

## ***Joint Association Letter Regarding the OTC Derivatives Issue***

July 10, 2009

Dear Senator:

The undersigned energy supplier and consumer associations represent all the major segments of the electric power and natural gas industries serving virtually all of the consumers in the United States. We are writing to express our concern with certain aspects of proposals to address oversight and transparency of over-the-counter (OTC) energy markets. While we support the goals of the Administration and the Congress to improve transparency and stability in OTC derivatives markets and to prevent excessive speculation, it is essential that policy makers preserve the ability of companies to access critical OTC energy derivatives products and OTC energy commodities markets. We rely on these products and markets to manage risks to help stabilize and keep energy costs low for consumers.

The members of the associations represented on this letter use the OTC markets to hedge a variety of risks associated with energy production and fuel costs. We use OTC contracts to help insulate our business and customers from excessive price volatility.

Specifically, we are concerned with proposals to impose mandatory clearing of all OTC transactions, as well as requirements to force OTC derivative transactions to be moved onto an exchange. We believe that such proposals would significantly increase costs for companies seeking to hedge risks through OTC products, as well as greatly limit, or eliminate altogether, needed customized products used for risk management for the following reasons:

- The high cash margin requirements of a clearinghouse or an exchange would significantly increase transaction costs, and tie up needed cash at a time when the cost of capital is high, access to capital markets is uncertain, and our industries need to invest billions in new energy infrastructure.
- At the same time, since clearinghouses and exchanges require a high level of standardization and liquidity in the derivatives and commodities products traded, we believe that such proposals would greatly reduce the ability of companies to find the customized derivative products they need to manage their risks. For example, in the case of electricity, the prerequisites for standardized and centralized clearing are missing, since its unique physical nature precludes significant storage and requires that it be consumed when generated in hundreds of physical markets.

Ultimately these increased costs and risks will be borne by all consumers. We believe that there are far better ways to accomplish the goals of greater transparency and effective regulatory oversight of OTC energy derivatives and commodities markets without mandatory clearing or forcing these products to be moved onto an exchange. We would welcome the opportunity to discuss these issues with you.

### List of supporting associations:

American Gas Association	Interstate Natural Gas Association of America
America's Natural Gas Alliance	Large Public Power Council
American Exploration & Production Council	National Association of Manufacturers
American Public Gas Association	Natural Gas Supply Association
American Public Power Association	National Rural Electric Cooperative Association
Edison Electric Institute	US Chamber of Commerce
Electric Power Supply Association	US Oil & Gas Association
Independent Petroleum Association of America	