BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :

CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :

CONSENT MARKETS, TARIFFS AND RATES - GAS :

CONSENT ENERGY PROJECTS - HYDRO :

CONSENT ENERGY PROJECTS - CERTIFICATES :

DISCUSSION ITEMS :

STRUCK ITEMS :

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903RD COMMISSION MEETING

OPEN MEETING

Commission Meeting Room

Federal Energy Regulatory Commission

888 First Street, N.E.

Washington, D.C.

Thursday, March 16, 2006

10:05 a.m.

APPEARANCES:

COMMISSIONERS PRESENT:

CHAIRMAN JOSEPH T. KELLIHER

COMMISSIONER NORA MEAD BROWNELL

COMMISSIONER SUEDEEN G. KELLY

SECRETARY MAGALIE R. SALAS

ALSO PRESENT:

JANE W. BEACH, Reporter

P R O C E E D I N G S

(10:05 a.m.)

CHAIRMAN KELLIHER: Good morning. This open meeting of the Federal Energy Regulatory Commission will come to order to consider the matters which have been duly posted in accordance with the Government in the Sunshine Act for this time and place.

Please join us in the Pledge of Allegiance.

(Pledge of Allegiance recited.)

CHAIRMAN KELLIHER: Well, why don't we start with the big news of the past week, and that is that the Commission will soon be receiving reinforcements, in all likelihood. Last week, the President nominated two future colleagues to the Commission, Phil Moeller and Jon Wellinghoff.

I've personally known Phil for 20 years, from when I was a House staffer and he was a Senate staffer. I think he's an excellent choice.

I've only recently met Jon Wellinghoff, but I think he's got the right background and experience for the Commission.

But we're looking forward to getting some reinforcements. The Commission -- most federal economic bodies are established to be multi-member commissions with five members.

And Congress designed that so that diversity of views could be brought to bear in our decisions. And we have -- actually, if you go back the past six years, the Commission has only had a full complement for three months of the past six years, so we have been undermanned and underwomaned --

(Laughter.)

CHAIRMAN KELLIHER: -- for the past few years, and it will be nice to get back to a full complement, and to actually stay there for some period of time.

So, the nominations are in play. The Senate nomination process is unpredictable. All I know is that I had an unpredictable course, and I currently hold the length for a FERC nomination process.

I don't think I'll make any predictions about these nominations, other than to say that I expect, in the end, I will still hold the record for length of FERC nominations.

(Laughter.)

CHAIRMAN KELLIHER: So, anyway, I do want to commend the President for the quality of the nominations that he made, and I look forward to working with them in the future.

I'd like to ask my colleagues if they have any comments they would like to make.

COMMISSIONER KELLY: Well, I also know Phil and Jon, and I agree with you, Joe, that they would be excellent appointments to FERC. I personally would enjoy working with both of them.

They're very knowledgeable about the issues; they are pleasant people to work with. I suspect that they would bring a consensus-building approach to the Commission.

I might add that they are two Westerners, one from Nevada and another with ties, originally, in Washington State, and it does help to have that kind of perspective and geographic diversity on the Commission.

I know that we will be supportive of them in their process in the Senate, and look forward to working with them.

COMMISSIONER BROWNELL: Hallelujah, hallelujah.

(Laughter.)

COMMISSIONER BROWNELL: But, as, I think, the recordholder for the fastest nomination and confirmation process, I wish them well. I know that wouldn't probably happen today, but I wish them the same speed that we enjoyed, so I can't wait to have them here. It will be great fun.

CHAIRMAN KELLIHER: Great. Now, let's turn to other FERC business.

First of all, I have a couple of updates, and

then we can get to the market presentation.

But in terms of the some of the updates, I just want to point out that on February 23rd, the Commission was mentioned very favorably in a White House report on Hurricane Katrina. That's the White House report entitled "Federal Response to Hurricane Katrina: Lessons Learned."

The report specifically recognized that the Commission took immediate steps to facilitate the reconstruction of the natural gas infrastructure in the region, and reduced the destruction of natural gas supply in the wake of Hurricane Katrina.

In this regard, three weeks ago, we extended the deadline by four months, to February 28th, 2007, for the completion of the construction of certain infrastructure projects, pursuant to a previous Order waiving certain Commission requirements.

In addition, we increased the cost caps for projects that may be constructed under automatic authorization provisions of the Blanket Certificate Regulations, from $8 million to $16 million, and under the Prior Notice provisions, from $22 million to $50 million.

We took these actions in order to mitigate the natural gas supply destructions caused by Hurricanes Katrina and Rita, and to strengthen our energy infrastructure.

Also last week, the Commission continued our

effort to assist the rebuilding in the region, by granting Venice Gathering System's request for an emergency exemption from the Commission's certification requirements, so that it may continue transporting natural gas that would otherwise be shut in, due to continued repairs ongoing at the Venice processing plant, as a result of Hurricane Katrina.

I would also like to announce that the Commission will be hosting a two-day workshop to discuss emergency procedures, dam safety and dam security. The major theme of the workshop will be joining the goals of dam security and safety.

The workshop will be held at the Washington Plaza Hotel from Thursday, April 6th, through Friday, April 7th.

The workshop will focus on some new initiatives by the Department of Homeland Security, relating to dams in the United States, arising from Homeland Security Presidential Directive 7.

The purpose of the workshop is to bring together dam owners and operators from around the U.S. and Canada, to identify critical security and emergency response issues for dams, and to establish work groups to address these concerns.

