



# FEDERAL ENERGY REGULATORY COMMISSION

September 18, 2008

**Docket No.** RM07-10-001

**Item No.** G-1

**Chairman Joseph T. Kelliher**

## **Statement of Chairman Joseph T. Kelliher on Transparency Provisions of Section 23 of the Natural Gas Act**

"Today the Federal Energy Regulatory Commission (FERC) takes an important step to improve transparency of wholesale natural gas markets, by improving confidence in price integrity. The rehearing order improves the transparency of wholesale natural gas price formation, by requiring the reporting of certain physical natural gas transactions that are important to the formation of index prices. The reported information will improve transparency both in the formation of index prices and the use of index pricing in natural gas markets.

Index prices have become increasingly important in wholesale natural gas markets as their use has become more widespread. Index prices are commonly used to establish the price for wholesale natural gas transactions. Basis differentials in indices are used to hedge natural gas transportation costs; indices are used in many gas pipeline tariffs to settle imbalances or determine penalties; and state commissions often use indices as benchmarks in reviewing the prudence of gas purchases. Market participants rely upon indices at more than 70 North American trading points in structuring both next-day and next-month transactions.

This is the first exercise of the transparency authority granted to FERC by Congress under section 23 of the Natural Gas Act, added by the Energy Policy Act of 2005. We have been careful in our approach, conducting extensive outreach with stakeholders on information that might be useful to market participants. Even after the issuance of the final rule in December 2007 the agency held two technical conferences on certain aspects of the final rule.

Significantly, none of the rehearing requests argued the rule is unnecessary. Instead, rehearing requests focused on the need for particular information and concerns about regulatory burden. We carefully weighed the regulatory burden on market participants in the rehearing order, and made a number of changes that will reduce the burden on market participants, such as modifying the calculation method for the *de minimis* exemption from the reporting requirement and eliminating the need for respondents to distinguish between transactions that occur at different reportable locations.

The reporting requirement extends beyond natural gas companies, as defined by the Natural Gas Act, to buyers and sellers that may not otherwise be subject to the Commission's jurisdiction. Doing so is fully consistent with our statutory authority under the section 23 of the Natural Gas Act. That law authorized us to take action to improve transparency of physical natural gas markets, and specifically authorized FERC to collect information from market participants, rather than natural gas companies.

This is not the only exercise of our new transparency authority. The Commission has also proposed using its transparency authority to improve information about flows of natural gas across interstate and other natural gas pipelines.

The Commission is prepared to use this authority again in the future if we identify other sound ways we can improve transparency in wholesale natural gas markets."

