Critical Issues in Credit from a CCRO Participant's Perspective

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Background Information on Tractebel

- Energy division of Suez with operations in over 100 countries on 5 continents
- Over 100,000 employees
- World's 5th largest Independent Power Producer with generating capacity of more than 50,000 MW worldwide
- Gas transport networks with a capacity close to 100 Gm^3 on 3 continents
- Annual sales of about 207 Twh of power, 33 Gm^3 gas, 110 million tons of steam, …
- Founding member in North America of Committee of Chief Risk Officers and co-chair of Credit Working Group

Industry Risk Management Best Practices

Committee of Chief Risk Officers

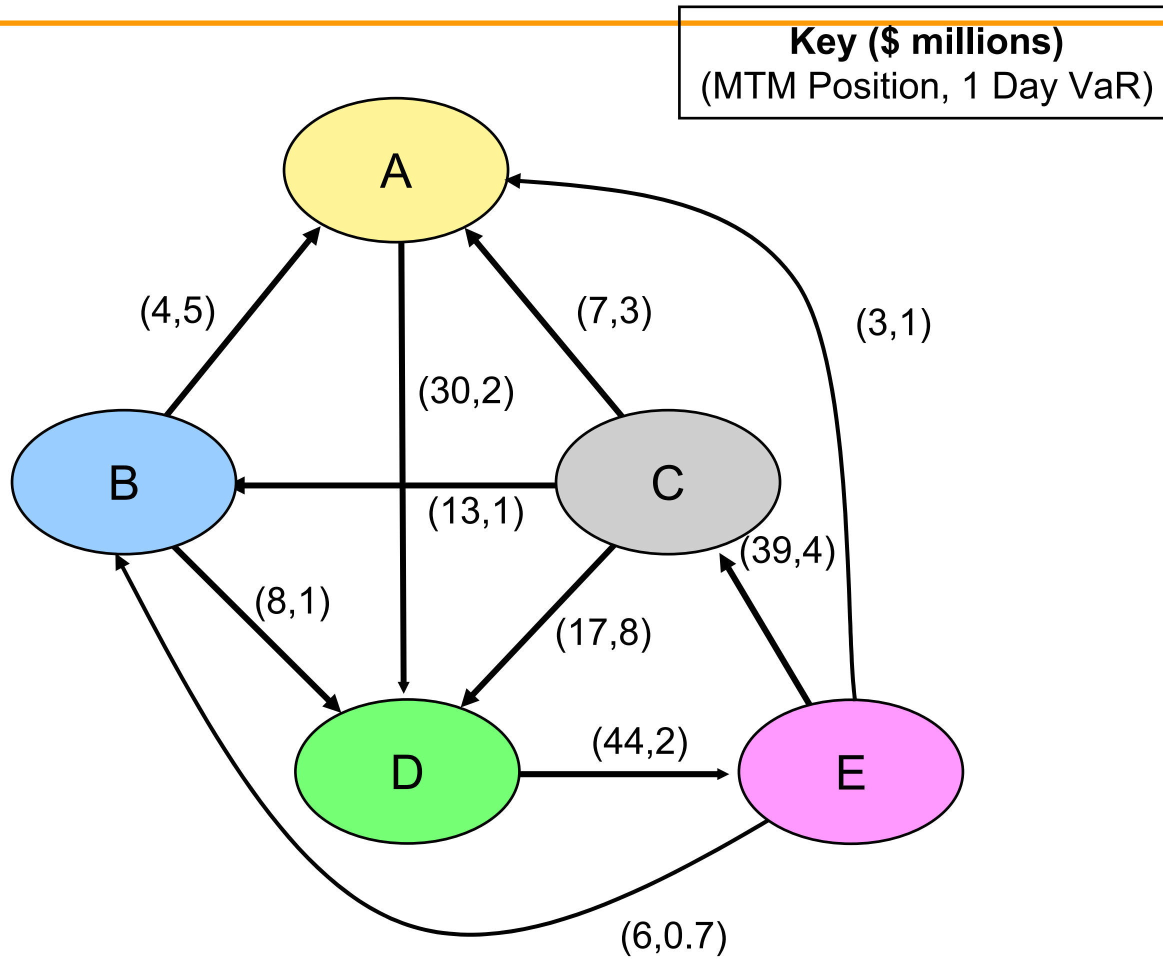
- **Phase I working groups and white papers**
  - Risk Valuation and Metrics
  - Credit Risk Management
  - Governance
  - Energy Trading and Marketing Disclosures
- **Phase II working groups and white papers**
  - Market Price Indices
  - Capital Adequacy