This workshop is co-hosted by the Department of Homeland Security, so that both FERC and DHS can emphasize their programs and purposes.

Another announcement: I'd like to announce that the Commission will be holding a technical conference and workshop to discuss standards of conduct for transmission providers, on April 7th, 2006, in Scottsdale, Arizona.

The Commission is hosting this conference in order to help provide guidance on compliance with standards of conduct rules that have been in effect since September of 2004.

This conference will include several industry and staff panels, focusing on independent functioning, information-sharing prohibitions, integrative resource planning, and responding to industry questions.

I believe my colleagues and I all plan to go, so the full Commission will be there, a full, but diminished Commission will be there.

COMMISSIONER KELLY: Diminished?

(Laughter.)

CHAIRMAN KELLIHER: Well, now, that's -- we're fully functional.

COMMISSIONER KELLY: And not underwomaned at the moment.

(Laughter.)

CHAIRMAN KELLIHER: And you can find further information on the conference and the Commission's standards of conduct rules, through our web page, www.ferc.gov.

Another announcement about a change to our home page is related to a web page dedicated to the Swinging Bridge Project, located in the State of New York, my home state. On May 5, 2005, a sinkhole was discovered in the crest of the Swinging Bridge Dam, and the Commission commenced an investigative program to assess the condition of the dam, to determine the cause of the sinkhole, and to determine what actions may be necessary to correct the problem.

Rehabilitation of the Swinging Bridge Dam is a complex process that is expected to take until the Fall of 2006 to complete. The complete remediation of Swinging Bridge that will restore the dam to current dam safety standards, has been divided into two phases of construction activities:

Phase I construction activities are designed to ensure the safety of the dam to handle the oncoming Spring 2006 flood season. Phase II construction activities consists of the remaining repairs that will complete the necessary work.

I'm pleased to announce that the Phase I activities were completed on March 15th.

Another announcement regarding Enron's settlements: The Commission has a longstanding policy of encouraging parties to work towards settlements.

I'd like to mention the fact that we -- that three recent, separate settlements involving Enron were filed at the Commission, including a settlement between Enron, the City of Santa Clara, California, and FERC Trial Staff; a settlement between Enron, Valley Electric Association and FERC Trial Staff; and a settlement between Enron and FERC Trial Staff.

And these settlements substantially complete the resolution of FERC's issues with Enron and the States of California and Nevada. I have to start pronouncing "Nevada" correctly by the time Mr. Wellinghoff gets here, if he gets here.

Our remaining issues, however, between Snohomish, PUD, and Enron; and Metropolitan Water District of Southern California and Enron, these issues remain before an Administrative Law Judge at the Commission, and an Administrative Law Judge will consider certification of the settlements to the Commission, and if the settlements are certified, we will consider them in a timely manner.

Another recent activity of the Commission, pursuant to Section 1252(e)(3) of the Energy Policy Act of 2005, the Commission is directed by Congress to prepare a report by appropriate region, that assesses demand response resources, including those available from consumer classes, and to gather information for this report, a voluntary

survey has been issued to 3,372 respondents, to gather information on advanced metering and demand response and time-based rate programs.

Responses are due back to the Commission by April 12, 2006, to provide sufficient time for us to process and analyze the results by August 8, 2006, the date set by Congress for submission of the report.

Finally, before I turn to my colleagues to see if there are any comments on these matters, I'd like to point out that since the last open meeting in February, the Commission has issued 82 notational orders, which is keeping up the pace that we've set in recent months.

So, it's a great deal of work that we notationally, in between the meetings, and I just want to routinely point out what the number is.

And, with that, I'd like to turn to my colleagues to see if they have any comments on these business matters.

COMMISSIONER KELLY: I was just going to add that with respect to the Hurricane Katrina lessons learned, that FERC was invited by the Asian governments to speak to them about lessons that we've learned with respect to energy policy regarding the Hurricanes.

And I was pleased to represent FERC at that conference in Singapore, and two of the things that I talked about, that were meaningful to them, were our concern that

natural disasters, when they hit, really can destroy infrastructure, and there is a concern that we have geographic diversity of our infrastructure.

These countries in Asia, many of them, are in the process of still building their energy infrastructure, and that was something that they felt was quite relevant.

And the other thing that I talked about, was the fact that it was very helpful in the United States to have redundant capacity, to have LNG terminals, potentially as alternatives to the Gulf production, and to have storage.

And that's another lesson that the countries in Asia found particularly helpful.

COMMISSIONER BROWNELL: Just a couple of comments: I'm really pleased that DHS is working with us on dam safety. I wanted to comment that in spite of the incredible tragedy of Tom Socke, the agreement among people in Missouri, the Commission, the Governor, Staff, is that the first responders did an incredible job, and, in fact, the planning in the dam safety and the trials and the run-throughs, helped the first responders get to the family, much more quickly than they otherwise would have.

So, I think that out tragedies, we've learned lessons, and I'm hoping, and I commend our Staff for really working hard on the dam safety issues and making sure that everyone's on the same page.

We look at Katrina and we talk about what didn't work, and in this case, it saved people's lives and I think that's important.

I also wanted to thank Trial Staff for all their hard work on the settlements. I think that we underestimate the value of settlements.

When you realize what an overhang that is on people's financial situations, on their ability to serve customers, I think that's very important. I just wanted to ask, how many settlements, in total, have we done at this point? These are the only two left with Enron? Does anybody know?

MS. MARLETTE: I think there are two more parties that have not settled.

