Technical Conference on Developments in Natural Gas Index Liquidity and Transparency

Docket No. AD17-12-000
June 29, 2017

Agenda

The purpose of the staff-led Technical Conference on Developments in Natural Gas Index Liquidity and Transparency is to solicit feedback and develop a record regarding index robustness and to discuss what, if anything, the industry and/or the Commission could do to increase transparency and support greater robustness in natural gas price formation. The technical conference will examine: (1) the current state of natural gas index liquidity and voluntary reporting to index developers; (2) the use of natural gas indices over time; and (3) possible actions that the industry and/or the Commission could take to increase transparency and support greater robustness in natural gas price formation.

9:00am - 9:15am Welcome and Opening Remarks

9:15am – 9:45am Natural Gas Index Presentation (Commission Staff)

Staff will present an overview of natural gas transactions using FERC Form No. 552 data. The presentation will review trends in next-day and next-month transactions, the number of companies that report to index developers, and the volume of fixed-priced transactions that contribute to natural gas indices. Staff will also present an overview of natural gas indices referenced in jurisdictional tariffs.

9:45am – 12:00pm Panel 1: Robustness and Liquidity of Natural Gas Indices

Most price indices are supplied as a commercial service by publishers of daily, weekly, or monthly newsletters. Price indices play a pivotal role in natural gas market price formation, and are commonly referenced in physical and financial transactions. This panel will examine the robustness and liquidity of natural gas indices, the degree of industry reliance on index-based contracts rather than fixed-price contracts, the decline in fixed-price reporting to index developers, and whether natural gas indices accurately reflect market conditions.

Panelists are encouraged to respond to the following:

1. Describe the current trends in natural gas fixed-price and physical basis trading that you believe positively or negatively impact price formation in the natural gas market, detailing any observable shifts in liquidity. Are there differences in market fundamentals, procedures, or policies which disproportionately impact either overall or regional liquidity?

2. How have the volume and quality of next-day and next-month fixed-price and physical basis transaction reporting changed? In addition, describe any changes in other information used to form natural gas indices. Are there market, regulatory, or other factors that discourage reporting? If so, are there ways to incent reporting?

3. For indices published by index developers and referenced in FERC jurisdictional tariffs, the Commission requires index developers to comply with five standards: (1) code of conduct and confidentiality; (2) completeness; (3) data verification, error correction, and monitoring; (4) verifiability; and (5) availability and accessibility.[1] How have index developers' methodologies and practices changed since these standards were developed? Are the standards established in 2003 still relevant and sufficient to allow for healthy and robust natural gas price formation in today's environment?

4. Is there a need for additional transparency regarding natural gas index price assessments and the level of liquidity underlying each natural gas index published by index developers? Should common minimum liquidity thresholds be defined? If so, who should define them, and what should be the mechanism for accomplishing this? For example, should index developers provide information about which indices are illiquid? What kind of coordination would be necessary, and what kind of information would be shared, and with whom, when a given natural gas price index is deemed illiquid?

Panelists:
- Mark Callahan, Editorial Director of Platts North America, S&P Global
- J.C. Kneale, Vice President of North American Natural Gas, Power & NGL Markets, InterContinental Exchange
- Euan Craik, Chief Executive Officer, Argus Media
- Tom Haywood, Editor of Natural Gas Week, Energy Intelligence

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[1] *Policy Statement on Natural Gas and Electric Price Indices*, 104 FERC ¶ 61,121, at P 33 (2003).

- Dexter Steis, Executive Publisher, Natural Gas Intelligence
- Vince Kaminski, Professor in Practice of Energy, Rice University
- Orlando Alvarez, President and CEO, BP Energy Company

12:00pm – 1:00pm Break

1:00pm – 3:30pm Panel 2: Role of Natural Gas Indices in Price Formation

Natural gas indices are used by industry for a variety of purposes, such as settling bilateral contracts of varying terms, basis swap futures, index swap futures, swing swap futures, and calendar and basis spreads. Natural gas indices also are used in FERC jurisdictional interstate natural gas pipeline and wholesale electric transmission tariffs for various purposes. For example, indices are used in many interstate natural gas pipeline tariffs to settle imbalances or determine penalties. In addition, State Commissions use indices as benchmarks in reviewing the prudence of natural gas purchases by local distribution companies. Finally, some Regional Transmission Organizations and Independent System Operators (RTOs/ISOs) rely on natural gas indices to develop reference levels for market power mitigation. Given the prevalence of indices in the natural gas and electric industries, indices must be robust and have the confidence of market participants for such markets to function properly and efficiently.

