

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D. C. 20426

09-29
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OFFICE OF THE GENERAL COUNSEL

November 4, 2009

COMMENT

Mr. David Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

OFFICE OF THE SECRETARIAT
C.F.T.C.
2009 NOV 9 PM 3 34

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 Certain Contracts Offered for Trading on the
Natural Gas Exchange, Inc., Perform Significant Price Discovery Functions
(Comment File 09-029)

Received CFTC
Records Section
11/9/09

Comments of the Staff of the Federal Energy Regulatory Commission

Dear Mr. Stawick:

On October 14, 2009, the Commodity Futures Trading Commission (CFTC) issued a notice of action and request for comment on whether certain natural gas contracts offered for trading on the Natural Gas Exchange, Inc. (NGX), an exempt commercial market (ECM), perform significant price discovery functions.¹ These are the comments of the staff of the Federal Energy Regulatory Commission (FERC).

Under the CFTC's rules implementing the Reauthorization Act of 2008, an ECM with significant price discovery contracts (SPDCs) is subject to certain self-regulatory and reporting requirements, as well as certain CFTC oversight authorities, with respect to those contracts. Specifically, such regulatory authority applies to agreements, contracts or transactions in exempt commodities (which includes natural gas) executed on an electronic trading facility by certain eligible

¹ The contracts are: the Alberta Basis contract; the Union-Dawn Basis contract; the Alberta Fixed-Price contract; the Union-Dawn Fixed-Price contract; and the Alberta Index contract.

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commercial entities on a principal-to-principal basis if the CFTC determines, in its discretion, that any such agreement, contract or transaction performs a significant price discovery function. If the CFTC determines that a particular agreement, contract or transaction performs a significant price discovery function, the ECM must demonstrate, with respect to that contract, compliance with nine “core principles” set forth in section 2(h)(7)(C) of the Commodity Exchange Act (CEA) and the CFTC’s rules thereunder.

FERC understands that some entities may argue that designation of certain contracts as SPDCs could affect consumers adversely. FERC’s regulatory role generally is to ensure an adequate supply of energy at reasonable prices for consumers. In our view, the statutory provisions on SPDCs can and should be implemented in a way helpful to consumers, and we recognize that the CFTC will give appropriate consideration to the interests of consumers.

We also understand that the above-referenced NGX contracts call for physical delivery of natural gas at certain points within Canada, and thus do not appear to be in “interstate commerce” under the Natural Gas Act (NGA). While a determination by the CFTC that any of these contracts performs a significant price discovery function would not appear to conflict with FERC’s exclusive jurisdiction under the NGA over certain sales of natural gas in interstate commerce for resale or with its other regulatory responsibilities under the NGA, the FERC staff will continue to monitor for any such conflict. Moreover, the FERC staff will monitor other similar determinations that could conflict with the FERC’s regulation of wholesale natural gas markets. Accordingly, the FERC staff will advise the CFTC of any potential conflicts with the FERC’s exclusive jurisdiction over certain sales of gas in interstate commerce for resale.

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The FERC staff thanks the CFTC for soliciting comments on its review of the ICE contracts. Any questions or comments on this submission may be directed to:

The Federal Energy Regulatory Commission
Office of the General Counsel
888 First Street, NE
Washington, DC 20426
Attention: Andrew F. MacDonald
Phone: 202-502-6541

Sincerely,



Thomas R. Sheets
General Counsel
Office of the General Counsel
Federal Energy Regulatory Commission

Cc: Jon Wellinohoff, Chairman
Suedeen G. Kelly, Commissioner
Phillip D. Moeller, Commissioner
Marc L. Spitzer, Commissioner