



**Federal Energy Regulatory Commission  
June 15, 2006  
Open Commission Meeting  
Statement of  
Chairman Joseph T. Kelliher**

**C-2: Rate Regulation of Certain Natural Gas Storage Facilities (RM05-23-000)**

"Today the Commission acts to reduce price volatility in natural gas markets and provide greater assurance we can meet peak demand, by encouraging expansions in natural gas storage capacity.

Since 1988, natural gas demand in the United States has risen 24 percent. Over the same period, gas storage capacity has increased only 1.4 percent. While construction of storage capacity has lagged behind the demand for natural gas we have seen record levels of price volatility. This suggests that current storage capacity is inadequate. Further, this year, what storage capacity exists may be full far earlier than in any previous year. According to some analysts, that raises the prospect that some domestic gas production may be shut-in.

Gas storage is used very differently than in the past. Thirty years ago, storage was characterized by single annual cycles of injections and withdrawals. Last year, we saw storage withdrawals in July and injections in December.

For all these reasons, I think it is appropriate to reform natural gas storage pricing.

Congress sent a clear signal in EPart that the Commission should be more flexible with respect to market based rates for new storage and that this rule, in reforming the Commission's old analysis as well as implementing the new EPart provision, responds to Congress' recognition of the need for more storage infrastructure.

The final rule takes two approaches. First, it modifies our traditional market based rate analysis for storage to better reflect competitive alternatives and substitutes, such as available pipeline capacity, local gas production, and liquefied natural gas imports. Second, it implements our new authority under the Energy Policy Act of 2005 to approve market based rates, notwithstanding market power, if it is necessary and in the public interest, and the Commission assures adequate customer protection.

Gas storage projects can also be authorized under cost based rates. The Commission has signaled it is flexible on cost based pricing for gas storage facilities. In the *Saltville* order last year we approved a departure from the *Equitable* policy, which traces back to the mid-1970s.

My hope is that reform of market based pricing for gas storage and flexibility on cost based pricing will help expand gas storage capacity, which in turn will help reduce the price volatility that has characterized gas markets in recent years. There is significant potential for near term expansion of natural gas storage. I hope that potential is realized.

I support the proposed rule."