Seeking Standards Through a Proactive Compliance Initiative

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AGENDA

• Extending a Strong Compliance Culture to Power and Gas Trading
• Building a Strong Trade Compliance Program
• Barriers to Building Strong Trade Compliance
• Proactive Compliance
Compliance programs for IOU’s with Energy Trading look to a strong history of compliance in other parts of the organization

**Extending a Strong Compliance Culture**

- Electric IOU’s have strong compliance cultures, especially those that have nuclear operations
- Compliance has evolved over many years through governance by multiple regulatory bodies and related entities
  - FERC/NERC
  - NRC
  - INPO
  - State PUC’s
- Compliance activities at IOU Trading affiliates evolving to be as intensive as other areas of operations
  - Regulatory requirements continue to develop and grow
    - FERC
    - CFTC
    - ISO’s/RTO’s
    - State PUC’s
  - Size, shape and scope of compliance activities also growing
Building a sustainable Trade Compliance program requires a multi-pronged approach and a strong compliance culture

**Building a Strong Trade Compliance Program**

- **Company’s culture must be steeped in compliance, from CEO on down**
- **Compliance/Legal/Risk must understand the Rules**
  - Multi-functional teams (Legal/Risk/Compliance) read and interpret the rules
  - Translate the rules into plain language for the Business Unit
- **Train the organization on the Rules**
  - Hold trainings with Traders, Desk Managers, Risk Managers etc so everyone understands the application of the rules
- **Assign roles and execute responsibilities**
  - Roles and responsibilities clearly defined across all functions
  - Execution of required tasks tracked by Compliance organization
- **Establish monitoring programs**
  - Compliance/Risk Management/IT implement systematic monitoring
  - Develop real time and ongoing monitoring
- **Compliance monitors for changes in Rules**
- **Iterate on all of the above**
There are interior and exterior barriers to building and sustaining a strong Trade Compliance program

**Barriers to a Strong Trade Compliance Program**

- **Sustainability challenged without a strong internal compliance culture**
  - Easy to let guard down when things are “quiet”
- **Difficult to understand, interpret and implement vague rules**
  - How to develop trainings that take the abstract to the concrete
  - What to monitor for – will you know it when you see it?
- **Challenges in developing a proactive compliance regime**
  - Ground is shifting underfoot constantly
  - Markets evolve and change quickly in response to market and regulatory forces
  - Inertia associated with large organizations lead to lags in response times
Companies with strong compliance cultures shoot for proactive compliance programs

Proactive Compliance

• Proactive Approach
  – Get more guidance from FERC on allowed/forbidden practices
    ▶ Build a compliance program based on guidance from FERC and interpretation of the rules
  – Have a standard approach(es) for compliance for all different trading strategies so that efficiency and clarity is gained

• Reactive Approach
  – Build/re-vamp compliance in response to each case’s particulars as they come out/if they come out
    ▶ Example: Constellation – develop controls in response to FERC requirements for Constellation
    ▶ Time consuming and inefficient way to structure/evolve an effective compliance program