Tractebel Electricity & Gas International

Example: Benefits of Multilateral Netting

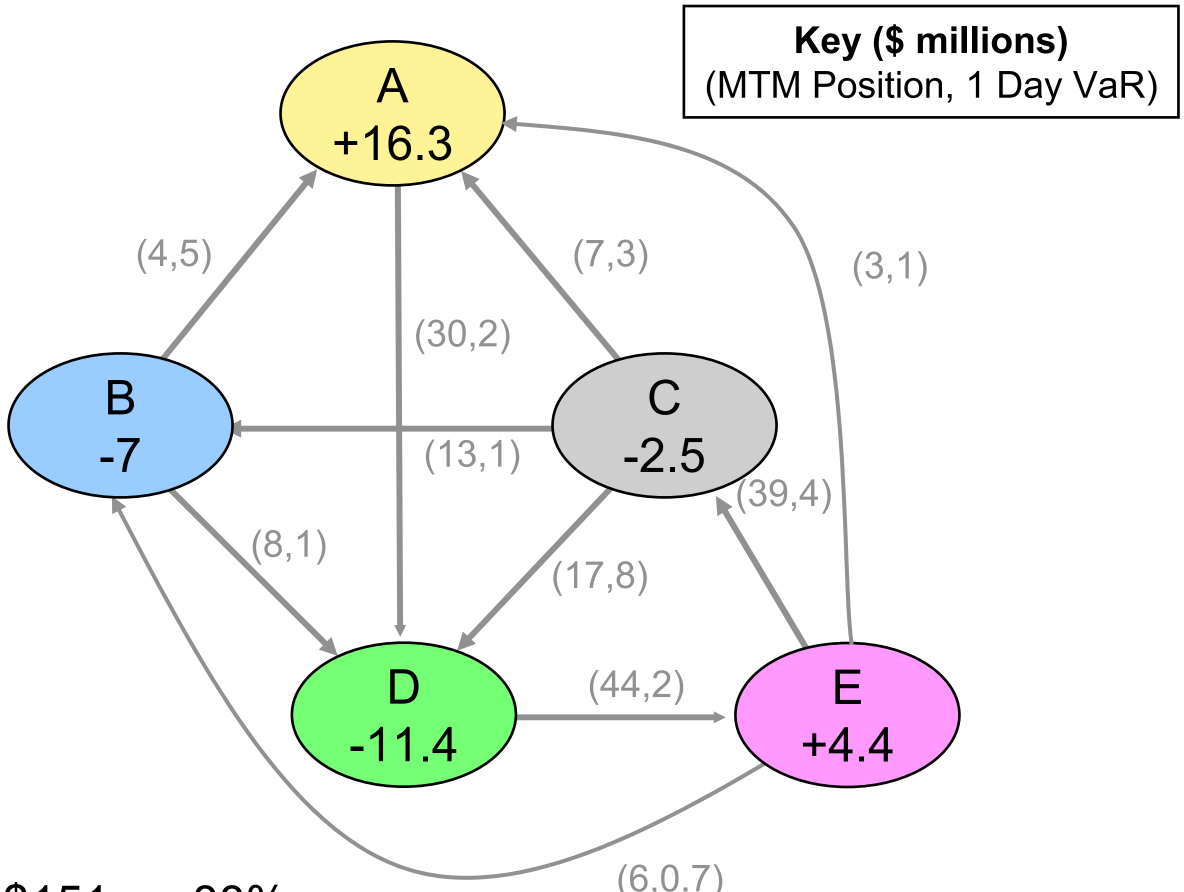
Without multilateral netting, the total guaranty (credit) exposure is $172 MM.

Guaranty Exposure ($ millions)	
A	$30
B	$12
C	$37
D	$44
E	$49
Total	$172



In this case, multilateral netting reduces the guaranty (credit) exposure by 88%.

