

Further, if an intervenor files comments or documents with the Commission relating to the merits of an issue that may affect the responsibilities of a particular resource agency, they must also serve a copy of the document on that resource agency.

Scoping comments may be filed electronically via the Internet in lieu of paper. The Commission strongly encourages electronic filings. See 18 CFR 385.2001(a)(1)(iii) and the instructions on the Commission's Web site (<http://www.ferc.gov>) under the "e-Filing" link.

k. This application is not ready for environmental analysis at this time.

l. The existing Dayton Hydroelectric Project consists of: (1) 594-foot-long arch-buttress uncontrolled fixed crest overflow concrete dam; (2) a 200-foot-long earthen embankment on the east side; (3) a 200 acre impoundment with a normal pool elevation of 498.90 msl; (4) a concrete head gate structure with four 15.5-foot-wide and 9.5 foot-high wooden gates located at the west abutment; (5) a 900-foot-long, 135-foot-wide, 10-foot-deep power canal; (6) a powerhouse containing three turbines with a total installed capacity of 3,680 kW; (7) a 150-foot-long, 2.4 kV transmission line; and (8) appurtenant facilities. The average annual generation is 14,200 megawatthours.

m. A copy of the application is available for review at the Commission in the Public Reference Room or may be viewed on the Commission's Web site at <http://www.ferc.gov> using the "FERRIS" link. Enter the docket number excluding the last three digits in the docket number field to access the document. For assistance, contact FERC Online Support at FERCOnlineSupport@ferc.gov or toll-free at 1-866-208-3676, or for TTY, (202) 502-8659. A copy is also available for inspection and reproduction at the address in item h above.

n. You may also register online at <http://www.ferc.gov.esubscribenow.htm> to be notified via email of new filings and issuances related to this or other pending projects. For assistance, contact FERC Online Support.

o. *Scoping Process:* The Commission staff intends to prepare an Environmental Assessment (EA) for the Dayton Hydroelectric Project in accordance with the National Environmental Policy Act. The EA will consider both site-specific and cumulative environmental impacts and reasonable alternatives to the proposed action.

Commission staff does not propose to conduct any on-site scoping meetings at this time. Instead, we will solicit

comments, recommendations, information, and alternatives in the Scoping Document (SD).

Copies of the SD outlining the subject areas to be addressed in the EA were distributed to the parties on the Commission's mailing list. Copies of the SD may be viewed on the Web at <http://www.ferc.gov> using the "FERRIS" link.

Magalie R. Salas,

Secretary.

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DEPARTMENT OF ENERGY

Federal Energy Regulatory Commission

[Docket No. AD03-7-001]

Natural Gas Price Formation; Staff Paper on Price Formation Issues

June 13, 2003.

On May 29, 2003, the Commission issued a "Notice of Staff Technical Conference & Workshop on Energy Price Discovery & Indices" on issues surrounding price formation and price indices for natural gas and electricity. The conference and workshop will be held, in conjunction with the staff and commissioners from the Commodity Futures Trading Commission and the National Association of Regulatory Utility Commissioners, at FERC headquarters on June 24, 2003.

Introduction and Problem Definition

A crisis of confidence over the reliability of energy price indices and the uncertainty over industry expectations and government regulatory guidelines now inhibits the progress of energy markets. Reports of past attempts at index manipulation and unreliable or non-transparent statistical methods undercut markets that depend on indices.¹ Recently, there have also been concerns about a lack of information about price liquidity, such that market participants base decisions on misperceptions about how many actual transactions were used to set the price. Since index dependencies permeate the

¹ In 2002 the Western Markets Task Force investigated the role natural gas indices played in the prices charged for electricity in California. The Final Report on Price Manipulation in Western Markets, issued March 2003 in Docket No. PA02-2-000, determined that employees of several companies had reported false information to publishers of price indices in an effort to skew indices in favor of their trading activities positions (short or long) taken in both the physical and financial markets. In addition, the investigation found that other companies had no system in place to ensure the accuracy of the data being reported to the index publishers.

energy industry, accurate price discovery must exist for markets to function properly and efficiently.

There are also concerns about changes in the amount of trading, both generally and with certain types of contracts. Gas commodity markets have shifted from primary reliance on a prompt month (bid week) spot market and longer term forward markets to include active next day and balance-of-month markets. Next-day trading appears to be robust, with a majority of next-day trades being executed on electronic exchange platforms. Transactions in the month-ahead market, however, have declined significantly in the wake of a collapse in the marketing segment of the gas industry. Monthly indices, however, apparently remain important reference points for indexed contracts, settlements for swaps, settlements for pipeline imbalances, *etc.* We are interested in exploring the vitality of trading in the month-ahead market and the role it plays in price formation under current conditions.

Another concern is the degree of reliance on index-based contracts as opposed to fixed-price contracts. It appears that natural gas producers often sell "at index" and that many local distribution company purchasers buy at index-linked prices in lieu of negotiating fixed prices. Some have alleged that there is over-reliance on index pricing and that it is due to perceptions of what state commissions will consider to be prudent components of a procurement portfolio. Without enough fixed price transactions, there is a real concern that prices will not reflect market conditions.² This is another aspect of liquidity concerns' improvements in price reporting, data quality, index methodologies, reporting procedures, and the like still will not produce the desired result if there are not enough fixed price trades to form prices.

On April 24, 2003, Commission staff, with staff from the CFTC, held a technical conference to explore how improvements in price indices could promote confidence in natural gas markets. The conference provided us and participants with useful insights on price indices and their role in price formation, and staff appreciates the contributions of the conference

² Natural Gas Intelligence (NGI) recently issued an open letter to the Commission and a "Statement on Natural Gas Price Surveys" in which it noted the collapse in fixed price trading and the increased use of indices during volatile periods. NGI urged "buyers and sellers to do less indexing" and more fixed price trading, particularly in the monthly baseload market." See www.intelligencepress.com/features/ngi_statement.html.