FERC Chairman Pat Wood remarks
NATURAL GAS ROUNDTABLE
Washington, DC
May 26, 2005

Thank you for inviting me to speak again at the Natural Gas Roundtable. I thought that I'd share with you some thoughts on changes in the natural gas industry that I've had the chance to witness over my two tours of duty at the Commission.

During my first tour, as Jerry Langdon's legal counsel during the Allday era, I was a bit player in the last act of a wonderful revolution called wholesale gas competition. Wrapping up that 7 year transition from traditional regulation to unbundled, competitive markets with Order No. 636 was a seminal experience for this young Reaganaut.

Seeing those billions of dollars stay in customers' pockets while allowing the market, not regulators, to sort out progressive, efficient operators from those who weren't -- was a remarkable example of good government at its very best.

My second tour has been more focused on challenges of a maturing market-based industry. The Four Horsemen of the Apocalypse trampled in the energy vintage this decade – the Western energy crisis of 2000, Enron's fall, the rapid price increases for all fossil fuels, and the Northeast Blackout of 2003 – and the natural gas industry impacted by it all (except, thankfully, the blackout).

At the base of it all is the attractiveness of this fuel. Its environmental qualities, its ubiquity (thanks to a well developed delivery system) and our nation's energy appetite have come into full collision with the reality of finite continental supplies of cheap natural gas. And the very loud and clear market signals screaming from the 2000-2001 energy crisis told the nation that the decade-old oversupply bubble has definitely burst.

But the nation barely heard these signals because they were all but drowned out by the fierce din emanating from the spectacular deception and fall of Enron.

Capital investors in all energy sectors – not just natural gas -- suddenly got very skittish, and the subsequent discoveries of wrongdoing and other mischief by our agency and others didn't give them a whole lot of comfort that this was a good place to invest. And just when we needed that investment the most.

Meanwhile, economies of China and India, with their 2.4 billion citizens, finally awoke and were hungry. For oil and coal and gas. The same oil and coal and gas that power our economy. And, oh, by the way, the US dollar that we all use to pay for these fuels acquired a competitor from Europe and fell 30% behind in the race. Demand up, supply flat and dollar down equals price up. Way up.

And that's just today. Our own Department of Energy projects that U.S. energy demand in 2025 will be 36 percent greater than today's demand.

Can we deal with that? In a world where the nation's elected representatives take four long years to confirm the most qualified woman in Texas to be a judge on a U.S. Appeals Court while failing to pass a very modest energy bill, I am so very thankful that we all worked so hard two decades ago to disentangle the energy industry from government. Because it is only through the active and sustained investment by the private sector that we will, in fact, be able to have affordable and dependable supplies of energy for 2025.

To be honest, Liquified Natural Gas was not even on my mind when I returned to FERC four years ago. However, since then, LNG has largely become the primary gas infrastructure issue for the FERC. By 2025, the nation will need **40%** more natural gas than we currently consume, and meeting this demand will require LNG and Arctic gas.

The National Petroleum Council's 2003 report pointed it out very clearly to the Commission: to make the math work, we need 7-9 new import terminals and 3-4 expansions at existing terminals this decade, a Mackenzie Delta pipeline by 2009 and the Alaska Gas Pipeline by 2013.

- The Commission has approved four new LNG terminals and expansions at three existing LNG terminals, 54 billion cubic feet of LNG storage capacity and over 11 billion cubic feet per day of new LNG vaporization capacity to help assure continued abundant and affordable supplies of energy.

- Other new import terminals and expansions are in the advanced stages of permitting, and the interagency collaboration to perform the required environmental and safety reviews is working very well, even in some challenging locales.

- Contrary to unresearched reports, future global liquefaction capacity will be greater than total consuming country import capacity so I'm not worried about "where will it come from" either.

ALASKA PIPELINE:

However, reliance on LNG alone will not address the full need for increased supply. What I like to call the "companion piece" to LNG is the development of the Alaska Natural Gas Pipeline.

The single most important step we can take today to provide for a secure and affordable energy future is to get both the proven and projected natural gas supplies in our nation's largest and most remote state into the continental grid. Congress took decisive action last fall to provide the legal and financial certainty for the construction of what will be the biggest private engineering project in my lifetime. The Commission followed suit with a February Order, which we numbered Order No. 2005, to develop regulations governing the initial and subsequent open seasons for shippers of gas on this project.

