energy metro DESK

August 30, 2013

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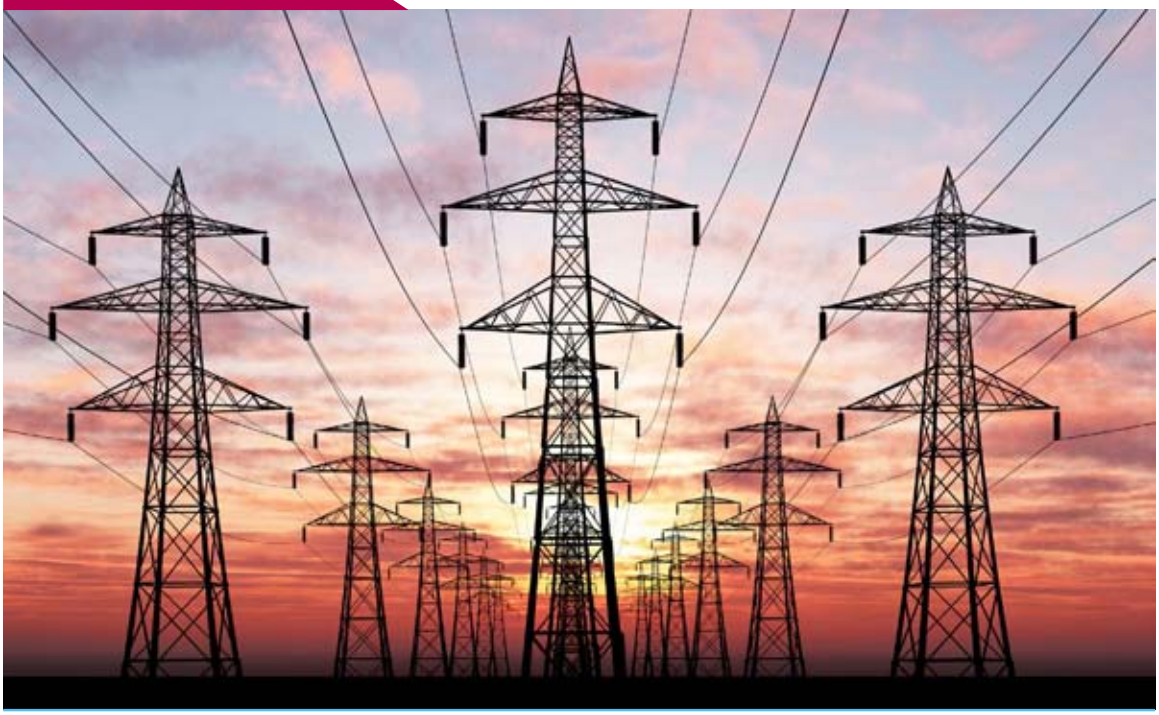
back to school

ENERGY



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How the world advances

CME Group

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Editor-in-Chief: John Sodergreen • Senior editor: Phil Zahodiakin • Reporters: Alex Cummings, Bill Inman • Columnist: Dr. Robert Michaels
Editorial Office: 1145 Generals Hwy, Crownsville, MD 21032 Tel: 410/923-0688 Fax: 410/923-0667
Art Director: Katharine Sodergreen (katharine@scudderpublishing.com)

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around the desk

By John Sodergreen, editor in chief

Lots of News Around the Desk This Week…

But, we imagine a whole lot more will be coming over the transom next week. This is always a tough week for us, and we reckon for everybody else, too. It is, indeed, the final week of the Summer. And, from our vantage point, nobody really wants to do anything, read anything, buy anything, or make any effort for any reason. Congress is out of session, regulators are on much-deserved vacations, and corporate planners and their C-level cohorts are more focused on what comes after Q3. On top of this, the kids have all started school, their fall sports have kicked into gear and, despite the chaos, our schedules have again become a bit more structured. Unfortunately for us, news is still working off the tepid Summer cycle… Of course, you've got your Barclays Bank refusing to pay FERC and of course hurricane season is now considered a bust. We see gas storage moving to record highs, again, and big banks moving out of physical commodities. Of course, there's all that rot about gas and oil production climbing to record highs (again). OK, sure, there's some news we guess, but this week, it all took a back seat to what happens next in the coming Syria campaign. We note that this time, the shock, surprise and awe are not exactly partner to any decision by the White House. Oil prices continue to climb on fears of some sort of US involvement in a shooting war in Syria, but, this sort of knee-jerk reaction is already receding. The analysis we've heard is that, war or not, it is impossible to justify the current price level for oil; there is simply too much of the stuff available, and US demand for Arab oil is at almost laughably low levels. Did we mention that Chinese oil demand is soft and getting softer? The IEA says China's demand forecast has been lowered (again) to a mere 3.7 percent y/y growth – a number that analysts believe is a solid indication of the country's slowing economy. **One expert we spoke to suggested it might actually be a good opportunity for lawmakers to entertain a brief, yet predictably high-impact, oil-speculator witch hunt, just to ratchet the prices down further and keep them there, war with Syria or not**. Come to think of it, we've not seen a good anti-spec binge in a long time. And with mid-term elections looming, we just might see one. Note to self, oil will be coming off soon. And hard… Other good news around the quad that was hushed by Syria non-news... according to the Department of Commerce, US GDP for Q2 grew at a 2.5 percent annualized rate; this was an upward revision from a 1.7 percent initial estimate. Not great, mind you, but, better. The median forecast of 79 economists surveyed by Bloomberg had been for a 2.2 percent gain... The Department of Labor announced that Initial claims for unemployment benefits declined 6,000 to 331,000 in the week ended August 24... And, house prices continued their upward march in June, though at a slightly slower pace. US single-family home prices in 20 metropolitan areas rose a seasonally-adjusted 0.9 percent in June from a month earlier, according to the S&P/Case-Shiller Home Price Index. In addition, house inventory increased in June, bringing the nation to a 5.2-month supply; one year ago there was a 6.4-month supply. The Nat Association of Realtors considers a 6-month supply to be a balanced market between buyers and sellers... On this same track, a new Rasmussen Reports survey finds that

(Continued)

79 percent of homeowners are at least somewhat confident that they know how much their home is worth, including 41 percent who are Very Confident. That's up from 75 percent in June, the lowest level of confidence to date... For the third straight week, 29 percent of Likely US Voters say the country is heading in the right direction, according to a new Rasmussen Reports telephone survey. Sixty-four percent of voters now think the country is heading down the wrong track, up a point from the previous week. From January 2009 until October 2012, belief that the country was on the wrong track ranged from 55 percent to 80 percent, but it tracked in the low 50s from just before Election Day until early December.... The Rasmussen Consumer Index, which measures consumer confidence on a daily basis, held steady on Thursday at 95.4. Consumer confidence is down five points from a week ago, ten points from a month ago and nine points from three months ago... Twenty-four percent of adult consumers say their personal finances are improving, but 42 percent think they're getting worse, Rasmussen found... And finally, **friend of the house, Mike Prokop is hosting a Dodd-Frank policy session at the upcoming NESA conference in Houston on September 11.** Headlining the session is Salman Banaei from Bart Chilton's office at the CFTC. Other speakers include: NRG's Glen Mackey; Ann Marie Hanley from Vitol; David McIndoe from the law firm Sutherland, Asbill & Brennan; and Dave Stephen from the Willis Group. *The event, "Dodd-Frank is here: What's Next?" will be held downtown at 1000 Louisiana Street, First Floor Lobby Conference Room from 1 PM to 4PM. For more info go to www.nesanet.org/technical_training_details.asp?id=148* … And so, there it is…

Futures Volatility Study

This week the FIA released a study that looks at changes over time in the level of volatility in the futures markets. The report assessed 15 futures contracts listed on four leading futures exchanges – CME Group, Eurex, The ICE and NYSE Liffe. The study found that prices in these 15 markets moved through cycles of high and low volatility as well as numerous price spikes attributable to macro-economic events. **The study found, however, that "volatility attributable to structural factors did not change in most of these contracts. In other words, innovations such as algorithmic and high-frequency trading do not appear to have affected the volatility of prices..."** By press time this week, we had not yet seen any alternative views on the FIA study findings, but we imagine they are coming. HFT has not affected price volatility. *Really.* So, the various flash crashes and daily micro-crashes and alleged mass wash trading the CFTC keeps talking about has nothing to do with price volatility. Got it. More on this next time.

emissions desk

Get ready for wild weather. That is the government's advice to utilities in its latest grid resiliency report, which projects that the cost of weather-related power outages is likely to rise "as climate change increases the frequency and intensity of hurricanes, tornadoes, blizzards and other extreme weather events."

