



R. Skip Horvath
President & CEO

July 31, 2009

The Honorable Jon Wellinghoff
Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: Order No. 704, Form 552

Dear Chairman Wellinghoff:

On July 1, 2009, Natural Gas Supply Association ("NGSA") members were among the 1,000+ natural gas market participants that complied with Order 704 by filing their first Annual Transaction Report (Form No. 552), a new requirement under the Federal Energy Regulatory Commission's ("Commission") market transparency authority established by the Energy Policy Act. Pursuant to the Annual Transaction Report requirement, all market participants engaging in greater than a *de minimis* volume of transactions, are required to report aggregated annual information regarding total sales and purchases of natural gas, as well as information about total sales and purchase volumes for transactions that meet additional criteria.

The Commission's goal is to, in broad terms, understand the extent of the physical natural gas market and to determine the degree to which the market relies upon publisher price indices for transactions. Through the use of Form 552, the Commission achieved its objective of determining the approximate size of the physical natural gas market. The information also illustrates the market's reliance on the published indices by providing the volume of fixed-price and indexed-priced transactions. These data are now part of the vast array of information regarding transactions and fundamentals that demonstrate a well-functioning, competitive natural gas marketplace.

NGSA urges the Commission to use the results of Form 552 as an opportunity to raise Congressional and consumer awareness about the full scope of available information regarding natural gas market transactions and fundamentals, and about the specific actions the Commission has taken over the last five years to promote transparency and ensure physical market integrity. For example, the Commission's

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market oversight website (<http://www.ferc.gov/market-oversight/mkt-gas/overview.asp>) now provides market participants with a wealth of information regarding market fundamentals, including world-landed LNG prices, prices for competing fuels, storage information, and NYMEX data.

The Commission has also implemented a number of policies in recent years to bolster confidence and ensure physical natural gas market integrity. Most notably, the Commission established the 2003 Policy Statement for good faith price reporting and publishing (Docket No. PL03-3), followed by the 2006 Rule Prohibiting Market Manipulation (Order No. 670). Since that time, voluntary reporting of physical market transactions to index publishers has doubled to about half of daily natural gas consumption (<http://www.naturalgas.org/business/marketactivity.asp>) demonstrating that the market and competitive forces continually act to spur improvements in market transparency.

Further, we are hopeful that the Commission will help ensure that all stakeholders and market participants understand that assessing market transparency and integrity goes beyond raw statistics to involve a review and understanding of the significant amount of fundamentals and transactional information available to market participants. The Form 552 data is now another piece of information available to market participants to support the informed decision-making that underlies a robust physical natural gas market. The Commission's market analysis website, the commercially available analytical tools, the wealth of government and privately-published supply and demand fundamentals information and the transactional data provided by the financial exchanges and over-the-counter trading platforms comprise the extensive data available to market participants to support well-informed decisions.

In addition to quantifying the size of the physical natural gas market and providing information on the extent to which indices are relied upon, the Form 552 data illustrates that the market is comprised of both index-priced and fixed-priced transactions with varying combinations. *This freedom to transact based on individual needs and assessments of all the data available within the market provides the "checks-and-balances" that ensure a well-functioning market.*

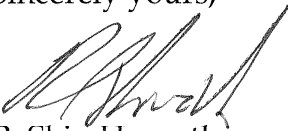
NGSA appreciates the Commission staff's extensive industry outreach regarding the Form 552 requirements. The myriad of industry questions and interpretations that arose from Form 552 are an inevitable characteristic of any effort to condense voluminous data into a set of thoughtful high level categories. A key factor that underpinned the creation of a high level report was the Commission staff's dialogue with industry. This dialogue resulted in the creation of an efficient report with insightful data that for the first time provides the Commission and market participants with a sense of the size and number of transactions that comprise the physical natural gas market without compromising the competitive integrity of the market. As evidenced by the "notes" section (lines 8 and 9) of the filed reports, the filing process

brought to light some areas where further clarification is necessary. **We urge the Commission to create a forum for continued dialogue with industry to further refine and clarify the reporting requirements with the goal of maximizing the usefulness of the data and building on the industry's culture of compliance.** Importantly, the continued dialogue between the Commission and industry will perpetuate the usefulness of the report to the market. Thus, in addition to supporting the Commission's oversight efforts, the new market information generated by Form 552 will continue to serve as a part of the information available to market participants thus contributing to overall physical market transparency.

NGSA appreciates the "safe harbor" policy that the Commission adopted for this report to protect respondents from inadvertent errors. The safe harbor was essential to mitigating regulatory compliance risk for participation in the physical natural gas market and not a justification for non-compliance. **The Commission should not soften its stance on enforcement where there is an attempt to manipulate data or for non-compliance; however, NGSA urges the Commission to consider an extension of the "safe harbor" while the Commission and industry work through any clarifications necessary to ensure consistent interpretation of the information required on the form.**

Form 552 demonstrates that the successful collection of meaningful, high level market data is achievable. Form 552 also reveals that ensuring the data's long-term integrity and value to the marketplace takes a commitment to compliance, tolerance for inadvertent errors and Commission and industry dialogue. NGSA looks forward to continuing its work with the Commission on this important issue.

Sincerely yours,



R. Skip Horvath

cc: The Honorable Suedeen G. Kelly
The Honorable Philip D. Moeller
The Honorable Marc Spitzer