



Federal Energy Regulatory Commission
April 19, 2007
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

**Item M-1: Transparency Provisions of Section 23 of the Natural Gas Act
(Docket Nos. RM07-10-000 and AD06-11-000)**

"Today the Commission takes an important step to exercise for the first time new authority granted it by the Energy Policy Act of 2005, namely our authority to require greater transparency of natural gas markets. The proposed rule would significantly increase the transparency of wholesale natural gas markets, by providing greater information regarding wholesale trading and physical gas flows. Our action today will help protect the integrity of wholesale natural gas markets.

Under the proposed rule, intrastate natural gas pipelines will provide information regarding physical flows on the intrastate systems. This flow information is currently available for interstate natural gas pipelines. This disclosure will increase transparency and provide more complete information regarding physical gas flows across the country.

The proposed rule also imposes a new reporting requirement on all buyers and sellers of physical natural gas. This reporting requirement will establish the true size of the wholesale natural gas market, assess the importance of the use of index pricing in that market, and determine the size of the fixed-price trading market that produces the information. This increased transparency will make it easier for the Commission to assess market forces and detect market manipulation.

We have been deliberate in our approach. Last year, the Office of Enforcement held a host of outreach meetings to solicit the views of stakeholders on how we might exercise our transparency authority. We also held a technical conference last October on electricity and gas transparency proposals. We did not begin this process resolved to use our authority, but to use it if we could identify specific needs for greater transparency that would improve market performance. The transparency measures we propose today are well supported by the record.

Other proposals were advanced and considered, in particular mandatory price reporting. However, in my view the record does not support mandatory price reporting. In fact, the record suggests that there may be less liquidity at gas price indices if we mandated price reporting, as the number of fixed price transactions decline in favor of index pricing.

I note the transparency proposed rule would apply to entities beyond our traditional jurisdiction. That is because we interpret the transparency provisions of Energy Policy Act to authorize us to require disclosure of market information from otherwise nonjurisdictional entities. The transparency provisions authorize the Commission to require disclosure from "market participants", not "natural gas companies" the term otherwise used in the Natural Gas Act. Applying the usual rules of statutory construction, we must give meaning to the words used by Congress, and must assume those words were chosen with care.

Today, we propose to use our authority to increase the transparency of natural gas markets. The Commission has recently addressed and is currently addressing electric market transparency in other proceedings. We have previously acted to increase the transparency of electricity markets through Order No. 890, which increased the transparency of open access transmission service. In the recently-

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initiated wholesale competition review, the Commission is reviewing a variety of market-related electricity issues in a series of public conferences evaluating the state of competition in wholesale power markets, including price transparency in wholesale markets.

This is our first proposed use of the discretionary transparency authority granted us in EAct. It is not necessarily the last use of this authority. We are acting consistent with the record before us today. To the extent other proposed uses are supported, we may use this authority in the future, to different ends."