Over the past nine years, storms have caused nearly 700 widespread outages, meaning grid failures that affect 50,000 customers or more. In an average year, power outages due to severe weather cost the economy some $18-to-$33 billion. A year with record-breaking bad weather, such as 2008's Hurricane Ike, elevates that price tag into the $40-to-$75 billion range. Last year was the worst on record for severe weather events in the US, with Super Storm Sandy alone costing $27-to-$52 billion.

According to the report from White House Council of Economic Advisers and DOE, there's worse to come. "Scientific research predicts more severe hurricanes, winter storms, heat waves, floods and other extreme weather events being among the changes in climate induced by anthropogenic emissions of greenhouse gasses," the report says "Grid resilience (is) a core requirement for climate adaptation."

The electricity grid is particularly vulnerable to bad weather in large part due to aging infrastructure, and that's where the eggheads come in. With 70 percent of transmission lines and transformers more than 25 years old and most power plants over 30, "preparing for the challenges posed by climate change requires investment in 21st century technology that will increase the resilience and reliability of the grid."

With most of the grid above ground, deterioration of the infrastructure leaves the utility system vulnerable to weather events. For instance, a lack of automated sensors limits the response time of grid operators to a mechanical failure, and the amount of energy dissipated by older transmission lines means supply is constrained during peak demand periods such as heat waves.

But the risks to the grid can be mitigated through "a multi-dimensional strategy to prepare the United States for climate change and the increasing incidence of severe weather." This would include hardening the grid, installing advanced capabilities and accelerating the process of recovery and reconstitution of the grid after severe weather.

The report calls for the development of "a smarter, more resilient electric grid" through a cooperative effort from the private sector and federal, state and local governments. "Although most attention is placed on best practices for hardening (the grid)," it says, "resilienc(y) strategies must also consider options to improve grid flexibility and control."

This massive undertaking has some unexpected upsides beyond grid resilience and the avoided economic costs it can bring: a smarter grid begets more effective grid operations, which makes energy use more efficient and thus reduces carbon emissions – and reduces the need for on-site expenses such as backup generators, power conditioners and other outage protection. A key point these days: hardening the grid also improves resistence to cyberattacks on the nation's infrastructure, the report says.

Download the full report at *www.doe.gov/downloads/economic-benefits-increasing-electric-grid-resilience-weather-outages.*

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Speaking of eggheads, the best and the brightest put climate change at the top of their agenda during the World Energy Engineering Congress (WEEC) on Sept. 25-27 in Washington, DC. A recent Association of Energy Engineers survey found that most of their members (83 percent) believe climate change is happening and 86 percent think the federal government should take action to counter the negative impacts of climate change.

For engineers, that has led to a debate about the impact of climate change policy on the long-term energy outlook. The group is concerned that the president's emissions-reduction initiatives could spike utility rates as coal-fired power plants are phased out in favor of lower-emission natural gas and renewable power sources.

A world-class roster of energy speakers is lined up to discuss potential impacts and prospective solutions. Check out the full agenda at *www.energycongress.com*.

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Speaking this week at Columbia University's Center on Global Energy Policy, Energy Secretary Ernest Moniz dismissed the idea that the Obama administration's new climate plan constitutes a "war on coal."

The plan's focus on power-sector carbon regulations has been "applauded by many as the most significant step the president can take to reduce carbon emissions absent legislation," but he said those who deride the plan as anti-coal misunderstand the "all of the above" energy policy.

"We must reduce the CO_2 emissions … and we're about halfway there" to the president's target for 2020, but that doesn't mean taking fossil-fuel generation off the table completely, Moniz said. "We will invest in the technology … so that all of our energy sources can be enabled as marketplace competitors in a low-carbon world – that's what *we* mean by 'all of the above.'"

The administration's climate plan proposes $8 billion in loan guarantees for fossil energy projects that could reduce greenhouse gas emissions from any part of the energy stack. "Going back to my technology days, one of my favorites is chemical looping – a new technology for utilizing coal in a way that, if successful, will dramatically reduce carbon capture costs. That's just one example," he said.

(Continued)

"We're saying, come forward with good ideas to stretch the technology for fossil-based sources reducing CO_2 emissions." For coal, that has to mean carbon capture and sequestration, as well as potential use of the sequestered CO_2.

"To be blunt, there was a lot of 'talking the talk' for many, many years, because the reality is to demonstrate at (the) large scales which will be needed…. These are not inexpensive projects. This administration is walking the talk – $6 billion that this administration has put on the table to demonstrate this technology at scale," he said. "This is not a war on coal; it is preparing the way for coal to have potentially a place in the low-carbon world we believe is essential as we go forward."

Why essential? Moniz said recent events were "harbingers of things to come," which necessitates action by the government to mitigate impacts and adapt to changes. He painted a vivid picture of how droughts, floods, storms, fires and water shortages can create very expensive problems for the energy business, from hurricanes shutting-in production in the Gulf of Mexico to the fact that hotter temperatures mean transmission lines pass current less efficiently.

"Clearly, we understand that we cannot (link) a specific event to warming, but statistically we know the pattern is unmistakably along the lines of those anticipated for quite some time," he said. The country has to build toward "a low-carbon future, but one in which we have to expect we will be suffering some of the consequences of climate change."

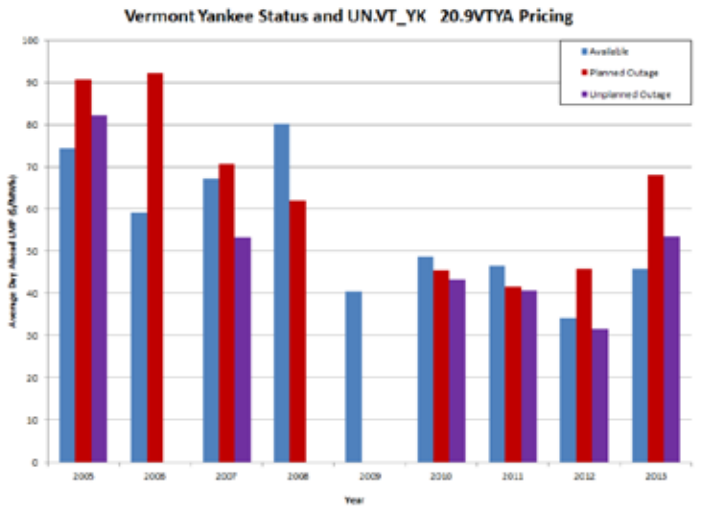
Moniz added that the administration wants to pursue a sensible approach to emissions reduction that takes into consideration America's boom in unconventional energy production. Noting that 80 percent of US energy today is derived from fossil fuels, he acknowledged the reality that, "In the energy business, it's very hard to see rapid changes … we have to be practical and pragmatic in reducing greenhouse emissions."

