Verbal Testimony of

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"Commodity Futures Trading Commission Proposal to Implement Speculation Position Limits for Futures"

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Chairman Levin, Ranking Member Coburn and Subcommittee Members, thank you for the opportunity to testify before you.

My name is Paul Cicio and I am the President of the Industrial Energy Consumers of America (IECA).

IECA has been a long time supporter of setting responsible speculative position limits. Since all of our companies use substantial quantities of natural gas, we will use natural gas illustrations to address the Subcommittee questions.

Speculative trading volumes continue to have explosive growth even though volume of natural gas consumption has moderately increased. Natural gas open interest increased by 590 percent since 1995 even though U.S. consumption increased by only 6.5 percent. Almost all of the open interest increase is from non-commercial trades.

Large speculative volumes can be a problem because they can move the market price and increase volatility. Chart 1 and 2 of our written testimony uses CFTC data to show that in late 2008 four traders controlled about 50 percent of the open interest in natural gas and 8 traders controlled 60 percent. That means that only a handful of trading companies can have an incredibly large role in what we pay for that commodity.

High volatility will increase the cost of hedging to manufacturers because there is a direct relationship between volatility and, for example, the option price premium. Higher volatility also increases the bid-ask spread in the forward market.

To illustrate the point, using the closing Henry Hub Index price of natural gas on Friday, October 28, 2011 of $4.04 per mm Btu, a call option for 100,000 mm Btus with a six month expiration at the money would cost $36,498.50. If we increase the implied volatility by only 5%...the premium cost goes up 15%; if the implied volatility goes up 10 %, the premium cost rises by 31%; and at 20% implied volatility… it increases the option premium a whopping 61%.

IECA supports the imposition of speculative position limits but setting the limit at 25 percent of the estimated deliverable supply is too large and will do little to reduce excessive speculation.

Let's put in perspective what setting speculative position limits at 25 percent mean by looking at natural gas. If only 100 traders trade the speculative limit - they would control 25 times U.S. monthly demand.

Regarding commodity index funds and (ETFs) -- we believe that passive speculators should be banned from the futures market. At minimum, they should be subjected to individual speculative position limits.

The next best alternative is to set speculative position limits on all commodity related ETFs and index funds. Swap dealers and ETF managers should be subject to speculative position limits except for hedges associated with transactions with producers and consumers of the commodity.

There are several reasons that passive index funds should be banned.

1. Passive index funds put upward pressure on price. CFTC index investment data for natural gas on December 31, 2007 to September, 2011 show that index funds held a "long" position

82.6% of the time and only held "short" positions 17.4% of the time. And, index funds continue explosive growth. CFTC data indicates that index open interest contracts increased 294 percent since December of 2007.

2. Passive index speculators also reduce liquidity by buying and then holding larger and larger quantities of futures contracts. This is inconsistent with the functioning of a futures market that serves "consumable" commodities that have a prompt month that expires.

3. They also buy without regard to price, supply or demand which impacts price discovery.

4. They communicate when they will roll their monthly positions – something that no hedger or trader would do and is inconsistent with price discovery.

Thank-you.