



# NEWS

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<http://www.NGSA.org>

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## Response to Fundamentals Provides Clearest Evidence of a Healthy Market, NGSA Says

(Washington, D.C. )... A dramatically bearish response to short-term market fundamentals, with price declines averaging more than 60 percent so far this year, is just the most recent evidence of healthy transparency and a robust natural gas market at work, the Natural Gas Supply Association (NGSA) told federal regulators today.

"It would be a serious miscalculation to assume that seasonal price swings and volatility indicate a lack of transparency or some other dysfunction in the marketplace," said NGSA Chairman Chris Conway. "Most often, it signifies quite the opposite, sending accurate information that allows for an appropriate supply response."

In prepared remarks for a technical conference on the transparency of U.S. natural gas markets, Conway told the Federal Energy Regulatory Commission (FERC) that nine months of falling commodity and futures prices show that market participants have a clear picture of existing fundamentals and the short-term adequacy of supply. Over the longer term, meanwhile, the forward curve in the futures market is also telling participants that access to further resources will soon be needed, he said.

"What we continue to witness, and this was true in the wake of last summer's hurricane devastation as well as last winter's near-record warmth, are cash markets impacting the futures markets and vice versa," Conway said. "As you would expect, those market participants who relied upon forecasts for another active hurricane season this year are now witnessing instead lower prices due to restored production in the Gulf of Mexico and brimming storage inventories."

"As we saw, though, from last year's record price spike following Hurricanes Katrina and Rita, the fundamentals could just as easily have gone the other way. That is precisely why vibrant markets offer a variety of hedging and risk-management options and opportunities, particularly during times of underlying market tightness," he said.

Since the end of 2005, according to NGSA, the national average spot price for natural

gas has fallen 61 percent, from \$12.16 per million British thermal units (MMBtu) in December to \$4.73/MMBtu last month. “In part, this decline occurred because more than 6,000 competing producers could see and respond aggressively to the accurate, high-end price data,” said Conway, who also is president, gas and power, ConocoPhillips. “Month-to-month, day-to-day and, when it comes to the existing exchanges, even hour-to-hour, natural gas prices are available to the marketplace, as are numerous bids, asks and spreads. Responses to real-time news, weather and weekly inventory levels are also apparent at almost every level and at virtually every liquid trading point.”

As part of the technical conference, NGSa also submitted an independent academic assessment by Texas Christian University finance professor Peter Locke, who found natural gas to be one of the most transparent, commonly traded commodities in the U.S.

“Certainly, NGSa is not suggesting that FERC and other federal regulators can or should be less vigilant for signs of abuse, only that participants have confidence that the market is working, with sufficient information that continues to be readily available,” Conway said.

“As an industry, natural gas producers continue to be supportive of any voluntary and truly constructive steps that can serve to enhance market transparency without also harming underlying competition and liquidity,” he said. “Mandatory price reporting, for instance, could have unintended consequences, such as chilling the willingness of buyers and sellers to do fixed-price deals, which serve as the foundation for more widespread basis transactions.

“We look forward to an ongoing dialogue with FERC and other market participants on these issues, a process that will no doubt serve to assure Congress that FERC is meeting its expanded transparency mandate under the Energy Policy Act of 2005,” Conway said.

*NGSA represents integrated and independent companies that produce and market natural gas in the United States. NGSa is actively involved in pursuing regulatory and legislative issues that affect the association’s members. Established in 1965, NGSa encourages expanded use of natural gas and supports regulatory and legislative actions that foster competitive markets.*

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**(Editors Note: A complete copy of the referenced analysis by Peter Locke, will soon be available on [www.ngsa.org](http://www.ngsa.org), or contact Sandy Crockett at [scrockett@ngsa.org](mailto:scrockett@ngsa.org).)**