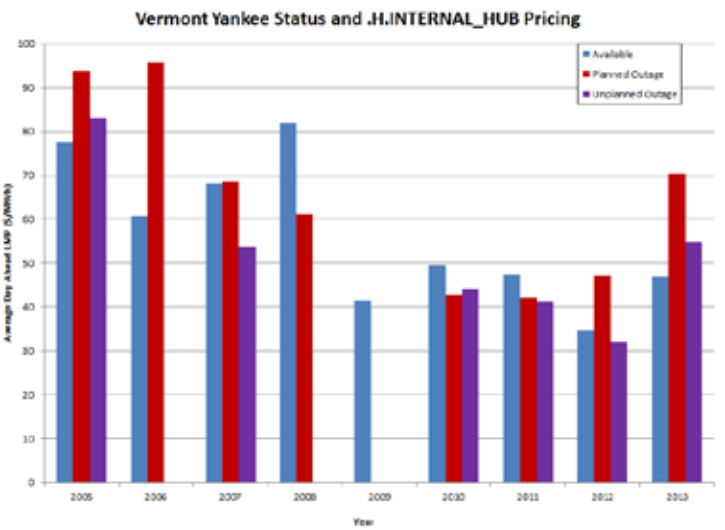
powersignals

By Michael McNair, YesEnergy

Vermont Yankee Retirement Party

Big news in NEISO this week …. Entergy officially announced that it will retire the Vermont Yankee nuclear plant – one of the oldest nuclear plants in the country. That removes 628MW of base-load capacity from the New England market. To put that into perspective: New England has just over 35,000MW of total capacity, of which approximately 11,500MW can be considered base load. So, Vermont Yankee makes up about 5 percent of the current base-load capacity in the market. Using outage data from our partners at Industrial Info Resources (IIR) and our own pricing database, we set up the two charts below. They show how prices in NEISO compare when Vermont Yankee is available versus the prices when the plant is on a planned or unplanned outage – at the plant's generator node (UN.VT_YK 20.9VTYA) and the main hub (.H.INTERNAL_HUB), respectively. In 2012-2013 we see that prices have been significantly higher (on average) when the plant is on a planned outage than when the plant is available. Stay tuned for how prices will respond when the plant is actually retired. *In the meantime, check us out at www.yesenergy.com.*





hft foreshadowing

Put it on your calendar: September 12, at CFTC HQ in Washington, DC. High frequency trading firms will be treated to a bit of foreshadowing courtesy of Commissioner Scott O'Malia. On that date, O'Malia will convene his Technical Advisory Committee and open the floor to a new staff "road map" on HFT that's expected to help lay the groundwork for real policy on the subject. The TAC has been looking at the whys and wherefores of HFT strategies across markets for roughly two years. Oversight of HFT is coming, boys and girls; the question is, to what extent? The roadmap isn't necessarily specific, we're told, but, we can read the tealeaves, nevertheless. Registration? Most likely. Tagging? Probably. A reset of exchange rules and incentives that has helped drive HFT volumes? Most likely. New enforcement actions to rein in alleged HFT-fueled wash trading? Heck yeah. But first, the commission has to accept the 100-page staff document. Not a prob, insiders tell us. We spoke to Commissioner O'Malia's senior staffer Ali Hosseini for more details this week.

The working groups of the TAC, the HFT subcommittee and the like that have been focused on these high-speed trading strategies will be getting advance copies of the new staff effort so they can absorb it and give some feedback a bit in advance of Sept. 12. A full panel will be devoted to the subject, Hosseini tells us. (See the draft agenda to the right).

So, the document itself asks 100 questions that staff hopes to draw a gazillion fresh new ideas from the public during the open comment period. Though the name, "roadmap for HFT" has been informally attached to this body of work, for some odd reason, nobody wants to claim ownership of the "roadmap" tag. We note that shortly after commissioner O'Malia announced the concept release a week or so ago, Jon Shazar of Dealbreaker blog fame (infame?) took a direct cheap shot at the CFTC's attempt to manage this unwieldy sector of the market: "In quaint, anachronistic terms, the regulator is creating a "road map" to figure out how to keep HFT from ruining everything. Eventually…" Not quite sure what that's all about. "This concept release really is a first step in a long process. This isn't suggesting what we should be doing, but rather to consider what we should be thinking about on the subject. The process may just discover that the market is working fine and we don't need to change anything. Or, it could help determine that new controls are necessary," Hosseini tells us. He says that once you read the document, you shouldn't really walk away thinking this policy or that rule might be imminent. "A lot of it is just cataloging the various rules we have in and around the many levels of the marketplace. We didn't want to prejudge anything, we wanted this to be more of an info gathering exercise than anything…which will allow us to make the right decisions and move forward based on the feedback we receive," he says. "If you read it [roadmap] and it says to you, 'We're gonna get those HFT guys,' then it really didn't serve its purpose."

It should be an interesting read. O'Malia has come out with some pretty strong statements against several elements of the HFT trade, and his colleague across the aisle, Bart Chilton, has all but recommended thumb screws, figuratively anyway. We find it hard to imagine this document doesn't point in one particular direction. "Well, the point is to ask questions, rather than offer a point of view. And, yes, we do ask questions such as, should HFT firms be registered (that are otherwise not registered). If the answer is yes, under what authority."

In the past, the GC's office and staff have batted around a few possible hooks to rein in HFT activity a bit, using the commission's current set of rules. One source noted that some rules originally pegged to floor traders have been considered as a fairly juicy rationalization to force registration of HFT firms. Hosseini says the document doesn't necessarily ask for your thoughts on whether the commission actually has the authority to do anything, but rather raises the question for clarity purposes. "We really hope this document gets everybody on the same page." We hear that.

The forthcoming TAC is actually devoted to several key subjects besides this HFT document; first, an update on SDR harmonization efforts; then, to close the meeting, there will be a discussion on SEFs and Made-Available-for-Trade rules. We recommend you plug into this meeting.

TECHNOLOGY ADVISORY COMMITTEE
SEPTEMBER 12, 2013 OPEN MEETING
DRAFT AGENDA

10 AM OPENING REMARKS

10:15 AM PANEL I: UPDATE ON SWAP DATA REPORTING
- Staff Update on SDR Harmonization Efforts
- Perspective on Federal Coordination
- International Perspective on Cross-Border Recognition

11:15 AM PANEL II: COMMISSION'S CONCEPT RELEASE ON AUTOMATED TRADING
- Staff Overview
- Open Discussion

12:30 PM LUNCH FOR TAC MEMBERS AND PANELISTS

2 PM PANEL III: SWAP EXECUTION FACILITIES / MADE AVAILABLE TO TRADE SUBMISSIONS
- Staff Update on SEF Applications
- Staff Update on MAT Determination
- International Perspective on Cross-Border Rules
- Clearing Certainty for Swaps
- Open Discussion

5 PM CLOSING REMARKS

cftc opines on retail commodity transactions

Last week, the CFTC issued an interpretation regarding the meaning of the term "actual delivery" as it relates to "retail commodity transactions" under Section 2(c)(2)(D) of the Commodity Exchange Act ("CEA"). What's it all mean? Language only a lawyer could love. So, we give great thanks to former CFTC and FTC attorney Bob Zwirb – now a lawyer with Cadwalader, Wickersham & Taft LLP in DC – for his thoughtful interpretation of the CFTC's re-interpretation. –the editor

Section 2(c)(2)(D) of the CEA prohibits OTC transactions in commodities that are offered or entered into with members of the general public on a leveraged or margined basis unless the contract results in "actual delivery" within 28 days or creates an enforceable obligation to deliver. The actual delivery provision, along with a parallel provision of two days for retail foreign exchange transactions in CEA Section 2(c)(2)(C), is designed to narrow the definition of what a spot contract is, and in particular, to prohibit the practice of rolling spot contracts, where the settlement period of the contract is periodically renewed indefinitely (i.e., required to be traded on a registered exchange).

Basically, the Interpretation clarifies that actual delivery means what most people would think it means, i.e., that delivery of a commodity does not take place until it is physically delivered. The Interpretation, however, does more than clarify what actual delivery means. It also takes the opportunity to take several swipes at court decisions that have taken a politically incorrect view of the dividing line between spots and futures. Thus, for example, the Interpretation states that Section 2(c)(2)(D) treats retail commodity transactions "as if" they were futures contracts. It also states that in evaluating a contract, the CFTC will take a "functional approach" that examines inter alia whether delivery takes place "instead of relying solely on language in the agreement, contract, or transaction."

