

UNITED STATES OF AMERICA
before the
FEDERAL ENERGY REGULATORY COMMISSION

Price Discovery in Natural Gas and
Electric Markets

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Docket No. PL03-3

Comments of Intelligence Press, Inc.

This filing is a response by Intelligence Press Inc., more generally known as *Natural Gas Intelligence* or *NGI*, to the Federal Energy Regulatory Commission's May 14, 2004 Notice of Conference on Market Liquidity, Energy Price Discovery, and Natural Gas and Electricity Price Indices. *NGI* appreciates the opportunity to submit these comments, which update the response *NGI* filed with the Commission on March 26, 2004 in this docket.

NGI would like to take this opportunity to update the Commission on the progress of price reporting under the voluntary system. After receiving 2,190 individual bidweek transactions, totaling a trading volume of nearly 15 Bcf/d for the month of April, *NGI* has seen the amount of survey data plateau at a very healthy level of roughly 1,900 transactions and 12 Bcf/d of volume for the shoulder-month May and June bidweek markets (see appendix A).

Specifically, *NGI* received 1,877 transactions for the June bidweek totaling a volume reported of 11.8 Bcf/d. Using this data, *NGI* was able to publish 80 indices, 64 of which fell into the top two tiers, marked by volumes of greater than 25,000 MMBtu/d. This is an impressive feat considering that as recently as January of this year, the top two tiers only accounted for 50 of *NGI*'s published bidweek indices. At the other end of the spectrum, tier 3 locations, marked by volume of less than 25,000 MMBtu/d, have shrunk from 25 in January to just 16 for the June bidweek.

Looking ahead, *NGI* is currently negotiating confidentiality agreements with six medium and large traders and hope to add these companies to our list of survey participants in the weeks to come. And while we expect to experience another wave of increases in the number and volume of transactions we receive, *NGI* is cautious about overstating the impact these data providers may have on what we believe is already a vast majority of the reportable transaction volume.

A quick look at the latest listing of the top wholesale gas trading companies reveals that volumes are concentrated in the top ranks, which are dominated by companies reporting to *NGI*. For example, the top five firms – all of whom have told the FERC they either report or plan to report to index developers – account for a whopping 64% of the top 20, according to *NGI*'s ranking (see appendix B), which was taken from SEC filings and statements signed by company officials.

All of the top nine traders in the ranking have said they report or plan to report, comprising nearly 80% of the volume of the top 20.

All told, 13 of the top 20 companies are reporting or have said they plan to report to publishers. The total trading volume of these 13 market participants accounts for 86% of

the volume traded by the top 20, again illustrating the concentrated nature of market activity at the top trading firms.

We bring this to the attention of the Commission not because we feel it presents a problem, but rather to help prove the assertion that publishers are collecting a very large percentage of the reportable bidweek and daily gas market. Outside evidence that markets trading can be concentrated is seen in the multi-billion dollar auctions of U.S. Treasury Department bills and bonds, where 23 broker/dealers do 99% of the buying, according to a spokesman for the Bureau of Public Debt.

Because *NGI* marketer rankings include indexed and other not-reportable data, it is difficult to compare it with the 12-15 Bcf/d of price transaction data that *NGI* collects in both the daily and bidweek markets. However, it offers us a great deal of comfort considering that the top 20 marketers represent more than 100 Bcf/d of gas sales, or roughly 1.7 times the size of the 60 Bcf/d daily gas consumption figure (based on the DOE estimated 22 Tcf annual consumption).

Not included in *NGI*'s recent ranking or in the 100 Bcf/d figure because their overall trading volumes were unavailable are the former top-20 mainstays: AEP, Duke, El Paso, Mirant, Reliant and TXU -- all of which are reporting or have said they plan to report gas pricing data to publishers.

While this analysis may not seem entirely conclusive, it does suggest that the percentage of reportable gas transactions on a volume basis collected by publishers is very high, and likely in the 60-80% range. This figure corresponds closely with the Market Price Reporting Action Committee's 58-83% "deals basis" volume estimate, which was derived from the 35-49% "sides basis" reported by the FERC in its survey results (see appendix C).

NGI also notes that the 60-80% range straddles the MPRAC's initial 69-74% estimate of reportable transactions collected, which was published in its April 30, 2004 filing also under PL03-3.

