

Pioneers

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pioneers credit risk



Credit risk: NECC

★ Recent strides in clearing have undoubtedly brought more players into the energy markets. Most initiatives focus on pre-delivery market risk, yet there is often two to four times as much collateral or risk tied up in post-delivery as there is in mark-to-market risk.

In an attempt to address this, John Flory, president of North American Energy Credit and Clearing (NECC), and George Sladoje, its chief executive, have worked with their hand-picked team of energy and financial experts for almost three years to create a comprehensive solution that covers pre- and post-delivery risk.

It was no easy task. Flory, who grew up in the power industry before joining the California Power Exchange and Sladoje, former chief executive of the California Power Exchange and executive vice-president at the Chicago Board of Trade and the Chicago Stock Exchange, were developing a predecessor concept in California in 2000.

The events of the California power crisis overtook them. It was a case of “the floods coming before the ark was built”, remembers Flory.

However, they learnt much from the crisis, he says. “Once you’ve lived through a tail risk event you learn things that can be applied to many situations.”

NECC consulted all types of market participants, from merchant utilities to grid operators and financial institutions, when developing its services. NECC, which offers its over-the-counter services through the Intercontinental Exchange, provides portfolio-wide credit protection and netting for EEI and NAESB contracts, from trade capture through delivery and settlement, tailored “to accommodate the unique aspects of physical energy markets”.

The first transactions took place in June 2005, and there are now 20 companies actively working to come on line in the first quarter of 2006, Flory says. To date some 50 firms have expressed an interest, he notes. “We expect 2006 to be a good year for this credit solution.”

While Sladoje provides the pedigree from the exchange world, he says that Flory is the “visionary” who sees how to adapt conventional credit and clearing practices to the physical energy market. **ER**