

**Statement of Introduction of Natural Gas Panel**  
**Chairman Joseph T. Kelliher**  
**Meeting of the Federal Energy Regulatory Commission**  
**October 20, 2005**

“During our natural gas infrastructure conference here last week, the Commission examined the damage to energy infrastructure caused by Hurricanes Katrina and Rita. The hurricanes caused significant damage to the infrastructure in the Gulf.

“As a result of the hurricanes, we have lost a significant portion of our natural gas supply. The supply loss is much greater than the loss resulting from Hurricane Ivan last year, and the recovery of offshore production has been much slower. We are not able to offset this loss of domestic gas production through higher imports. In fact, on Tuesday, the Administrator of the Energy Information Administration told Congress that overall natural gas deliveries to consumers will be 3 percent less this winter than last.

“As a result of these fundamentals, natural gas prices will be significantly higher this winter. In Tuesday’s testimony, EIA estimated the average consumer’s natural gas bill may be as much as 48 percent higher this winter than last, if there is an average winter and if the Gulf Coast infrastructure is largely repaired by then.

“Given the recovery period from the damage caused by Hurricanes Katrina and Rita compared to Hurricane Ivan, and the significant lead times required for adding new sources for natural gas, such as completion of new LNG terminals, it is clear that the most important action that can be taken now is to reduce consumer demand through conservation.

“The Commission does not have authority over retail natural gas sales. This is the domain of the states. For that reason, we have invited our state colleagues here today to discuss various state programs to increase natural gas conservation this winter. Some states have aggressive conservation programs, which we hope to highlight today.

“Effective conservation must start with consumer awareness and appreciation of the high level of gas prices. Under most circumstances, the consumer receives a price signal after consumption, when the consumer receives a bill from the gas utility. If the consumer understands ahead of time that gas prices will be high this winter, they are more likely to conserve. Consumer education was one of the goals of the Commission’s infrastructure conference last week, and is one of the purposes for organizing this panel today. I look forward to hearing from our state colleagues about how they are educating consumers in advance of this winter’s bills.

“It is important to note that, although the Commission’s powers to affect natural gas prices are limited, the powers it does have are significant. If natural gas prices are going to be higher this winter because of tight supplies, the Commission will act to prevent prices from going higher still because of market manipulation. We have authority under EPAct 2005 to issue rules to prevent market manipulation. Today, we act on a proposed rule to do just that.

“In addition, the Commission stands ready to act on emergency filings to authorize more efficient use of our existing gas infrastructure. Last Tuesday, we received an emergency filing requesting authorization to alter use of the Discovery Gas pipeline that would increase gas flows from offshore production fields. We received the filing at 10:30 in the morning. We approved it by the end of the day. Also last week, we received an emergency filing from Stingray Pipeline for a tariff waiver to allow shut-in gas to flow. We received that filing around Noon last Friday and approved it by the end of the same day.

“The Commission should explore opportunities to provide greater incentives to expand natural gas storage through gas storage pricing reform. I believe that more natural gas storage capacity will increase the flexibility of the industry to manage available supplies and may help dampen peak prices. Since 1988, our total underground natural gas storage capacity has increased by only a little over one percent (1.4), while, by contrast, since 1988, total national natural gas consumption has increased by over 24 percent. While additional storage capacity would not bring price relief this winter, over the long term, pricing reform can promote storage capacity expansion, at both existing and new facilities.

“A successful strategy for dampening price volatility is through hedging on natural gas supplies. Not all local natural gas utilities are taking full advantage of hedging strategies. However, some states have acted to lower the exposure of gas consumers to price volatility by encouraging and supporting hedging in natural gas purchases by local distribution companies. A recent NARUC report recommended greater efforts by state regulators to encourage hedging by gas utilities.

“The tools at the command of federal and state regulators are different. Acting in concert we can make the most of our respective regulatory jurisdictions.

“I look forward to hearing from our state colleagues on what is happening at the state level. I also look forward to the comments of the other panelists.”