
FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D.C. 20426



NEWS RELEASE

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FOR IMMEDIATE RELEASE

July 23, 2003
(Docket No. PL03-3-000)

COMMISSION ISSUES GUIDELINES ON PRICE INDICES FOR BOTH NATURAL GAS AND ELECTRIC INDUSTRIES

To help restore market confidence and to provide regulatory certainty, the Federal Energy Regulatory Commission today set guidelines for reporting and developing price indices for natural gas and electric transmission transactions.

The Commission's guidelines are outlined in a policy statement. The policy statement explains that the Commission expects natural gas and electricity price indices to adhere to certain standards and spells out the conditions under which the Commission will give industry participants "safe harbor" protection for good faith reporting of trading data.

Noting the widespread use and influence of price indices throughout energy markets, the Commission said that FERC staff investigations have led to questions about whether the price indices are accurate and subject to manipulation. Fear of making mistakes in price reporting has led to a troubling decrease in trades being reported to price index developers, the Commission said.

The policy statement assures data providers that they will not be investigated or the subject of administrative penalties for inadvertent mistakes made in the course of reporting energy trade information.

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For price index developers, comprised mostly of energy trade press publishers, the Commission called on them to adopt standards for the creation and publication of any energy price index. Among other criteria, index developers should (1) adopt and make available a written code of conduct that discloses how the developer will obtain, treat and maintain price data; (2) ensure that price reporting systems maximize the amount of useful and appropriate information that they collect and disseminate; (3) verify price data through various methods, including matching buys and sells and immediately contacting data providers about any discrepancies. In addition, the Commission requested that the index price developers undergo periodic independent audits or verification of processes and index production; and (4) provide reasonable access to the price reports in a timely basis to the Commission and the public.

The Commission also set guidelines for price data providers, those who report the prices to the price index developers. Price data providers were urged to (1) provide a clear code of conduct for employees to follow in buying and selling natural gas and electricity and in reporting data to index developers; (2) assign trade data reporting duties to a department that is independent of and not responsible for trading. This will be expected of all companies, regardless of size; and (3) report bilateral, arms-length transactions between non-affiliated companies in the physical cash markets by the data providers to index developers in accordance with confidentiality agreements.

The Commission was persuaded to provide guidance by commenters who participated in three staff conferences held this year on price indices. The commenters represent all segments of the energy industry and have met on several occasions to develop a consensus of standards by which price formation should be processed. The policy statement adopts many of the standards as the industry continues to iron out differences on other aspects of data reporting and price formation techniques.

The price indices are widely used in bilateral natural gas and electric commodity markets to track spot and forward prices. They are used as reference points in contracts as a price term and used for basis differentials to hedge natural gas transportation costs. State commissions use price indices in determining benchmarks in reviewing gas and electric purchases.

The Commission said its views on desirable characteristics of a price index should provide price developers with useful guidance on how their products can enhance both fixed price and index-based trading and increase market awareness of liquidity conditions.

However, the Commission expressed concern about the decrease in reporting transaction prices. Noting the voluntary nature of today's guidelines, the Commission said, "If voluntary reporting does not increase to the point that indices are sufficiently robust to support a healthy market, or if the standards recommended by the Commission herein are not widely adopted, the Commission will consider further action."

The Commission is currently gathering comments on a proposed rule (Docket No. RM03-3-000) that would establish a code of conduct for unbundled sales service and holders of natural gas blanket marketing certificates and a related order seeking comment on the adoption of market behavior rules (Docket No. EL01-118-000, et al.) for electric market-based tariffs and authorizations. In both cases, the Commission included requirements that reported information for transactions be provided accurately, completely and factually. In addition, the Commission proposes a requirement that entities notify the Commission whether they provide such reporting for all sales.