

COMMENT

09-21
③

The McGraw-Hill Companies

platts

**Received CFTC
Records Section**

10/28/09

October 26, 2009

David A. Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St. NW
Washington, DC 20581
secretary@cftc.gov

C.F.T.C.
OFFICE OF THE SECRETARIAT
2009 OCT 28 AM 9 04

Re: Notice of Intent, Pursuant to the Authority in Section 2(h)(7) of the Commodity Exchange Act and Commission Rule 36.3(c)(3), to Undertake a Determination Whether the NGPL TxOk Financial Basis Contract, Offered for Trading on the IntercontinentalExchange, Inc., Performs a Significant Price Discovery Function

Comments of Platts

Platts, the energy information division of The McGraw-Hill Companies, Inc., submits these comments for consideration by the Commodity Futures Trading Commission (the "Commission") in proceedings on whether certain contracts offered for trading on IntercontinentalExchange, Inc. ("ICE"), an exempt commercial market ("ECM"), are significant price discovery contracts within the meaning of Section 2(h)(7) of the Commodity Exchange Act because they perform a significant price discovery function. Platts has considerable experience and knowledge in assessing prices in a number of physical energy markets globally, including markets addressed in this proceeding, and is submitting these comments, along with relevant data, to aid the Commission's review.

In October 9, 2009 notices, the Commission sought comment on nine contracts that are cash-settled on the difference between the monthly final settlement price for the New York Mercantile Exchange ("NYMEX") Henry Hub gas futures contract and bidweek indices published by Platts in its *Inside FERC's Gas Market Report (IFERC)*. Those nine contracts, as described by *IFERC* and the Commission's notices, respectively, are:

- Columbia Gas Transmission Corp., Appalachia ("TCO")
- Dominion Transmission Inc., Appalachia ("Dominion South")
- El Paso Natural Gas Co., Permian Basin ("Permian")
- El Paso Natural Gas Co., San Juan Basin ("San Juan")
- Houston Ship Channel ("HSC")
- Texas Eastern, zone M-3 ("TETCO-M3")
- Transco, zone 6 N.Y. ("Zone 6-NY")
- Natural Gas Pipeline Co. of America, Texok zone ("NGPL TxOk")
- Waha ("Waha")

Platts licenses use of its published indices to ICE for purposes of settlement of the contracts listed above, as well as others, and thus has an interest in this proceeding.

Platts publishes its monthly bidweek indices on a subscription basis on the first business day of each month for gas to flow that month. In formulating its monthly gas indices, which it has published for more than 20 years, Platts follows a public, well-defined methodology. Platts will summarize elements below. The full methodology is available at:

http://www.platts.com/IM.Platts.Content/MethodologyReferences/MethodologySpecs/na_gas_methodology.pdf

Platts collects data for US gas spot transactions firsthand from buyers and sellers, regardless of whether the transaction is completed on an electronic platform, bilaterally or through a broker. The data is submitted from a central point in the mid- or back office (*i.e.*, a segment of the reporting entity that does not have a commercial interest in the reported prices). The reporting entity must certify that it is making a good-faith effort to report completely and accurately and is obligated to make reasonable efforts to inform Platts in the case of any errors or omissions.

The monthly bidweek survey includes fixed-price physical deals negotiated during the last five business days of the month for delivery throughout the next month. For certain markets, it also includes physical basis deals in which the basis value is negotiated on one of the first three days of bidweek and the price is set by the final closing value of the near-month NYMEX futures contract plus or minus the negotiated basis. Platts' current policy is to use physical basis deals for points east of the Rocky Mountains, except in the Permian Basin region at Waha, El Paso Natural Gas Co., Permian Basin and Transwestern Pipeline Co., Permian Basin.

In determining its monthly indices, Platts relies on straightforward quantitative analysis on the collected transactional data, including the volume-weighted average, the median, the simple average, the mode and the midpoint. Platts editors use volume-weighted averages as the foundation for their determination of index values. At pricing points with robust dealmaking and a generally normal distribution curve, the index is the simple volume-weighted average. This applies to the large majority of bidweek indices that Platts publishes.

Because survey samples of reported trading at any individual pricing point can vary under different market conditions, the volume-weighted average alone is not always a valid indicator of average dealmaking over the five-day bidweek period. Survey samples can vary with participation levels and the completeness of data elements reported. In a market with low liquidity and/or high volatility, a single party with one or two large-volume deals reported at an extreme end of the market's price range can significantly move a volume-weighted average away from the average value at which most parties traded. In these situations, Platts editors also consider the median of the price series, which tends to represent the centerpoint of trading better than the volume-weighted average.

At points where trading is robust and the distribution of reported transactions is generally normal, the volume-weighted average and the median are usually aligned with each other. If the two measures significantly diverge and Platts' analysis finds that the characteristics of the survey sample are creating an unrepresentative skew of the volume-weighted average, either the median is used as the index or the average of the median and the volume-weighted average is used.

In limited instances, in illiquid markets where there is insufficient trade data to calculate a representative monthly index, Platts publishes an assessment in lieu of an index. In these cases, Platts will examine other market information to determine whether it can publish a valid assessment. If that is not possible, Platts will publish no index price for the month, designated as "N.A."

Platts has detailed public policies on data verification and corrections. Platts also has a Compliance staff independent of its Editorial staff that reviews the work of all North American natural gas market reporters at least twice a year. Further, all Platts editors must comply with both a Platts Code of Ethics and The McGraw-Hill Companies' Code of Business Ethics which, among other things, prohibit editorial personnel and their spouses from trading in commodities or stocks, bonds or options of companies in the industries covered by their publications.

