

**OPENING STATEMENT OF PETER KRENKEL,
PRESIDENT OF NATURAL GAS EXCHANGE
INC. BEFORE THE
U.S. COMMODITY FUTURES TRADING COMMISSION
HEARING ON POSITION LIMITS AND HEDGE EXEMPTIONS**

JULY 29, 2009

Mr. Chairman and Members of the Committee, my name is Peter Krenkel, and I am President of Natural Gas Exchange Inc. (NGX). NGX is a Canadian company, based in Calgary, Alberta, with an office in Houston, and has been operating its electronic trading and clearing system for energy products since 1994. NGX is a wholly-owned subsidiary of the TMX Group Inc., which is a leading integrated multi-asset exchange group, with a history that dates back over 150 years. TMX Group's subsidiaries operate cash and derivative markets for multiple asset classes including equities, fixed income and energy and provide trading markets, clearing facilities, data products and other services to the global financial community.

On behalf on NGX, I want to express our appreciation to the Commission for providing us with an opportunity to participate in this hearing today.

BACKGROUND ON NGX BUSINESS

NGX provides trading and clearing services for natural gas, electricity and oil products at various markets in North America. The focus of our business is in the physical energy space, specializing in the physical clearing of natural gas and oil contracts. NGX has a combination of established and emerging markets.

We have participants based in Canada and the U.S., all of which are sophisticated entities and transact as principals. The majority of our participant base consists of the more traditional commercial entities, but we have seen increases in the participation of banks, hedge funds and we have one ETF.

NGX is a recognized exchange and clearing agency by its lead regulator in Canada, the Alberta Securities Commission, and is an exempt commercial market in the U.S. and a registered DCO with the CFTC. As energy markets in Canada are directly linked to those in the U.S., in our view there must exist a comparable regulatory regime on both sides of the border.

In terms of size, we are relatively small player in the overall North American energy markets but we are a significant part of the Canadian physical energy markets because of our expertise in the physical clearing and settlement of energy commodities. Our traded

and cleared monthly volumes have grown gradually to current trading levels of over 1140 BCF of natural gas, 5 TWHs of electricity and 5 MMBbls of crude oil. As a matter of interest, about 50% of Canadian gas and oil production is exported to the U.S.

POSITION LIMITS

From our perspective as a clearing house, focused on the physical clearing and settlement of energy contracts, position limits can work well in facilitating other risk management practices and controls that are used to ensure performance of transactions. Our clearinghouse uses marking to market the value of positions and initial and ongoing margin requirements to mitigate risk, and position limits based on the liquidation risk of participant portfolios can be another effective tool in managing our clearing operations.

From the exchange-trading perspective, position limits and accountability levels are useful tools in protecting market integrity. However, we support a regime that is not overly formulaic and can stay current, reacting swiftly to changing conditions. An appropriate regime must also take into account the needs of emerging markets, to ensure additional regulation avoids the risk of driving business away from the transparent exchange-traded markets.

Our view is that control of at least spot month position limits should shift to the regulator, in this case the CFTC, for contracts that are regularly used interchangeably across marketplaces ('look-alikes'). Currently, under the expanded rules for exempt commercial markets, certain significant price discovery contracts are to adopt the position limits set by the DCM. We believe that the position limit setting process must be fully visible and that a broader range of considerations may need to be taken into account where limits impact multiple marketplaces. Therefore the CFTC may be in the best position to ensure fairness and transparency for limits over these 'significant' contracts.

However, it is our view that exchanges should continue to set limits and accountability levels for products that are not regularly used interchangeably across marketplaces. The exchange is in the best position to understand the relevant considerations for those markets, and to develop and apply an appropriate position limit/accountability regime, in particular where those markets are still emerging. From NGX's perspective, a one-size fits all approach would hamper the emergence of price discovery for many of our contracts.

In this regard, it will be important to establish a clearly defined scope for 'look-alikes' in order to distinguish 'significant' contracts subject to centralized CFTC position limits from the rest of the market. This distinction will depend, in part, on the interpretation of what constitutes a "significant price discovery contract" (SPDC) under the new CFTC rules for exempt commercial markets. From our perspective as an ECM with many emerging markets, we would caution the CFTC to avoid an overly broad interpretation of SPDCs that may have inadvertent effects on smaller marketplaces that play a developmental, but not insignificant, role in the overall energy markets.

Although the majority of participants in NGX's markets continue to be the traditional commercial hedgers, we have seen an increase of both non-traditional hedgers, and 'pure' speculators, such as hedge funds. From our own perspective, we believe the scope of the current exemption for bona fide hedgers can remain as is. We have not seen evidence based on the trading patterns of non-traditional hedgers in our markets that warrants special treatment for these entities compared with commercial hedgers.

In our view these institutions, including ETFs, bring necessary liquidity and provide commercial entities with much needed ability to hedge their risks and manage their operations. While certain controls on speculation are appropriate, additional controls for non-traditional hedgers are not justified, in our contracts, at this time, and risk pushing positions from the transparent markets to the bilateral markets. However, we do support the ongoing efforts of regulators to engage in periodic reviews of the data being compiled on these institutional participants to ensure excessive speculation concerns and market integrity considerations continue to be appropriately addressed under the current regime.

I thank you for the opportunity to share the views of NGX today. I am happy to answer any questions that the Commission may have.