

# Evidence of health

## Examine the bedrock principles of a healthy physical natural gas market

NGSA members enter into thousands of physical market transactions daily and invest billions of dollars in the long-term development of natural gas supply for sale in the U.S. natural gas market. As large producers and marketers of natural gas, NGSA members would not be participating in the physical natural gas market if they did not believe the market exhibited three key bedrock principles fundamental to health: 1) integrity, 2) transparency and 3) efficiency. Evidence of physical market health abounds and provides the foundation of NGSA's continued belief that there is no need for additional government intervention in the physical natural gas market.

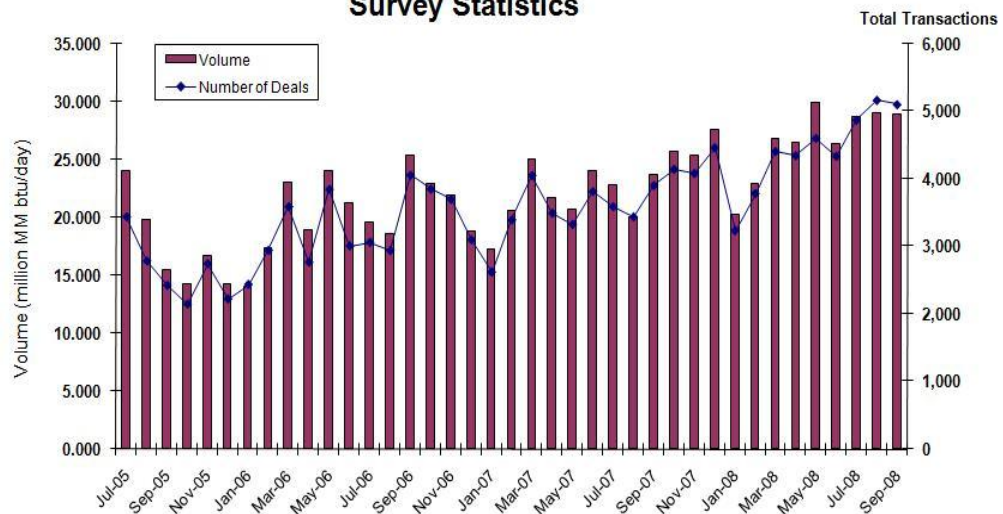
**Integrity.** A number of regulatory and legislative changes provided confidence and trust in natural gas markets. The first step to improve the integrity of indices was the Federal Energy Regulatory Commission (FERC) 2003 Policy Statement on good faith price reporting and publishing (Docket No. PL03-3) followed by the 2006 Rule Prohibiting Market Manipulation (Order No. 670). Further bolstering integrity and oversight, FERC has recently implemented a memorandum of understanding with the Commodity Futures Trading Commission (CFTC) to share market oversight information, and made public its Market Oversight webpage for timely, free, and unbiased energy market data. Finally, Section 316 of the Energy Policy Act of 2005 (EPACT) directed FERC to facilitate price transparency spurring FERC's Market Transparency NOPR as the culmination of a series of efforts designed to provide confidence in the price reporting process.

**Transparency.** Statistics support the market's evolution toward increased transparency. The chart shows that the level of reported volume and number of transactions captured by competitive index publishers has continued to increase over the last several years. In fact, the level of reported volume and transactions has roughly doubled since January 2004. This illustrates two key points: 1) an upward trend toward increased transparency and 2) the market's response to improving transparency. In addition, market participants are exploring additional innovations such as a voluntary, non-government energy data hub.

Further, commercial entities provide the market with the majority of the benefit of physical market fundamentals data (supply and demand) through the reporting of scheduled volumes, flow-tracking and estimation services.

**Efficiency.** Efficiency means that price reflects, and is sensitive to, changes in information on supply, demand and other market fundamentals. The natural gas price decline since the winter of 2005 illustrates the natural gas market response to changing short-term supply and consumption patterns. Today, natural gas prices are responding to relatively stable or increasing supply, high storage inventories and lower shoulder month consumption illustrating natural gas market efficiency.

**Platts Inside FERC Bidweek Natural Gas Price Survey Statistics**



Source: NaturalGas.org, keyword "Market Activity"

As the physical natural gas market continues to evolve, regulators should continue to assure a stable, predictable regulatory environment that encourages market participation and maintains market efficiency. Recent history illustrates that markets evolve naturally and that market forces spur improvements to the available information within a market more quickly than government, and without the risk of inefficiency. In a transparent and efficient market, additional regulatory requirements could be counterproductive and risk harming existing market efficiency. Continued ease of participation in the market, coupled with access to more domestic natural gas resources, will allow the U.S. energy market to grow with the U.S. economy. ■