Platts also is committed to providing the public with full transparency on the amount of data in its monthly gas surveys. Since July 2003, Platts has grouped its monthly price points into three tiers to aid understanding of the amount of trading at each point. Tier 1 includes points with volumes of at least 100,000 MMBtu/day and at least 10 trades; Tier 2 includes points with volumes of 25,000 to 99,999 MMBtu/day and at least five trades; and Tier 3 includes points with volumes below 25,000 MMBtu/day and/or fewer than five trades. Platts publishes the tier, volumes and number of trades for each point on its public web site. The file is available at:
<http://www.platts.com/elqNow/elqNotAuthRedir.htm?ref=/IM.Platts.Content/MethodologyReferences/MethodologySpecs/tiers.xls>

In this proceeding, the Commission is examining whether certain financial basis contracts traded on ICE meet the criteria for a significant price discovery contract. The Commission has examined the volume and trade data for those contracts for second-quarter 2009. To facilitate the Commission's inquiry, Platts has compiled the relevant monthly bidweek data for those pricing locations for that time period in the table below. In short, trading at each of the pricing locations for each of the three months of the period examined met the criteria for Tier 1, indicating robust trading markets at those locations.

| Price location | April 09 Volume* | April 09 deals# | May 09 volume* | May 09 deals# | June 09 volume* | June 09 deals# |
|--|---------------------|--------------------|-------------------|------------------|--------------------|-------------------|
| TCO | 456,695 | 79 | 451,132 | 73 | 510,334 | 86 |
| Dominion South | 325,854 | 55 | 464,778 | 84 | 152,822 | 35 |
| Permian | 668,132 | 122 | 490,600 | 100 | 509,100 | 102 |
| San Juan | 619,826 | 122 | 586,356 | 110 | 861,584 | 152 |
| HSC | 354,200 | 47 | 225,000 | 28 | 670,676 | 99 |
| TETCO-M3 | 665,271 | 107 | 897,624 | 118 | 822,684 | 113 |
| Zone 6-NY | 208,100 | 35 | 198,327 | 32 | 150,000 | 29 |
| NGPL TxOk | 958,549 | 165 | 866,000 | 163 | 569,798 | 105 |
| Waha | 345,000 | 59 | 429,584 | 80 | 450,884 | 76 |
| * Volumes in MMBtu/day | | | | | | |
| # Total reported deals used in determining index | | | | | | |

In addition to the nine ICE contracts that settle off the difference between the NYMEX Henry Hub futures contract and the Platts *IFERC* bidweek indices, the Commission has proposed to designate four other ICE contracts as significant price discovery contracts:

- Chicago city-gates (“Chicago”)
- PG&E Malin, Ore. (“Malin”)
- PG&E city-gate (“PG&E city-gate”)
- Nova, AECO-C (AECO”)

The Chicago, Malin and PG&E city-gate contracts settle on the difference between the NYMEX Henry Hub futures contract and monthly indices published by Intelligence Press, Inc. (IPI) in *NGI’s Bidweek Survey*. The AECO contract settles on the difference between the NYMEX Henry Hub contract and the AECO-C & Nova Inventory Transfer price reported by Canadian Enerdata, Ltd.’s *Canadian Gas Price Reporter*. Transactions used to calculate the monthly Alberta price are conducted on the Natural Gas Exchange (NGX).

With respect to all four contracts, the Commission notes that ICE maintains exclusive rights over IPI’s bidweek indices and over NGX’s Alberta gas price index and as a result, no other exchange can offer a basis contract based on those indices. “While other third-party price providers produce natural gas price indices for a variety of trading centers, those indices may not be the same in value or quality” as the IPI and NGX indices, the Commission says.

Platts in fact reports monthly indices at all four of those price locations and believes its indices reflect the same quality as at its other locations and are valid indicators of price values at those four locations. As shown below, trading volumes compiled by Platts at those pricing locations are robust. Platts also notes that NYMEX uses Platts’ Chicago, Malin and PG&E city-gate prices to settle basis swap contracts for those points traded or cleared on NYMEX’s Clearport system.

| Price location | April 09 volume* | April 09 deals# | May 09 volume* | May 09 Deals# | June 09 Volume* | June 09 deals# |
|---|-----------------------------|----------------------------|---------------------------|--------------------------|----------------------------|---------------------------|
| Chicago | 645,525 | 144 | 67,897 | 29 | 299,663 | 67 |
| Malin | 163,700 | 38 | 285,102 | 58 | 299,962 | 62 |
| PG&E Citygate | 438,180 | 91 | 331,191 | 69 | 253,491 | 51 |
| AECO | 1,649,412 | 326 | 1,739,613 | 345 | 2,646,359 | 535 |
| <i>* Volumes in MMBtu/day</i> | | | | | | |
| <i># Total reported deals used in determining index</i> | | | | | | |

While Platts takes no position on whether the ICE contracts should be designated as significant price discovery contracts under Section 2(h)(7) of the Commodity Exchange Act, it believes that the settlement mechanisms in those contracts using physical gas price indices by Platts are appropriate measures of price values at those locations.

Platts would be pleased to answer any additional questions the Commission may have as it considers these issues.

Respectfully submitted,

By _____/s/ _____

Larry Foster

Global Editorial Director, Power

Platts

1200 G St. NW, Suite 1000

Washington, DC 20005

larry_foster@platts.com

202-383-2140