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| ORIGINAL | |
| N.D.P.U.C. Case No. | DE 11-250 |
| Exhibit No. | #52 |
| Thomas C. Frantz | |

Question:

54. Page 16 - You say that as an indicator of market price, NYMEX futures prices are "considered most robust in the near term, for example, the next 2-3 years, with trading after that being very thin and hence generally not considered indicative of market prices in future years"
- a. Please provide the basis for your opinions that NYMEX prices are only valid with a 2-3 year period, and that trading in the NYMEX market is very thin after 3 years.

Answer:

The first part of the question attempts to rephrase my testimony and is therefore inappropriate. See Excessive Speculation in the Natural Gas Market, Permanent Subcommittee on Investigations, United States Senate, June 25 and July 9 Hearings, (<https://www.levin.senate.gov/imo/media/doc/supporting/2007/PSI.Amaranth.062507.pdf>) as an example of what in my experience is well understood among industry participants. See especially page 33: "Many natural gas producers and users buy or sell futures contracts for up to 12 months in the future to hedge their purchases or sales. The volume of trading in natural gas contracts more than 18 months in the future is not large, and most of the trading this far into the future is done by speculators."

Provided by: Michael Hachey

United States Senate

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman

Norm Coleman, Ranking Minority Member

**EXCESSIVE SPECULATION
IN THE NATURAL GAS MARKET**

STAFF REPORT

WITH ADDITIONAL MINORITY STAFF VIEWS

**PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS**

UNITED STATES SENATE



**RELEASED IN CONJUNCTION WITH THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
JUNE 25 & JULY 9, 2007 HEARINGS**

Many natural gas producers and users buy or sell futures contracts for up to 12 months in the future to hedge their purchases or sales. The volume of trading in natural gas contracts more than 18 months in the future is not large, and most of the trading this far into the future is done by speculators.

The ICE natural gas swap has many features similar to the NYMEX futures contract, but there are also some differences. Table 2 presents the standard specifications applicable to both types of natural gas contracts:

Table 2
NYMEX and ICE Basic Natural Gas Contract Specifications

| | NYMEX Natural Gas Futures Contract | ICE Natural Gas Henry Hub Swap |
|-------------------------------|--|--|
| Trading Unit | 10,000 MMBtu | 2,500 MMBtu |
| Price Unit | \$ per MMBtu | Same as NYMEX |
| Last Trading Day | Trading terminates three business days prior to the first calendar day of the delivery month. | Same as NYMEX |
| Settlement Type | Physical | Financial |
| Final Settlement Price | Volume-weighted average of prices of trades during the last half-hour of Last Trading Day (2:00 to 2:30 PM). | Same as NYMEX Final Settlement Price on Last Trading Day |
| Delivery Location | Henry Hub, Louisiana | N/A |
| Delivery Period | First calendar day of delivery month through last calendar day of delivery month. | N/A |
| Trading Hours | Open outcry: 9:00 AM - 2:30 PM Electronic trading: 6:00 PM of the prior trading day to 5:15 PM of the trading day. | Electronic trading: 2:30 PM of the prior trading day to 2:30 PM of the trading day. |

As Table 2 indicates, the NYMEX natural gas futures contract is physically settled, meaning that a trader that is a net buyer of futures contracts for a particular month (a "long" position) must either sell an equivalent number of contracts for that month prior to the expiration of the contract or take delivery of the amount of gas in the contracts at the contract delivery location, which for natural gas futures contracts is the Henry Hub in Louisiana. Similarly, a trader that is a net seller of futures contracts for a particular month (a "short" position) must either buy an equivalent number of contracts prior to expiration or make delivery of the net volume of natural gas in the trader's short position at the contract delivery location.

Like other commodity traders, natural gas traders rarely make or take delivery pursuant to a futures contract. Buyers and sellers of physical quantities of natural gas use futures contracts to hedge their exposure to price changes in the physical market rather than as a means to acquire physical quantities of natural gas. Many large traders nonetheless have acquired the capability to