NGI notes that the FERC survey and the MPRAC study are point in time snapshots of the market behavior during the first quarter of 2004. Since that time, *NGI* has added a number of survey participants. Those additions, along with others who are finalizing plans to report, will only contribute to the very high percentage of the market that is being captured by the published indices.

No one would disagree that FERC's actions in focusing attention on the price indexes and bringing about an industry consensus on setting guidelines for participation in the price surveys have immeasurably improved the surveys. Both the quality and the quantity of reports have improved due to the Commission's pressure to participate and insistence on the submission of all reportable transaction level data and oversight of the submissions by company officials.

NGI believes there is a need for a continued leadership and monitoring by FERC and we would be happy to provide regular reports on our progress in collecting information.

NGI notes the expressed desire of FERC and of a number of companies for price

developers to publish volumes and the number of transactions at each pricing location in order to qualify for use in a jurisdictional tariff. While we have reservations, we are prepared to publish volumes and transactions, daily and bidweek for Tier I and Tier II points, which are the points that would be eligible for use in tariffs.

We do not consider volume or transaction numbers proprietary information, but we do believe it would add to the tools available to potential market manipulators in less liquid markets (Tier 2 and Tier 3 points). However, we understand the desire of those in the market for as much information as possible to aid their own business strategies. Reporting volume does provide more granular information than the current tier system and the market is better able to judge the quality of a published index, and *NGI* sees the real benefit that this would provide.

Another, perhaps less well considered consequence of this volume and transaction information is that contributors to our survey are able to precisely judge their standing in a market and the impact of their trading activity on the published index. Larger contributors at a given location would know exactly the extent of their market power and potentially use that information as part of their trading strategy. The benefit of increased granularity over the tier system would come at the expense of giving additional advantage to those with market power.

We assume FERC staff, in recommending the publication of locational volumes and transactions, has weighed its desire for information and legitimate business needs against the dangers of manipulation. That being said, *NGI* will gladly provide this information if the FERC requires it for use in jurisdictional tariffs.

NGI also would like to take this opportunity to affirm its status of being in substantial compliance with the five areas pertaining to index developers detailed in the July 2003 FERC Policy Statement on Natural Gas and Electric Price Indices.

To specifically address the area of verifiability, *NGI* is in the process of soliciting bids and selecting an external auditor. *NGI* intends to work with its auditor to determine what, if any refinements need to be made in order for its Code of Conduct and Price Setting Methodology to undergo “agreed upon procedures” for external audit. We intend for the results of the first audit to be posted on our website in the first half of 2005.

Please do not hesitate to contact us if you have any questions on this response or on *NGI*'s position on natural gas reporting or price discovery.

Sincerely,

/s/

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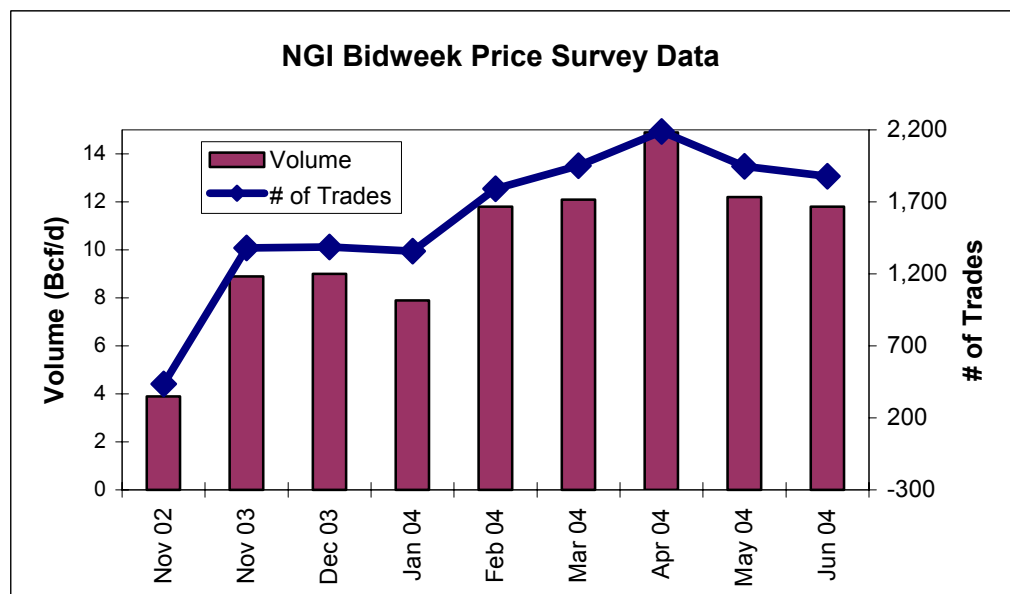
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NGI's Bidweek Natural Gas Price Survey Statistics

