

**UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
ENERGY INFORMATION ADMINISTRATION**

Policy for Revisions to the Weekly Natural)
Gas Storage Report)

**COMMENTS OF THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEW YORK**

Pursuant to the January 7, 2005 Request for Comments issued by the Energy Information Administration (“EIA”), 70 Fed. Reg. 1426 (2005), the Public Service Commission of the State of New York (“PSCNY”) hereby submits its comments regarding the revision policy for EIA’s Weekly Natural Gas Storage Report (“WNGSR”).

I. BACKGROUND

EIA has requested comments on the revision policy for its WNGSR, which provides weekly estimates of working gas volumes held in underground storage facilities at the national and regional levels based on information provided by a sample of storage operators. As the January 7, 2005 Comment Request observes, the WNGSR is an important source of information for policymakers, industry experts and commodity market analysts.

PSCNY is the agency with jurisdiction over the rates and terms of natural gas service in the State of New York, and is charged with ensuring that consumers in the State have access to adequate supplies of natural gas at reasonable prices. A properly functioning futures market based on accurate and transparent market data, including the information published in the WNGSR, is an important aspect of ensuring an adequate supply of reasonably-priced gas.

The importance of ensuring the accuracy of the WNGSR data in particular was underscored by events in late November and early December, 2004, when erroneous storage data published in the WNGSR had a dramatic impact on natural gas futures prices. As the Comment Request notes, the data in the November 24, 2004 WNGSR were revised significantly in the next regularly-scheduled WNGSR, issued on December 2, 2004. According to published accounts, the November 24th report was revised after EIA determined that Dominion Transmission Inc. (“DTI”) erroneously over-reported its storage withdrawal volumes by a substantial amount. *See* “Market Paid Big Price for Dominion Storage Reporting Miscue, OMOI Concludes,” *Inside FERC* at 1 (December 20, 2004). Because the cumulative storage withdrawals (inflated by the incorrect DTI figures) were apparently significantly higher than what the market expected, publication of the erroneous withdrawal data in the WNGSR caused a spike in natural gas futures prices on the NYMEX. *Id.* at 1, 12. The problem was exacerbated by the fact that November 24, 2004 was the closing date for November NYMEX futures, thus influencing December contracts indexed to the November NYMEX closing price. *Id.* at 12. The Office of Market Oversight and Investigations (“OMOI”) of the Federal Energy Regulatory Commission estimated that the overall shift in value as a result of the error might have been as much as \$1 billion. *Id.* An OMOI spokesman was also quoted as saying that the price spike “would have affected residential and commercial customers.” *Id.*

II. COMMENTS

In view of the serious adverse consequences that can result from the reporting of erroneous data in the WNGSR, PSCNY is gratified that EIA has chosen to revisit its WNGSR revision policies. As discussed below, however, PSCNY is concerned that the policy modifications suggested in the Comment Request will be inadequate to prevent the kind of market dislocation caused by the erroneous storage withdrawal data included in the November 24th WNGSR. PSCNY respectfully submits that EIA should use this proceeding to consider more comprehensive changes to its natural gas storage reporting practices in lieu of, or in conjunction with, the more modest changes to its WNGSR revision policy discussed in the Comment Request.

A. **EIA Should Develop Processes Designed To Assure the Accuracy of Storage Data Prior To Publication**

At the risk of stating the obvious, a greater emphasis on *ex ante* evaluation of data reported by storage operators would likely reduce the need for *ex post* revisions to WNGSR estimates. Thus, although the Comment Request seeks input on EIA's policies for revising data that have already been reported in the WNGSR, consideration should also be given to enhancing processes for confirming the accuracy of storage data reported to EIA *before* such data is disseminated in the WNGSR. In the instance of the November 24th WNGSR, once the erroneous report was issued, significant economic damage was done. The market responded immediately, and, because it was a closing day for the futures, prices were set for the following month. Significantly, neither of the two modified revision processes discussed in the Comment Request would have helped, had they been in place. A process which prevented the report from being issued with the

erroneous data would have avoided the significant market damage and harm to consumers nationwide.

According to the description of the WNGSR methodology published on EIA's website, EIA already has in place procedures designed to check the accuracy of the data reported by storage operators, including comparison to historical data and communication with reporting storage operators.¹ Indeed, in connection with the WNGSR containing the erroneous DTI data, it was reported that EIA contacted DTI on November 24th to inquire about the storage withdrawal information reported by the company. *See Inside FERC, supra*, at 12. PSCNY submits that EIA should review its procedures with the goal of enhancing the process to emphasize identification and correction of errors *prior* to publication.