All of this is appears to be a patent effort to get around the case law of the Sixth, Seventh, and other circuits that relies upon a contract's language rather than the performance by the parties to determine whether a contract is a futures contract or not, and that rejects the notion of delivery as an essential component of a futures contract. *See, e.g., Bank Brussels Lambert, S.A., v. Intermetals Corp., 779 F. Supp. 741 (S.D.N.Y. 1991); CFTC v. Zelener, 373 F.3d 861 (2004); and CFTC v. Ross Erskine and Goros, LLC*, 512 F.3d 310 (6th Cir. 2008). The CFTC has traditionally favored an *ex post* approach for characterizing a contract that looks at how a transaction is "marketed, managed, and performed," while the courts in more recent times have adopted a more *ex ante* perspective for performing the same task. In the context of retail transactions, Dodd-Frank appears to favor the CFTC position. But that does not mean that the same line of thinking would hold in transactions with more sophisticated investors.

To no one's surprise, the Interpretation takes a dim view of rollover, offset, and netting provisions common in commercial transactions, insisting that only physical delivery will satisfy the statute. But the Interpretation goes further and suggests that contractual language that creates even an enforceable obligation to deliver will not suffice. Thus, in one of five examples that it provides for clarification, the Interpretation states that actual delivery will not have occurred unless the entire quantity of the commodity purchased by the buyer has been "physically delivered" and title transferred "**regardless** of whether the agreement, contract, or transaction . . . ***purports*** to create an enforceable obligation on the part of the seller . . . to deliver the commodity to the buyer." (Emphasis added). This is correct as far as it goes with respect to the definition of "actual delivery" for transactions covered by Section 2(c)(2)(D). However, in this example, the CFTC seems to be saying that contractual language that creates an enforceable obligation to deliver is not to be believed, and that rollover provisions in general are incompatible with that obligation. But CEA Section 2(c)(2)(D) also expressly creates an exception to the prohibition for contracts that "create **an enforceable obligation to deliver** between a seller and a buyer that have the ability to deliver and accept delivery, respectively, in connection with the line of business of the seller and buyer." (Emphasis added). Moreover, the **CFTC's own case law**, not just that of the federal circuits, holds that "[n]either the existence [n]or exercise of an option to roll delivery obligations [i]s incompatible with intent to deliver the underlying commodity." *In re Grain Land Cooperative, CFTC Docket No. 97-01 (Nov. 25, 2003)*.

So while the CFTC's Interpretation may be useful in clarifying what constitutes "actual delivery" in the context of a retail commodity transaction, it also has a bearing on those commercial transactions that are conducted with more sophisticated institutional investors, *e.g.,* eligible contract participants or eligible commercial entities, where rolling clauses are commonly used. The CFTC's message may tend to mislead market users as to the legality in general of such provisions that allow for deferral of delivery and that otherwise create an obligation to deliver.

Bob Zwirb can be reached at robert.zwirb@cwt.com.

The CFTC release can be found at www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2013-20617a.pdf

a swap by any other name

Congress may be out of session and regulators across DC may be away but their collective legacies linger, nevertheless… Take Dodd-Frank, for example. About ten days ago a key DF deadline came and went and surprisingly caused nary a stir. Originally extended back in April, for an additional hundred or so days, Aug. 19 marked the starting point for all end users to report swap deals to their favorite SDR. Despite the lack of news on this recent, key deadline, the truth is, all's not well in SDR land. The problem seems to be centered on various communications and data-transfer issues between the primary SDRs in this space. As in, forms and feeds are not yet standardized to the point where seamless flow of data betwixt and between SDRs, their customers and regulators is even remotely possible. Among the working SDRs themselves (there are really only two operating at the moment), we hear it's all systems go – that is, folks can send stuff to, for example, ICE's Trade Vault without a hitch. The problems occur when these very complex systems are asked to play nice with each other. So, at this early stage, counterparties may not have a lot of choices when it comes to SDRs, but, all's not lost. At the end of the day, did you really care about which SDR you used? Our guess is that most folks simply wanted to sign on with the one that works best and works easiest. So, what happened with the SDRs? Six months ago, this area was one of the few brightly shining success stories for CFTC policy framers. Well, basically, regulators were short on details when the time came to designate how these new entities should operate. Yet another case of, "Hey CME, ICE, DTCC and Bloomie, you guys are smart, so you figure it out…" Sometimes this works just fine. Sometimes, not so much. ICE has indeed blistered ahead of the SDR pack on just about every level, so it likely feels everybody should simply follow its lead. This likely makes sense to regulators and most reporting parties, but less so to ICE's competitors. ICE's Bruce Tupper told us recently that the major powers are indeed talking and that solutions are being formulated. Sort of. Meantime, all that end users need to know is that they must, in any case, report something, someplace, and consistently. And if you can't report it for some odd technical reason, make darn sure you keep very complete records. Eventually, the technology will catch up with the policy. But, know that the good folks in CFTC's oversight and enforcement offices aren't in the habit of giving free passes to anybody who doesn't at least try to comply with arcane recordkeeping requirements. Swap recordkeeping is a very big deal folks, and like it or not, regulators are just hankering to make an example out of somebody. Anybody. One consultant we know says that counterparties have generally not yet gotten the memo on what should and what should not be recorded and reported. For example, all records related to underlying swaps connected to what eventually evolves into an exchange-cleared future must be kept whole and available. That's right, even though what you have at the end of the day is a cleared future, the underlying swap transaction must be fully recorded for posterity. Our consultant friend says folks have been remiss on this one, and fairly consistently (all types and sizes of company) too. These particular records have been a DF requirement for half a year. The whole point seemed fairly obvious to us, but as we've learned in speaking to folks across the markets, that unless it's spelled out fairly clearly, in simple English (haha), there is an even chance that it may not get recorded. Dealers don't seem to be the issue here; it's everybody else. We asked a guy who is deep in the weeds on this stuff, who happens to work for an outfit close to the action, about what he thought about certain swap transactions and keeping good records. "Can I sell you lottery tickets if we don't record the numbers you bought?" Heck no. "A trade is booked. A trade that offsets is booked. If you don't do this, then you are trading futures only…" Hmm. So, put another way, what specific documents do you need to have to prove that a bona fide exchange of futures for swap occurred? "If you have an unrecorded swap why would anyone believe a swap was executed?" Play it safe; record everything, even if you don't report everything… "Read the rules at CME. If you don't keep the record, you didn't trade. There aren't any handshake deals in [this] professional space [anymore]. I was once asked how you know if a trade is real or not. I said, do you capture deals in a trade capture system that you don't do? If it isn't recorded, it didn't happen…"

weekly gas storage lotto and market buzz

More storage-report misfires these past couple weeks and the Boxscores have taken a real beating. Alas. We decided to adjust the recent reclassification back to the "real" build number, but, a lot of good that will do. Have you heard the news? Soon, we may just find that storage reporting will be a whole lot more interesting.

The Dawn of Hourly Draws?

We read a very interesting piece from Team Tameron at Wells Fargo this week. The energy research desk alerted us to the shape of things to come: Hourly withdrawals.

The headline read: "Boardwalk Request a Sign of the Times." "The ongoing shift in the country's energy landscape was evident earlier this month when two Boardwalk Pipeline Partners' (BWP) subsidiaries (pipeline and storage) submitted applications to the Federal Energy Regulatory Commission proposing a service catering to local electric generation facilities. BWP's Gulf South would like to offer an Alternative No-Notice Service that would enable peak generating units (predominantly Nat Gas plants) to meet short-term demand increases without requiring on-site storage. While the request is worth contemplating, in our view, BWP is only requesting the ability to utilize this ability when its pipeline and storage facility possess spare capacity. Additionally, BWP indicated that salt-dome storage facilities (like BWP's Petal facility) would be required to provide on-the-fly injections and withdrawals due to the unsuitability of depleted gas reservoirs. Nevertheless, we believe this request highlights the potential for further gains in demand for natural gas as a feedstock for power generation. Some have said the gas supply side is moving towards a ''just-in-time'' model – why not the demand side as well?"