CHAIRMAN KELLIHER: Yes, I think it's Snohomish and Metropolitan Water District.

COMMISSIONER BROWNELL: That's what I meant. Are those the only two? So how many, in total, have we done; do you know? Lots? Good.

MR. BARDOW: I'm not sure of the number, but I think that in terms of the settlements with Enron, we've probably approved about a dozen, I think. We can get you a more accurate number later today.

COMMISSIONER BROWNELL: Okay. Well, I just think it's important, because I think that it saves litigation

costs and it creates certainty, and I think it brings equity to the customers who, after all, are footing the bill for all this.

So I encourage more settlements, including these two, if they possibly can get to it. Thank you.

CHAIRMAN KELLIHER: I just wanted to pick up on Nora's comments about dam safety. It's not really well understood on the outside, that the Commission -- in two areas, the Commission is not an economic regulatory body; it primarily is a safety agency: And that relates to dam safety and on LNG projects.

Once we authorize an LNG project, our principal obligation is safety of the project. And I don't think that's really well understood on the outside.

And I think we have demonstrated that at the Saluda Project in South Carolina, where we required the licensee to build a backup dam behind the existing dam, and the integrity of our Tom Socke investigation also shows that dam safety is paramount. I just wanted to emphasize that.

Absent any other comments, why don't we turn to the consent agenda. Madam Secretary?

SECRETARY SALAS: Good morning, Mr. Chairman and good morning, Commissioners. The following items have been struck from the agenda since the issuance of the Sunshine Notice on March 9th. They are: E-3, E-8, E-10, E-21, and

E-30.

Your consent agenda for this morning, is as follows: Electric Items - E-4, 6, 7, 8 -- I'm sorry, that item was struck -- 9, 11, 12, 15, 16, 19, 23, 26, 28, 29, 31, and 32.

Gas Items: G-2, 3, 4, and 5.

Hydro Items: H-1, 2, and 3.

Certificates: C-1.

The specific votes for some of these items are as follows: E-6, Chairman Kelliher dissenting, in part, with a separate statement; E-9, Chairman Kelliher dissenting, in part, with a separate statement; and G-5, Commissioner Kelly concurring, with a separate statement.

And Commissioner Kelly votes first this morning.

COMMISSIONER KELLY: Aye, noting my concurrence in G-1.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN KELLIHER: You're the big winner today.

COMMISSIONER KELLY: I am.

CHAIRMAN KELLIHER: Aye, noting my partial dissents on E-6 and E-9.

SECRETARY SALAS: The first item for discussion this morning is A-3. This is the Energy Market Update, and it is a presentation by Steve Harvey and Jeff Wright.

CHAIRMAN KELLIHER: Let me start by first of all

wishing Steve Harvey a happy birthday. I didn't realize it until last night, that today was your birthday, or I would have had a cupcake or something for you.

(Laughter.)

CHAIRMAN KELLIHER: But, Happy Birthday.

MR. HARVEY: Thank you very much.

Good morning, Mr. Chairman and Commissioners. My name is Steve Harvey, and, along with Jeff Wright, we'd like to present our last regular review of U.S. natural gas market conditions for the Winter of 2005/2006.

I'll start by reviewing current prices and market conditions, and then spend a minute or two on remaining issues. Jeff will then explore related storage capacity and operations issues in greater detail.

Prices in late February and early March have continued the downward trend we observed last month, dropping last week into a range around the mid-$6 per million British Thermal Units or MmBtu level.

This week, prices rebounded some, to around $7 per MmBtu, and in trading yesterday for gas delivered today at Henry Hub, Louisiana, prices averaged $7.10 on the Intercontinental Exchange.

To put these prices in an historical context, let me superimpose last year's prices at Henry Hub for the same dates.

The red line is from May 2005 through last week; the blue line is from May 2004 through early March 2005. This chart shows that prices in early March have fallen back below where they were a year ago at the same time, the first time this has happened at Henry Hub since June of 2005.

Early this week, prices rose back above last year's levels, but, as of yesterday, prices were 5.5 cents below last year's trading on March 15th.

Like at Henry, prices across the country remained close to where they were last year at this time. At least for the next-day physical market, we've seen the end of the cycle of higher prices that started last Summer with record natural gas demand for electric generation and continued because of the damage done by Hurricanes Katrina and Rita.

Why haven't prices fallen further? I pointed out the relationship between oil and gas prices, here a few months ago. Gas prices rarely fall much below competing fuel oil prices for any substantial period of time.

Because of the availability of the relevant prices, New York shows these relationships best, and New York prices are plotted on this graph.

We can see by comparing the blue that represents wholesale gas prices in New York, and the red line that represents residual fuel prices in New York, that gas prices have recently fallen below residual prices.

Price increases earlier this week for gas, were matched by oil products, so the relationship still holds today. While gas prices falling below competing fuels is not a typical condition, I'll restate what I said in January about the possibility.

Then I said that I can conceive of a situation where this alternate fuel floor would not hold not hold and gas prices could plunge, if so much inventory was still in storage at the end of the Winter, that physical operations required its owners to remove it, no matter what the price.

This condition seems unlikely, unless current warm weather conditions remained through February. In fact, through February, though February is not nearly as extreme a month as in January, we have seen the scenario play out in this way.

Consistent with that last observation, storage inventories are very full at this time. The Energy Information Administration reported last week that storage inventories for natural gas reached recorded highs for this point in the withdrawal cycle, 664 billion cubic feet, or Bcf above the five-year average or 54 percent higher than normal.

