

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

State of the Natural Gas Industry Conference

Docket No. PL04-17-000

Staff Report on Natural Gas Storage

Docket No. AD04-11-000

NOTICE OF PUBLIC CONFERENCE

(September 30, 2004)

1. The Federal Energy Regulatory Commission (FERC) will hold a conference on October 21, 2004, to engage industry members and the public in a dialogue about policy issues facing the natural gas industry today and the Commission's regulation of the industry for the future. In each of the prior two years the Commission held wide-ranging discussions concerning its regulatory goals for the natural gas industry (Docket Nos. PL02-9-000 and PL03-6-000). This year's conference on the "state of the natural gas industry" will focus on underground storage and other factors that differentiate regional natural gas deliverability and market needs. The conference will have panels and an open forum that will give all interested individuals an opportunity to raise issues.

I. Scope of Inquiry

A. Responses to Report

2. The Commission seeks comments on certain findings in the FERC Staff Report, "Current State of and Issues Concerning Underground Natural Gas Storage", released concurrently with this notice. These findings are:

- The market's various methods for the valuation of storage are a challenge in matching storage's value with the cost of new storage development.
- Storage may be the best way of managing gas commodity price volatility, so the long-term adequacy of storage investment depends on how much price volatility customers consider "acceptable."
- Storage projects in certain geographic areas often fail the Commission's market-based rates tests. Thus, creative policy, certificate and ratemaking approaches may encourage storage development. Such as:
 - Re-examining current cost-based pricing flexibility
 - Re-examining criteria for storage market-based rates
 - Re-examining certificate review and service policies

B. Investment in Storage and Pipeline Infrastructure

3. How do existing Commission policies impact the development of new storage or pipeline infrastructure? The Commission would like to hear a discussion from entities that have recently developed new storage or pipeline projects. The Commission is also interested in hearing from parties that have recently canceled or postponed the development of new storage or pipeline infrastructure. The discussions should focus on how the decisions to develop these projects were impacted by existing Commission policies.

C. Need for Uncommitted Reserve Storage and Pipeline Capacity

4. Would a program for creating more uncommitted reserve storage and pipeline capacity be useful? In the next several years the natural gas industry could experience increased capacity constraints and service interruptions or outages associated with facility inspection compliance activities required by the Department of Transportation. Also, recent experience with colder than normal weather has shown that certain regions' pipeline infrastructure is very near maximum capacity during such times. Other regions may approach their pipeline infrastructure's maximum capacity during peak electric generation seasons.

5. What actions, if any, should the Commission take to create more uncommitted reserve storage and pipeline capacity? Further, if uncommitted reserve storage and pipeline capacity is needed, what level of "reserve margin" might be appropriate? What options could be used to recover the costs of such capacity reserve margins? Should certain costs of uncommitted reserve storage and pipeline capacity be given presumptive rolled-in rate treatment in pipeline rate cases, or should cost tracking mechanisms for these types of costs be developed?

D. Changing Roles of Industry Segments and Commodity Price Volatility

6. As the natural gas industry matures and experiences more service unbundling down to end use levels, the various service provider roles will continue to change/evolve. One trend that seems to be emerging is a preference to purchase gas supplies at hubs in market areas, and a corresponding desire to shed upstream capacity commitments. This market evolution may have service implications depending on who holds upstream capacity contracts, and may lead to additional service balancing issues for supply aggregators and end users alike and increased commodity price volatility. Many local distribution companies (LDCs) are still redefining their role in the industry – will they continue their supply aggregation functions or will they become local "pipes"

companies? When marketers were on the rise in many states, LDCs wanted to shed upstream capacity and supply aggregation roles in favor of having marketers handling these roles. Also, we believe that electric generators may be reluctant to commit to long-term capacity obligations, preferring to rely on downstream gas markets. In general, increased reliance on downstream markets as a substitute for capacity commitments may tend to increase seasonal commodity price volatility.

7. The Commission is interested in hearing views on how much seasonal commodity price volatility the industry and consumers can tolerate? Are customers and the industry, in general, willing to contract for the additional storage and pipeline capacity that may be necessary to mitigate commodity price volatility? Would we be better served with more storage and pipeline capacity as insurance against commodity price volatility?

II. Open Forum

8. In addition to addressing the above mentioned issues, the Commission also seeks input from industry representatives and interested individuals regarding other issues they believe are ripe for Commission consideration in shaping its future natural gas industry regulatory policies.

III. Participation

9. The conference will be held on October 21, 2004 at FERC, 888 First Street, N.E. in Washington, D.C. beginning at 9:00 am in the Commission Meeting Room. The public is invited to attend. Anyone interested in being considered as a speaker to present their views at the conference should contact Richard Foley at 202-502-8955 or at Richard.Foley@ferc.gov by October 12, 2004. Requests to speak should include information concerning the issue or issues the participant would like to speak on. Time constraints may not allow all requests to speak to be fulfilled. Persons requesting to speak on the same topic, with the same views, may be asked to consolidate their remarks through a single representative. We will issue further details on the conference, including the agenda and a list of participants, as plans evolve. Interested parties are urged to watch for further notices providing more information on the conference. You may register online at <http://www.ferc.gov/docs-filing/esubscriptions.asp> to be notified via Email of new issuances and filings related to these dockets.

10. The conference will be transcribed. Those interested in acquiring the transcript should contact Ace Reporters at 202-347-3700 or 800-336-6646. Transcripts will be placed in the public record ten days after the Commission receives the transcripts. Additionally, Capitol Connection offers the opportunity for remote listening and viewing

of the conference. It is available for a fee, live or over the Internet, via C-Band Satellite. Persons interested in receiving the broadcast, or who need information on making arrangements should contact David Reininger or Julia Morelli at Capitol Connection (703-993-3100) as soon as possible or visit the Capitol Connection website at <http://www.capitolconnection.gmu.edu> and click on "FERC."

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Secretary