argusmedia.com

Federal Energy Regulatory Commission

888 First Street, NE
Washington, DC
204206

Attention: Nathaniel J. Davis, Sr., Deputy Secretary

Docket No. RM13-1-000

Date: February 12, 2013

Comments of Argus Media Inc. regarding Enhanced Natural Gas Market Transparency

Dear Mr. Davis,

Argus Media Inc. ("Argus") appreciates the opportunity to respond to the Commission's Notice of Inquiry ("NOI"), issued November 15, 2012.

Argus is a leading provider of price assessments, business intelligence and market data for the global crude oil, petroleum products, natural gas, NGLs, coal, electricity, biofuels, biomass, natural gas, petrochemical, fertilizer and transportation industries. Argus is a privately held UK-registered company headquartered in London, with 18 offices around the world.

Argus Media Inc.
3040 Post Oak Boulevard, Suite 550
Houston, TX 77056
Tel: +1 713 968 0000
Fax: +1 713 622 2991

illuminating the markets

Argus and its role in natural gas market indexation

As an independent price reporting organization, Argus publishes next-day daily and next-month prices for North American natural gas markets. The Commission recognized in an order dated August 27, 2009 (Docket No. PL03-3-008) that Argus methodologies and procedures conform with its July 24, 2003, Policy Statement on Natural Gas and Electric Price Indices, Price Discovery in Natural Gas and Electric Markets, 104 FERC 61,121 (2003) and subsequent clarifications.

Energy companies, financial service companies and governments use Argus prices for natural gas and other commodities as price references. The prices may be used to index long-term contracts, spot market contracts, derivatives transactions such as swaps, as well as in corporate internal transfer pricing, market analysis, performance measures, risk management analysis and capital investment decisions. Government entities also use Argus spot market prices to determine taxation and royalty calculations.

Argus has an important role in the proper functioning of the energy markets. Confidence in the prices published by Argus creates confidence in the markets themselves, which in turn encourages liquidity, effective clearing of trades, accurate price discovery and overall market transparency.

Argus recognizes that its clients and other industry stakeholders expect it to meet the highest standards in the field of price reporting, and to value principles that support its important role. Argus has robust governance and operates a rigorous and transparent controls framework including an Editorial Code of Conduct and an ethics and compliance policy entitled Argus Global Compliance Policy, all publicly available on its website.

As an independent price reporting organization, Argus is separate from the markets and has no vested interest in the level of any price that it reports. Argus has clear policies in place to avoid conflicts of interest and prohibits its employees from trading in the commodities or industries upon which it reports. A Global Compliance Officer oversees the company’s compliance regime. This includes a rolling program of audits to ensure full and continuous adherence to the company’s compliance policy.

Argus respects transparency and disclosure by making its processes public, and by providing market information openly. Argus ensures that it has the resources to achieve these values, by hiring and retaining qualified and experienced staff, and regularly training employees. Argus maintains its credibility as an independent price reporting organization by consistently applying its methodologies for price identification, and thus maintaining its high and long-standing reputation.

Enhanced Natural Gas Transparency

The Commission requested comment on whether it should require quarterly reporting of natural gas transactions under section 23 of the Natural Gas Act, in order to facilitate market transparency.

Argus supports transparency in energy markets because this helps to create accurate price signals, which aid investment decisions and promote economic efficiency benefitting producers and consumers alike. At the same time, Argus recognizes there can be a degree of natural tension between transparency and other desirable market characteristics such as liquidity. Argus is therefore concerned to ensure public policy supports an optimal balance between what may be competing market features, in order that overall market efficiency and integrity are maximized.

North American natural gas markets are highly liquid, and many price indices are supported by large volumes of trade. This is despite the fact that only a subset of spot natural gas is traded at a fixed-price as next-day or next-month contracts – a necessary criterion for inclusion in these volume-weighted average indices.

Creating conditions for continued liquidity in the next-day and next-month markets is the best guarantor of the indices' continued integrity.

The system of voluntary price reporting that has operated under the Commission's 2003 guidelines (see above) has enabled North American natural gas markets to thrive.

Several index publishers compete in the North American natural gas market. This enables each to function as a check on the quality of the competing indices produced. Simply put, if market participants believe the indices produced by one publisher are unrepresentative of market price, they are at liberty to move to another publisher.

Argus is concerned the measures proposed by the Commission may increase transparency at the cost of harming liquidity.

The NOI argues that greater transparency is required to raise confidence in the index publisher indices: "market participants lack a complete understanding of the actions that produce the prices that are reported to the indices. Increased confidence in these indices requires greater transparency to assure prices are a result of fundamental supply and demand forces and not the result of manipulation or other abusive market conduct." (NOI, para 14).

In principle, Argus supports increased transparency and would welcome public access to transactional data. But there is already a high degree of transparency in natural gas markets. Argus publishes aggregate volumes plus number of trades for each index on a daily and monthly basis, for example.

And Argus is concerned the proposals described in the NOI could result in a reduction in the volume of data available to index publishers and a consequent diminution in the accuracy of published indices: “The Commission is considering requiring market participants to report the following data elements for all jurisdictional transactions that entail physical delivery for the next day (i.e. next gas day) or for the next month (i.e. next gas month) in a standardized, electronic format and on a quarterly basis…” (NOI, para 12).

Argus draws the Commission’s attention to its own Order 704 (paras 116-118), which argues cogently against mandatory reporting of transactions. Firstly, market participants may seek to avoid the filing requirement by structuring transactions so they do not fall into the “next day” and “next month” categories outlined above. For example, market participants may choose to trade multi-day or multi-month “strips” to avoid the reporting requirement. And this would result in an actual reduction in transparency (and liquidity in reportable contracts) since these transactions would not meet the criteria of the various index publisher indices. Secondly, market participants may decide to trade based on an index rather than on a fixed-price. This would again diminish the data available to index publishers, potentially rendering indices more volatile and less precise.

The Commission asks if it should “establish a threshold up to which market participants with a *de minimis* market presence would not be subject to reporting requirements.” (NOI, para 20). Argus believes the current threshold for Form No. 552 filings of 2.2 Bcf/yr is appropriate. Lowering or removing that threshold would place an onerous burden on smaller market participants. It would also have the likely consequence of driving smaller participants to avoid transacting in reportable contracts as outlined above.

Conclusions

Argus respectfully requests the Commission take account of the potential impact its rule-making on the NOI may have on liquidity in the fixed-price, next-day and next-month markets as any significant reduction in volumes traded and/or reported to index publishers will have a damaging effect on the natural gas market as a whole.

Correspondence regarding these comments should be addressed to:

Euan Craik
CEO Americas
Argus Media, Inc.
3040 Post Oak Blvd
Suite 550
Houston, Texas 77056