With so much gas in storage and without abnormally cold weather, the requirements to withdraw have created competition wellhead production and storage

withdrawals. That competition has driven down price, at least to where oil prices limit more price decreases.

LNG imports have remained extremely weak, due to the more attractive prices in Europe and Asia. As the United States carries this very strong storage position into the Spring and Summer, we could see further weakening of prices.

Certainly, in the absence of strong weather-related demand, high storage inventories are likely to be a continuing factor in determining natural gas prices throughout 2006.

In addition, recovery of Gulf production shut in by the Hurricanes last year, continues to improve, although at a considerably slower pace.

The most recent reports from the Minerals Management Service and the Louisiana Department of Natural Resources, indicates that total production shut in in Louisiana and in the Gulf of Mexico, has fallen from highs of close to ten Bcf per day, immediately after Rita's landfall, to less than 1.8 Bcf a day as of March 8th.

At 1.8 Bcf a day, a total of less than four percent of U.S. production remains unavailable, and with current healthy storage inventories, still-shut-in gas represents no immediate threat.

We continue to see very active U.S. drilling for

natural gas, despite reductions over the past few weeks. The Baker-Hughes rig count for natural gas, is reported as down slightly in early March, but still quite close to two-decade highs.

As you can see on the graph, natural gas drilling, in red, has clearly been responding to prices, in green, throughout the past eight years.

Last Fall, after a warm Summer and the passage of two destructive hurricanes through a major U.S. production region, prospects did not look good for natural gas markets. Today, prospects look much better.

The reason, clearly, was extraordinarily mild weather across the United States from late December through early February. As a result, wholesale natural gas inventories are high, drilling is active, production in the Gulf is recovering, and prices have returned to levels lower than those seen last year at this time.

Nevertheless, I'd like to close with two somewhat less sanguine observations: First, futures markets are clearly assigning some possibility to price increases as 2006 continues.

Currently, April natural gas futures are at the lowest price traded, lower than futures prices all the way to December of 2011. What is striking on this graph, is that despite recently similar spot prices last year at this

time, the futures curve has risen from last year.

The curve, in red, is the path of the futures prices as of the New York Mercantile Exchange's close last Friday, and the blue curve is for one year earlier. We see that expectations for April 2006 are similar, but the rest of the curve has shifted up by about $3 next Winter, and a little bit more beyond that.

In other words, market participants' assessment of the risk of higher prices, have increased over the last year. Remember from this earlier graph, that spot prices are back around last year's level, but concerns about the future have been heightened.

The second observation regarding future gas prices, starts with the reminder that all the prices I've shown are from wholesale markets. There's a difference in prices between wholesale and retail.

Today, distribution companies and others, are withdrawing gas from storage that was injected last Summer at prices higher than today's spot prices. These retailers have to make these withdrawals; the physical integrity of the storage fields require it.

Jeff will speak to the technical issues involved, in a minute, but, as a consequence, retail rates will not drop as fast as the wholesale prices have. While this may be frustrating, these costs are real and necessary.

Filling natural gas storage adequately every Fall, and emptying that storage every Spring, is vital to protect the natural gas markets from additional volatility and the possibility of not delivering at times of stress.

We enjoyed a mild Winter this year, but that is no guarantee that next Winter will be the same. The U.S. natural gas system has been under severe stress due to cold weather before, most recently in February of 2003. Under those conditions, prices can rise explosively and even put the reliability of deliveries under threat.

The higher-cost supplies now entering the retail system, assuming they were prudently acquired in the first place, represent a real cost of the industry's regular preparation for the possibility of occasional extreme cold weather.

In general, prospects for more moderate prices than those experienced last Fall, remain quite good in 2006.

I'll turn the presentation over to Jeff.

MR. WRIGHT: Thank you. This morning I'd like to address the importance of underground natural gas storage. Let me start with a brief background:

There are three major types of underground reservoirs that are used to store gas in the United States: The first type is depleted gas or oil fields, which are the most common type of underground storage.

Now, these formations are suitable, when there is adequate space in the rock or there's adequate porosity.

Two, there's sufficient permeability, such that the gas can be easily injected and withdrawn through the storage formation.

And, three, the gas injected into the formation, is retained; that is, it does not migrate to unrecoverable areas.

The second type of underground storage is aquifers. Aquifer storage consists of injecting gas into formations that are filled with water, and displacing that water.

The third type is salt-cavern storage, which consists of removing layers of salt through solution-mining, removing the resulting brine, which creates a cavern to store the gas.

Deliveries from these three types of storage facilities, can either be classified as seasonal supply reservoirs or high-deliverability sites.

Usually, seasonal supply reservoirs are filled during the traditional non-heating season from April through October, and the inventory is drawn down during the heating season from November through March.

The depleted fields are typical of seasonal supply reservoirs: High-deliverability storage sites

typified by salt caverns, have rapid injection and withdrawal cycles and can go through several complete cycles during a heating season.

This makes them well suited to meet severe peaking needs, or as an emergency source of gas.

Aquifers can be categorized as high-deliverability or as seasonal supply reservoirs, depending upon the individual field.

At the end of 2004, the Energy Information Administration of the Department of Energy stated that there are 393 active storage fields in the United States.

Storage in the Eastern part of the U.S., is characterized by depleted reservoirs and aquifers, with a few salt caverns. It is noteworthy that there is no underground storage in New England, due to the geology of the region.

Storage in the Gulf Coast is made up of a mixture of depleted gas and oil fields and salt caverns, while storage in the West, primarily consists of depleted fields.

