
National Capital Area Chapter

United States Association for
Energy Economics

March 2003

www.ncac-usaee.org

news

U.S. Oil and Gas Inventory: Assessment of Five Rocky Mountain Basins

Our Next Luncheon at Library of Congress

- WHEN:** Noon, Friday, March 21
- WHERE:** 6th Floor, Madison Building—Montpelier Dining Room
Library of Congress (enter from Independence Avenue)
1st Street & Independence Avenue, SE
Washington, DC
- SPEAKERS:** Jack Belcher, Staff Director, House Subcommittee on Energy and Mineral Resources

Recently the U.S. Geological Survey released a report outlining the oil and gas potential in five producing western basins, and the restrictions and impediments to their development. Provisions of the 2000 Energy Policy and Conservation Act (EPCA), signed into law by former President Clinton, required federal agencies to develop a national inventory of all oil and gas resources and reserves beneath federal land. This report is the first study designed to fulfill this obligation. Additional studies are anticipated.

Not only does the report provide estimates of oil and gas resources, it also includes information on constraints that may limit development of these energy resources, according to Rebecca Watson, Assistant Secretary for Land and Minerals Management for the Department of Interior. The report is expected to serve as a planning tool for Congress. Environmental groups have attacked the USGS assessment because it does not list “economically recoverable” reserves, which they claim is a better assessment of oil and gas potential. Proponents claim that “economically recoverable” estimates are difficult to determine, given changes in technology and infrastructure.

Jack Belcher, Staff Director of the House Subcommittee on Energy and Minerals Resources, will discuss the findings of the report and impediments to leasing in five producing basins in the Rocky Mountain West. He will also focus on legislative initiatives to improve and streamline oil and gas leasing and permitting processes on federal lands.

Join us on Friday, March 21 at 12:00 pm for networking, with the lunch-line forming promptly at 12:30 and the presentation beginning at 1 pm so we are done by 2 pm.

COST: \$20.00 for members (\$5.00 for student members) and \$25.00 for non-members—guests are always welcome. Make checks payable to NCAC-USAEE. **RSVP:** By COB Tuesday, March 18 to Leslie Coleman by phone (202/463-9780) or email (lcoleman@nma.org). Cancellations after noon Wednesday will be billed.

NCAC Spring Policy Seminar with Daniel Yergen – May 5

Mark your calendar for the NCAC Spring Policy Seminar, scheduled May 5. We are pleased to announce that Daniel Yergen, celebrated author of *The Prize and Commanding Heights*, will provide the keynote address. This year's event will focus on energy and war, terrorism and disruption in the world market.

NCAC Directories Now Available – Don't forget to renew your membership!

This year we will be e-mailing the NCAC directory to all our members. We need to remind many of you to renew your annual membership, which comes due at the beginning of each year. Dues are only \$20 (\$10 for students). A renewal form is attached with this newsletter. Please forward your dues to: Leslie Coleman, National Mining Association, 101 Constitution Ave. NW, Washington, DC 20001. For more information contact Leslie at 202-463-9780.

Highlights of the February Lunch

SPEAKERS: Larry Foster, Platts
Ellen Beswick, Natural Gas Intelligence

Energy Price Indexes: Strategies for Restoring Confidence

Our February lunch presentation involved two speakers comparing and contrasting their experience and views on natural gas price reporting. **Ellen Beswick** is Chief Editor and Publisher of Intelligence Press, which she founded in 1981 with the first issue of *Natural Gas Intelligence*. Her company also publishes *NGI's Daily Gas Price Index*, *NGI's Weekly Gas Price Index*, *NGI's Bidweek Survey*, and *NGI's Power Market Today*. **Larry Foster** is Editorial Director of the U.S. Natural Gas Group for Platts, and has served as an editor in McGraw-Hill's natural gas publication group since 1980. He oversees print newsletters covering the regulated and unregulated natural gas industry and the Federal Energy Regulatory Commission, including *Gas Daily*, *Inside FERC* and *Natural Gas Alert*.

Foster began by summarizing how we got where we are today with respect to natural gas price reporting. He identified major milestones including the California energy crisis, the Enron bankruptcy and other corporate collapses, and an August 2002 FERC report on price manipulation followed by indictments of two traders for related wrong-doing. Recent events serve as notice, according to Foster, that industry players must do more to facilitate price reporting. Foster's company is asking for companies that provide prices on natural gas trades to provide more systematic reports as well as written certification of these reports by company officials. Foster noted they are also seeking data on the counter-parties involved in reported gas trades.

Beswick disagreed with the emphasis on acquiring counter-party data, suggesting that for accurate price reporting, liquidity or the volume of price quotes is more important for establishing accuracy or the price 'center' of the market. She pointed out that many gas trading contracts involve confidentiality clauses that make it difficult for traders to share counter-party information. Foster responded that while Platt's seeks counter-party data, it does not necessarily discard a provided price quote if the information is withheld. He agreed that liquidity is the most important issue, but said data must also be dependable.

Foster answered an audience question about how to prevent round-trip trading or ‘wash’ trades by explaining that this was exactly the reason for requesting counter-party information. Beswick said that price reporters can spot trading abnormalities and investigate, requesting counter-party data on an as-needed basis, while Foster suggested that it is better to have the information up front, especially since publishing price indices is time constrained. Existing trading contracts make it more difficult to reveal the counter-party involved than the price of the transaction; however, Foster noted that there is not necessarily agreement on how to interpret the confidentiality clauses included in contracts.

