

## From today's NGI Load two

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- *To:* John Lavorato <john.lavorato@cw-test.com>
  - *Subject:* From today's NGI Load two
  - *From:* Greg Whalley </O=CW-TEST/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=GREG.WHALLEY>
  - *Date:* Sat, 04 Apr 2009 16:43:58 +0000
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----- Forwarded by Greg Whalley/HOU/ECT on 09/13/2000 10:08

AM -----

Andy Zipper@ENRON

09/13/2000 09:24 AM

To: Greg Whalley/HOU/ECT@ECT

cc:

Subject: From today's NGI Load two

I think we should discuss our response to this.

----- Forwarded by Andy Zipper/Corp/Enron on 09/13/2000

09:16 AM -----

From: Bob Shults@ECT on 09/13/2000 09:03 AM

To: Andy Zipper/Corp/Enron@Enron, Louise Kitchen

cc:

Subject: From today's NGI Load two

FYI

----- Forwarded by Bob Shults/HOU/ECT on 09/13/2000 08:57 AM

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From: Rahil Jafry

09/13/2000 08:57 AM

To: Bob Shults/HOU/ECT@ECT, Daniel Diamond/HOU/ECT@ECT

cc:

Subject: From today's NGI Load two

EnronOnline Market Power Under Fire

The simmering pot of market concerns regarding the market power of EnronOnline finally boiled over in public yesterday at Chicago's LDC Forum. A representative from EnronOnline had to fend off verbal attacks from competitors and from the audience, who criticized the system as giving Enron the ability to manipulate prices and provide it with an unfair advantage over competitors.

Scott Coleman, an official at Altra Energy Technologies, said proprietary systems like EnronOnline, and systems being developed by a consortium of large market players, represent a danger to the health of the energy industry because of their current or potential market power. Altrade operates its own independent online exchange that is one of Enron's biggest electronic competitors. It differs from EnronOnline in that various buyers and sellers trade with each other with Altrade serving to clear the transactions. On EnronOnline, Enron posts bid and asked prices and is a party in every

transaction.

The proprietary EnronOnline trading system has been accused of market manipulation mainly because of its tremendous growth since going live last November and because of the market strength of its operator, Enron Corp. Enron is the energy industry's largest marketer/trader/risk manager and one of the largest natural gas pipeline operators. About 60% of its marketing and trading business today is done over the EnronOnline system. Critics charged that EnronOnline provides a tremendous advantage to its parent because all of the transaction data is thrown into a historical database that is available only to Enron.

EnronOnline has handled more than 280,000 transactions worth \$140 billion since going live. The proprietary system handles about 2,000 transactions every day with a value estimated at \$1 billion, and most of its online business is natural gas and power sales and purchases.

Why has the system been so successful? It's free, easy to use, low risk and there is a tight bid-ask spread, both EnronOnline and its competitors note. There's no special hardware required; everything is on the web and a transaction is as simple as a couple clicks of the mouse. It also provides a broad variety of information, including prices on 1,000 products, and is supported by the largest energy marketing firm. Although there are many other systems out there, few if any have the content, ease of use and price discovery of EnronOnline.

Critics claimed that power enables EnronOnline to "soak up liquidity" in the marketplace, and in doing so give itself a tremendous advantage over its competitors. With each trade, Enron gains a little bit more information about its competitors' positions in the market.

"Over the long term I think the market will always correct itself," said Altra's Coleman. "But in the short term, I think if any one player has enough of a presence in any one market they can cause prices to move in one direction or another."

EnronOnline Director Bob Shults said the company is simply "providing a service for our customers, particularly a bid and ask. But I don't think Enron has the ability to move markets. We are just putting a bid and ask out there, and if people want to buy at our prices, then fine. If people want to sell at our prices, fine then sell it. I don't think we have the market manipulation capability people suspect... We are not bigger than the marketplace."

When asked specifically about historical data collected on those who use the system, Shults denied the company studies the buying and selling patterns of its competitors with an eye toward manipulation --- sort of the "Big Brother" of the energy marketplace.

"The historical information is not available," EnronOnline's Shults admitted. "We just started calculating the indices and price reports... We are now providing that information to the market so everyone else has that information as well." He said Enron does not retain information about those who use its system.

Shults did, however, warn that the system will make the U.S. energy market much more closely connected to the global marketplace in the future. With increasing demand for LNG imports and rapid price discovery of worldwide commodities on EnronOnline, for example, market activity in Africa and the Far East could have a more immediate impact on domestic markets.

Quoting analysis conducted by Forester Research Inc., Shults also predicted electronic exchange revenues could grow from \$500 billion this year to more than \$3 trillion in 2004-2005.

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