

Transmission Workstream

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Energy Business

Award Winner 2005

Energy Exchange
of the Year

apx Group

**A VITAL LINK IN
ENERGY TRADING**

Regulation: 1999

- Transco Licence required appointment of a market operator
- Network Code identifies operator by reference to contract
- Appointment Contract placed with EnMO (now APX Gas)
- Contract required FSA exemption initially
- Exemption achieved through Designation process
- No financial resources requirement
- Contract required EnMO to consider FSA authorisation

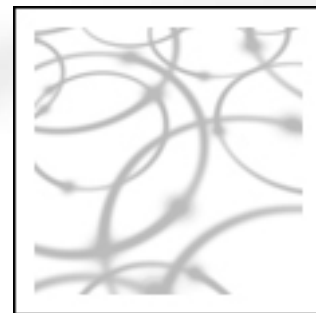


- Four primary means to a credit limit
 - long term cash deposit
 - standby letter of credit
 - own rating (backed by credit insurance)
 - parent rating (backed by guarantee and credit insurance)
- 1999: minimum own/parent rating BBB
- 2001+: Credit “events” changed risk climate
- Progressive increase in minimum rating for new/revised credit to AA-
- Emerging view that full collateralisation was the endpoint



Regulation: 2007

- MiFID (successor to ISD) being developed for November 2007 implementation
- Largely consistent with current FSA practice
- Rules for determining whether a product is an investment are expected to change
- Currently a product delivered within 7 days is not an investment
- Outside that window there are more subjective tests
- MiFID is expected to reduce the window to 2 business days
- Subjective tests not yet clear
- Balance of probability is that some APX products, including OCM locational strips, will be investments



Decision path on regulation and credit

- APX Gas needs FSA authorisation
- Financial resources requirement then affects whole business
- Unless “appropriate collateral” in place, counterparty risk capital must be held for the whole exposure to each Member
- As things stood in the summer, the capital requirement for the OCM alone would have exceeded £25 million
- Time to make the final step to collateralise the credit limits
- Cash and standby letters of credit



Steps taken

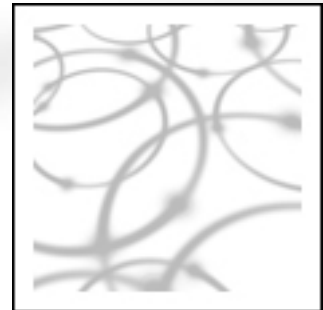
- Market Rules were changed from 1 September to reflect credit approach and improve certainty of full and timely settlement
- Collateral in place for all Members except Transco NTS at 30 September
- FSA authorisation application in progress

- Other changes
 - Single membership for its UK gas and power products
 - Single collateral pool, with ability to net gas and power positions
 - Common trading platform



Today's issue

- Transco NTS costs of collateral



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