

**platts**

Received CFTC  
Records Section

11/5/09

November 4, 2009

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

09-27  
②  
2009 NOV 5 AM 10 09  
OFFICE OF THE SECRETARIAT  
C.F.T.C.

**COMMENT**

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 Henry Financial Swing Contract; Henry Financial Basis Contract; and Henry Financial Index Contract, Offered for Trading on the IntercontinentalExchange, Inc., Perform Significant Price Discovery Functions

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, in an effort to assist the Commission in its review.

In an October 20, 2009 notice, the Commission sought comment on three contracts that are cash-settled on prices reported by Platts. Specifically, the Henry Financial Swing contract is a daily contract that is cash-settled based on the spot gas price at Henry Hub as published by Platts' *Gas Daily*. The Henry Financial Basis contract is a monthly contract that is cash-settled based on the difference between the bidweek index price for a given month at Henry Hub, as published in Platts' *Inside FERC's Gas Market Report*, and the final settlement price of the New York Mercantile Exchange's Henry Hub gas futures contract for the same calendar month. The Henry Financial Index contract is a monthly contract that is cash-settled based on the arithmetic average of the daily gas spot price at Henry Hub as published by Platts' *Gas Daily* less the bidweek index price for Henry Hub as reported in the first issue of Platts' *Inside FERC's Gas Market Report* in the month in which the gas flows. These comments by Platts pertain to all three contracts.

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 on a subscription basis its daily gas prices for each business day and its monthly bidweek indices on the first business day of each month for gas to flow that month. In formulating its daily and monthly gas spot prices, which have been 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](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 monthly 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. Physical basis transactions at Henry Hub are included in Platts' monthly assessments.

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 monthly 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 monthly 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."

The daily price survey includes fixed-price physical deals completed prior to the pipeline nomination deadline of 11:30 am CT for next-day delivery in North America. Transactions done on Friday usually are for flow on Saturday, Sunday and Monday inclusive. Platts publishes three price components: the midpoint (the volume-weighted average), the common range and the absolute range. The daily midpoint, commonly called the GDA (*Gas Daily* average), is the volume-weighted average of all the deals reported to Platts for each point, excepting any outliers that are not used. The absolute range shows the absolute low and high of deals reported, excluding outliers that are not used. The common range is 50% of the absolute range and is built around the midpoint. The daily survey relies solely on a volume-weighted average of reported transactions; no assessments using other factors are included.

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 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 both its daily and monthly published price tables, Platts shows volumes and number of deals for every trading location.

In this proceeding, the Commission is examining whether certain 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 daily and monthly bidweek data for Henry Hub for that time period in the table below.

<b>Price location</b>	<b>April 09 Volume*</b>	<b>April 09 deals#</b>	<b>May 09 volume*</b>	<b>May 09 deals#</b>	<b>June 09 volume*</b>	<b>June 09 deals#</b>
Henry Hub monthly	551,000	28	274,000	22	549,100	24
Henry Hub daily^	645,524	90	822,000	103	662,045	89
<i>* Volumes in MMBtu/day</i>						
<i># Total reported deals used in determining index or midpoint</i>						
<i>^ Monthly averages of daily volume and reported deals used in determining midpoint</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 and midpoints published 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](mailto:larry_foster@platts.com)

202-383-2140