



**Federal Energy Regulatory Commission  
Statement for Natural Gas Panel  
Technical Conference on Transparency  
AD06-11  
October 13, 2006  
Prepared Statement of  
Chairman Joseph T. Kelliher**

"Good morning and welcome to today's technical conference to discuss possible Commission policies regarding the transparency of natural gas and electric markets, in the wake of passage last year of the Energy Policy Act of 2005.

Today's discussions are intended, first to review the needs of market participants regarding information about the availability and prices of wholesale natural gas and electric markets, second to develop ideas for possible policy actions by the Commission, and third, to consider the Commission's jurisdiction to take such actions. We would also like any thoughts on the effectiveness of prior Commission actions on price indices in wholesale natural gas and electric markets.

Revelations of false reporting to price index developers in 2000-2002 and the near-collapse of energy trading removed major players and sharply reduced the volume of price-forming wholesale transactions being conducted. On January 15, 2003, staff reported to the Commission regarding "serious doubts about the accuracy of information reported in many wholesale natural gas price indices." The Commission responded by initiating a process designed to actively engage all segments of the natural gas and electricity industries; a process that led initially to the July 2003 Policy Statement on price formation and subsequently to Staff's report in 2004 on the Policy Statement's effects. In that report, staff found that the industry's actions led to significant improvements in the accuracy and credibility of price indices. I review that history to highlight that this is not the first time the Commission has addressed price transparency, but instead is part of a continuing effort that predates the Energy Policy Act and stretches back a number of years.

The Energy Policy Act provisions regarding price transparency are very interesting. First, it is my view that this provision, read in conjunction with the market manipulation provisions of the law, give the Commission a new legal duty. The Commission has always had a legal duty to protect jurisdictional customers from exploitation. We have new legal tools to better fulfill that historic duty.

But EPAct gave us a new legal duty – to protect the integrity of markets themselves. I see that in the price transparency authority, as well as the anti-manipulation authority. With respect to the price transparency provision, it is clear we have always had authority to collect the information we need from jurisdictional companies in order to discharge our legal duties.

The EPAct price transparency provisions authorize us to do something quite different – to facilitate price transparency that is "for the public interest, the integrity of markets, fair competition", as well as the protection of consumers. Under the EPAct provision, we are authorized to act, but not required to act. Our authority is discretionary. We also have authority to require the dissemination of information from "market participants", rather than "natural gas companies" and "public utilities".

We have been very deliberate in the possible exercise of our EPAct price transparency authority. With many of the mandatory provisions of the Energy Policy Act of 2005 well underway, earlier this year I directed Commission staff to begin to meet with a wide variety of interested parties across the electric and natural gas

industries to discuss energy markets and the possibilities for Commission action using the Act's transparency provisions. Based on these 34 meetings, staff decided to hold a Workshop on September 26, 2006, that was designed to help some of these participants better understand available information. The intention of that Workshop was to sharpen perceptions in preparation for presentations to the Commission here today.

Today, the issues of transparency appear to have shifted away from a narrow focus on index development toward other issues like access to information about term contract prices, understanding the relationship between physical and financial trading, and getting to more information about supply and demand. To explore these concerns, I ask panelists to tell us: ***What specific information about the availability and prices of natural gas/electricity sold at wholesale and in interstate commerce is not available today but should be?***

Because any policy initiative undertaken by the Commission would have to be specifically related to reporting information, we added the question: ***How could that information be disseminated?***

The language of the transparency provisions of the Energy Policy Act of 2005 appear to have expanded the Commission's consideration of possible initiatives beyond its pre-existing authorities, so we included the question: ***How does either the Commission's historical natural gas/electric jurisdiction or EAct 2005 give the Commission the authority to collect or disseminate that information or have it collected or disseminated?***

And finally, because of the history of Commission activity related to price indices over the past 5 years, we ask: ***In the context of its prior efforts, what more (if anything) should the Commission do with respect to the development or publication of natural gas/electric price indices?***

In order to get the broadest possible feedback from across the industry, focusing both on those who *use* relevant market information and those who *produce* it, we will be using a novel approach to managing these extremely large panels. Each panel is made up of as broad a representation of interests as we could manage. Each panelist will have three minutes to deliver their initial statements. We will hold them strictly to three minutes.

We will then proceed to discussions to questions and answers. Both the industry representatives and the information providers, who are sitting in the first row of the audience due to space limitations, are invited to participate. Whether they get involved in the questioning and answering or not, in the interest of fairness, before closing, I will give the information providers two minutes each to respond generally or summarize their thoughts.

We will end this panel on natural gas issues no later than noon, in order to give several of our panelists' time for lunch before the 1:00 pm start of the electricity panel this afternoon.

Because of the unfortunate, but necessarily tight time limitations, I encourage any interested person, whether on these panels or not, to submit statements to the record in docket number AD06-11-000.

This morning's panel will concern natural gas issues."