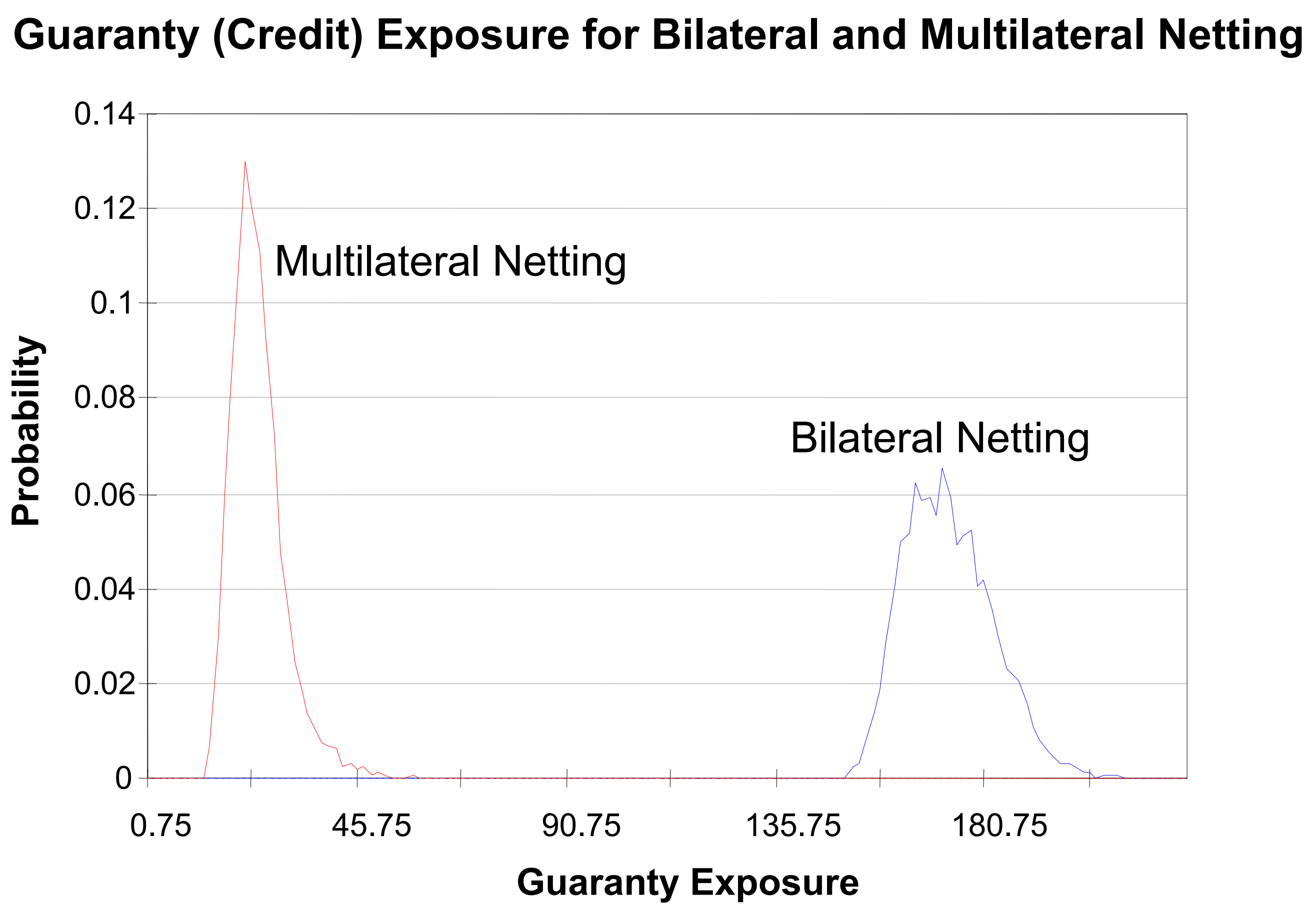
Guaranty Exposure ($ millions)	
A	$16.3
B	-$6.9
C	-$2.5
D	-$11.4
E	$4.4
Total	$20.7



Reduction $172 - $20.7 =$151, or 88%.

