

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Natural Gas Price Formation

Docket No. AD03-7-001

**JOINT RECOMMENDATION FROM INDUSTRY STAKEHOLDERS
TO REFORM GAS PRICE REPORTING AND INDEX PUBLICATION**

In response to the Federal Energy Regulatory Commission's ("Commission") workshops on natural gas price indices, a group of industry stakeholders¹ has worked together to—

- Discuss the necessary short- and long-term solutions on how to improve reported natural gas price indices;
- Identify areas of agreement and reach consensus on how to best address and resolve the price index issues;
- Identify areas where consensus cannot be reached within the industry; and,
- Share with the Commission the results of our meeting.

Principles Shaping Areas of Consensus

Through several separate papers, the Commission's staff has articulated five criteria for index formation to represent an accurate reflection of the market. These criteria served as a basis for the industry discussions and consensus building process:

- Confidence in the accuracy of price reporting;
- Adequacy of coverage;
- Information about market liquidity;
- Verifiability;
- Confidentiality.

The following consensus items support the five criteria stated by Commission staff.

¹ The industry stakeholders meeting in Kennesaw, Georgia, on June 17, 2003 included individuals representing the interests of the American Gas Association, the Coalition for Energy Market Integrity and Transparency,, the American Public Gas Association, the American Public Power Association, the National Rural Electric Cooperative Association, the American Forest & Paper Association, the Committee of Chief Risk Officers, the Electric Power Supply Association, the Independent Petroleum Association of America, the Interstate Natural Gas Association of America, the Natural Gas Supply Association, and the Process Gas Consumers Group.

Items on Which Stakeholders Reached Consensus

The industry stakeholders were able to reach consensus on the following key matters:

1. The data collector shall—
 - a. Adopt a corporate code of ethics that is available to the public;
 - b. Collect and disseminate natural gas pricing data in a timely manner;
 - c. Disclose its price collection and disseminating methodology, which, at a minimum should include only reported and verified fixed price transactions for the day ahead or month ahead markets. No assessments are to be used. Fixed price transactions are transactions where the specific price is known prior to delivery;
 - d. Verify price data from data providers through various methods such as matching buys and sells and following up with data providers on information discrepancies. As part of this verification process, data providers agree to provide counterparty information if requested, and legally able to do so, in the specific context of a verification.
 - e. Provide the following information for each pricing location for the day ahead or month ahead market:
 - i. Total volume (MMBtu per day);
 - ii. Number of transactions;
 - iii. Number of counterparties;
 - iv. Range of prices (high/low); and,
 - v. Weighted average price.
 - f. Have sufficient monitoring and surveillance systems in place to identify in a timely manner any activity that could be the result of an attempt to manipulate natural gas price indices. If such activity is detected, the data collector would contact the data provider;
 - i. If it is clear to the data collector that the submission was an unintentional error, the data submission would be amended.
 - ii. If it is not clear whether or not the erroneous submission was unintentional, then the data collector would notify the Commission, or the relevant Federal regulatory agency, with the data provider's knowledge.
 - g. Submit to an annual certified audit to ensure compliance with all protocol elements; and,
 - h. Provide all data to the Commission, or the relevant Federal regulatory agency, upon its request for investigative purposes with such data kept completely confidential.

2. The data providers shall—

- a. Adopt a corporate code of ethics that is available to the public;
- b. Ensure that trading data are reported by someone other than a trader with a personal financial interest in the trade itself;
- c. Provide data on all “reportable” transactions;
 - i. “Reportable” trades are bilateral, arms-length transactions between non-affiliated companies in the physical (cash) markets; and,
 - ii. “Reportable” trades do not include financial hedges, financial transactions or exchanges of gas.
- d. Provide each transaction separately. Elements of each transaction reported are—
 - i. Price;
 - ii. Volume;
 - iii. Buy/sell indicator;
 - iv. Delivery/receipt location;
 - v. Transaction date; and,
 - vi. Term (next day or next month).
- e. Submit to an annual certified audit of the process used to report transactions.

3. The Commission, or the relevant Federal regulatory agency, shall—

- a. Perform a surveillance function;
- b. Hold hearings and conferences on market performance; and
- c. Investigate as necessary.

Items on Which Stakeholders did not Reach Consensus

The industry stakeholders were not able to reach consensus on the following matters:

1. **Data Collection Hubs:** A single data collector and disseminator versus multiple data collectors and disseminators.
2. **Reporting:** Mandatory reporting by all buyers and sellers of natural gas (above a *de minimus* level) versus voluntary reporting.
3. **Verification:** Counterparty information versus other means.

Respectfully submitted,

American Gas Association
Coalition for Energy Market Integrity and Transparency
Committee of Chief Risk Officers
Independent Petroleum Association of America
Interstate Natural Gas Association of America
Natural Gas Supply Association
National Energy Marketers Association
Process Gas Consumers Group