

ORAL COMMENTS PREPARED FOR THE U.S. FERC TECHNICAL
CONFERENCE ON NATURAL GAS AND ELECTRICITY PRICE INDICES
ON BEHALF OF THE NATURAL GAS SUPPLY ASSOCIATION (NGSA)

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Thank you for the opportunity to appear today to address the findings and issues raised by the Commission's recent survey and staff report on natural gas price reporting and the published indices. As a representative for the Natural Gas Supply Association (NGSA), my comments this morning will be limited to the progress that continues in the wholesale natural gas markets with regard to price transparency.

The NGSA represents integrated and independent companies that produce and market natural gas in the United States. Established in 1965, NGSA encourages expanded use of natural gas and supports regulatory and legislative actions that foster competitive markets. According to the Commission staff report, natural gas producers are leading the way in terms of reporting all day-ahead and bid-week natural gas transactions consistent with FERC's policy statement on energy price reporting.

As FERC's recent price-reporting survey demonstrates, there is significant and growing market confidence in the ongoing progress of the

published indices. For the Commission's review, we are including for the record some graphic representations of the survey highlights.

The most compelling evidence from the Commission's price reporting survey is that more than 90 percent of the respondents – including all of the responding producers and industrial customers – use the indices in physical transactions. In terms of confidence, more than 90 percent of the respondents believe the glass is more than half full when it comes to their confidence in the indices – with more than two-thirds of the respondents characterizing their confidence level at '7' or higher on a scale of 1-10.

Last month, FERC staff itself concluded that the amount of transaction data reported to natural gas price index developers "has been improving compared with late 2002." In addition, "the quality of reporting to price index developers has improved significantly over the past year." According to the report, "index developers have taken significant steps to conform the standards of the policy statement." Finally, as a further indication of market confidence beyond the individual respondent rankings, "survey respondents cite a high level of dependence on natural gas indices as price references in contracts."

Voluntary price reporting for natural gas transactions has clearly enhanced market transparency and confidence, and will continue to do so as further upgrades evolve and work their way into the process for wholesale

natural gas transactions, encouraging some enhancements to improve overall transparency.

NGSA continues to respectfully urge the Commission to evaluate progress based on more volume-weighted analyses, with somewhat less significance placed on capturing increasing numbers of individual transactions. According to the FERC staff report and the index publishers themselves, almost all of the top natural gas suppliers are reporting their day-ahead and monthly bid-week transactions. With data on producer volumes-sold available to the public as a quarterly benchmark, market participants and the Commission are properly able estimate the value of the indices as a reflection of the ever-changing dynamics of market-based pricing.

In addition, price reporting tends to be a function of company size, which is likely to be an ongoing challenge under even the best of circumstances. Based on the survey responses, the average size of those reporting all appropriate transactions is greater than the average size of those not reporting. To enhance overall market transparency, the Commission should continue to encourage utilities and other small users to begin reporting, or expand their existing reporting, to the publishers.

Based on the public record established since the issuance of your policy statement on price reporting in wholesale natural gas markets, NGSA believes there is sufficient evidence to support a Commission policy of continuing to focus attention on the price reporting and transparency needs of the natural

gas marketplace. On its own, the staff report contains sufficient justification for this option.

As I mentioned, the Commission's policy statement is already having some beneficial effects in terms of enhancing market transparency and confidence, which will also lead to further upgrades in the process for wholesale natural gas transactions. As a result, U.S. customers will continue to be served in the most efficient way possible by the most sophisticated, competitive and dynamic natural gas market in the world.

We concur with FERC staff that further transparency enhancements can be achieved, but also with its finding that there will always be a few market participants who will continue to demand Commission time and resources for further, but limited, benefits. This is particularly true in light of the staff finding that "the crisis of confidence in price indices stems in part from liquidity problems in energy markets, rather than being the cause of such problems."

However, liquidity is a direct result of market-driven activity -- activity that can be facilitated by appropriate federal regulation, or frustrated by prescriptive and overly intrusive rule-making. Fluctuations in such market activity do not necessarily represent a problem, nor is there any objective threshold for a lack of market liquidity. With regard to natural gas markets, NGSA believes there continues to be many willing buyers and sellers, resulting in an adequate level of liquidity.

The Commission has demonstrated strong leadership on price index issues, which is clearly making a difference in terms of enhanced market transparency. Our comments today are intended to support and further our common aims.

We continue to welcome and encourage the Commission's effective use of its office to direct and focus industry action on the issue of publicly reporting transactions and, most importantly in the public interest, to oversee the behavior of participants in the wholesale natural gas markets.

Thank you, again, for the opportunity to speak with you this morning, and I will be happy to respond to your questions.