



Highlights of [GAO-06-275](#), a report to the Ranking Minority Member, Committee on Energy and Natural Resources, U.S. Senate

Why GAO Did This Study

Since the 1970s, the natural gas and electricity industries have each undergone a shift toward greater competition, referred to as restructuring. This restructuring has moved these industries from regulated monopolies to markets in which competitors vie for market share and wholesale prices are largely determined by supply and demand. Amid this restructuring, private companies have published information about these markets, including reports of market prices in various locations—referred to as price indices. These indices, whether for short-term “spot” or long-term “forward” markets, are developed by surveying selected market participants who voluntarily supply price information. Market participants rely on these price indices to help them make informed decisions about trading these commodities and to evaluate new investments.

In recent years, confidence in price indices has been shaken due to misreporting and other abuses. During the energy crisis in the West in 2000-2001, several market participants were found to have purposefully misreported prices in order to manipulate these indices for financial gain.

In this context, GAO agreed to answer the following questions: (1) What federal regulatory and statutory efforts have been taken to improve price indices in electricity and natural gas markets? (2) Have federal efforts improved industry stakeholders’ confidence in these price indices?

www.gao.gov/cgi-bin/getrpt?GAO-06-275.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or Wellsj@gao.gov.

NATURAL GAS AND ELECTRICITY MARKETS

Federal Government Actions to Improve Private Price Indices and Stakeholder Reaction

What GAO Found

Since 2003, the federal government has undertaken a series of regulatory and statutory efforts to improve the availability and accuracy of price information in price indices. First, FERC issued standards on voluntary price reporting and rules of conduct in a July 2003 policy statement. Second, FERC has taken steps to improve its ability to monitor price indices and enforce market rules by (1) reviewing wholesale prices for anomalies that could indicate market problems and (2) collaborating with other entities, such as the Commodity Futures Trading Commission (CFTC), and independent market monitoring units that monitor organized electricity markets to detect market manipulation. Third, the Energy Policy Act—enacted in August 2005—increases the amount and types of civil penalties that FERC may impose on companies that participate in anticompetitive behavior, including knowingly misreporting price information to index developers and gives FERC authority to collect additional transaction information if such information is necessary to ensure price transparency. Fourth, FERC and the CFTC entered into a memorandum of understanding to share and coordinate requests for information, which they say will allow FERC to more readily identify and sanction market manipulation.

Many industry stakeholders reported that they now have greater confidence in most price indices, but some expressed concern about price indices for long-term electricity markets. FERC reported that stakeholders are generally satisfied with current price indices and that the quality of information has improved. For example, in a recent survey FERC found that two-thirds of respondents reported their confidence in price indices, on a scale of 1 to 10 (10 being most confident), as a 7 or greater. Further, FERC reported that since 2002 the quality of information has improved because (1) more companies are reporting data to publishers and (2) major publishers are providing more information about the number of transactions and volume of electricity and natural gas trades. GAO’s own investigations corroborated what FERC found in its survey. Specifically, natural gas and electricity industry stakeholders reported that, in general, they are reasonably confident in the short-term prices now reported by trade publications and the improved quality of overall information. While stakeholders expressed general satisfaction with most price indices, some reported concerns about price indices in long-term electricity markets. Furthermore, stakeholders are now able to see that some of these markets witness fewer transactions and, as a result, are less developed than others. In the absence of a reliable long-term electricity market and information about prices, market participants noted that they rely on long-term natural gas markets and indices that are more developed. Stakeholders told GAO that, because natural gas is widely used to generate electricity, their prices often move together and, therefore, natural gas forward prices can substitute, to some extent, for electricity futures prices. They also said that the use of these natural gas markets only partly mitigates the lack of robust long-term electricity markets, because electricity and natural gas prices sometime move independently.