

TO: Gas Industry Standards Board
FROM: Chris Papousek, President
Confirmation Clearing Corporation
RE: Comments to Wholesale Market Electricity Standards Organization
DATE: December 3, 2001

We would like to recommend that GISB focus on deal confirmations related to physical and financial over-the-counter transactions, as GISB creates an organizational framework for establishing wholesale electric standards. In an industry that is characterized by large notional deal values, high transaction volumes, extreme volatility, and thin margins it would be advantageous for the industry to adopt certain new practices and technologies that facilitate straight-through processing. By automating the confirmation process, more deals can be done in less time for less cost with dramatically fewer errors as compared to conventional paper/fax/voice confirmations. Operational risk is mitigated, favorably impacting market, credit, legal, and settlement risk. This process ensures that each participant shares the confirmation responsibility equally. All these benefits lead to greater stability across the entire energy market.

Under the current process and pursuant to base contracts that govern the confirmation procedure, trade attributes are incorporated into a paper confirmation by a sending party and faxed to a receiving party for review. Receiving party confirmation staff compare the fax trade details to its own trade details as contained in the receiving party's deal capture system. Once a deal is deemed matched, the confirmation is signed and returned to the sending party. Any errors, if found, are resolved during this stage. This process is slow, cumbersome, error prone, and ripe for automation.

Rather than requiring trade details be put on paper, e-confirmations allow data to be organized in standardized electronic files by both parties to a transaction. Once in electronic form, the data can be sent over a secure channel to a processing intermediary in real time. A deal matching algorithm compares the trades, just a human would but without susceptibility to error. The results of the matching program are then posted to a secure website or other communication medium for participant review. Under this event-driven process, participants can spend their time immediately rectifying errors rather than trying to find them.

Confirmation automation requires a reliable, trusted and independent third party service provider to match trade details expeditiously and accurately. The use of computer software programs that process transactions without human intervention is also a requisite. A standardized deal data structure (ideally in XML) must be freely available to all participants allowing for data validation prior to data transmission. Data messaging protocols should be flexible to accommodate varying levels of participant sophistication.

There are a growing number of providers who offer e-confirmation processing services. It is hoped that the organizations such as GISB will endorse the use of such services.

Adopting e-confirmations is necessary if the industry ever wants to add full deal clearing services to the OTC landscape

We applaud GISB for taking the initiative to facilitate a debate that impacts the future of the industry. We are confident that e-confirmations will soon become industry best practice and we look forward to working with GISB and other industry organizations to promote standardization in this area.