
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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

In an action designed to promote the expansion of natural gas storage capacity and mitigate natural gas price volatility, the Federal Energy Regulatory Commission today proposed to modify its rules for determining the rates charged for interstate natural gas storage services. The Commission's proposed rules reflect provisions of the recently enacted Energy Policy Act of 2005.

These proposed rules are intended to provide further incentives for the development of new natural gas storage capacity 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.

"Development of natural gas storage infrastructure clearly has not kept pace with demand. In the long term, expansion of gas storage capacity nationally will help consumers who are facing unprecedented high costs for gas this winter. Increased storage capacity should reduce the volatility of gas prices," said Commission Chairman Joseph T. Kelliher.

"Since 1988, gas storage has increased only 1.4 percent while demand for natural gas has risen 24 percent. Last year, we saw record levels of gas in storage, yet we also saw near-record levels of price volatility. That clearly indicates we need more storage capacity," Chairman Kelliher added.

The proposed rule would provide two methods by which developers of natural gas storage facilities may seek authority to charge market-based rates.

In the first method, the Commission proposes to provide more pricing flexibility by permitting all companies with storage facilities to seek market-based rates through a demonstration that their storage operations do not have significant market power.

The Commission proposes adopting a more expansive definition of the relevant

product market for storage that would include close substitutes for gas storage services, such as available pipeline capacity and local gas production. This change reflects the reality that gas in storage currently competes with these substitutes, and adopting this approach would provide a more accurate analysis of whether a storage provider can exercise significant market power in a relevant market, the Commission said.

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

The Commission expressed concern that its current approach to analyzing market power may be a disincentive to new storage development by not considering 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.

The Commission also proposes to implement rules under the new Natural Gas Act section 4(f) that would permit market-based rates for new storage capacity related to a specific facility placed into service after August 8, 2005, the implementation date of the Energy Policy Act.

Storage service providers using this method to charge market-based rates would be required to submit measures that would protect customers from market power abuse. The Commission seeks comment on various approaches that could be used as safe harbors in providing such protection. The proposed rule makes it clear that the burden is on the applicant to demonstrate to the Commission that consumers are protected.

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 a part of a request for rate authorization under section 311 of the Natural Gas Policy Act, or in a request for a declaratory order for authority to charge market-based rates.

The Commission would then determine if the storage applicant has established that it lacks market power or that it will adopt adequate customer protections before a storage service provider could charge market-based rates.

The public may submit comments by postal mail to the Office of the Secretary; FERC; Washington, DC 20426 or via electronic mail on the FERC homepage at www.ferc.gov. All comments must cite Docket No. RM05-23-000 and must be submitted 60 days after publication in the Federal Register (www.gpoaccess.gov).