Why not, indeed. We floated the same question to our go-to storage guru, Andy Weissman, for his opinion. He noted that if the service adds value, the tariff is properly written and BWP is able to perform, "I don't see why FERC would not approve it."

The BWP request seems to bump up against one of our favorite questions: the frequency of EIA storage reporting. Will they need to shift from a weekly to a daily reporting regime if withdrawals suddenly go hourly? We asked Weissman about that point of art as well. "In my mind, two steps are necessary: For starters, there needs to be a much better understanding within the industry and the analyst community of what the EIA number does and does not represent," Weissman says. "More fundamentally, however, EIA has to act more radically by taking itself out of the reporting process altogether and mandating daily web postings of a lot more data than is publicly available now – not just amounts of gas in storage in underground storage facilities, but pipeline pressures, reclassifications, etc." He added that the daily reporting of amounts of natural gas in underground storage doesn't really solve the problem – "and could even needlessly exacerbate volatility…"

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OK, let's run the numbers: For the August 22, EIA Report, our favorite agency reported a build of 57 Bcf and the final Metro Desk Consensus average came in at 65.4 Bcf, a significant misfire. This is only half the story though. Our field of forecasts was actually significantly lower than the greater market consensus; our survey category index for the week (an average of the top six surveys in the market, such as DJ, Reuters, and Platts etc.) was much higher at 69.1 Bcf, making the EIA surprise well over 10 Bcf! Though the week's 57 Bcf build was a surprise, it was one that we largely anticipate. Our Wednesday tealeaves called the lower bias correctly and one of our key indicators – the relative spread between the three categories we track – was well over the 3 Bcf surprise threshold (4.7 Bcf). The actual EIA number was slightly lower than we anticipated, but it was in the right direction. Lately the standard deviation, the forecast ranges and the categorical differences have been wide and high. Too bloody high for this time of the year, we think. What's up with that? Well, we think that much of the confusion in the market, lately, has more to do with anticipating the EIA's latest numeric alchemy rather than trying to decipher weather demand or production flows. The 14 Bcf reclassification earlier this month spooked folks, to be sure. Our read is that more reclassifications are expected on a more regular basis, which should skew folks' forecasts and the EIA's final report numbers even further. On the recent reclassification, we've thought about it and decided to pull the 97 Bcf build from the boxscores and replace it with the would-have-been 82 Bcf build. There was no way on God's green earth analysts could be held accountable for some dubious paper change on the part of some operator.

This prob can be fixed (somewhat), we believe, with two changes on the part of EIA: first, lower the threshold for announced revisions from 7 to 2 Bcf. Secondly, require operators in the producing region – in TX and LA mostly – to publicly report their activity at least once daily. Twice daily is even better. We are told that such a requirement would account for zero financial or staff burden on the part of operators. But, these changes would, in fact, increase the accuracy of forecasts and, consequently, support better buying strategies on the part of consumers. Just saying. Anyhow, for the 8/22 report we had only 15 out of 40 forecasts that came within 5 Bcf of the tape – a terrible showing for this time of the year. And 27 out of 40 forecasts came within 10 Bcf of the EIA number. Our editor was quite high at 72 Bcf. Our HighBaller for the week was Tim Evans of CITI Futures at 77 Bcf and our LowBaller at 60 Bcf was Wells Fargo, LCM, JPM and the Bentek Flow Model. No spot-on win-

(Continued)

ners for the week. UBS noted that for the report week, the weather adjusted S/D has been 2.5 Bcf/d oversupplied vs. the year-ago but 1.1 Bcf/d undersupplied vs. the five-year average over the last four weeks. "We estimate this increase has resulted in material demand loss from gas back to coal in 2Q, effectively reversing all of the coal-to-gas switching that helped re-balance the market in 2012. But the decline in July/August bid-week prices appear to have tightened the market again, by 1-to-2 Bcf/d. We believe that gas prices need to remain weak (sub-$4/MMBtu) to keep drilling activity depressed and reduce domestic production (+1.2 percent YoY in May)," UBS said.

For the August 29 report, EIA called a 67 Bcf build and our consensus came in at 63.4 Bcf. We were actually expecting a small surprise early in the week to make up for the previous week's surprise. Early Views for this week were pointing to a surprise, given the early, wide ranges and standard deviation. As the week wore on, however, the numbers tightened up significantly. The categorical spreads tightened up and the SD dropped by half. So, taken together, we ended up forecasting that EIA should come in right with the consensus at slightly over 63 Bcf. The Bentek Flow Model came in at 62 Bcf this week, yet its S/D Model was much higher at 69 Bcf. interestingly, the Big B saw high-side risk. The editor was at 66 Bcf this week. Analysts were much better this week. We had 31 out of 41 forecasts coming within 5 Bcf of the tape and all forecasts came within 10 Bcf of the EIA number. SNL Editor Peter Marrin, Robry825 and CITI Futures' Tim Evans were both spot on at 67 Bcf and are thus the Best Storage Forecasters in the Land for 8/29/13.

tr end-of-season storage tally poll

The good folks at Thomson-Reuters recently spun out a new end-of-season storage survey. The previous survey was performed back in June. And, generally speaking, most if not all respondents revised their forecasts upwards. In June, the average came in at 3,767 Bcf; the current survey average came in at 3,852 Bcf. Our EMD end of season poll closes this week, so get your forecasts in to the editor ASAP! Send to johns@scudderpublishing.com. Whoever comes closest to the final (biggest) EIA number wins a new iTouch and a free subscription to Energy Metro Desk. –the editor

COMPANY	2013 HIGH STORAGE ESTIMATE	PREVIOUS ESTIMATE
Barclays Capital	3.800	3.800
Bentek Energy	3.880	3.802
BNP Paribas	3.790	3.700
BofA Merrill Lynch	3.700	3.700
Citigroup Global Markets	3.890	NA
Credit Suisse	3.900	3.700
Deutsche Bank	3.875	NA
Ecova	3.944	3.835
Energy Security Analysis	3.930	3.825
Energy Ventures Analysis	3.800	3.800
FBR Capital Markets	3.800	3.650
First EnerCast	3.978	NA
FirstEnergy	3.894	3.850
Guernsey	3.945	3.910
IAF Advisors	3.915	3.827
Jefferies	3.700	3.700
LCI Energy Insight	3.870	3.775
Macquarie	3.860	3.800
Morgan Stanley	3.860	3.700
Raymond James	3.877	3.786
Stephen Smith Energy	3.850	3.700
Strategic Energy	3.855	3.800
TD Securities	3.750	3.750
Thomson Reuters Analytics	3.890	3.740
Tradition Energy	3.860	3.800
UBS	3.800	NA
US EIA	3.800	3.813
AVERAGE	**3.852**	**3.767**

world ethylene demand growing

NGI writes that North America's copious natural gas resources have led to a "competitive resurgence" driving low-cost ethylene production, but the growth has created challenges in the Middle East, where operators are facing the "opposite and unfamiliar challenge of ethane supply limitations," according to IHS Chemical. All of the recent North American announcements to expand ethylene capacity are positives for North America, according to the IHS Chemical 2014 Ethylene World Analysis. Middle Eastern operators, meanwhile, are shifting to heavier feedstocks. The report covers historical developments and future projections for global ethylene markets for 2008-2023. The IHS report comes on the heels of two announcements in just the past few days. A unit of Royal Dutch Shell plc has launched a two-month bidding period to solicit more ethane commitments from Appalachian Basin natural gas operators for its proposed Beaver County, PA cracker, which would turn gas liquids into ethylene. Shell has secured known commitments from Consol Energy Inc., Hilcorp Energy Co., Noble Energy Inc. and Seneca Resources Corp. Strong US unconventional gas production also spurred Dow Chemical Co. to move forward with big petrochemical facility expansions in Plaquemine, LA, and Freeport, TX, plans that were proposed earlier this year, NGI says. ***www.intelligencepress.com***

