

Resolution Recognizing the Important Use of Financial and Physical Mechanisms to Reduce Electricity and Natural Gas Market Volatility

WHEREAS, Wholesale electricity and natural gas markets have recently proven to be highly volatile; and

WHEREAS, Consumers and utilities are impacted by energy market volatility through both high and uncertain prices; and

WHEREAS, The use of financial mechanisms, such as derivatives and insurance products, and the use of physical products such as natural gas storage and the storage of fuels to generate electricity are a component of a comprehensive energy procurement program; and

WHEREAS, Market conditions appear to be poised for some continued degree of volatility; and

WHEREAS, Purchasing financial instruments such as derivatives and insurance to hedge against wholesale price volatility may help to mitigate the effect of market volatility on consumers by providing greater priced predictability but not necessarily at the lowest cost; and

WHEREAS, The National Regulatory Research Institute (NRRI) issued its report on May 2, 2001 entitled, "Use of Hedging By Local Gas Distribution Companies: Basis Considerations and Regulatory Issues" which provides an important perspective on hedging instruments; now therefore be it

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened in its 2001 Summer Committee Meetings in Seattle,

Washington, urges each State commission to explore and examine the potential benefits to consumers and distribution utilities of using financial and physical mechanisms to hedge against market volatility in wholesale electric and gas markets.

Sponsored by the Committees on Consumer Affairs and Telecommunications

Adopted by the NARUC Board of Directors, July 18, 2001.