The capacity of any given storage field, consists of two components: The base, or cushion gas that must remain in the storage field to provide the pressure necessary to extract the other component, the working gas, which is the gas that is being stored and withdrawn and used.

Total storage capacity, base gas and working gas, totaled a little over 8.2 trillion cubic feet for 2004, according to EIA.

Depleted gas field storage accounted for 6.8 Tcf of this total, or 82 percent, in 320 fields; aquifers made up about 1.2 trillion cubic feet, or 15 percent of the total U.S. capacity, in 43 fields; and the capacity of salt caverns totaled a little more than .2 trillion cubic feet or around three percent of the capacity, in 30 fields.

This slide gives you the idea of the working gas volumes that cycle in and out of storage on a monthly basis, from the beginning of 2000, through the end of February, 2006.

The peak amount of working gas in storage, usually reached in October of every year, has not significantly changed since 2001. What has changed is the amount of gas in storage in February of every year, as depicted by the lighter-colored yellow bars.

With the exception of February 2002, which was a warm Winter, the amount of working gas in storage has increased since 2000, to the highest level that we have seen in storage in February.

In short, there is slightly more than 400 billion cubic feet of working gas in storage, than there was at this time last year.

Now, isn't this surplus a good thing? Well, not necessarily. Most of this gas is stored in depleted gas and oil fields. As I mentioned earlier, these storage fields, being seasonal supply reservoirs, have just one withdrawal cycle during the course of the year.

Based on the individual characteristics of the storage field, a certain amount of gas needs to be withdrawn by a specific time in the Spring. Many gas tariffs of storage operators, specify the maximum amount of gas that their customers can have in storage at the end of the heating season.

This is to sustain the physical integrity of the storage field. If gas is not withdrawn by a specific time, the high pressures in the storage field, can cause an unwanted expansion of the reservoir, causing gas to migrate and become unrecoverable.

The proper recycling of the storage reservoir, is a major tool in the prevention of the unwanted migration of gas, and, of course, the loss of gas is definitely an unwanted economic effect.

So, does the seeming oversupply of working gas in storage indicate that there's too much storage capacity? Well, no, because, again, we come back to the weather.

Over the injection season, gas was prudently put into storage, in order to prepare for the cold weather of

Winter. However, as we know, there has not been a truly prolonged cold spell this Winter, and the high level of storage inventory at this time of year, is indicative of this.

It is important to not be shortsighted. There will be cold Winters again, and gas demand will increase. The ability to store natural gas will be crucial in meeting our peak demands in coming years.

In fact, I would like to note that the overall U.S. working gas storage capacity has actually declined from 4.3 trillion cubic feet at the beginning of 1989, to about four trillion cubic feet, as of December 2005, a decrease of approximately 6.5 percent.

As Steve and I have said over the past few months, declines in domestic production will be somewhat replaced by higher-cost, nontraditional production and Canadian imports, which did step up last Fall, due to increased Canadian drilling activity, but that does not appear to be sustainable at historic levels over the long run.

As demand increases, the increasing supply/demand gap will have to be filled by LNG and Alaskan supplies, however, as we've seen this past Winter, some LNG supplies can be bid away from U.S. markets.

An excellent way to overcome the need for more

gas availability to meet demand, is to construct more gas storage. This allows not only domestically-produced gas to be put underground for cold-weather consumption, but also LNG, which can be delivered, regasified, and stored during those months when LNG is not in high worldwide demand.

The Commission has been active in processing applications to build more storage in the U.S. Since 2000, the Commission has approved numerous projects totalling 257 billion cubic feet of capacity and almost 12 billion cubic feet per day of deliverability.

Currently, the Commission is processing storage projects totalling 31 billion cubic feet of capacity, and about 1.7 billion cubic feet per day of deliverability.

The majority of this new capacity and deliverability is centered around three projects: The Bobcat Gas Storage Field in Louisiana; the expansion of the existing Stagecoach facility in New York, and the Windy Hill Gas Storage Project in Colorado.

Both Bobcat and Windy Hill are high-deliverability salt cavern projects.

On the horizon, we see storage projects with the potential to store 128 billion cubic feet of gas, and deliver 4.1 billion cubic feet per day.

While these appear to be large numbers, we can see that in recent years, the peak amounts of working gas in

storage have not changed. In fact, there was more working gas in storage at the beginning of 2001-2002 and 2004-2005 heating seasons, than the current heating season.

So, again, we asked the question, why is more storage needed? And as you have stated on several occasions, Mr. Chairman, and as echoed in the Notice of Proposed Rulemaking entitled Rate Regulation of Certain Underground Storage Facilities, or the Storage NOPR, customers will be better off if more storage infrastructure is built, because it increases customer alternatives in a market, and mitigates price volatility.

And based on the approach described in the Storage NOPR, additional development of appropriate storage infrastructure, is the expected outcome.

Now, I mentioned earlier how regasified LNG can dovetail nicely with storage, but there are additional hidden synergies between LNG and underground gas storage.

In the Gulf area, where most high-deliverability storage fields are located, the Commission has certificated seven LNG projects, with a daily sendout capacity of 11.2 Bcf, beginning with the Cameron Project in 2003.

Several more LNG projects at new sites and expansions of already-approved sites in the Gulf area, are pending, with a combined daily sendout capacity of 13.2 billion cubic feet.

If built, these LNG import terminals will have a significant amount of onsite storage in large cryogenic tanks, however, until the LNG has been vaporized and those tanks emptied, LNG tankers cannot deliver additional cargoes.

