct trading relationships

Integrating Various Master Agreements

- ◆ 2002 ISDA Energy Agreement Bridge
 - Enables parties to achieve stated objectives
 - Integrates with existing documentation
 - Is easy to implement
 - Is a basis for multiproduct margining
 - ISDA is soliciting affirmation that Energy Agreement Bridge will be covered by ISDA's netting legal opinions
 - Is available at www.isda.org, under the "Committee/Energy and Developing Products" file
- ◆ EEI has developed Master Netting Agreement
 - Enables parties to achieve stated objectives
 - Allows for various elections
 - Contains margining framework

Expanding Scope of Master Documentation

- ✦ Objective is to provide a uniform credit platform that respects market practices of relevant products
- ✦ EEI and ISDA are working together to create a Power Annex
 - Power Annex will isolate those terms that are specific to physical delivery market, as formulated by EEI
 - Power Annex will promote cross-product netting without necessitating Bridge, Master Netting Agreement or other documentation
 - Assumes an ISDA is in place between parties
 - Anticipated by end of 1Q

Expanding Scope of Master Documentation

- ◆ NAESB and ISDA are working together to create a Gas Annex
 - Project just initiated
- ◆ EEI, NAESB, ISDA and WSPP are consulting about commonalities in master documentation
- ◆ Industry efforts relate to documentation; Bankruptcy Code considerations continue to apply