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## NECC Inks Deal With CSFB

### Good News For All You Physical Players Out There.

As we reported last week, the North American Energy Credit and Clearing Corp. (NECC) is about to gain the critical mass necessary to make its physical clearing service a recognized fixture in the marketplace. The company is still ironing out details, but one key piece of unfinished business was completed this week: The company announced it had finally inked a deal with CSFB to serve as the NECC's main financial backstop. CSFB will be providing lines of credit against clearing participants that NECC can then draw on.

According to company principal Becky Kilbourne, "one of the issues with clearing that is different from the bilateral markets is that with a clearing model, you want to make sure you secure every position. Among investment-grade entities, many have free lines of credit or unsecured credit with their bilateral trading partners. The CSFB instrument comes into play so that they can provide the security behind each transaction of these investment-grade entities at a very low cost. Essentially, it's a great way to take the risk out of the energy markets and put it into the broader Wall Street credit derivative markets."

The cost of this, under the NECC model, initially will be covered under the member transaction fee structure. But eventually, Kilbourne says, "we have a scenario where sellers can opt to cash out on a weekly basis during the delivery month, rather than waiting until the month after delivery to receive their payments. To the extent they go for this option, they will be paying the finance cost for accelerated payments, and this will make available these lines of credit at little or no cost to investment-grade entities."

Technically, NECC's settlement cycle is a little different than the standard EEI model, which settles a monthly contract on the 25th of the following month. The NECC cycle settles in three equal payments over the first three weeks of the following month, which facilitates bankruptcy protection for spot deliveries.

Where CSFB will provide the credit lines against investment-grade companies that clear deals through NECC, AON will provide insurance products for smaller entities where there is no active credit derivatives market.

"What we want to see is NECC, as a counterparty, look like an A+ or better-rated entity, which will be backed by CSFB, the AON insurance products or cash collateral that participants post," she says.

The other cool thing about this NECC gig: no investment of any kind is required up front. This is a key little factoid in the nascent physical clearing business. Remember past clearing service wannabees (who never saw the light of day) like NexClear and EnergyClear? Each required significant investment up front to play, on top of transaction fees. Kilbourne says NECC's services are strictly transaction-fee based "and we have a great promotion going on right now to build liquidity – no fees for the first month." She says certain companies may qualify for a free line of credit for up to six months.

*For more information, go to [necclear.com](http://necclear.com) or contact Kilbourne directly at [bkilbourne@necclear.com](mailto:bkilbourne@necclear.com).*