Panelists are encouraged to respond to the following:

1. Describe current industry uses of physical natural gas price indices. Are natural gas price indices sufficiently reflecting the locational value of natural gas to permit decision-making by those with an interest in the value of natural gas such as: end users, producers, marketers, and other buyers and sellers?

2. Are there improvements that should be made to increase the likelihood that natural gas indices will reflect the market value at particular locations? For example, could index publishers provide increased transparency when there are insufficient transactions to formulate an index price? What additional information could signal that market activity is sufficiently robust to create accurate prices?

3. For RTOs/ISOs that rely on natural gas indices to develop reference levels for market power mitigation, do you have concerns about the robustness or liquidity of the natural gas indices used in your tariffs? If so, please explain why.

4. Recognizing that the use of natural gas indices in FERC jurisdictional tariffs is different from their use in commercial transactions, the Commission established

liquidity thresholds for indices referenced in jurisdictional tariffs.[2] Do these thresholds accurately capture minimum liquidity thresholds over an appropriate time period? Should the liquidity of indices referenced in FERC jurisdictional tariffs be reassessed periodically, and if so, who should assess it, and what should be the mechanism for accomplishing this? What kind of coordination would be necessary, and what kind of information should be shared and with whom, should a given index be deemed illiquid?

Panelists:

- Paul Greenwood, Vice President of the Americas, Africa, and Asia Pacific New Markets for ExxonMobil, Natural Gas Supply Association Representative
- Pallas LeeVanSchaik, External Market Monitor, Potomac Economics
- Guillermo Bautista Alderete, Director of Market Analysis and Forecasting, California ISO
- Gregg Bradley, Supervisor of Market Compliance for the Internal Market Monitor, ISO New England Inc.
- George Wayne, Director of Account Services for the Western Pipelines, Kinder Morgan
- Corey Grindal, Senior Vice President of Gas Supply, Cheniere Energy
- David Louw, Division Director of Risk Management and Compliance, Macquarie Energy
- Donnie Sharp, Senior Natural Gas Supply Coordinator for Huntsville Utilities, American Public Gas Association Representative
- Lee Bennett, Manager, Pricing and Business Analysis for Transcanada, Interstate Natural Gas Association of America Representative
- Susan Bergles, Assistant General Counsel, American Gas Association

3:30pm – 3:45pm **Break**

3:45pm – 5:25pm **Panel 3: Options to Increase Transparency and Liquidity of Natural Gas Indices**

Should action be taken to foster more meaningful, reliable, and transparent price information in natural gas markets? What changes may be necessary to incent voluntary price reporting and improve the accuracy, reliability, and transparency of natural gas price indices? Discuss the degree to which the level of voluntary reporting and other

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[2] *Price Discovery in Natural Gas and Electric Markets*, 109 FERC ¶ 61,184 at P60 (2004).

developments within the commercial service model of natural gas index development impact the robustness of natural gas indices.

Panelists are encouraged to respond to the following:

1. Is there a need to develop industry wide liquidity thresholds? While the Commission maintains certain liquidity thresholds for indices referenced in jurisdictional tariffs, should standards be developed that would apply to other uses of natural gas indices? If so, how can such standards be developed and by whom? Can this be addressed through voluntary consensus or through other regulatory processes? Are there legal, commercial, or technical impediments to doing so?

2. Should the Commission take steps to provide greater natural gas price transparency and market information, promote index developer competition, and enhance confidence in natural gas price formation through increased transparency and accessibility of natural gas index information? For example, should the Commission consider exercising its authority under section 23(a)(1) through (3) of the Natural Gas Act to require market participants to report price forming transactions to index developers?

3. Is index data sufficiently available and transparent? Does the commercial service model negatively or positively impact price formation? What actions, policies, or trends have impacted price discovery? Is there additional information market participants need to ensure robust natural gas price formation? Who should provide that information? How would that information be shared?

Panelists:

- Greg Leonard, Vice President, Cornerstone Research
- Orlando Alvarez, President and CEO, BP Energy Company
- Mark Callahan, Editorial Director for Platts North America, S&P Global
- J.C. Kneale, Vice President of North American Natural Gas, Power & NGL Markets, InterContinental Exchange
- Vince Kaminski, Professor in Practice of Energy, Rice University
- Curtis Moffatt, Deputy General Counsel and Vice President, Kinder Morgan
- Joe Bowring, President, Monitoring Analytics
- Corey Grindal, Senior Vice President of Gas Supply, Cheniere Energy
- Tom Haywood, Editor of Natural Gas Week, Energy Intelligence
- Drew Fossum, Senior Vice President and General Counsel, Tenaska Inc.
- Joan Dreskin, Vice President and General Counsel, Interstate Natural Gas Association of America

5:25pm – 5:30pm Closing Remarks