Federal Energy Regulatory Commission
November 16, 2006
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Items C-1 & G-1: Rate Regulation of Certain Natural Gas Storage Facilities (RM05-23-001 & AD04-11-001) and Northern Natural Gas Company (RP06-437-000)

"The past year has witnessed significant volatility in natural gas prices. A year ago, we were struggling with record gas prices. One year later, prices have fallen significantly. While overall price levels have fallen, price volatility remains.

FERC has taken a number of steps to reduce price volatility in natural gas markets and provide greater assurance we can meet peak demand. We have acted to strengthen our natural gas infrastructure, improve access to domestic natural gas supplies, and increase our liquefied natural gas import capacity. We have encouraged greater efficiency. We have encouraged hedging, which can reduce exposure to price volatility. We are considering exercising our new price transparency authority.

One way to reduce natural gas price volatility is to expand natural gas storage capacity. We have done that by reforming our market based rate policies, and demonstrating flexibility in our cost based rate policies.

There is a need to expand gas storage capacity. There is no question that we have not reached the physical limits of our gas storage capacity. We have significant untapped potential. Yet, gas storage capacity has expanded by only 1.4 percent since 1988. Pricing reforms can help develop untapped storage capacity, to the benefit of consumers and the markets themselves.

Congress sent a clear signal in the Energy Policy Act of 2005 that it wanted FERC to be more flexible with respect to market based rates for new storage capacity. The final rule responded to Congress's recognition of the need for more gas storage capacity, by reforming FERC's market power analysis developed under our preexisting statutory authority, as well as by implementing our new Energy Policy Act authority.

The final rule took two approaches. First, it modified our traditional market based rate analysis for storage to better reflect competitive alternatives and substitutes: available pipeline capacity, local gas production, and liquefied natural gas imports. Essentially, the final rule held that storage gas is not a discrete product, but competes with other natural gas. Second, the final rule implemented our new authority under the Energy Policy Act to approve market based rates, notwithstanding market power, if necessary and in the public interest, and if FERC assures adequate protection.

In *Northern Natural*, we conclude that the company met the requirements of the final rule implementing our new Energy Policy Act authority. We held that the project is in the public interest, that market based rates are needed, and that consumers are adequately protected. Perhaps most significant was the fact that under the open season, the storage capacity is fully subscribed, which eliminates any ability to engage in withholding. In fact, most of the capacity is subscribed for 20 years."