



AMERICAN PUBLIC GAS ASSOCIATION

TESTIMONY OF LAURA CAMPBELL

ASSISTANT MANAGER OF ENERGY RESOURCES,

MEMPHIS LIGHT, GAS & WATER

ON BEHALF OF THE AMERICAN PUBLIC GAS ASSOCIATION

BEFORE THE COMMODITY FUTURES TRADING COMMISSION

SEPTEMBER 18, 2007

ACTING CHAIRMAN LUKKEN AND MEMBERS OF THE COMMODITY FUTURES TRADING COMMISSION, I APPRECIATE THIS OPPORTUNITY TO TESTIFY BEFORE YOU TODAY AND I THANK THE COMMISSION FOR CALLING THIS HEARING TO EXAMINE THE CRITICALLY IMPORTANT ISSUES OF TRADING ON REGULATED EXCHANGES AND EXEMPT COMMERCIAL MARKETS.

MY NAME IS LAURA CAMPBELL AND I AM THE ASSISTANT MANAGER OF ENERGY RESOURCES FOR MEMPHIS LIGHT GAS & WATER (MLGW). MLGW IS THE NATION'S LARGEST THREE-SERVICE MUNICIPAL UTILITY AND CURRENTLY PROVIDES SERVICE TO MORE THAN 420,000 CUSTOMERS.

I TESTIFY TODAY ON BEHALF OF THE AMERICAN PUBLIC GAS ASSOCIATION (APGA). APGA IS THE NATIONAL ASSOCIATION FOR PUBLICLY-OWNED NATURAL GAS DISTRIBUTION SYSTEMS. THERE ARE APPROXIMATELY 1,000 PUBLIC GAS SYSTEMS IN 36 STATES AND ALMOST 700 OF THESE SYSTEMS ARE APGA MEMBERS. PUBLICLY-OWNED GAS SYSTEMS ARE NOT-FOR-PROFIT, RETAIL DISTRIBUTION ENTITIES OWNED BY, AND ACCOUNTABLE TO, THE CITIZENS THEY SERVE.

APGA'S MEMBERS HAVE LOST CONFIDENCE THAT THE PRICES FOR NATURAL GAS IN THE FUTURES AND THE ECONOMICALLY LINKED OVER-THE-COUNTER ("OTC") MARKETS ARE AN ACCURATE REFLECTION OF SUPPLY AND DEMAND CONDITIONS FOR NATURAL GAS.

WITHOUT QUESTION, NATURAL GAS FUTURES CONTRACTS TRADED ON NYMEX AND FINANCIAL CONTRACTS FOR NATURAL GAS TRADED ON THE OVER-THE-COUNTER MARKETS ARE ECONOMICALLY LINKED. THE MARKET FOR FINANCIAL

NATURAL GAS CONTRACTS IS COMPOSED OF A NUMBER OF SEGMENTS, WHICH INCLUDE FUTURES CONTRACTS TRADED ON NYMEX AND FINANCIAL CONTRACTS FOR NATURAL GAS TRADED ON THE OTC MARKETS. OTC CONTRACTS MAY BE TRADED ON MULTI-LATERAL ELECTRONIC TRADING FACILITIES, KNOWN AS “EXEMPT COMMERCIAL MARKETS” OR “ECMS.” THEY ALSO MAY BE TRADED BILATERALLY ON ELECTRONIC PLATFORMS, THROUGH VOICE BROKERS AND IN DIRECT BILATERAL TRANSACTIONS BETWEEN COUNTERPARTIES.

THE IMPACT OF LAST YEAR’S ACTIVITIES OF THE AMARANTH ADVISORS HEDGE FUND EXEMPLIFIES THIS LINKAGE. WHEN THE POSITIONS ACCUMULATED BY AMARANTH BEGAN TO UNWIND, GAS PRICES DECREASED. UNFORTUNATELY, MANY OF APGA’S MEMBERS HAD ALREADY LOCKED-IN PRICES PRIOR TO THAT PERIOD AT LEVELS THAT DID NOT REFLECT CURRENT SUPPLY AND DEMAND CONDITIONS. AS A RESULT OF THE ELEVATED PRICES DURING THE PERIOD WHEN AMARANTH HELD THESE EXCEEDINGLY LARGE POSITIONS, MANY OF

APGA'S MEMBERS WERE FORCED TO PAY A PREMIUM WHICH WAS PASSED THROUGH TO THEIR CUSTOMERS ON THEIR GAS BILLS.

THE CFTC HAS DONE A GOOD JOB IN CATCHING MARKET ABUSES AFTER THE FACT. HOWEVER, THE COMMISSION DID NOT HAVE A COMPLETE PICTURE OF THE FULL EXTENT OF AMARANTH'S TRADING POSITION UNTIL AFTER AMARANTH'S COLLAPSE. GREATER TRANSPARENCY WITH RESPECT TO TRADERS' LARGE POSITIONS, WHETHER ENTERED INTO ON A REGULATED EXCHANGE OR ON THE OTC MARKETS FOR NATURAL GAS WILL PROVIDE THE COMMISSION WITH THE TOOLS TO DETECT AND DETER POTENTIAL MANIPULATIVE ACTIVITY BEFORE OUR MEMBERS AND THEIR CUSTOMERS SUFFER HARM.