Additional storage, proximate to the import terminals, can provide a solution. Vaporized LNG can be sent out, not for immediate consumption, but, instead, for redelivery into storage. This would allow for a more consistent turnover of LNG and a more efficient utilization of the LNG import facilities.

At the other end of the transportation grid, the presence of LNG in the market area of the Northeast could help in the more efficient utilization and development of market-area storage; that is, as LNG is delivered into the Northeast, traditional gas supply from the South will not have to travel as far North, and, importantly, the regasified LNG then can be stored in the storage areas of Pennsylvania and New York.

In the Winter, under this scenario, it will not be necessary for the traditional southern gas supplies to fill the pipelines in the Northeast market areas, especially in New England, which has stifled the efficient use of storage.

Such an infusion of market-area LNG could send

the appropriate price signals and lead to new consideration being given to additional storage infrastructure development.

This, coupled with new approaches offered by Section 12 of EPAct 2005, and the Commission's proposed refinement to its storage pricing policies, should stimulate such development, thus increasing customer choices in the market, and serving to mitigate pricing volatility.

That concludes our presentation, and Steve and I would be happy to answer any questions you may have.

CHAIRMAN KELLIHER: All right, thank you very much. Last week there was a report by four Attorneys General on gas prices, that got a lot of public attention. And some of the conclusions the report really stand in stark contrast to the market analysis that you all have provided us in recent months, as well as today.'

For example, the report talks about how -- there's an assertion in the report that supplies have remained flat in recent months during the Winter; there's an assertion that demand had remained flat; there's an assertion that consumers are paying $5 billion in above-market rates every month, presumably due to some manipulation.

And there are accusations of withholding, that gas companies are -- that the production levels, exploration

and production levels have dropped to below '96 levels, but very low levels compared to recent years.

And there's also been assertions that prices have steadily been pushed upwards, so that there's volatility in one direction -- up. And that really seems inconsistent with some of the data you've given us today and in recent months, and I want to, first of all, express that we agree with the policy goals of the Attorneys General.

I mean, FERC's job for 70 years in the area of gas regulation, has been to guard the consumer from exploitation in the area of gas -- well, protect gas customers from exploitation. I think it's something we've done very effectively, and we're open to suggestions on how we might do things differently.

But, really, the question -- the report was a significant report, and the question really is, is it a sound basis to develop public policy? What's the quality of the analysis in the report.

So I'd like to ask you, first of all, to generally address that broad question. What's the quality of the analysis in the report, and then, h hopefully, we can walk through some of the broad conclusions that I went through: Supply, flat; demand, flat; $5 billion a year in excess cost to consumers; withholding, and steadily upward price volatility. So, why don't we start with the general

question about the quality of the analysis, and go from there?

MR. HARVEY: As you point out, the conclusions in the report are very different than much of the communication we've had over the last Winter on some of these issues.

And that and, as you point out, the fact that, you know, it's relevant to ask questions about how effectively these markets are operating, we've taken it very seriously. We've looked very, very carefully at the report.

I've done it, several members of my staff have done it. We've found numerous fairly serious errors in the report, very serious problems in terms of the analytic work that went into it, and, as a result, have looked even harder at it, to try to understand that and be fairly comfortable about pieces of it.

Maybe it's helpful if I just go through a couple of those related to some of the issues that you talked about. Probably the best one, in some ways, to start with, is the $5 billion a month of overcharges to customers referenced in the report.

That was sort of the issue that CBS News led with when they led off their news, I guess, last Wednesday with the story about the report. As we look at the report, as we see how that number was calculated, it appears to be a comparison of recent prices against a forecast of prices

that's a year old.

And we looked at the forecast and the assumptions behind that forecast, and one of the most interesting and explicit assumptions within that forecast, is that oil prices would be between $22 and $28 a barrel.

Obviously, today, oil is trading at like $62 a barrel; it got up to over $70 in the Fall, so we're really talking sort of the key assumption, in many ways, or a key assumption in that estimate that's a year old, is off by a factor of two in terms of that.

If you changed that estimate by a factor of two, which would be sort of the right way to think about it, the $5 billion goes away.

And so we feel like it's misleading to attribute that big a difference that seems to be very assumption-driven with regard to oil price differences, to misbehavior on the part of active participants in the gas market.

CHAIRMAN KELLIHER: Does the report somehow allege that oil and gas prices are de-linked, that something has changed so that there's no relationship between the two, that would justify ignoring the change in oil prices?

MR. HARVEY: Actually, the report that they referenced, expressed frustrations from about a year ago, because it sort of -- general frustrations on price levels. At that point, the relationship between gas and oil prices

was tighter; basically, gas prices were higher, relative to oil prices, than they are today.

And so, in part, it was sort of answering the question, is that reasonable; is that where it should be; are there other reasons why that's going on?

What we've seen today -- and it deals with it as a ratio of -- and I think the ratio was something on the order of six or seven to one in terms of the oil price per barrel versus the gas prices in dollars per MmBtu.

That's much closer to eight or nine now, which is closer to what the report argued it should be, as a relationship.

So, basically what's happened over the course of the last year, is, I think the world has come closer those report-writers' view of the world in terms of that relationship; the big difference is oil prices are just twice what they were or what they were expected to be.

CHAIRMAN KELLIHER: But the AG report doesn't argue that somehow it is -- oil prices are irrelevant for purposes of estimating what the right price for gas would be?

