

Michael Prokop of Amerex Brokers LLC testifies before the Ohio Public Utilities Commission

Michael Prokop, Executive Vice President, Amerex Brokers LLC testified before the Ohio Public Utilities Commission on October 24, 2007. Amerex was called upon to comment on the state of the forward electricity market in Ohio. This was in regards to hearings on Ohio State Senate Bill 221. Mr. Prokop did confirm that forward electricity markets do exist and are actively traded. Please find his full testimony below.

Testimony of Michael C. Prokop

Executive Vice President, Amerex Brokers LLC

before the Senate Energy and Public Utilities Committee

October 24, 2007

Good morning. My name is Michael Prokop and I am an Executive Vice President with Amerex Brokers LLC which is based in the Houston, Texas metropolitan area. Today I would like to briefly address two important issues. Perhaps contrary to prior representations wholesale forward electricity markets do exist and the wholesale prices of electricity are readily available.

I have been responsible for the daily operations of the Amerex market data division since 2001 and I have been in the energy brokerage business since 1986. Amerex is a wholly owned subsidiary of GFI Group Inc., one of the world's largest inter-dealer brokers of electricity, natural gas, environmental credits, oil products, credit instruments, foreign exchange, metals, and interest rate products.

Amerex is in the business of matching buyers and sellers in the forward electricity market and I can confirm that an active, transparent market exists in the MISO and PJM regions. Amerex is not a consumer or producer of forward electricity; we simply bring buyers and sellers together so that they may manage their electricity price risk. Amerex has been bringing buyers and sellers together since 1978 and with the acquisition of Amerex by the GFI Group in October of 2006, Amerex became a part of a publically traded company with a market cap of nearly \$2.5 Billion. On an average business day Amerex matches buyers and sellers for approximately 10 million megawatt hours of electricity among a North American electricity customer base of over 430 companies that employ in excess of 2100 active traders of electricity. The price at which Amerex is able to bring these buyers and sellers together is negotiated by the buyers and sellers themselves with Amerex serving as a neutral facilitator. Amerex has no interest in the price at which the deal gets done since we are compensated solely on the volume of each transaction.

Amerex facilitates transactions daily at numerous locations or “hubs” in the Midwest. These transactions typically range in time period, or tenor, from the next-day market to as far in the future as the calendar year 2012. The most actively traded hubs in Ohio are AEP-Dayton (“AD-Hub”) and Cinergy (“Cin-Hub”). Since October 2006, Amerex has facilitated 130 transactions at the AD-Hub which totaled over 33 million megawatt hours of electricity; over 500 transactions at Cin-Hub which totaled nearly 100 million megawatt hours of electricity; and in the Western PJM Market, which reaches across Ohio, over 3000 transactions totaling in excess of 700 million megawatt hours of electricity. At one time the Cinergy market was one of the most liquid and transparent hubs in North America. The Rate Stabilization Plans that were enacted in January of 2005 had a chilling effect on wholesale electricity trading at Cin-Hub and while the presence of numerous willing buyers and sellers exist at Cin-Hub today, absent a retail market this wholesale market has remained primarily latent. While I am not an economist, and cannot therefore speak to the criteria an academic would use to gauge the competitiveness of a market, I can affirmatively state that there are dozens of companies buying and selling electricity in the North American forward electricity market every day.

Statements to the effect that the price of electricity in the wholesale market is not observable more than a few days ahead of delivery are simply not true. In my capacity as manager of Amerex’s data business I oversee the licensing of our comprehensive end of day price reports. These reports cover all of the locations and tenors that Amerex brokers throughout North America. The North American electricity price report lists both peak and off-peak prices as far into the future as 2015 and is broken down by tenor into balance of the month, monthly, seasonal, quarterly, and calendar year periods. Virtually every company meaningfully involved in the North American wholesale electrical power markets subscribes to this report. These reports are also used by the New York Mercantile Exchange to help establish closing prices for its energy contracts each day and government agencies such as the Federal Energy Regulatory Commission receive these reports in order to assist in obtaining a more comprehensive view of the wholesale energy markets. Earlier this year the Wharton School of business licensed Amerex data in connection with a research project. In commenting on the event Gary B. Gorton, Robert Morris Professor of Banking; Professor of Finance at the Wharton School said “*We were looking for accurate historical data for natural gas and electricity OTC contracts for research purposes, we were able to find just that at Amerex.*” I have attached an example of a recent North American wholesale electrical power report to my testimony for the Commission to review. Amerex is pleased to offer this information to the Public Utility Commission of Ohio on a regular basis in order to assist it in its duties. Amerex believes that the transparency promoted by these price reports and made available to wholesale and retail entities, utilities, banks, and regulators directly benefit the consumer. To say that one cannot find wholesale electricity prices in the newspaper is simply a statement that one does not know where to look.

In addition to matching wholesale buyers and sellers, Amerex has brokered a number of transactions for retail customers at a multitude of locations throughout the country. I have

attached a press release describing one such transaction with Baylor University in Texas. Although historically such retail transactions have been somewhat infrequent, they are becoming more common as utilities emerge from various transition plans and rate freezes. This trend is very much evidenced by the 10 year fixed price power contracts that Amerex has structured for customers in the North Eastern U.S. such as LifeBridge Medical and McDaniel College as well as similar transactions currently being developed by Amerex for customers in Northern Illinois and elsewhere throughout the country.

In conclusion, forward market electricity prices are readily available for the Ohio market. Wholesale electrical power markets are vibrant and active with a large number of buyers and sellers engaging in a broad range of long-term transactions every day. I would like to thank you Mr. Chairman and distinguished members of this Committee for the time you have given me to speak. I will be happy to take any questions you may have at this time.