FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

NEWS MEDIA CONTACTS:
Celeste Miller , Tamara Young-Allen
(202) 502-8680

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COMMISSION FINALIZES RULES ON MARKET-BASED RATES FOR INTERSTATE NATURAL GAS STORAGE FACILITIES

The Federal Energy Regulatory Commission today adopted rules intended to mitigate natural gas price volatility by encouraging the development of new natural gas storage capacity. The rules implement provisions of the Energy Policy Act of 2005.

Today's action is intended to provide further incentives for the development of new natural gas storage capacity and to ensure access to storage services at just and reasonable rates, while at the same time ensuring that adequate storage capacity will be available to meet anticipated market demand.

Commission Chairman Joseph T. Kelliher observed:

"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. Our final rule should help reduce price volatility and expand storage capacity."

The final rule provides two approaches for developers of natural gas storage facilities to seek authority to charge market-based rates.

The first approach includes a more expansive definition of the relevant product market for storage that would include, to the extent they can be shown to be good substitutes for storage, available pipeline capacity, local gas production and liquefied natural gas terminals. "This modification to our market-power analysis better reflects the competitive alternatives to storage and is supported by changes in the natural gas markets that have occurred since the mid 1990s," the Commission noted.

Currently, the Commission follows the analytical framework of its 1996 Alternative Rate Policy Statement, which established procedures to allow applicants to demonstrate they lack significant market power in a relevant market.

The Commission said its current approach to analyzing market power may be a disincentive to developing new storage infrastructure since it does not consider that non-storage products and services in a properly defined geographic market may provide alternatives to storage services and thus mitigate storage providers' potential ability to exercise market power.

A second approach, which implements section 312 of the Energy Policy Act, would allow an applicant to request authority to charge "market-based rates even if a lack of market power has not been demonstrated, in circumstances where market-based rates are in the public interest and necessary to encourage the construction of storage capacity in the area needing storage service and that customers are adequately protected," the Commission said.

Storage service providers would apply for market-based rates under either of the above methods by filing appropriate supporting data when they submit a certificate application, or as part of a request for rate authorization under section 311 of the Natural Gas Policy Act of 1978, or in a request for a declaratory order for authority to charge market-based rates.

More information is available at http://www.ferc.gov/industries/gas/indus-act/storage.asp.

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