MR. HARVEY: No, they don't really go into that. They basically picked a forecast, compared it to current prices, and so we kind of looked into the logic behind that forecast.

It's a little dangerous to pick a year-old forecast to compare it to current prices and to say that that difference has meaning. And one of the dangers is, things change, like oil prices, in a major way.

CHAIRMAN KELLIHER: And you could arguably do that, if everything else was constant, all the assumptions in the first price were still governed.

MR. HARVEY: Yes.

CHAIRMAN KELLIHER: But that is not the case, when it comes to oil prices.

MR. HARVEY: That's exactly right. And it's such a big difference.

Another issue that you brought up was demand and sort of flatness in supply and demand, and this was a concern that was related, that how can you have such generally flat supply and demand over time, over many years, sort of the average per year, and still have this kind of volatility in price?

That sort of begs the question about the outages, the shut-in rates. And actually, it might be helpful if you could pull up my sixth slide from today, that lays out the shut-ins coming out after Katrina and Rita.

The report argues that there was never more than about five percent of production shut in after Rita and Katrina. In fact -- there we go -- in fact, we were close

to ten Bcf. Ten Bcf is 20 percent of production.

Now, we do have storage and we have some other things that are available to us, so the high, though, was 20 percent of production that was out.

CHAIRMAN KELLIHER: So, off by a factor of four.

MR. HARVEY: Yes.

Now, by the time -- and this is one of the difficult things here -- the spot market reacts daily, and so to really get back to the conditions where the spot market was at its peak at $15-plus, which was sort of mid-December of last year, at that point, the outages were down to about 3.5 Bcf a day, which was about eight percent of production.

But we were having a cold snap at the time, storage was fairly full, but we were having a cold snap at the time, and we didn't know what the future would look like. NOAA, last week, came out and said that for the continental United States, December, January, and February, were the fifth warmest in their recorded history.

We didn't know at the beginning -- no one knew at the beginning of December, that we would be going through the fifth warmest Winter in recorded history, and it's kind of unrealistic to expect that the market would have known something that hadn't happened yet and that wasn't being forecasted at the time.

And so, as a result, the spot markets, in mid-December, seeing a Winter coming up, seeing good storage conditions, seeing a fair amount of production out of place, reacted to that.

So, it is hard, looking at it on sort of a day-to-day basis, which, using a spot price that's calculated on a day-to-day basis, is what you do, it's kind of hard to go back and say, well, on average, there really wasn't that much of an outage, and, look, things were warm anyway, and so prices should never have gotten there.

CHAIRMAN KELLIHER: What about the withholding argument, that exploration and production levels -- I think there was a graph in the report on working rigs, and it showed that the level of working rigs was lower than at any point since '96. It was something along those lines.

MR. HARVEY: If we can go to my next slide, I think the seventh one, it doesn't show quite the same timeframe, but it shows natural gas drilling rigs that we reported today, up to about the -- I think it's the 14, maybe 1600 level.

If you extend the red line there, the line that relates to number of rigs, back into the '90s, what you actually see is that there is something on the order of 400 to 500, on average, natural gas drilling rigs.

The picture in the report is identified as

working rigs, and seems to be oil and gas rigs, is what they're thinking of. But it looks like there were very high levels of drilling through the course of the '90s, which is not at all consistent with our understanding of the data.

So we went back and we looked at it. The actual figure was captured from a website. We went back to that website, and it turns out that what's identified as working rigs in the report, are identified clearly in the underlying source as work-over rigs.

There's a difference between what a work-over rig is and a drilling rig is. When you work over a well, you go back in and re-complete it. You do, in effect, work to extend its life or expand its productive capacity.

In that sense, it's a little bit more than a maintenance operation, but it's a kind of -- it adds to the value of the well, but it isn't drilling a new well, by any stretch of the imagination.

The report, however, argues those levels of work-over wells, as if they were, in fact, drilling wells, and makes the argument that, look, we're not drilling really even as much as we were drilling in the '90s, when the price was a lot lower.

In fact, it's the wrong picture.

CHAIRMAN KELLIHER: So, work-over rigs are a subset of working rigs?

MR. HARVEY: When we show rights like this, like the one we showed earlier, we're looking at drilling rigs, so that is, in fact, investing in new drilling, in new productive capacity, from that perspective.

A work-over rig is designed to increase productive capacity, but of things that already exist.

CHAIRMAN KELLIHER: So, if you're trying to assess what is the response to production to gas production companies to high prices, that measuring -- exploration activity is the right measure of what the supply response is?

MR. HARVEY: I think so. I'm trying to think of a good analogy, but it may be like if you were to make arguments about housing starts, but you used numbers that had to do with new kitchens being built. I mean, it's not the same as building a new house; it's not the same when you're making arguments about drilling rigs, and that's what, explicitly, they're arguing about.

You're talking about new wells; you're not talking about going in and trying to extend the economic life of an existing --

CHAIRMAN KELLIHER: But you said, in the '90s, if you'd extended your chart, we'd be in the 400s somewhere. That means, actually, the level of drilling has tripled?

MR. HARVEY: Roughly.

CHAIRMAN KELLIHER: Over the period where it was alleged to have plummeted?

MR. HARVEY: Yes.

CHAIRMAN KELLIHER: Okay.

MR. HARVEY: So, it raises real questions about some of those withholding arguments. I mean, it's hard to know what's the right level of drilling.

I have no idea what that means, but you can't argue that drilling is the same as it was in the '90s, or lower, if you use the right picture.

