

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OFFICE OF MARKET OVERSIGHT
AND INVESTIGATIONS

February 7, 2005

Mr. William Trapmann
Energy Information Administration
EI-44, Forrestal Building
U.S. Department of Energy
1000 Independence Ave., SW
Washington, DC 20585

Re: Agency Information Collection Activities:
Policy for Revisions to the Weekly Natural Gas Storage Report

Comments of the staff of the Federal Energy Regulatory Commission

Dear Mr. Trapmann:

On January 7, 2005, the Energy Information Administration (EIA) published a Notice in the Federal Register soliciting comments on possible changes to the current policy on posting revisions to the Weekly Natural Gas Storage Report (WNGSR). That notice asked for comments from the public and other Federal agencies on whether the EIA should change its existing revision policy and, if so, what changes should be made. 70 Fed. Reg. 1426-28 (2005).

In response to the EIA request for comments from other Federal agencies, the staff of the Federal Energy Regulatory Commission (Commission) provides the following observations and suggestions on the EIA revision policy.

The Commission is charged with overseeing certain wholesale natural gas and electricity transactions and ensuring that prices paid in jurisdictional transactions are just and reasonable. Confidence in markets and transparency of prices set in open market transactions help ensure that prices are just and reasonable. The Commission actively monitors wholesale markets and has adopted market behavior rules to govern certain activities of jurisdictional entities trading in energy markets.

We are aware of the difficult task the EIA faces in compiling and publishing the WNGSR. Commission staff commends EIA for assuming this former American Gas Association project and for providing valuable information to the public and energy markets.

The WNGSR is of significant importance to the public, to the operation of natural gas transportation systems, and to physical and financial energy markets. With respect to the latter, trading in various markets and instruments may be affected by the WNGSR. Analysts and market participants estimate the volume of gas injected into or withdrawn from storage each week. When a WNGSR differs significantly from market expectations, prices can be affected, sometimes dramatically.

This was true for the EIA storage report posted November 24, 2004, for the week ending November 19, 2004, when NYMEX futures prices rose sharply following release of a WNGSR reflecting a larger than expected withdrawal volume. Commission staff determined that, as a result of a clerical error, a major storage operator submitted data from a week in September 2004, rather than for the week ending November 19, to EIA. Subsequent correction of that error led EIA to post a revision of 32 Bcf on December 2, 2004, following the current policy of posting changes in storage reports only at the time the next WNGSR is released.

The Commission staff's investigation of the November 24 incident revealed that the reporting company used the same name for the spreadsheet file in which each week's storage balance information was recorded and transmitted to EIA. We understand that the company has changed its procedures and, among other things, will give a unique name to each week's storage balance spreadsheet to reduce the potential for transmitting information from an earlier week.

This incident does illustrate the importance to energy markets of accurate and timely storage information. Commission staff commends EIA for reconsidering its policy on unscheduled revisions, and recommends that EIA modify its current policy to make revisions to the WNGSR when EIA receives material changes in the storage data upon which the affected WNGSR was based.

Data provided by EIA in the Notice indicate that of the 136 WNGSRs issued since EIA began this reporting service in May 2002, there have been ten instances of revisions the following week. Seven of those involved corrections to data submitted by respondents. Of those seven, only two have involved errors of a magnitude of 15 Bcf or more. The November 24 report resulted in the largest revision ever made by EIA due to a data error from a respondent.

EIA proposes two alternatives to the present policy. Alternative 1 is a fixed time

for a revision on the first Federal workday in the week following an erroneous report (generally Monday). Alternative 2 is for a revision to be issued at any time, following a two-hour notice. In both cases, EIA proposes that the threshold to determine whether to make a revision prior to the next regular WNGSR be 15 Bcf. Any errors between seven and 14 Bcf would be noted, as is the current policy, in the next regular WNGSR. EIA also asks for comments on the appropriate threshold for making revisions to previous reports.

Commission staff generally supports Alternative 2, which is a more flexible approach to revisions to the WNGSR resulting from data errors by respondents. The public and interested market participants are best served by having more complete and timely information about natural gas storage volumes. A flexible policy of announcing revisions shortly after receiving material corrections from respondents will promote more transparency in market information.

Staff, however, urges EIA to be proactive in notifying markets when material data reporting errors cause the WNGSR to be inaccurate. In the case of November 24, 2004, the problem was compounded because the WNGSR was released on the closing day for December contracts on NYMEX, a situation that could recur given the timing of the Thanksgiving holiday. Prompt and flexible notice that a material error has occurred, with a correction to follow in due course, could avoid trading based on inaccurate information.

Staff is also concerned that the proposed 15 Bcf threshold for interim revisions is too high. In some months, WNGSR postings that vary from market expectations by even half this amount can cause significant price movement for the NYMEX natural gas futures contract. While we do not advocate that EIA regularly take market expectations into account in releasing the WNGSR, it is useful to consider possible market reaction for the narrow purpose of setting the appropriate threshold for immediate revisions.

Staff urges EIA to adopt the existing threshold of seven Bcf for all revisions, and to announce all such revisions when corrected data are received from respondents. The EIA Notice stated there have been data errors exceeding seven Bcf on only seven occasions over 136 weekly reports. If a threshold of seven Bcf is used for immediate revisions, the frequency of revisions between WNGSRs would be only once every four or five months on average. The Commission staff does not advocate frequent revisions, but historical data suggest that using a seven Bcf threshold for immediate revisions will not result in an excessive number of such revisions. Moreover, staff believes that transparency in markets would be better served by providing more current and accurate storage data to the public.

The EIA also requested comment on the adequacy of advance notice of a revision and on the timing of revisions relative to the operating hours of various trading markets. The Commission staff believes the EIA's proposal to post advance notice of a revision on

its web site and through EIA's email list serve is adequate. On the question of the timing of a revision, Commission staff notes that the advent of electronic trading means that trading effectively can occur at any time, and therefore posting by EIA of a revision in normal business hours is appropriate.

I appreciate the opportunity to offer these comments on EIA's proposal to issue revisions between regularly scheduled WNGSRs. We have a common goal to ensure that reliable and accurate data are available to the public and that energy markets are open and competitive in the public interest.

Best regards,

William F. Hederman

William F. Hederman
Director, Office of Market Oversight and
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Federal Energy Regulatory Commission

Cc: Pat Wood, III, Chairman
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