	Volume		Indices			
	(Bcf/d)	# of Trades	Published	Tier 1	Tier 2	Tier 3
Nov 02	3.9	435	68	na	na	na
Nov 03	8.9	1,381	79	27	31	21
Dec 03	9.0	1,387	78	29	28	21
Jan 04	7.9	1,357	75	26	24	25
Feb 04	11.8	1,792	80	32	25	23
Mar 04	12.1	1,951	81	40	30	11
Apr 04	14.9	2,190	78	38	24	16
May 04	12.2	1,947	78	38	26	14
Jun 04	11.8	1,877	80	35	29	16

Notes: In response to industry requests for more market price transparency, *NGI* began posting tiers in July 2003 to show volume of trading observed at various market locations: Tier 1 over 100,000 MMBtu/day; Tier 2 over 25,000 MMBtu/day; Tier 3 less than 25,000 MMBtu/day.



To find out about how to provide data to *NGI*, contact Dexter Steis at (703) 318-8848.

About Intelligence Press, Inc.

Intelligence Press Inc. is an independent publishing company and has been serving the energy industry since 1981 with leading news and price survey reports for the natural gas market in its publications: *Natural Gas Intelligence*, *NGI's Daily Gas Price Index*, *NGI's Weekly Gas Price Index* and *Power Market Today*.

The company runs real-time news on natural gas and power market developments at <http://intelligencepress.com>. Additionally, the company, commonly referred to as *NGI* by the energy industry, publishes educational products, including natural gas maps and glossaries, and sponsors an annual natural gas conference. GasMart 2005 will be held April 25-27 in New Orleans. See www.gasmart.com.

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NGI's Ranking of Top North American Gas Marketers (Bcf/d)

Published in *NGI's Daily GPI* Thursday, June 3, 2004 and accessible at:
<http://intelligencepress.com/features/rankings/gas/>

<u>Company</u>	<u>1Q04</u>	<u>1Q03</u>	<u>Change</u>
BP	24.50	20.10	22%
Sempra	13.70	13.50	1%
ConocoPhillips	10.40	8.80	18%
Coral	9.60	9.90	-3%
Entergy-Koch	7.30	7.80	-6%
Cinergy	4.71	4.17	13%
Tenaska	4.20	3.20	31%
Nexen	3.16	2.96	7%
ExxonMobil	3.06	2.50	22%
Oneok	2.86	3.16	-9%
EnCana	2.68	2.58	4%
Williams	2.60	3.50	-26%
ChevronTexaco	2.48	2.16	15%
Sequent	2.11	1.95	8%
Amerada Hess	1.83	3.17	-42%
Burlington	1.73	1.72	1%
Anadarko	1.72	1.70	1%
Enserco	1.58	1.19	33%
Western Gas	1.49	1.42	5%
<u>Kerr-McGee</u>	<u>0.65</u>	<u>0.65</u>	<u>0%</u>
Total	102.36	96.13	6%

Source: Quarterly financial reports with the Securities and Exchange Commission, or if necessary, statements signed by company officials and provided to NGI.

Appendix C

MPRAC Table Reconciling FERC Survey with MPRAC Analysis

	Survey Range	Survey Range	MPRAC Range
	As Reported “Sides” Basis	Converted to “Deals” Basis	“Deals” Basis
Natural Gas Daily	49 – 59%	74 – 83%	69 – 71%
Natural Gas Bid-week	35 – 44%	58 – 69%	72 – 74%
Electricity - Daily	21 – 39%	38 – 63%	49 – 56%

For more information, please see May 24, 2004 MPRAC filing under PL03-3.