

Electronic trading has enhanced the energy marketplace. After more than three years of preparation, the decision to transition entirely to an electronic market and close the open-outcry floor at the London-based ICE Futures exchange, formerly known as the International Petroleum Exchange (IPE), was challenging and questioned by many market observers. The results, however, speak for themselves. Following the transition from floor to screen trading in April, ICE Futures reported its eighth consecutive record volume year in 2005. It is clear that with the distribution of its trading screen around the globe—virtually around the clock—more companies are accessing the energy markets via the ICE platform as a result of the accessibility, speed and transparency electronic trading provides. I believe the energy industry has been a beneficiary.

OTC CLEARING

The addition of clearing to the OTC markets has served North America's natural gas and power markets well. OTC clearing was a little known concept when ICE first brought the idea to its natural gas market participants in 2002. Since that time, OTC clearing has brought prudent risk management tools, as well as liquid markets, to a previously fragmented and credit-restricted marketplace. The industry has experienced a healthy recovery since the collapse of Enron, and the credit crisis in the bilateral markets has in many cases been ameliorated by the advent of OTC clearing.

In 2005, ICE experienced strong growth in its OTC business, which derives largely from its natural gas and power markets. Average daily commissions rose nearly 80 percent over the levels achieved in 2004. I attribute much of this growth to strong trading activity in new and existing cleared products, as well as the addition of new market participants, which also brought increased liquidity.

ENERGY COMMODITIES

Energy commodities established their relevance as an asset class, much like equities or fixed income products, to portfolio managers and new energy market participants. Energy commodities historically received a limited allocation within a typical institutional investment portfolio. Today, energy is an institutional asset class that portfolio managers

...the energy marketplace
will continue to evolve with new
risk management solutions...

employ for both return and hedging. In addition, the low or negative correlation to price movements in other asset classes makes energy an ideal choice for portfolio diversification. Finally, from a total return perspective, the absolute returns in energy have outperformed equity and fixed income returns since the beginning of 2000.

I would argue that the growing diversity of energy market participants has strengthened the market by increasing liquidity and reducing the concentration of larger market participants, as well as by driving new product development and services to modernize the information systems across the natural gas, power and oil spectrum.

ICE'S ROLE

Through electronic trading, ICE has played a key role in leveling the playing field and improving the industry's access to price discovery, without presenting a barrier to entry in the form of membership fees. ICE provides access to the complete depth of market and live-deal ticker to enable participants, for the first time in the energy futures and OTC markets, to judge the markets for themselves in real time. ICE Futures' successful launch of the ICE West Texas Intermediate (WTI) crude futures contract on February 3 is illustrative of its responsiveness to customer demand for new, electronically traded energy contracts.

The current geopolitical landscape makes today's energy markets more relevant than ever. Participants in the power, natural gas and oil markets can rest assured that the energy marketplace will continue to evolve with new risk management solutions as these markets continue to mature. Progress is an important theme, and while great progress has been made in the past decade, the opportunity for continued transformation in our markets is greater than ever. ☺



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