PSCNY is mindful of EIA's resource limitations, and is not suggesting that EIA double-check every dekatherm of storage gas reported by operators. Rather, EIA could implement procedures designed to identify, and, if necessary, correct, reports of working gas volumes that are significantly out of line with historical or projected trends for a particular storage operator or the market as a whole prior to publication of the storage report. The storage withdrawals reported by DTI on November 22, 2004, for instance, were apparently far out of line with market expectations. If procedures had been in place to "flag" such clearly counterintuitive data for further corroboration prior to publication, the adverse market results could have been avoided altogether. Given that very large

¹ The section of EIA's website describing the WNGSR methodology states that "EIA employs a number of editing processes to ensure that the data collected each week are accurate. For example, current week's data are compared to data reports for recent weeks and to compilations of the monthly data reports for the company's fields on the EIA monthly storage form. Companies with responses that are outside the edit bounds or with notes about special issues are contacted by survey personnel for confirmation or correction. An explanation is obtained and accommodated in the estimation process, if necessary."

reporting errors are likely to have a proportionately large impact on markets expecting a much different result, significant market dislocations could be avoided by implementing appropriate thresholds for when reported data should be flagged for corroboration. EIA might also consider a process whereby it would have the option of postponing issuance of the WNGSR when it flags a potentially significant error in reported data to afford time to confirm or correct the reported data. Such a process could include notice to the public that the issuance of the WNGSR was being delayed pending corroboration of certain information.

EIA should also adopt more stringent policies governing the procedures used by storage operators in reporting data to EIA. While the current instructions for Form EIA-912 appropriately warn respondents that it is a criminal offense to “knowingly and willingly” make a false report, such criminal sanctions do not prevent good faith mistakes in reporting which can have just as insidious an impact on the market as deliberate deception. To guard against such inadvertent misreporting, procedures designed to avoid mistakes before-the-fact are required. To return to the example of the erroneous DTI storage withdrawal data in November 2004, it was reported that the incorrect data were provided to EIA by a “clerk” working for DTI. *See Inside FERC, supra* at 1. Further, the clerk apparently failed to inform DTI management of the initial mistake or the subsequent correction. *Id.* at 12. EIA should adopt policies designed to ensure that survey respondents have adequate procedures in place to avoid such problems. EIA should require, for instance, that respondents indicate that the data contained in the Form EIA-912 were reviewed and approved by a management-level employee with supervisory responsibilities for storage operations.

Implementation/enhancement of EIA's own procedures for correcting errors before publication of the WNGSR, coupled with adoption of stricter standards for survey respondents, would provide a system of "checks and balances" that would make it much less likely that mistaken information would be published and have an adverse impact on the market. Policies designed to correct errors before publication of the WNGSR would reduce the need for revisions and would promote market certainty by increasing the overall reliability of WNGSR data.

B. EIA Should Consider a Policy of Not Issuing the WNGSR on Futures Market Closing Days

As described above, the severity of the market impact from the November 24th WNGSR was attributable, in large part, to the fact that the erroneous report was issued on the NYMEX monthly closing date. Any corrective action after that date, no matter how prompt, would have been too late. In order to avoid a situation where market prices are "locked in" at a level that is premised, in part, on erroneous information, EIA should adopt a policy that the WNGSR will not be issued at least 2 to 3 days prior to or during the 3-day settlement closing period, unless it is to correct a prior error.

By definition, the market outcomes set during the settlement closing period cannot be "undone" based on subsequent WNGSR revisions. The consequences that can result from inaccurate data in the WNGSR during the settlement period are simply too significant to risk publication of erroneous or provisional information. While the WNGSR is a valuable piece of information for market participants, there is no compelling reason that publication cannot be deferred during closing periods to avoid the risk that erroneous data will have an unwarranted (and irreversible) effect on market outcomes. According to the Comment Request, EIA has revised the WNGSR ten times

out of the 136 issues released between May 9, 2002 and December 9, 2004, or about 7.4% of the time. Although this is not an enormous number of revisions, it is nonetheless significant, in that even just the one event in November had an estimated \$1 billion economic impact. The WNGSR data (prior to an opportunity for revision) do not have a sufficient level of accuracy and transparency to risk issuing a potentially erroneous WNGSR, with its concomitant market effect, during the critical settlement closing period.

C. EIA Should Consider Issuing Storage Data Reports on a Daily Basis

PSCNY's proposal to enhance the procedures to correct pre-publication errors and its proposal to preclude issuance of the WNGSR during the settlement closing period would both be constructive in the context of EIA's current weekly reporting framework. However, EIA could effectively eliminate concerns about having to revise weekly reported working gas volumes by reporting working gas volumes on a *daily* basis. Under a daily framework, reporting errors likely would be self-correcting in most instances and anomalies would be more readily apparent to market participants. Daily reporting likely would also decrease the impact on price volatility in the daily gas market. Accordingly, PSCNY urges EIA to consider implementing a daily storage reporting approach.

