STATEMENT OF ARGUS MEDIA INC.

BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION

DEVELOPMENTS IN NATURAL GAS INDEX LIQUIDITY AND TRANSPARENCY

WASHINGTON, D.C.

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My name is Euan Craik and I am CEO Americas for Argus Media. We appreciate the opportunity to share our views with the Commission on the Robustness and Liquidity of Natural Gas Indices in North America.

Summary

The proportion of fixed-price trading has declined somewhat in recent years due to structural shifts in natural gas markets. But the volume of fixed-price trades reported to index developers continues to be sufficient to produce robust indices that are used widely by market participants. The 2003 FERC standards remain appropriate today, but the Commission could examine ways to encourage more market participants to report to index developers.

Who is Argus?

Argus Media is a global energy commodity pricing, news and analysis service headquartered in London with offices in Houston, New York, Washington D.C., San Francisco, Calgary, Rio de Janeiro, Singapore, Moscow and 11 other cities.

Argus is the primary provider of pricing for the physical crude oil markets in the United States. The refined products markets in the Americas and Europe increasingly reference Argus as well. The Argus-McCloskey API indices are the standard for trading international coal, and Argus indices are the standard for international natural gas liquids.

In natural gas, our European indices have been used for settlement of contracts since the 'nineties. And in North America we began publishing natural gas indices at the request of our subscribers eight years ago.

Argus participated in the formulation of the FERC policy statements in the 2003-2005 period. And in August 2009, FERC recognized the Argus methodology for calculating natural gas and electricity indices as conforming to Commission guidelines.[1] In compliance with the Commission's 2003 Policy Statement on Natural Gas and Electric Price Indices, Argus conducts an annual internal audit for natural gas and electricity indices and the results are published on our website at www.argusmedia.com**.**

Trends in natural gas trading and indices

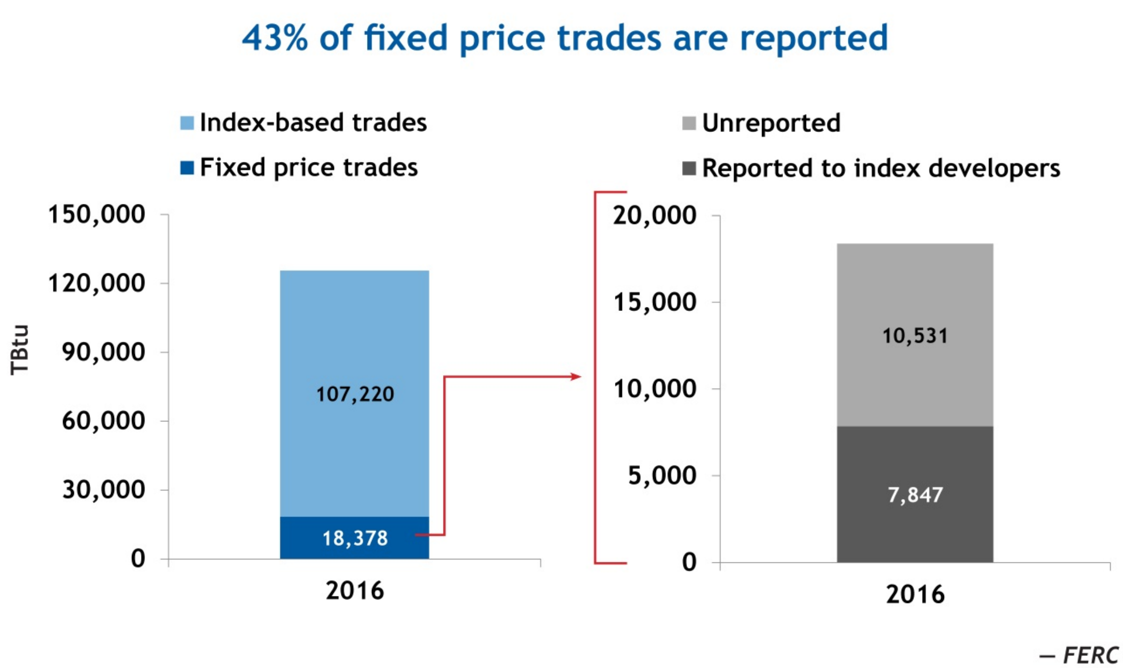
Trading in natural gas remains robust. The total volume of transactions reported by all market participants on the Commission's Form 552, the Annual Report of Natural Gas Transactions, has remained above 120,000 Tcf annually for the past six years.

It is important to understand that the vast majority of transactions reported to the Commission on Form 552 are index-based purchases or sales in daily or monthly markets. Index-related trades, by definition, cannot be used to form the underlying indices. For that purpose, index developers require market participants to report fixed-price trades. For the past three years, fixed price trades have been stable at around 15 percent of all volumes submitted on Form 552.

[1] Docket No. PL03-3-008, in reference to Argus Media, Inc.

This is a slight decline from the 2008 to 2013 period when fixed-price trades averaged 21 percent of all reported Form 552 volumes. This shift has many reasons, including reduced price volatility and the exit of banks and financial traders from natural gas markets post 2008.

Of the fixed price business that does occur, 43 percent of trades were reported to index developers in 2016 (see chart below). This is a very representative sample, and market participants continue to express confidence in the indices published by index developers by using them in jurisdictional tariffs as well as the settlement of physical and financial contracts.



Reported fixed-price trading volumes vary widely among index locations. For example, on any given day, Transco zone 4 may trade four times more than Transco zone 6 New York, but both are equally viable hubs for indexation purposes. And in the very active Permian basin, the number of daily fixed-price trades into Transwestern pipeline rarely reaches double digits, while the El Paso and the Waha hubs each may have six times the number of trades as Transwestern. All three indices are representative and viable.