APGA BELIEVES THAT THERE ARE IMMEDIATE MEASURES THAT THE COMMISSION CAN, AND SHOULD, TAKE WITHIN ITS EXISTING AUTHORITIES TO IMPROVE THE CURRENT SITUATION. THE RECENT PROPOSED AMENDMENTS TO RULE 18.05 OFFER

THE COMMISSION BOTH THE MEANS AND THE OPPORTUNITY TO INCREASE TRANSPARENCY IN THESE MARKETS AND THEREBY BEGIN TO ADDRESS THE CURRENT LACK OF PUBLIC CONFIDENCE IN THEIR PRICE INTEGRITY. RULE 18.05 IS A POTENTIALLY POWERFUL TOOL TO SHED LIGHT ON A REPORTABLE FUTURES TRADER'S POSITION IN ALL SEGMENTS OF THE NATURAL GAS MARKET. APGA BELIEVES THAT THE COMMISSION SHOULD USE THIS AUTHORITY AGGRESSIVELY TO ISSUE SPECIAL CALLS TO ALL REPORTABLE TRADERS IN NATURAL GAS FOR INFORMATION WITH RESPECT TO THEIR OVER ALL POSITIONS IN ALL SEGMENTS OF THE FINANCIALLY TRADED NATURAL GAS MARKET. THIS WOULD BE AN IMPORTANT FIRST STEP IN MEETING THE "PURPOSE OF [THE COMMODITY EXCHANGE] ACT TO DETER AND PREVENT PRICE MANIPULATION OR ANY OTHER DISRUPTIONS TO MARKET INTEGRITY"

HOWEVER, APGA ALSO RECOGNIZES THAT RULE 18.05 WOULD ONLY APPLY WHEN A TRADER HAS A REPORTABLE POSITION ON A REGULATED FUTURES MARKET AND THAT A LARGE

TRADER COULD THEREFORE EASILY EVADE THE REPORTING REQUIREMENT. FOR THIS REASON, LEGISLATION TO ENHANCE THE COMMISSION'S AUTHORITY BY PROVIDING A COMPREHENSIVE LARGE TRADER REPORTING SYSTEM THAT INCLUDES ALL SEGMENTS OF THE MARKET IS NECESSARY. SUCH A COMPREHENSIVE LARGE TRADER REPORTING SYSTEM WOULD HAVE ENABLED THE COMMISSION TO SPOT THE RELATIVE SIZE OF AMARANTH'S OTC POSITION PRIOR TO ITS COLLAPSE.

APGA STRONGLY SUPPORTS THE MARKET TRUST ACT OF 2007 INTRODUCED BY CONGRESSMEN BARROW AND GRAVES. THIS BI-PARTISAN LEGISLATION WOULD PROTECT CONSUMERS BY REQUIRING THE REPORTING OF LARGE POSITIONS IN FINANCIAL CONTRACTS FOR NATURAL GAS HELD IN ALL SEGMENTS OF THE MARKET. IT IS IMPORTANT TO NOTE THAT THE MARKET TRUST ACT IS NARROW IN SCOPE AND APPLIES ONLY TO FINANCIAL CONTRACTS, AGREEMENTS AND TRANSACTIONS FOR NATURAL GAS.

FINALLY, APGA COMMENDS THE COMMISSION ON HOLDING THIS HEARING AND BELIEVES THAT GREATER PUBLIC INVOLVEMENT WOULD ASSIST THE COMMISSION AS THE MARKET IN NATURAL GAS CHANGES AND AS THE COMMISSION'S POLICIES NECESSARILY EVOLVE TO MEET THE CHALLENGE OF THESE NEW CONDITIONS IN THE ENERGY MARKETS AND URGES THE COMMISSION TO ESTABLISH AN ADVISORY PANEL ON ENERGY MARKETS.

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NATURAL GAS IS A LIFEBLOOD OF OUR ECONOMY AND MILLIONS OF CONSUMERS DEPEND ON NATURAL GAS EVERY DAY TO MEET THEIR DAILY NEEDS. IT IS CRITICAL THAT THE PRICE THOSE CONSUMERS ARE PAYING FOR NATURAL GAS COMES ABOUT THROUGH THE OPERATION OF A FAIR, ORDERLY AND TRASPARENT MARKETPLACE. WE BELIEVE THAT THE COMMISSION CAN DO MUCH WITHIN ITS EXISTING AUTHORITIES TO INCREASE TRANSPARENCY AND TO IMPROVE THE CURRENT SITUATION. MOREOVER, CONGRESS CAN

PROVIDE AMERICAN CONSUMERS WITH THE PROTECTION THEY
DESERVE BY PASSING THE MARKET TRUST ACT OF 2007.