Yesterday, in Order No. 2005-A, the Commission reaffirmed, clarified and finalized its open-season rules for the Alaska natural gas pipeline. Now it is up to the industry and the elected leadership of Alaska to bring this project to reality.

A Final note on INFRASTRUCTURE:

- In the future, more new gas storage will be needed to accommodate Canadian and Arctic imports, LNG deliveries, and to help buffer the increasingly variable demand patterns for natural gas.

- During the last 4 years, the pipeline industry has proposed and FERC has certificated more than 4,000 miles of new interstate natural gas pipelines (mostly in the future hope for domestic supply – the Rockies). We have also certificated 129 billion cubic feet of new natural gas storage capacity.

This is good.

CUSTOMER CONFIDENCE

One of the most painful parts of this second tour of duty at FERC has been the need to address an issue that, for this native of the town where oil was discovered in Texas a century ago¸ I took as a given – that this is an industry the customer should have confidence in. In the wake of the Western Energy crisis, we created the Office of Market Oversight and Investigations to put the Commission back in the business of keeping a watchful and informed eye on this critical industry.

The Commission as a whole has gained a better understanding of the functioning of the nation's energy markets while strengthening our capability to enforce the law in a timely and, when called for, forceful manner.

The bully pulpit is actually our best role, and in recent years two issues have been particularly suited to that role. The <u>first</u> is the role of price indices in the natural gas markets. This was another item fingered by the NPC's 2003 study I noted a moment ago. I'm pleased to say that the public airing of the issues and collaborative work with all sectors of the industry has led to adoption of more effective practices by price reporters and publishers. This, in turn has improved price transparency. This is a critical first step to restoring overall customer confidence in the commodity prices we are seeing and, more significantly, to investor confidence in this fuel. But, is daily informal polling really good enough to inspire *real* confidence in the price formation of this commodity? A commodity that has triple in price in the last 5 years?

Building upon these improvements, it is time to take it to the next level -- an independent hub, a neutral, user-funded aggregator of arms-length sales information. It is time for the industry to gravitate toward an independent data hub that can be used to aggregate a more comprehensive set of data about gas sales. This data can be used by customers, index publishers, the Commission and others for many useful and productive purposes. The hub is a good idea whose time has come.

The <u>other bully pulpit</u> issue relates to gas quality and interchangeability. As new international gas supplies are injected into the formerly relatively homogenous continental gas supply, this issue will take on more relevance. This issue has been on the Commission's agenda for the last year and a half. The industry, and specifically, the Natural Gas Council, has been working hard to resolve these are tremendously complex issues that have no easy answers.

Like all complex issues, money is involved, and regulators are pretty good at slicing through the rhetoric to stimulate a balanced solution. Note that I say <u>stimulate</u> not <u>devise</u>. In my 10 years as a regulator, I know that we aren't nearly as good at finding the answer as we are at inviting much smarter people to the table and pushing THEM to find a solution. Regardless of what side of the table you sit on, we share the common goal of securing an adequate supply from diverse sources while ensuring safe and reliable operations throughout the integrated pipeline network.

With some of the technical issues out of the way, we must now consider whether we need to have national standards for gas quality. Granted, this will be no easy task, but this is something that we are going to need to do as the nation prepares to receive gas from a greater variety of sources, both foreign and domestic.

To this end, I have recently sent a letter to Secretary Bodman asking for the Department's support of research that is necessary to craft efficient and effective national standards for gas quality and interchangeability.

I believe that smart standards will provide an added measure of regulatory and commercial certainty which, in turn, will support efficient investment in the natural gas supply infrastructure, which is necessary to meet our growing energy needs.

CONCLUSION

It has been an honor to be at the FERC for these two very different tours of duty. Taking needed steps for the nation's future energy needs while addressing the pressing needs of the present is something that we do pretty well. But, our role isn't the *key* one here. It is the investors in and leaders of this industry who *must* produce the affordable natural gas supplies and construct the dependable delivery system we <u>must</u> have to pass on a cleaner environment and a higher quality of life to the next generation.

Well, it's time for me to get on with doing my part in helping that next generation come along. My family and I are moving back to Texas this summer just in time for our fourth child to be born on native soil, so I've got a big-time vested interest making that bright future come about.

I deeply appreciate the support and friendship so many of you friends have given me and the Commission through these pivotal years, and I wish you all the very best.