Resolution on Pricing and Speculation in Natural Gas Markets

WHEREAS, The price of natural gas has generally increased and become more volatile since 2000; and

WHEREAS, The upward trend in natural gas prices is expected to continue with the Henry Hub natural gas spot price increasing to an average of $11.86 per Mcf in 2008 compared to $7.17 in 2007 and average residential natural gas prices are expected to increase 16.2% in 2008 relative to 2007, according to the July 2008 Short-Term Energy Outlook released by the U.S. Energy Information Agency; and

WHEREAS, The price of natural gas is forecast to increase significantly in the coming heating season relative to the previous heating season; and

WHEREAS, As derived by forecast data released by the Energy Information Agency in July, the average monthly price of natural gas for residential customers during the 2008-2009 heating season (October through March) is expected to be $17.93 per Mcf---a 40% increase compared to the 2007-2008 heating season. The average monthly price at the Henry Hub is forecast to be 66% higher during the 2008-2009 heating season relative to the previous season; and

WHEREAS, Over 51 percent of households in the United States rely on natural gas for heating and other household uses; and

WHEREAS, Jurisdiction over physical natural gas markets and financial markets lies with the federal government; and

WHEREAS, The Federal Energy Regulatory Commission (FERC) regulates the transportation and certain sales of natural gas for resale in interstate commerce and also has the jurisdiction to protect natural gas consumers by facilitating transparency in natural gas prices by monitoring natural gas markets and by enforcing the prohibition against manipulation that affects those markets while promoting robust and competitive energy markets; and

WHEREAS, The Commodity Futures Trading Commission (CFTC) has the jurisdiction to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets; and

WHEREAS, The competitive trading of natural gas in financial markets promotes liquidity and can facilitate the flow of information between counterparties thus allowing them to better manage risk; and

WHEREAS, Natural gas is traded in financial markets that exhibit varying degrees of federal regulatory oversight to prevent excessive speculation ranging from extensive oversight of the NYMEX to limited oversight of Intercontinental Exchange (ICE) trades; and
WHEREAS, The “Enron Loophole” exempts energy commodities traded on electronic energy exchanges like ICE from regulatory oversight and severely limits the CFTC’s ability to identify and prevent excessive speculation in the natural gas markets; and

WHEREAS, The Permanent Subcommittee on Investigations of the U.S. Senate held hearings in June and July of 2007 examining the potential relationship between excessive speculation and high natural gas prices resulting in its staff issuing a report on how excessive speculation can and has in the past distorted natural gas prices, increasing volatility and causing consumers to pay more for the commodity than is justified by market fundamentals; and

WHEREAS, Efficient natural gas markets with transparent pricing based upon market fundamentals are necessary to ensure that the price consumers pay for gas accurately reflects the underlying cost of the natural gas commodity; and

WHEREAS, State commissions have an obligation to inform consumers, businesses and State policymakers about the causes of natural gas price increases and a responsibility to speak out on federal issues that affect its utility consumers; and

WHEREAS, The ability of State commissions to explain the increasing price of natural gas relies on cooperation with federal regulatory agencies like FERC; and

WHEREAS, Media reports and government and organizational literature attribute the increase in the commodity price of natural gas to a variety of causes, including uncertainty about the severity of the coming hurricane season, financial speculation, demand related to electricity generation, increased investment by institutional investors, hedge funds and pension funds, lower-than-average storage levels, increased international prices, infrastructure needs, natural gas production including restrictions on access to major domestic supply sources, and the value of the U.S. dollar; and

WHEREAS, Natural gas is a major fuel for electricity generation and serves as an energy bridge to America’s energy future. As such, high natural gas prices have a detrimental effect on all sectors of the American economy; and

WHEREAS, Controversy exists as to whether market fundamentals justify the recent surge in commodity prices, in general, and natural gas prices, in particular; now, therefore, be it

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened at its 2008 Summer Meetings in Portland, Oregon, commends the FERC on its activities in market monitoring of the national and regional energy markets and urges it to work with the CFTC on ensuring that market manipulation is not distorting market forces of supply and demand in the natural gas market; and be it further

RESOLVED, That NARUC form a working group for the purpose of issuing a report to NARUC identifying steps or positions NARUC should take to support efforts to examine and address factors that may be affecting the price consumers are paying for natural gas including whether NARUC should endorse the Staff Report of The Permanent Subcommittee on Investigations of the U.S. Senate issued in June of 2007 and that NARUC invite FERC and the CFTC to assist in this effort where appropriate; and be it further
RESOLVED, That NARUC supports federal legislation if necessary to allow FERC and CFTC to fully study the relationship, if any, between the significant increases in the price of natural gas, price volatility and possible market manipulation and additional regulatory authority to monitor and prevent such manipulation; and be it further

RESOLVED, That NARUC General Counsel be directed to take any appropriate actions to further the intent of this resolution.

Sponsored by the Committees on Gas and Consumer Affairs
Adopted by the Board of Directors July 23, 2008