# NEWS

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## Mandated Clearing of Commercial End-users Would Create Risk at Expense of Natural Gas Market and Economy

(Washington, D.C.) -- Proposed financial reform measures should recognize that energy producers use the over-the-counter (OTC) derivatives market for commercial hedging purposes and to reduce risk, and therefore exclude them from mandatory clearing, the head of the Natural Gas Supply Association (NGSA) said today at an Energy Information Administration conference panel on regulating energy commodities.

R. Skip Horvath, president and CEO of NGSA, said, "Policymakers should guard against casting too wide a net as they develop their approach to OTC market reform. Our companies do not pose systemic risk; in fact, we use derivatives to *reduce* commercial risk and therefore should not be indiscriminately hauled into the reform net and forced into mandated clearing requirements." Horvath said natural gas companies have significant assets in the ground and even very large natural gas companies do not present systemic risk.

Horvath said, "Driving OTC natural gas trading into an exchange with mandated centralized clearing and margins not only forces a solution where there is not a problem, it would have the perverse effect of centralizing risk that is now spread across a variety of counterparties." He said, "Mandated clearing requirements would effectively compel companies to divert $900 billion of productive investment capital in order to insure OTC transactions."

Horvath said, "Natural gas companies would be forced to set aside billions of dollars in capital that would otherwise have been invested in bringing natural gas supplies to market, leading to less supply and potentially the unfortunate and unintended result of placing upward pressure on natural gas prices."

In addition to hampering the ability of natural gas companies to invest in natural gas supply and draining capital from an already fragile economy, Horvath said mandated clearing would elevate the costs of participating in the market.

Horvath said the case for exclusion of commercial end-users is buttressed by a 2010 analysis of existing literature on the relationship of natural gas financial and physical commodity markets that concludes there is no definitive link between financial and physical natural gas markets. The report, *"Annotated Bibliography on Financial 'Fundamentals' in Natural*

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*Gas Markets,"* summarizes existing literature on natural gas physical and financial market interactions, risk, credit and capital flows.

The *Bibliography* follows on the heels of *"Price Transparency in the U.S. Natural Gas Market,"* a 2009 study conducted by former Commodity Futures Trading Commissioner William P. Albrecht that stated: "The ability for market participants to enter into non-standardized, non-cleared transactions [on OTC markets] is an equally important part of the market that fosters liquidity, allowing market participants an opportunity to recognize factors other than cash as collateral."

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