While PSCNY recognizes that shifting to a daily storage report would be a significant change, the market is ripe for such an approach. EIA's discussion of the WNGSR on its website indicates that EIA began issuing the WNGSR in May, 2002 after the American Gas Association ceased issuing the weekly storage estimate it had published since 1994. There have been significant changes in the marketplace since the adoption by AGA and EIA of a weekly reporting format. For instance, recent years have seen increased activity in the markets by financial entities not traditionally involved in

the natural gas market; and the number of larger wholesale marketers have been reduced. The ongoing changes in the natural gas market militate in favor of distributing the most transparent and accurate information possible. Weekly reporting, especially when subject to later revision, does not provide an optimal level of transparency, and, as discussed above, can be counter-productive where initial estimates produce market impacts that cannot be reversed when revisions are made. Daily reporting of storage information would obviate most of the difficulties posed by the need to revise weekly data, and would also provide a more optimal level of information for the growing natural gas futures and commodities markets.

D. EIA’s “Alternative 2” Is Preferable Insofar As Errors Could Be Corrected Sooner Than Under “Alternative 1”

In the Comment Request, EIA suggests two possible alternatives for modifying its WNGSR revision policies. Under “Alternative 1,” if the cumulative effect of all revised data for the most recent report period was at least 15 Bcf at either a regional or national level, EIA would issue a revised WNGSR prior to the usual WNGSR release schedule. If a revision was necessary, it would be released in a revised WNGSR at 10:30 a.m. on the first Federal government workday of the following week. No notification of a coming revision would be provided. Revisions of between 7 and 14 Bcf would continue to be made in the next regularly-scheduled WNGSR. Under EIA’s “Alternative 2,” if the cumulative effect of revised data for the most recent report period is at least 15 Bcf at either a regional or national level, a revised WNGSR would be issued two hours after EIA issues a notification of the planned release of the revised WNGSR (but EIA would not issue a revised WNGSR if the next scheduled release is less than 24 hours later). Revisions from 7 to 14 Bcf would be issued in the next release of the WNGSR. For

alternative 2, EIA would notify the public of the planned release by announcing it on its website and sending e-mail notifications to parties registered on EIA's WNGSR e-mail list serve.

PSCNY believes that the primary goal of EIA's WNGSR revision policy should be to correct reporting errors or otherwise publicize revisions as soon as possible. On balance, Alternative 2 is preferable to Alternative 1 in meeting this goal insofar as Alternative 2 would allow revisions to be made at any time upon two hours notice to the public (except in the 24 hours preceding the next regularly-scheduled WNGSR).

E. The 15 Bcf Threshold for Intra-Week Revisions to the WNGSR Is Too High

Under both Alternatives 1 and 2 described in the Comment Request, EIA would only depart from its existing practice of publishing revisions in the next regularly-schedule WNGSR if the cumulative effect of revised data for the most recent report period is at least 15 Bcf. PSCNY believes that EIA should adopt a lower threshold for making intra-week revisions to WNGSR data. Due to the volatility of the market place a reasonable starting level of 7 Bcf (EIA's lower threshold for making revisions in the next release of WNGSR) should be the threshold. It does not seem the lower threshold would be burdensome to report and the potential negative economic consequence could be significant to leave the threshold at 15 Bcf.

III. CONCLUSION

The storage working gas information disseminated by the EIA can have a significant impact on natural gas markets, and, as such, EIA should adopt policies designed to assure, to the greatest extent practicable, the accuracy of such data. While PSCNY applauds EIA's decision to revisit its WNGSR revision policy, PSCNY submits

that EIA should consider more far-reaching policy changes to ensure that market participants receive accurate storage gas data. Such policy changes could include an added emphasis on identifying potential reporting errors prior to publication of the WNGSR, adopting a proscription on issuing the WNGSR on market closing days, and/or transition to daily reporting of working gas volumes. Daily reporting, in particular, would moot many of the issues related to the need for prompt corrections to erroneous reports. If EIA does not adopt these recommendations at this time, at a minimum, EIA should (1) adopt a variable revision timing approach such as “Alternative 2” for revising WNGSR data; and (2) adopt a threshold of 7 Bcf rather than 15 Bcf for intra-week revisions to the WNGSR and (3) open a proceeding to undertake a comprehensive view of the storage reporting process.