Natural Gas Weekly Storage Forecast Comparison 2013

3rd Quarter

Storage Forecasts				4-Jul	11-Jul	18-Jul	25-Jul	1-Aug	8-Aug	15-Aug	22-Aug	29-Aug
EIA - 2013				72	82	58	41	59	82	65	57	67
EIA - 2012				39	33	28	26	28	24	20	47	66
EIA - 2011				95	84	60	43	44	25	50	73	55
EIA - 2010				78	78	51	28	29	37	27	40	54
EIA - 2009				75	90	66	71	66	63	52	54	65
EIA - 2008				89	104	84	68	65	51	82	102	90
Storage Forecasts	**3Q Score**	**3Q Weeks #1**	**YTD Score**	**4-Jul**	**11-Jul**	**18-Jul**	**25-Jul**	**1-Aug**	**8-Aug**	**15-Aug**	**22-Aug**	**29-Aug**
LCM Commodities	81.47	4	70.67	72	82	63	37	53	82	67	60	61
Global Nat Gas Analytics	78.61	1	73.13	74	82	64	43	54	81	68	62	63
Bentek - Flow	78.20	1	73.91	74	83	66	42	55	81	67	60	62
Haidari/Thom-Reuters Analytics	77.40	2	61.25	69	82	62	44	51	83	65	64	63
Scott Speaker/JPM	77.06	2	69.69	72	81	65	42	53	79	67	60	61
Harris/WoodMac	76.06		68.13	69	75	65	40	56	83	68	61	64
Belflower/Mustang Fuel Corp	74.60	1	68.96	71	81	63	41	66	81	74	64	61
Fenner/Macquarie Energy	73.27		70.87	70	83	67	45	55	84	68	61	62
EMD All Stars	71.04		71.50	73	80	68	43	54	80	68	61	62
Robry825 (05)	69.91	1	65.47	73	84	72	43	56	67	67	63	67
Tony Yuen/CITI Group	69.82	1	68.92	73	77	69	44	59	83	68	61	60
Banks Index	69.07		69.40	73	82	67	47	54	79	69	64	63
Reuters Survey	68.44	1	62.81	71	82	64	46	56	77	70	69	63
Tameron/Wells Fargo	68.01	2	66.84	76	85	70	41	57	73	68	60	64
TFS/Tradition Energy	67.34		69.16	73	81	68	47	54	81	70	65	64
Dow Jones Survey	67.33	1	66.52	70	82	64	47	57	78	71	69	63
Metro Desk Consensus Avg.	66.88		68.85	73.4	80.4	67.3	45.5	54.6	78.6	69.0	65.4	63.4
Surveys Index	65.95		65.31	72	82	66	47	55	77	70	69	63
Bloomberg Survey Avg.	65.76		65.33	74	83	65	46	56	79	70	68	62
Independants Index	64.83		67.94	74	79	68	45	55	78	70	66	64
Schneider Electric	64.66	2	58.48	67	78	60	39	59	74	74	75	68
Smith/Enercast Financial	64.04	1	66.61	73	82	67	54	61	86	74	69	69
Norse Gas Marketing	63.36		60.85	76	74	64	44	53	74	64	64	64
Steve Gregory	62.60		70.03	70	81	69	40	55	80	70	68	60
PIRA	62.49		69.38	76	79	72	40	52	81	67	62	62
Cooper/IAF Advisors	62.49		64.96	75	78	68	43	49	80	67	62	62
"APDM"	62.44		67.79	74	74	68	45	58	81	70	77	68
Revielle/Credit Suisse	62.32		66.72	75	n/a	64	44	54	81	71	64	57
Friesen/SocGen	62.32	1	67.85	74	82	70	49	57	77	68	62	58
Platts Survey	61.84	2	65.07	72	82	68	49	56	76	70	69	63
Genscape	60.45	1	61.16	72	72	70	48	61	93	83	62	65
Marrin/SNL Editor	59.85	1	54.48	76	85	68	42	54	78	74	69	67
Woz/ICAP	58.51	2	60.73	77	82	72	44	59	n/a	72	63	60
Featherston/UBS	57.34	1	63.59	75	80	60	55	50	85	70	75	70
Larsen/LCI-OPIS	57.22		57.23	78	77	68	47	51	78	66	62	63
SNL Energy Survey	55.78		59.92	74	83	66	47	51	74	70	74	65
Andy Weissman/EBW	55.52		63.14	76	77	64	45	52	73	67	69	63
Metro Desk Editor Forecast	55.47	1	63.56	78	77	71	40	51	78	65	72	66
Adkins/Raymond James	53.82		58.95	75	83	68	52	45	80	75	65	70
Tim Evans/CITI Futures	53.38	1	51.57	67	87	67	58	53	69	62	77	67
Asset Risk Management	53.17		56.07	76	75	75	46	54	79	69	64	63
Sharp/Huntsville Utils	49.54		58.30	70	79	69	49	58	74	70	74	60
Fitzpatrick/Kilduff Report	44.71		52.29	76	84	68	58	54	64	69	67	59
Bentek - S/D	43.57		57.10	79	76	74	52	49	79	74	63	69

Purple: Independent Analysts Red: National Surveys Green: Bank Analysts Black: Dartboard

weather desk

Exclusive Weather Forward Views from WSI, MDA EarthSat Weather and the Commodity Weather Group

So, the results are in: Summer 2013 was... fairly normal. Sure, it was cooler than the past three, but who's counting. And, hurricane-wise, August was a non-event, which should be followed by a Fall that may be fairly tame as well. All this points to potentially more gas being injected into the ground these last bunch of weeks in advance of the heating season. Prices should be good to consumers this Winter, despite growing infrastructure clogs and possibly new wars on the horizon. A record gas build this year? We think so, but we're in the minority. And though the results are still a little early for what sort of Winter lies ahead, our early tealeaves call for a mild one. Just saying.–the editor

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MDA EarthSat Weather meteorologist Bob Haas tells us that as the impressive late Summer heat event winds down over the central US, a much more seasonal pattern looks to be shaping up across the eastern half of the US just in time for the start of the Fall season. "Heat will be limited mostly to the western US immediately following Labor Day, with seasonal-to-below-normal anomalies anticipated from the Great Lakes to Mid-Atlantic region during the first third of the new month," Haas says. Some slow warming trends along the Northern Tier should return by mid-month, but this late in the year only strong positive anomalies, which are not anticipated, drive much in the way of cooling demand in the North. Further south, a seasonal look should continue into and beyond the mid-month point. **As for the meteorological summer of 2013 (June 1 - August 31), it comes to an end having totaled an estimated 909 PWCDDs (population-weighted cooling degree days). This falls between the 30-year and 10-year normals, which stand at 881 and 931, respectively**. Though considerably cooler than each of the past three Summers – which were the top 3 hottest on record based on PWCDDs dating back to 1950 – this Summer's PWCDD total still manages to rank as 14th hottest on record. The heat was most persistent in the West, with much more variability found across the Midwest and East over the course of the Summer. "Barring any last minute rapid intensification, August will have come and gone without a hurricane – an unusual happenstance considering that the first one of the season normally comes early in the month. The named storm total of six to date falls a little ahead of normal, though none have posed significant risks to the Gulf of Mexico production area. Looking ahead through the upcoming week, conditions appear conducive for development within the Atlantic Basin to the point of perhaps supporting the first hurricane of the season, but not yet are any clear risks to the US in the sights," Haas says. *For more information on MDA's many energy-focused weather products, go to www.mdaus.com.*