Some argue there has been a decline in the number of companies reporting deals to index publishers. But that has not been borne out by the experience of Argus. From time to time individual market participants have indeed withdrawn from price reporting, but that is usually related to M&A activity or their exit from natural gas trading. And we have seen those companies replaced by others that wish to initiate participation in the price reporting process**.**

Are the standards established in 2003 still relevant in today's environment?

The FERC standards developed in the Commission's 2003 Policy Statement on Natural Gas and Electric Price Indices [2], subsequently clarified[3], still broadly work today, as the concepts driving those standards remain valid; namely, reporting accurate transactional data via independent or non-conflicted channels and building confidence in the indices and around market conduct.

The voluntary system of price reporting established by the FERC standards has shown itself to be flexible and adaptable during a period of rapid change in U.S. natural gas markets. Supply fundamentals have changed dramatically with advances in hydraulic fracturing technology. Trading has shifted towards shale plays and the pipelines that serve them, creating demand for indices at new locations. Argus has added around 40 daily and 30 bid week locations

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[2] Price Discovery in Natural Gas and Electric Markets, Docket No. PL03-3-000, POLICY STATEMENT ON NATURAL GAS AND ELECTRIC PRICE INDICES, (Issued July 24, 2003)

[3] Price Discovery in Natural Gas and Electric Markets, Docket No. PL03-3-001, ORDER ON CLARIFICATION OF POLICY STATEMENT ON NATURAL GAS AND ELECTRIC PRICE INDICES, (Issued December 12, 2003)

over the past eight years, while retiring nine daily and nine bid week indices as declining liquidity rendered them unviable.

Argus sees little need for a further review of FERC's "five standards"[4]. Argus agrees with the Commission's position that any proposed changes would need to satisfy stakeholders that such changes would improve current price indices and/or ensure a future evolution of the price discovery process that would bring more accurate, reliable, and transparent price information to energy markets.

Argus would caution against developing further standards in the area of liquidity thresholds, as this risks stifling innovation in price discovery in fast-developing but sometimes thinly traded markets to the detriment of index users. There cannot be any meaningful "one size fits all" liquidity threshold in physical commodity markets. "Liquidity" potentially means something different in each market and cannot be tied to any particular volume metric, as markets constantly change and evolve. Index developers must be in a position to reflect how markets trade so that they are able to produce useful and representative assessments. And we see evidence of market participants both moving towards and away from indices from time to time. This is consistent with the Commission's goal of encouraging industry participants to find optimal solutions and approaches to better wholesale price formation.

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4 Price Discovery in Natural Gas and Electric Markets, Docket No. PL03-3-004,REPORT ON NATURAL GAS AND ELECTRICITY PRICE INDICES, (May 5, 2004)

Are there ways to incentivize reporting?

In the course of its business, Argus continually engages with market participants and requests them to submit data for our natural gas indices. A major concern commonly expressed by market participants is that the regulatory environment distorts the risk/reward ratio in relation to submitting data in favor of reporting less data. This is because of (i) the level of regulatory scrutiny and (ii) the level of commitment required by a market participant in response to any investigation by the Commission, which at least initially will be the same regardless of whether there has been an inadvertent error or an attempt to mislead the market. Accordingly, the cost of dealing with a regulatory enquiry may well outweigh the perceived incremental benefit of greater transparency.

Greater transparency should be a key goal of the Commission. The outcome is beneficial to all since this encourages indices underpinned by more volume and allows improved and meaningful market monitoring by the Commission. The Commission must actively seek to ensure that the costs of compliance do not deter the flow of information or damage the potential for improved transparency.

In a clarification to its 2003 Policy Statement[5] , FERC wrote: “The purpose of the safe harbor is to encourage market participants to report without fear of enforcement action for

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[5] Price Discovery in Natural Gas and Electric Markets, Docket No. PL03-3-006, ORDER FURTHER CLARIFYING POLICY STATEMENT ON NATURAL GAS AND ELECTRIC PRICE INDICES, (Issued July 6, 2005)

inadvertent errors. Indeed, the safe harbor originated with industry requests for regulatory certainty and Commission assurance that good faith reporting will not subject a company to the risk of sanctions. So long as a data provider has adopted and is following the standards of the Policy Statement for reporting entities, we will apply the safe harbor policy…"

Almost 15 years after the FERC standards were first written, it is time to revisit the safe harbor provisions to understand why this well-intentioned shield offered by the Commission is apparently not enough to persuade all or just more companies and their compliance teams, in particular, to report data. And to be clear, while this is not preventing Argus from producing robust gas indices, as there is sufficient data to do so, we believe it should be possible for the Commission to build an environment that would improve both the volume of price reporting to index developers and reinforce confidence in those indices.

It is common ground that the Commission has a duty to investigate and take action in relation to inappropriate market conduct, such as intentionally providing false or misleading data to index developers. But it is important that the safe harbor shield achieves its purpose. For example, the Commission may want to reassure market participants through the safe harbor shield that they are protected from costly, time consuming investigations or audits in circumstances where there has been an inadvertent error.

Conclusion

Almost 15 years later, the voluntary system of price reporting established by FERC's 2003 Policy Statement continues to provide a framework within which index publishers can produce reliable natural gas indices with a high degree of transparency. Argus continues to reach out to market participants to increase reporting under the existing voluntary system. But the Commission might also consider measures it could take to encourage greater participation in the price reporting process, and to ensure that the safe harbor is neither construed narrowly nor ends up being viewed as a blunt instrument as the process is blind to inadvertent errors versus deliberate manipulation.

We would be pleased to take questions at any time on our statement from FERC commissioners and staff.

Respectfully,

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