

NEWS

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NGSA Recommends Key Modifications to Supplemental Position Limits Rule

(Washington, D.C.) – The Natural Gas Supply Association (NGSA) today recommended that the Commodity Futures Trading Commission (CFTC) fine-tune its proposed Supplemental Position Limits Rule by addressing a handful of key issues that NGSA highlighted in comments submitted to the Commission today. NGSA filed its comments jointly with the National Corn Growers Association.

“We commend and support the spirit of the proposed draft supplemental rule. Exchange administration of the hedge exemption is appropriate, however we have identified key areas where the specifics of the proposal are not viable and conflict with good commercial hedging practices,” said Jenny Fordham, Senior Vice President, NGSA.

“For example, the CFTC should avoid incorporating a ‘litmus’ test or overly prescriptive view in determining what is ‘economically appropriate,’” said Fordham. “Congress intentionally made the standard for ‘economically appropriate’ a flexible one. There are risks other than price risks that are economically appropriate to address in the conduct and management of a commercial enterprise, including operational risk, liquidity risk, credit risk, locational risk and seasonal risk. An approach that is limited to addressing only price risk -- or even more narrowly, only fixed-price risk -- would unnecessarily threaten market participants’ ability to effectively hedge.”

In addition, Fordham said the CFTC should revise its guidance regarding the proposed “substantially related” test for cross-commodity hedges. “The cross-commodity hedge must be considered in context, since highly-correlated cross-commodity hedges are not always available. In many cases, perfect or near-perfect hedges just aren’t practically available, and a cross-commodity hedge should be considered economically appropriate.”

Fordham also highlighted NGSA’s concern with the Commission’s “five day rule,” which requires early liquidation of certain hedges during the last five days of trading, coinciding with bid week. “Such forced liquidation would leave market participants exposed during the expiry period, distorting market signals,” Fordham said.

“We urge the Commission to address these concerns, in addition to our long-standing request that the CFTC update deliverable supply methodologies to reflect actual market conditions.” Fordham said. “Markets can function well where speculative position limits are appropriately set and where exemptions for *bona fide* hedging are appropriately managed,” she said. “While the proposal is a step in the right direction, changes are essential to ensure a viable hedge exemption process.”

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The Natural Gas Supply Association (NGSA) represents integrated and independent companies that supply natural gas. For more information, please visit www.ngsa.org and www.naturalgas.org.

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