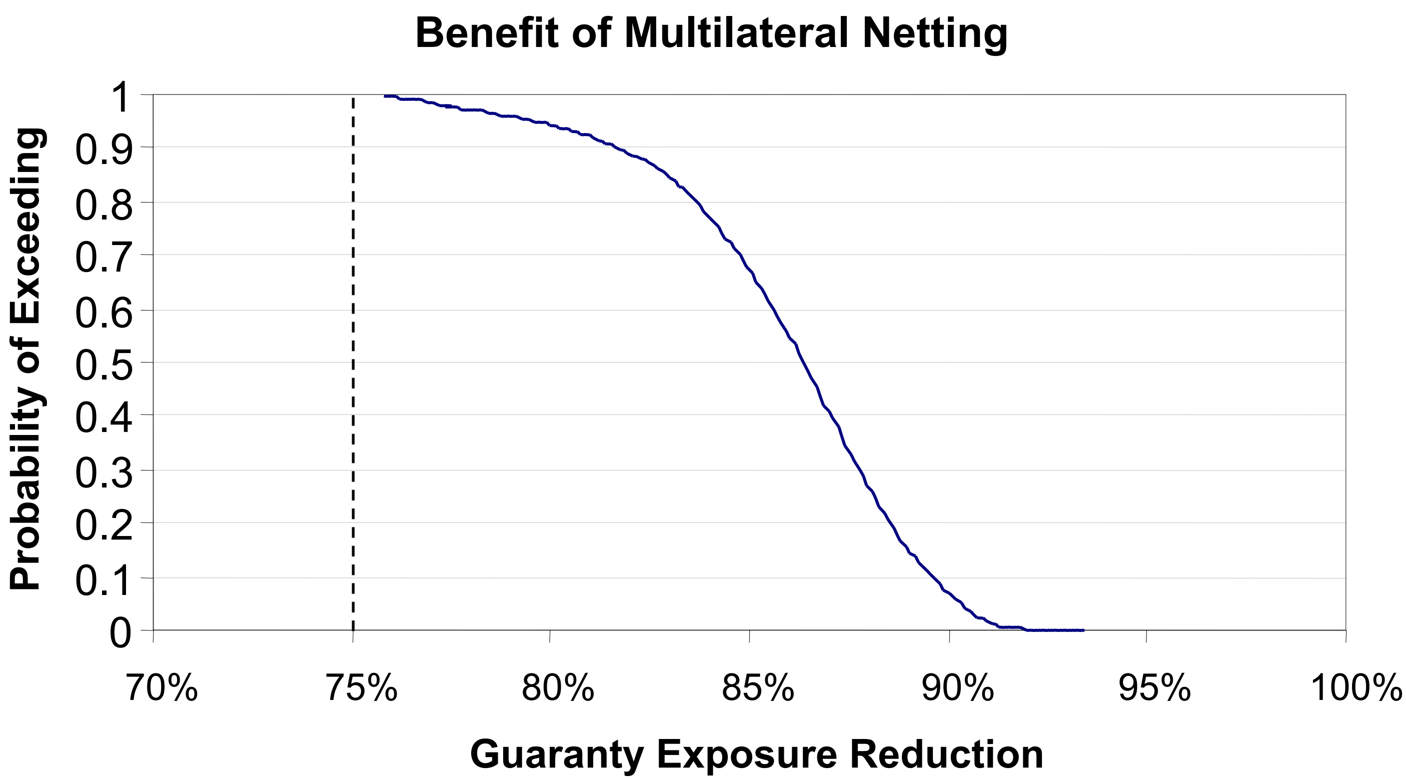
How well might the netting pool perform over a wide range of MTM scenarios?

Multilateral netting significantly reduces guaranty (credit) exposure over a wide range of scenarios.



Multilateral netting reduces the average exposure, as well as the variance in the exposure.

The need for credit risk capital is reduced according to the Tractebel simulation by at least 75%



The Role of the Regulator

- Assure that clearing solutions are adequately capitalized and that their risk structure is transparent to all market participants
  - Adequacy of financial safeguards is critical as credit risk becomes concentrated within the clearinghouse – failure is not an option
  - Market participants need to be fully and openly informed about the legal structure of the mechanisms protecting them
- Assure the broadest possible access to clearing solutions
  - Increases number of market participants, market competitiveness, and liquidity
- Assure reasonable pricing for clearing services offered
  - Clearinghouses entail an element of natural monopoly in that the benefits scale up with market share
  - Non-profit open access structure or regulation of returns on capital are alternatives