

**Opening Statement by Chairman Joseph T. Kelliher
Conference on the State of the Natural Gas Infrastructure
October 12, 2005**

**“Commission Plans to Address Potentially
Tight Winter Energy Supplies of Natural Gas”**

“Good morning, and welcome to the Commission’s Conference on the State of the Natural Gas Infrastructure.

“Hurricanes Katrina and Rita have had a severe effect on our nation’s energy infrastructure in the Gulf of Mexico. Particularly hard hit is offshore gas production. Twenty percent of U.S. gas supply comes from the offshore Gulf. Most of that production has been lost in recent weeks, and recovery has been slow.

“It is difficult to make up this lost gas supply. Our country is far more dependent on domestic production for natural gas than for oil. We produce about 85 percent of the natural gas we consume, importing 15 percent of our supply. Most of our natural gas imports come from Canada, through an integrated pipeline network. Imports of liquefied natural gas (LNG) account for only 3 percent of U.S. gas supply. Neither Canadian nor LNG imports can offset the loss of offshore Gulf gas production in the near term.

“The bottom line: we have lost a significant share of our natural gas supply, and imports cannot offset this loss. The result will be higher natural gas prices this winter.

“The Commission will act to prevent prices from going even higher still because of manipulation. To that end, the Commission issued rules two years ago to prevent manipulation of gas markets. The Commission also has new authority under the Energy Policy Act of 2005 to issue rules to prevent manipulation of natural gas markets and assure price transparency. We will act swiftly to place regulations in effect in these areas.

“We are mindful that the tight natural gas supplies could create temptations for improper behavior by some market participants. The Commission will monitor, and if necessary investigate and penalize, any evidence of market manipulation. To that end, I am pleased to announce that earlier this morning, Chairman Jeffery and I signed a Memorandum of Understanding relating to information sharing and coordination of requests for information made by our respective agencies. Although this MOU is required by section 1281 of EAct 2005, it is an idea that we have been working on for some time. The MOU allows us to more readily identify and sanction market manipulation. The legislation required us to act within six months; we completed the MOU in two months.

“Consumers will see higher natural gas prices this winter. The only questions are how much higher, and whether such price increases reflect only the operation of supply and demand. Additionally, consumers will be paying higher prices for electricity that is generated with natural gas.

“We must all work together: federal regulators, state regulators, and consumers. The natural gas industry is no longer one that is dominated by pervasive regulation; it is driven by market fundamentals. Congress in 1989 deregulated the wellhead price of natural gas, and the market has become more dynamic and responsive.

“Some states are preparing for this winter by encouraging energy conservation, allowing local distribution companies to hedge for firm supplies of natural gas, and educating the consuming public through a variety of means. The Commission has invited several state Commissioners to discuss these initiatives at our next Commission Open Meeting, which is on October 20.

“Hurricanes Katrina and Rita could not have come at a worse time. Tight supplies and demand conditions had already raised prices throughout the summer of 2005. The continued increases in electric generation demand for natural gas resulting from years of significant investment in gas-fired

generation, and a particularly warm summer, have greatly contributed to the tight market.

“The full extent of the impact from Hurricanes Katrina and Rita is not altogether clear. Many Gulf of Mexico oil and gas platforms were severely damaged. Surveys have only just begun to assess damage to the thousands of miles of underwater pipes from the platforms to the shore. It has been reported that 26 gas processing facilities have been shut down because of the hurricanes. There are still 20 out of service -- 11 have sustained damage, some severe and 9 more remain off-line because of external factors -- thus creating a long-term bottleneck between some production wells and the interstate pipelines.

“The Commission stands ready to act quickly on emergency filings to authorize efficient use of existing gas infrastructure. Yesterday morning, Discovery Gas Transmission filed a request for an emergency exemption to transport gas around the Venice plant for processing at Discovery’s non-jurisdictional Larose, Louisiana processing plant. We approved this request by the end of the day.

“Despite the damage to gas processing facilities, there is some good news. All but a few of the interstate natural gas transmission lines onshore in the Gulf region appear to be in sound shape. Storage injections continue,

and nationally, storage levels are slightly above the average of the past five years for this date.

“In addition, all five LNG terminals in the Lower 48 states are fully operational, sending up to 4.2 Bcf per day into the markets in the Gulf and the East Coast. I note that the Trunkline LNG terminal in Lake Charles, Louisiana took a direct hit from Hurricane Rita. But the high safety standards to which it was built – even though it was built back in the early 1980’s before today’s even tougher safety standards – allowed it to withstand the winds, rain, and storm surges, and get back into operation on October 3, even while 80 percent of the federal Gulf of Mexico gas was shut in and over 90 percent of the gas production in southern Louisiana was shut in. In fact, the Commission is proud of its record of authorizing LNG proposals with safety as an absolute requirement.

“In recent years, the Commission’s timely approval of the appropriate infrastructure requests has contributed to a more efficient and reliable natural gas marketplace. To move natural gas to where it is needed is a major factor in making markets work efficiently. Pursuant to its authority, the Commission has certificated major gas projects totaling almost 8,500 miles of pipeline since 2000. In addition, over this same time period, the

Commission has approved over 210 Bcf of storage capacity at new and existing storage fields, providing over 9.7 Bcf per day of deliverability.

“While the Commission has authorized eight new LNG terminals in recent years that have a combined deliverability of 12 Bcf per day, as well as expansions at some of the existing LNG terminals, and has approved two projects totaling 1.7 Bcf per day of pipeline capacity that would transport regasified LNG from the Bahamas to Florida, these efforts will not help increase supplies during this winter. But they will help in the future.

“The first agenda item for today’s conference will be a presentation by the FERC’s staff of our Office of Market Oversight and Investigations on the current natural gas price situation and their forecast of effects of Hurricanes Katrina and Rita on supply and prices.

“Before turning to the Commission staff for their natural gas situation price report, I would like to ask if either of my colleagues would like to make any opening remarks.”