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According to Michael Ventrice **a member of WSI's medium-range forecast team, t**his week looks to feature a large scale pattern favoring a developing warm ridge over the interior western US and a digging cold trough over the East. The warmest weather looks to focus over the Southern Plains including ERCOT, where daytime high temperatures will likely run in the mid to upper 90s with spot 100s spreading across Oklahoma down through Texas. This includes city locales in and around the Dallas Fort Worth area. A period of hot weather is also anticipated over CAISO, where Burbank and Riverside temps are expected to run in the mid-to-upper 90s mid-to-late week. "The increased ridging over the West will favor a trough over the East, sponsoring a trend to unseasonably cool weather across the Ohio Valley, Northeast, and Mid-Atlantic states. In addition to the cooler weather, a period of increased precipitation looks likely. Looking ahead into next week, a period of high uncertainty is expressed in the models. Most solutions keep the heat focused over the West, with a colder than average pattern continuing over the East," Ventrice says. *For more information, go to www.wsi.com.*

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Matt Rogers of Commodity Weather Group in Bethesda, MD, tells Energy Metro Desk that the mixed Summer of 2013 got a last-minute burst of heat to provide a brief period of higher-than-normal demand. The 8/31 and 9/6 EIA weeks are running hotter (higher demand) than the five-year means nationally based on population-weighted cooling degree days. Those two EIA periods are also coming in comparablyto last year's last-minute Summer heat. However, the pattern is shifting for late in the first week of September with cooler trends returning to the major, eastern energy-consuming areas. "Overall September demand is expected to come in slightly lower than last year's level with cooler risks for the Midwest and South, especially. Western heat has a chance to outperform last year's levels, while the East may be similar overall," Rogers says. The Atlantic Tropical Season has still not produced its first hurricane after three months since its start. This is the slowest start since 2002. The latest guidance suggests the biggest opportunities for storms in early September are in the Deep Atlantic with a high probability of them staying out to sea rather than threatening North America. The earliest a system could even try to bother the Gulf would be later in the second week of September, but those threats seem very remote/unlikely currently. *For more information, go to www.commoditywx.com.*

the case for proactive compliance and risk management, part II

By Carlos Blanco, NQuantX

In his previous piece, Blanco discussed the recent JP Morgan settlement with FERC. In this article, he addresses some of the implications for banks with physical-commodity trading desks, though they may seem like an endangered species, these days. Since the previous article ran earlier this month, we believe a couple other banks have signaled an exit from the physical space. This article also offers a number of choice tidbits for risk and compliance groups across the industry. –the editor

FERC steps up surveillance and enforcement efforts

As a response to the manipulation of California's electricity market by Enron and other energy merchants, the Energy Policy Act of 2005 gave FERC additional enforcement powers such as the "broad authority to prohibit manipulation" and "an intentionally broad proscription against all kinds of deception, manipulation, deceit and fraud."

In the last few years, FERC has had increased access to trading data after issuance of Order No. 760, by which Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs) are required to provide FERC with extensive transaction data on an ongoing basis to monitor market activity. Some of the data includes information on supply offers and demand bids for energy and ancillary services, virtual offers and bids, and Financial Transmission Rights (FTRs) transactions.

In order to conduct continuous surveillance in order to ensure that natural gas and power market participants do not violate Commission rules related to issues such as market manipulation, anti-competitive behavior, and other questionables activities, FERC created the Division of Analytics and Surveillance (DAS). The division has hired staff with analytical skills and energy market experience to conduct technical forensic analysis of market data to determine potential market manipulation.

In addition to increased surveillance, the FERC has also stepped up its enforcement efforts. From 2007 until March 2012, FERC had only issued $172 million in fines. In March 2012, Constellation settled alleged market manipulation charges by agreeing to pay $245 million. In July, 2013 JP Morgan agreed to pay $410 million; and, a few months earlier, FERC fined Barclays Bank $470 million, though the bank is planning to fight that penalty in court.

The role of banks in energy markets under close scrutiny

Since the Enron implosion and the subsequent collapse of the business model of the large energy merchants such as Dynegy, Calpine and Mirant, the banks became important physical and financial market players and liquidity providers.

At first, the arrival of the banks

(Continued)

was largely seen as a positive influence as physical market players such as utilities, producers and end-users had access to well-capitalized counterparties offering sophisticated risk management solutions.

However, the failure of large financial institutions with large energy trading desks such as Lehman Brothers and Bear Stearns during the financial crisis as well as market manipulation claims against Barclays Bank, JP Morgan and Deutsche Bank have changed the perception of their contribution to the efficiency and transparency of energy and commodity markets. Even though banks often benefit from increased market volatility while utilities and end-users prefer stability, that does not mean that certain market participants should play by different rules.

In the near future, we may see a wave of banks exiting physical-commodity trading as a response to the complex and aggressive regulatory environment, not just from FERC but also from the Federal Reserve, CFTC and international regulatory bodies.

Lessons for Compliance and Risk Groups

The enhanced access to data and the creation of the dedicated analytics division function will likely result in a more aggressive approach towards compliance as well as more enforcement actions against traders and trading groups. In this "new world" of increased surveillance and stricter enforcement by the FERC, compliance groups at energy trading operations should take a proactive role to avoid being the target of a FERC investigation.

Since January 2011, FERC has been allowed to issue Staff's Preliminary Notice of Violations following the fact-finding portion of an investigation. Energy firms accused by FERC of alleged wrongdoing may suffer serious reputational risk, and management teams may be tempted to settle in some instances to avoid continued reputational damage.

A lesson for compliance officers is that FERCs increased access to data and analytical resources may imply that trading and hedging activities that were common practice may now be viewed in a different light. Compliance groups should continually update the compliance policies and actively educate traders and portfolio managers on what FERC considers acceptable market practices.

For example, FERC has accused Barclays, Deutsche Bank and BP of manipulating physical gas market prices in order to benefit from financially-settled derivatives positions. To defend the firm against such potential accusations, firms that trade physical and derivative gas and power may need to set up a temporary or permanent firewall limiting the information flows between physical and financial traders. Also, to avoid potential problems with regulators, compliance officers will need to develop a good conceptual understanding of the rationale behind trader positions both in isolation as well as in the context of the overall trading book when the trader is hedging other positions.

Also, as instant messaging has become the leading communication tool in energy trading floors worldwide, traders need to operate under the assumption that every message sent could be reviewed in the future by FERC's staff, particularly if the message contains certain key words that may indicate wrongdoing, regardless of the context.

Compliance policies should be updated to include penalties to traders that engage in any "trash talk" or "bragging" that could lead to major fines against their institutions. Also, compliance groups should set systems in place to encourage traders to report any exchanges of information that could be misinterpreted as manipulation or other anti-competitive practices in a government investigation.

In a future article, we'll review the FERC market manipulation accusations against Barclays Bank and several individual power traders as well as BP natural gas traders, where a handful of damaging instant messages between traders, possibly hand-picked from tens of thousands of communications, are among the main pieces of evidence.

Summary

Proactively managing legal and regulatory risks at energy and commodity trading firms is no longer an option. In light of the potential economic losses due to regulatory non-compliance or the costs associated with being investigated by the government agencies for wrongdoing, the case to invest in compliance personnel with the right skills and training as well as systems and processes to track and report compliance activities is probably stronger than ever.

The compliance framework should integrate existing resources from other groups that can leverage their expertise in some key areas such as risk management, legal and operations.

Carlos Blanco is co-founder and managing director of NQuantX, LLC (carlos@nquantx.com), a financial engineering software firm that develops valuation and risk management analytics for energy portfolios. He also teaches the certificate program in Derivatives Pricing, Hedging and Risk management (DPH) for the Oxford Princeton Programme. (www.oxfordprinceton.com)

credit desk

The following data is for the Oil & Gas – Integrated and is provided exclusively to EnergyMetroDesk by CreditAnalyzer.com. This data, and similar data on nearly 2,500 companies across all non-financial industries, are available at their website. The quarterly financial data is updated weekly as filings are made with the Security and Exchange Commission. To find out more, or to search their database, by industry or by individual company name, go to *www.creditanalyzer.com*.

