

NATURAL GAS PRICE INFORMATION THE BARE ESSENTIALS

The Electric Power Supply Association (EPSA)¹ supports the Commission's initiative concerning the reporting of natural gas price information, which includes building on the current method that price data is collected and reported, and addressing alternatives to existing practices. Ideally, confidence by regulators and market participants in reported price information will facilitate liquid, transparent, competitive markets. Bolstering markets will reinforce the confidence of energy buyers and sellers and, in turn, restore the capital market's confidence in energy infrastructure investment.

A defined code of sound company policies and ethical practices that addresses price reporting is an important first step in this effort. For that reason, EPSA developed and produced in 2002 its Code of Ethics and Sound Trading Practices for Electric Power Suppliers. The Code is now a condition of EPSA membership and all board members have certified that they intend to comply with the code of ethics with respect to their power supply business. The code specifically includes information disclosure and documentation standards and requires that power suppliers "ensure that any information disclosed to the media, including markets publications and publishers of surveys and price indices, is accurate and consistent." These ethical standards give assurance that unlawful and unethical practices concerning price reporting will not be tolerated within EPSA member companies.

Today's technical conference focuses on natural gas price formation, but as the Commission found in its investigation of western markets, prices of electric power and natural gas are significantly interrelated. EPSA members are well aware of this relationship as owners of almost 40 percent of the generation in the country, a third of which utilizes natural gas as a base fuel. The marginal generating unit that establishes the clearing price in electricity markets is typically fueled by natural gas. Competitive energy suppliers' require confidence in price information in both markets and hence the Commission's examination of natural gas price reporting should greatly influence industry policies on electric power price formation.

Appropriately, the Commission is tackling both power and gas market rules on several fronts.² At the same time, industry is moving quickly to address price reporting issues on several fronts, consistent with direction provided by Commission Staff in various reports.³ EPSA is continuing to work with existing industry efforts and the Commission to further enhance energy price formation standards.

The industry is committed to continued improvements for market price reporting systems that will restore the transparency and liquidity needed for competitive markets. Lack of liquidity in energy trading markets has played a part in decreasing the transparency of short- and long-term energy

¹ EPSA is the national trade association representing competitive power suppliers, including independent power producers, merchant generators and power marketers. These suppliers, who account for more than a third of the nation's installed generating capacity, provide reliable and competitively priced electricity from environmentally responsible facilities serving global power markets. EPSA seeks to bring the benefits of competition to all power customers. The comments contained in this document represent the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any particular issue.

² These decisions are forthcoming in the SMD, individual RTO proceedings, and affiliate rules as well as Order No. 637 compliance orders.

³ Staff January 15, 2003 paper, "Discussion on Commission Use of Natural Gas Price Indices," and the "2003 Natural Gas Market Assessment" paper, January 29, 2003. Staff's "Final Report on Price Manipulation in Western Markets," Docket No. PA02-2-000, March 26, 2003.

prices and thus limiting the use of important risk management tools. More liquidity and enhanced transparency will increase the confidence of energy buyers and sellers in market prices and, in turn, increase the use of forward contracting. A liquid forward contract market is imperative to achieve the Commission's goals in the electric power and natural gas markets. In addition, improvements, such as consistent product definitions, will facilitate the use of transaction netting, and in turn increase market activity. The Commission should continue to encourage efforts to improve reporting systems and further the development of competitive markets.

Fundamentals of energy price information:

- Companies submitting data and index developers should adhere to a common set of ethical behaviors and practices that assure customers, investors, legislators, regulators and other market participants that their business activities are, and will continue to be, conducted with integrity.
- Representative standard transaction data must be well-defined and should comport with the current reporting capabilities of market participants.
- Market participants who report price data should include all standard transactions⁴ in order to allow index developers to correctly represent the market concerning volume, price, location, transaction date, term and buy/sell indicator.
- Standard transaction data should be reported through an employee that is independent of other company employees who have direct commercial interest in the reported price information.
- Recipients of standard transaction data should be required to submit to a confidentiality agreement with market participants to protect the integrity of the competitive market data.
- Reporting market participants and developers of indices should each have periodic audits performed by independent entities to provide sufficient assurance of their control processes.
- Pricing points for energy price indices should include volume data or some alternative measure that is representative of the liquidity for each pricing point.
- Energy price indices' methodologies must be transparent and show liquidity levels, while maintaining the data integrity and confidentiality of reporting market participants.
- Energy price information standards must consider the sanctity of existing agreements and any new standards must allow for a reasonable transition to allow those agreements to conform to the new standards.

⁴ Standard transactions should not include structured or negotiated transactions. Standard transaction data should respect the reporting capabilities of companies as well as timing issues. Standards and definitions of verifiable data must respect the real-time nature of energy transactions. Data needs to be subsequently verifiable, in a reasonable period of time.