

# Energy & Environmental Markets Advisory Committee

## Position Limits for Derivatives – Natural Gas Industry Perspective

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# American Gas Association

- Presentation Topics:
  - AGA and Natural Gas Utilities
  - Perspectives on the 2020 Position Limits Proposal
    - Exemptions for Bona Fide Hedges
    - Additional Important Aspects of the 2020 Proposal

# American Gas Association

- AGA represents more than 200 local energy companies that deliver natural gas throughout the United States
- 75 million residential, commercial and industrial natural gas customers in the U.S., of which 95 percent — more than 71 million customers — receive their gas from AGA members
- Natural gas utilities or local distribution companies (“LDCs”) provide natural gas service to retail customers under rates, terms and conditions that are regulated at the local level by a state commission or other regulatory authority with jurisdiction

# Natural Gas Utilities

- LDCs use a variety of financial tools such as futures contracts traded on CFTC-regulated exchanges and over-the-counter energy derivatives
- LDCs hedge the commercial risks associated with providing natural gas service, particularly volatility in natural gas commodity costs
- LDCs are commercial end-users that procure natural gas to be delivered to customers

# 2020 Position Limits Proposal

- Any position limits rule should:
  - Allow commercial end-users, such as LDCs, to enter into bona fide hedges to manage, hedge and mitigate commercial risks
  - Not be unduly burdensome for end-users
  - Permit end-users to cost-effectively mitigate risks and costs, that will ultimately benefit customers

# Exemptions for Bona Fide Hedges

- The scope of the exemptions are of critical importance to LDCs
- Any hedge exemption should not be too narrow or restrictive in a manner that unduly burdens LDCs
- Market participants benefit from clear rules and definitions

# Exemptions for Bona Fide Hedges

- Bona Fide Hedge Exemption for Unfilled Anticipated Requirements/Utility Resale
  - 2020 Proposal would recognize a bona fide hedging position where a utility is “required or encouraged” by its public utility commission to hedge
  - Concern –
    - More commonly state regulators “permit” or “allow” hedging

# Additional Important Aspects of the 2020 Proposal

- Hedges for Anticipated Merchandising
- Recognizing Non-Enumerated Bona Fide Hedges
- List of Referenced Contracts



# Questions

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The American Gas Association, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 74 million residential, commercial and industrial natural gas customers in the U.S., of which 95 percent — more than 71 million customers — receive their gas from AGA members. Today, natural gas meets more than one-fourth of the United States' energy needs.

[www.aga.org](http://www.aga.org)