Oil & Gas – Integrated (average probability of default for group is 0.35%)

Name	Probability of Default	Loss Given Default	Cost of Credit	Calculated Credit Limit
BG Group plc (ADR)	0.09%	25.66%	0.02%	132,660,000
BP plc (ADR)	0.14%	30.34%	0.04%	476,380,000
BreitBurn Energy Partners LP	0.17%	32.40%	0.06%	6,750,000
Chevron Corporation	0.06%	21.36%	0.01%	685,170,000
Daleco Resources Corporation	3.52%	64.52%	2.27%	0
Energen Corporation	0.23%	35.61%	0.08%	8,940,000
Eni SpA (ADR)	0.24%	36.06%	0.09%	369,630,000
Genesis Energy LP	0.12%	28.71%	0.03%	2,560,000
Marathon Oil Corporation	0.11%	27.79%	0.03%	74,890,000
Occidental Petroleum Corporation	0.08%	24.41%	0.02%	186,520,000
Petroleo Brasileiro Petrobras	0.15%	31.08%	0.05%	600,470,000
Pioneer Natural Resources	0.13%	29.56%	0.04%	31,620,000
Questar Corporation	0.19%	33.58%	0.06%	4,690,000
Royal Dutch Shell plc (ADR)	0.13%	29.56%	0.04%	761,630,000
Statoil ASA (ADR)	0.20%	34.13%	0.07%	189,800,000
Total SA (ADR)	0.18%	33.01%	0.06%	420,720,000
YPF SA (ADR)	0.25%	36.49%	0.09%	25,310,000

Probability of Default values are capped at 20%.
Loss Given Default is a function of the probability of default.
Cost of Credit is the value obtained multiplying the POD by the LGD.
The Calculated Credit Limit is the positive value (or zero) obtained by averaging of a company's tangible net worth x 1% + cash flow from operations x 1% + working capital x 1%.

barclays refuses to pay ferc fine

A special to Energy Metro Desk courtesy of SNL Energy

Setting the stage for the first showdown of its kind in a federal court, Barclays Bank PLC apparently has refused to pay a record $435 million in penalties for allegedly manipulating physical and financial energy markets in the West.

The Energy Policy Act of 2005 not only gave FERC more penalty authority over energy market manipulation - up to $1 million per violation, per day - it also extended the categories under which an accused party can have its case heard before a district court rather than a federal appellate court. Since the 1980s, an entity accused of violating its hydropower license has been able to choose to have its case heard by a FERC administrative law judge prior to a penalty being assessed. It also can skip the administrative hearing and, if FERC decides to assign a penalty and that penalty goes unpaid for 60 days, the agency can ask a US district court to affirm the penalty by holding its own trial. The 2005 act extended the court review option to include electric market manipulation cases; interestingly, the option still does not apply to manipulation cases FERC pursues under the Natural Gas Act.

While others accused by FERC of manipulating power markets have chosen the court review option, those cases ended up being settled before they ever got to that stage. In addition, some high-profile cases never got to the FERC procedural point where a company had to make the choice. Most notably, a JPMorgan Chase & Co. energy trading subsidiary recently agreed to pay a $410 million penalty to resolve market manipulation allegations before FERC ever issued an order requiring the bank to show cause why it should not be penalized. It is only after the agency issues such show-cause orders that someone being pursued by the commission has to choose how it wants the case to proceed.

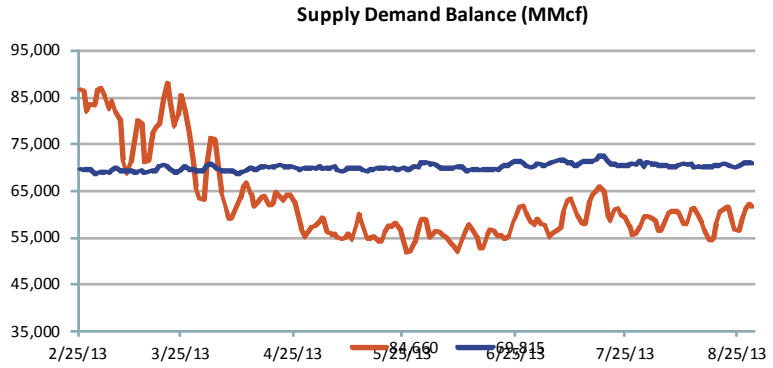
Barclays chose the court review route after FERC staff formally alleged that it manipulated electric energy prices in California and other Western markets between November 2006 and December 2008. Despite the bank's forceful defense of its actions, FERC on July 16 sided with staff and ordered Barclays to pay a record $435 million in civil penalties and disgorge $34.9 million in unjust profits.

Although Barclays was given until Aug. 15 to pay the fine, it signaled in various public statements after the FERC fine was announced that it did not intend to do so and would "vigorously defend" itself in federal court. That now appears to be the case, as the deadline has passed and Barclays apparently has not yet paid the monetary penalties. While FERC and Barclays refused to comment on the missed payment deadline, a FERC spokesman said after the close of business Aug. 15 that the agency has no knowledge of the payment having been made. Barclays indeed may have paid the fine, but that seems highly unlikely given the FERC spokesman's comment and Barclays' earlier statements that it would fight the matter. The commission now has 30 days to take its case to federal court. *For more information go to www.snlenergy.com*

bentek's s/d summary

The table and graph below are summaries extracted from Bentek's Daily Supply/Demand Balance report which provides a daily estimate of total US demand, production, imports/exports and storage injections/withdrawals. The table shows month-to-date and year-to-date comparisons of year-on-year data as of the date located in the top left of the table. The graph indicates the daily supply/demand trend over the past six months. This data is provided courtesy of Bentek Energy. *For more information about Bentek's Daily Supply/Demand Balance Report, go to www.bentekenergy.com.*

BENTEK Daily Supply Demand Balance (Bcf)								
Supply Demand	MTD Change				YTD Change			
As of 8/29	A-13	A-12	Chg	% Chg	8/1/2013	8/1/2012	Chg	% Chg
Gross Production	73.9	72.2	1.7	2.4%	73.4	72.1	1.3	1.8%
NGL/Other Shrink	8.9	8.7	0.2	2.3%	8.8	8.6	0.2	2.3%
Dry Production	65.0	63.5	1.5	2.4%	64.6	63.5	1.1	1.7%
Canadian Imports	5.1	5.8	(0.7)	-12.1%	5.1	5.5	(0.4)	-7.3%
LNG Sendout	0.3	0.5	(0.2)	-40.0%	0.3	0.5	(0.2)	-40.0%
Supply	**70.4**	**69.9**	**0.5**	**0.7%**	**70.0**	**69.5**	**0.5**	**0.7%**
Mexican Exports	2.0	1.8	0.2	11.1%	1.8	1.5	0.3	20.0%
U.S. Demand	58.6	62.3	(3.7)	-5.9%	69.0	68.4	0.6	0.9%
Power Burn	28.3	32.0	(3.7)	-11.6%	22.6	26.3	(3.7)	-14.1%
Industrial	17.8	18.0	(0.2)	-1.1%	19.2	18.9	0.3	1.6%
ResComm	10.8	10.5	0.3	2.9%	25.2	21.3	3.9	18.3%
Pipe Loss	1.7	1.8	(0.1)	-5.6%	1.9	1.9	0.0	0.0%
Balance	(0.6)	(0.2)	(0.4)	200.0%	(0.2)	0.2	(0.4)	-200.0%
Demand	60.6	64.1	(3.5)	-5.5%	70.7	69.9	0.8	1.1%



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