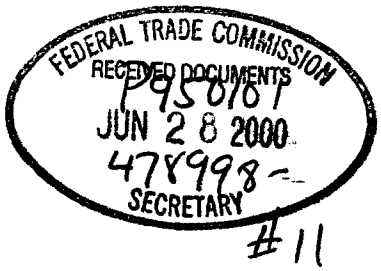

June 28,2000

Mr. Donald S. Clark
Office of The Secretary
Federal Trade Commission
600 Pennsylvania Ave. N. W.
Washington, D.C. 20580

Ref: Comments Regarding B2B Electronic Marketplaces

Dear Mr. Secretary,

My name is Steve Leahy and I am CEO of NRGline.com a neutral b2b marketplace for oil and petrochemical products trading which has been in operation since January 2000. I am a nineteen year veteran of the oil marketing, supply and trading business and co-principal of The Energy Group, Inc. our conventional phone and fax brokerage business. We provide brokerage and consulting services to the energy trading community particularly with the "major" oil and petrochemical companies.

I am here today to offer our opinions and observations to the commission with respect to issues pertaining to "competition policy" in connection with newly established b2b electronic marketplaces.

The internet and associated emerging technology has created an extraordinary business opportunity to transact business on the world wide web. There are many potential advantages with this new medium which by now are well documented including cost savings, increased efficiency, streamlining operations and greater controls. There are however certain issues which must be carefully considered not the least of which are certain anti-trust issues. This paper will examine firstly the nature of the oil business and then how this new digital technology will affect our business and what the future may have in store for our oil industry- truly one of the largest and most important to the every day American.

INDUSTRY OVERVIEW

The oil business is one of the most competitive businesses in the world- OPEC notwithstanding). Deals can be won or lost over a fraction of a penny per gallon at all levels in the distribution chain. Billions of gallons per day are bought and sold in the global marketplace as oil seeks it's most economic way towards the consumers tank. Oil greases as well as fuels the world economy and is truly the life blood of progress. One

need only survey retail gasoline prices to realize the competitive nature of the business. One penny per gallon can drastically impact the amount of gasoline sold at a particular retail station.

To examine the impact of digital technology on supply and trading one must first work back from the retail gasoline tank through the distribution channel back to the refining and crude processing point. Crude oil is shipped via waterborne vessel or pipeline to the refinery where it is processed into various products including gasoline, heating oil and jet fuel. These products then get distributed to the market via the same physical means (pipelines, vessel s and trucks) but get "traded" (bought, sold and exchanged) through the secondary third-party market to meet the refiner's economic optimization. Commonly called the "spot market" this huge resale market is where millions of domestic (U.S.) barrels of oil products trade hands among industry producers, consumers, hedgers and speculators before finding it's way to end-use markets.

THE DIGITAL ARRIVES

The majority of this "spot" business is conducted through various physical brokers who's job is to match buyers and sellers and collect a small commission- never taking title. Now the advent of digital technology has made it possible to transact this business function on the internet in secured "marketplaces" where buyers and sellers can "post" the trade of choice with hopes that another industry participant will wish to be counterparty and, if successful, deals are completed. These exchanges offer several benefits including lower commission rates, anonymity, one-stop shopping and electronic tie-ins to administrative and operations functions.
No fewer than 40 different" exchanges" have been announced since January 2000 with the bulk of announcements being in March. So far there are only a couple of exchanges running with the vast majority being a "battle of the press release" and "vaporware". There is little market liquidity so far and volumes are very light.

THE BENEFITS OF DIGITAL – ENERGY TRADING

One can assume that the huge wave of announcements in the energy business can only be the result of one unmistakable fact: digital has a very good application in the energy trading sector given the dynamics of oil supply and trading. Oil is fungible (standardized) in it's different grades and trades large volumes each day making it a good candidate to be successfully traded electronically.

In a larger scope the advent of internet capabililities will be a real and lasting benefit to any energy company wishing to streamline it's own internal operations. The effective use of digital technology as an intranet vehicle will add value in communications and other areas while posing no threat at all to the normal course of external free market efficiency.

OWNERSHIP

The problems can arise when industry participants (principals) own and operate sites designed to trade as "neutral marketplaces". There is a fundamental problem with direct ownership of websites by industry trading principals for several reasons to be discussed later but first it may be good to examine in which cases use of a corporate owned website poses no conflict:

A. When the company seeks to streamline procurement and improve efficiency and communication **within the organization or on an "intranet" basis only**.

B. A company seeks trade through the website but the market knows that the company will always be a counterpart to the transaction. In other words, **the host company will always be either a buyer or seller to each transaction therefore making it a proprietary and a non third party system.**

C. A third-party website not owned by industry trading participants directly or in such a small way as to become a form of cooperative but controlled, managed and administrated by a separate group of brokers who by definition have no interest other than matching buyers and sellers.

A website for trading in any other structure that calls itself "neutral and third-party" must be examined thoroughly and may pose some risk to free trade.

PRESENT AND FUTURE OF DIGITAL ENERGY TRADING- Q&A

To date, the vast majority of announced as well as existing websites for b2b trading of energy products are owned or plan to be owned directly or indirectly in some part by industry trading participants with the other equity interests shared by venture capital firms and technology partners. The strategy for being industry owned was two-fold: it will attract crucial early stage liquidity and secondly the exchange of technology would further assist oil companies in efforts to streamline their own operations.

The customary form of compensation to digital marketplace owners is the collection of a brokerage fee which is a small percentage of the transaction amount. There are also other potential ways of collecting fees including "read-only" access, database collection/analysis and the newly created solutions for "mid and back-office".

The rules and policies of the petroleum related websites are largely developed by the individual companies themselves although this business is so new that sites are either not yet operational or policy has not yet been formulated or implemented. Since bulk petroleum transactions involve million of dollars credit/credit screening is an important issue. Most systems have/will have a screening procedure allowing a principal to "disable" a potential counter-party from a list of qualified trading partners prior to engaging the system. This will secure the credit process as well as eliminate unwanted counter-parties. This is another reason to have a good system administrator to insure the system has qualified counter-parties but yet provides equal access. The over-the counter markets (OTC) are largely unregulated as many (including this author) think they should be. The winning sites of the future will likely be the ones with the liquidity, ease of use and benefits which the traders hold valuable- including the feeling of being on equal ground. It is further likely that several sites will be competing with each other and that

technology will be able to "link" them together so the trader will simply key the preferred trade and the inter -connected system will "search" for the optimal transaction.

SUMMARY AND CONCLUSIONS

The advent of the world wide web has created an extraordinary opportunity for the oil industry and the digital marketplace will certainly become a very significant part of the business over time.
The key elements to a successful third party e-hub or "vortex" will be without question transparency and liquidity. True transparency – a market for all qualified players not only to see but to engage in – can only result from fundamental neutrality. How and to what extent this is achieved will be subject to debate but over time a consensus will eventually emerge which will address these concerns and answer some of these questions.

The best advise for the FTC would be to keep a watchful eye on this emerging technology as it relates to the oil business but let the industry have a chance to consolidate and formulate it's own resolution to some of these conflicts. Let the free market determine as much as possible for as the Jaycee creed states "economic freedom can best be won by free people through free enterprise".