

## **Testimony of Joseph T. Kelliher, Chairman Federal Energy Regulatory Commission**

The Commission is responsible for certification of interstate natural gas pipelines and natural gas storage facilities; and the authorization, safety and security of liquefied natural gas (LNG) terminals; and the regulation of natural gas transportation rates and services. The Commission also regulates public utility sales for resale of electric energy in interstate commerce as well as wholesale and unbundled retail transmission rates and services in interstate commerce. It also has authority over certain corporate transactions involving public utilities. In addition, the Commission is responsible for non-federal hydroelectric licensing, administration, and safety. Finally, the Commission regulates the interstate transportation rates and services of crude oil and petroleum products pipelines.

My testimony will focus on the expected high natural gas prices this winter, the Commission's role in the pricing of natural gas and the development of energy infrastructure.

The damage caused by Hurricanes Katrina and Rita have caused the loss of a portion of our natural gas supply. The U.S. will not be able to offset this loss through higher imports from Canada due to their flattening production and increased demand. Liquefied natural gas (LNG) will not offset the loss this winter either, as most LNG supplies are tied up in long-term contracts while the U.S. market tends to trade in the short-term or spot market. Natural gas prices will be higher this winter as a result of this loss of domestic production. The exact level of these prices will be determined by the rate of recovery of offshore production, weather and conservation.

The FERC is acting to assure that prices do not go higher due to market manipulation. The Commission actively monitors natural gas markets to determine whether any price spikes are the results of market manipulation. This effort will be accomplished through a recently signed MOU with the Commodity Futures Trading Commission to assure the smooth flow of information and new authorities given to the Commission in the Energy Policy Act of 2005.

The Commission regulates the transportation component of interstate transportation rates for natural gas and crude oil and petroleum products. These cost are relatively small, the transportation component for natural gas can be approximately 6 percent of its delivered cost while it is approximately 1 percent of the delivered cost for petroleum products.

The FERC, through its natural gas facility process, has the ability to quickly act on requests that will make more efficient use of our existing gas infrastructure. For the long run, the FERC has reduced its processing time for its analysis and consideration of infrastructure projects, including natural gas pipelines and LNG import terminals. In addition, the Energy Policy Act of 2005 has simplified and streamlined the processes for considering natural gas infrastructure projects filed with the Commission.