Another question to the speakers asked about the motivation for traders to disclose information. There was agreement that price discovery is the primary motivation (traders need the information). Although NYMEX also provides a price indicator, only the indices provide pricing information for multiple geographical trading points. Platt’s provides pricing information for a hundred geographic points on a daily basis and for 70 points on a monthly basis while Natural Gas Intelligence (NGI) reports on 87 points daily and a hundred monthly.

Discussion then turned to the volume of gas trade and the percentage of gas trade that is reflected in the price indices. According to Foster, there is no way to know the total trade volume (unlike with electric power) and no way to know how many times a package of gas is traded. Foster said that the trade volume has greatly declined with a very liquid (geographical) point seeing today only a few hundred thousand cubic feet per day (cf/d) of trade compared to around 3 billion cf/d during the trading heyday. Beswick estimated that during the height of gas trading, one package of gas might have traded 10 times over -- in a day, which led to thousands of price quotes, almost more than could be processed. Now, she said, one package of gas might trade once, and the trade involves a utility and price linked to the price index, which is useless data for developing the price index. For this reason, she encourages traders to pursue fixed price deals. There are fewer players (numbers of traders) and less liquidity in gas trade today, but both Beswick and Foster expressed optimism that the market is at or near the bottom limit in these terms and that an upswing in trade could be expected. ChevronTexaco is in the process of setting up a trading floor and February saw a rebound in trading levels – up to 40% above January.

With respect to the ongoing investigations into trade-related illegalities, Foster told the audience that the Department of Justice, through the U.S. attorney’s office, is not just making examples out of the two traders already arrested, and that we should expect “more activity”. He also explained that Platt’s cooperation in the investigations reflected the reality that journalistic privilege is not absolute and the honoring of journalistic rights varies highly (as Platt’s has experienced with the Houston circuit court). With one of the arrested traders, the number of misreported deals (48) was significant but had not been used in the price index. Foster estimated that the amount of data in general that is not used is less than twenty percent.

Several questions asked about what has made natural gas different and vulnerable to price manipulation and other price reporting/market issues. Beswick and several audience members suggested that natural gas is not that different from other commodities, which have had similar problems but also much longer trading histories. Still, Beswick and Foster agreed that the crash of Enron was somewhat unique (or unprecedented) in its contributions to a crisis of confidence in the gas trading market.

One contributor to a robust gas market is competition in price reporting. Competing price reports make it more difficult for traders (those supplying the price data) to manipulate price. Foster and Beswick, through the Q&A program described here, demonstrated the presence of such competition while sharing their expertise in a session that continued informally even after the allocated time had passed.

2003 OFFICERS and COUNCIL MEMBERS

Name	Phone	Fax	E-Mail
Sarah McKinley President	202-502-8368 Federal Energy Regulatory Commission	202-208-0500	sarah.mckinley@ferc.gov
Ron Planting Vice President	202-682-8509 American Petroleum Institute	202-962-4730	Planting@api.org
Sara Banaszak Secretary	202-586-2066 Department of Energy	202-586-4062	sara.banaszak@hq.doe.gov
Leslie Coleman Treasurer	202-463-9780 National Mining Association	202-833-9636	lcoleman@nma.org
David South Immediate Past Pres.	703-690-2737 Technology & Market Solutions, LLC	703-690-2736	david@t-msolutions.com
Stephanie Battles	202-586-7237 Energy Information Administration	202-586-0018	stephanie.battles@eia.doe.gov
John Felmy	202-682-8530 American Petroleum Institute	202-682-8408	felmyj@api.org
John Jimison	202-466-0060 Cameron McKenna LLP	202-466-0077	jjimison@cmcklaw.com
Fred Joutz	202-994-4899 George Washington University	202-994-6147	fjoutz@attglobal.net
Wil Kohl	202-663-5725 Director, IEEP, SAIS	202-663-5769	wkohl@jhu.edu
Len Levine	202-965-2788 Energy Consultant		len.levinegr@verizon.net
Mark B. Lively	301-428-3618 Utility Economic Engineers	301-428-3618	MbeLively@aol.com
Shirley Neff	202-361-5434 Goldwyn International Strategies, LLC		sneff@goldwyn.org
Carol Rendall	301-229-8978 Energy Consultant	301-229-8978	carolwrendall@msn.com
Anne Roland	410-767-8166 Maryland Peoples' Counsel		AnneR@OPC.STATE.MD.US
Cyndy Wilson	703-698-7049 Catalytics, Inc.	703-698-5404	Catalytics@aol.com

2003 MEMBERSHIP RENEWAL/REGISTRATION FORM

National Capital Area Chapter U.S. Association for Energy Economics

- Please check here for membership renewal.
- Please check here for new membership registration.
- Please check here for student membership registration.

Membership registration/renewal for the NCAC/USAEE is expected by the end of the preceding calendar year.

Please return your registration form and check to **Leslie Coleman**—NCAC/USAEE 2003 Treasurer at: **National Mining Association, 101 Constitution Ave., Suite 500 East, NW, Washington, DC 20001**. Phone: 202/463-9780. Email: lcoleman@nma.org.

Full membership dues for 2003 are \$20.00 (students \$10.00). Please make checks payable to NCAC/USAEE.

Please print very clearly.

NAME _____

TITLE _____

ORGANIZATION _____

MAILING ADDRESS * _____

TELEPHONE NUMBER _____

FAX NUMBER _____

E-MAIL ADDRESS ** _____

* For DOE, please provide complete routing address.

** Provide the best e-mail address to receive the newsletter.