August 1, 2006

Commodity Futures Trading Commission
Attn: Office of the Secretariat
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Subject: "Boards of Trade No Longer Located Outside the United States Under CEA Section 4(a) and the Requirement to Become a Designated Contract Market or Derivatives Transaction Execution Facility"

Introduction of the Industrial Energy Consumers of America
The Industrial Energy Consumers of America (IECA) is a 501 (C) (6) nonprofit organization created to promote the interests of manufacturing companies for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: plastics, cement, paper, food processing, chemicals, fertilizer, insulation, steel, glass, industrial gases, aluminum, brick, pharmaceutical, and brewing.

Statement of interest and qualifications:
As some of the worlds' largest consumers of natural gas and other energy commodities, IECA member company competitiveness are impacted directly and indirectly from the price of natural gas and the functioning of natural gas markets. All market inefficiencies are paid for by us, the consumer. As a result, consumers have a vested interest in the outcome of this inquiry by the CFTC.

Summary of position:
It is vital that all trading exchanges and products have oversight by one US regulatory body that will provide continuity and certainty that markets and consumers are protected from market manipulation. Today, the Intercontinental Exchange (ICE) is regulated by a UK regulatory agency. A UK regulatory agency overseeing only part of the natural gas market is inconsistent with quality market oversight. Also, the interests of UK regulators are disconnected to the interests of the US public. Therefore, having a UK regulatory agency continuing to oversee ICE is not satisfactory.

As consumers, we hold the CFTC and the US Congress accountable for the safe keeping of our markets, not the UK regulators or any other country. IECA supports action that would extend CFTC's oversight beyond NYMEX to include ICE and the over-the-counter (OTC) market that includes forward contracts, swaps and options. This action is needed to protect markets and consumers from potential abuse.

Statement:

IECA does not support regulation of markets or prices. However, we strongly believe that markets work better when market participants know there is strong US government oversight and monitoring that has the ability to catch and severely penalize market manipulation. In our view, neither sufficient government oversight nor penalties are in place to deter manipulation. The current market oversight does not cover the entire market and is reactive, not proactive in its ability to prevent market manipulation.

Unlike most commodities, the US natural gas market is regional, not global. All of the trading exchanges such as NYMEX and ICE, and all natural gas related products that deal with physical product, futures or derivatives that include forward contracts, swaps and options are linked and interdependent. They do not operate independently. This concludes that it is vital that all trading exchanges and products have oversight by one US regulatory body that will provide continuity and certainty that markets and consumers are protected from market manipulation.

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IECA is also concerned that UK regulators do not limit the size of positions investors can take. The constrained US supply situation and the combination of no intra-market transparency and no limit on how large a position an investor can take creates heightened concern.

Existing CFTC market oversight fails to address the needs and concerns of consumers. CFTC's jurisdictional oversight of the natural gas market applies only to the NYMEX leaving about two-thirds of the trading volume with no jurisdictional oversight. Given the physical constraints of the natural gas market that leave consumers vulnerable, it is in the interests of the public for the CFTC to have market oversight of the over-the-counter (OTC) market that includes forward contracts, swaps and options in order to protect markets and consumers from potential abuse.

As previously stated, all natural gas markets and related products are linked. CFTC enforcement people have publicly said that "because trades on exchanges and over the counter are interdependent, each energy enforcement case brought by the agency included violations that occurred on the OTC market." This statement by the CFTC enforcement people make it clear there is an oversight gap, the "Enron gap". This also raises the question, without CFTC oversight, what OTC violations have we missed?

Unless the CFTC knows what positions (volumes) large traders hold, it has no way of knowing if market manipulation is occurring or not. Today, only NYMEX is required to report large trader volumes to the CFTC, which leaves two-thirds of the volume unaccounted for. Transparency is the key.

Submitted by:
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