CHAIRMAN KELLIHER: What about the argument about volatility, that there's been one -- there's been volatility, but it's been in one direction.

MR. HARVEY: The report has a picture that shows prices over the last ten years or so, and has little flags that sort of identifies things that it claims relate to that. And so it has Enron entering the market, Enron leaving the market; it has over-the-counter trading; it has banks entering the market.

And, clearly, the argument is that as traders have become more active, prices have always gone up. In fact, it doesn't make any argument about how the one is necessarily related to the other, and, as an example, it labels -- I mentioned earlier, February of 2003, when prices spiked because of very tight physical conditions.

It labels that as being somehow related to over-the-counter trading increasing by banks. In fact, we know that it wasn't financial trading that created that spike. We issued a detailed report, with an extremely clear explanation of what happened in that case, and it literally had to do with the physical capacity of storage not being adequate for the demand at the time, because we had run it down so far that particular Winter.

So, you have to kind of make -- if you're arguing something is driving something else, you've got to kind of show how those two are tied. You can't simply say, well, these things happened accidentally at the same time, and we know, at least in one of the cases, and in several of the others in that picture, that they are not tied in any particular way.

So, the other thing we know is that traders, when they trade speculatively, can bet up or down and do bet up or down, and so you see price movements in different directions.

The concern in that is, by tying those explanations and saying that it's just trading, my concern with that is that we may miss the point, which is, there are some physical underlying drivers to some of these price movements, and if we don't recognize those and we don't deal with those in an effective way, we're going to miss the

policy point completely.

CHAIRMAN KELLIHER: Now, on supply loss, they said that they understated the extent of the supply loss by a factor of four, but the supply loss itself, it wouldn't necessarily drive prices up much, if there was a surplus to begin with, if you had a significant surplus.

But does the report discuss the tightness of supply and demand before the Hurricanes, or it doesn't address that?

MR. HARVEY: It does seem to indicate an understanding that supply and demand are sort of tied, overall. It does seem to have an assumption that if demand and supply sort of moves smoothly, that prices should never move much.

But, again, it's a sort of timeframe confusion. If you look, average, year-to-year, things don't move, things tend to look more smooth in terms of their movement; when you're looking day-to-day, they don't.

And so juxtaposing sort of spot prices against these longer-term trends in movement, is a very confusing thing to do in that process.

COMMISSIONER BROWNELL: But, Steve, overall, demand has been going up significantly over time, when you look at the new reliance of generation on natural gas, so it's not stayed flat.

MR. HARVEY: We should be careful.

COMMISSIONER BROWNELL: Okay.

MR. HARVEY: Because, in fact, overall demand has not moved very much. It's the components that have tended to move around, and so it's interesting that the report quotes a lot of people saying demand is surging, you know, and then they're saying, well, it isn't.

Overall, it really isn't. Now, last Summer, we did see a significant surge in demand for natural gas burned to generate electricity.

And with all the building of gas-fired generation over the last couple of years, I think there is a concern about the potential for that to move very quickly. But what you had last year, is a Summer that was hot, and so we burned a lot of gas to get through the Summer, and then a Fall that was very warm and a Winter that was very warm, and so it kind of smoothed it out.

And so, again, if you look year-to-year, it doesn't really grow much, and it is pretty smooth, but if you look at the components, they're moving around a lot.

COMMISSIONER BROWNELL: Say more about the comments in the report on speculation and on unproductive trading. I don't -- I couldn't find a definition of what unproductive trading is, so I'm not sure about that -- related to -- because, didn't the CFTC and NYMEX do a report

or several reports over the last couple of years, that really looked at the effect of trading and speculation on markets, and didn't it actually have a moderating effect, as opposed to increasing volatility?

MR. HARVEY: The CFTC put out a report, their economists put out a report almost a year ago now, that looked at the data that they have that attempts to break down, sort of the speculative interests and the types of speculative interests.

They were particularly looking, I think, at what we call hedge funds. And their finding that they reported in that, was that hedge funds don't change position as often, and that they tend, in the perspective of that report, to change their position in order to help out people who are hedging, basically.

And so their argument was that, in their terminology, that it added liquidity, that they were there to help take the other position when people were trying to hedge.

So, that would suggest, and I think they -- and they say in the report, that that actually sort of dampened some of the volatility in the market, because you've got someone there to take the other position, when someone in need, needs someone to take the other position in the marketplace.

I've seen some correlations also, more recently, that say the more non-commercials, which is sort of the more public definition of what tends for the CFTC to be hedgers -- speculators, as opposed to hedgers, the more activity by the non-commercials and then the folks who are -- the sort of non-reportables, the guys who are small and tend to be working the floor, the more active they are, actually the less volatile the market is.

So there are a couple of pieces of evidence out there that -- empirical evidence, that does suggest that a lot of speculative activity actually dampens volatility and makes it easier for the people who are hedging, to do their business.

COMMISSIONER BROWNELL: And was there any -- I don't recall any empirical evidence or studies that were produced to support the allegations in the report.

MR. HARVEY: No. Somewhere in the report, they actually refer to that study, but I think it was only to say that it didn't find manipulation, and so --

COMMISSIONER BROWNELL: So we dismissed studies that don't come to the conclusion, okay.

I'm fascinated by the conclusions that Katrina didn't have a significant effect, when, in fact, the Department of Energy had a daily report. We certainly participated in those daily phone calls about that.

And isn't it true that in an already-tight situation, any disruption, large or small, increases volatility, because, as you said, you can't predict the future. Is that --

MR. HARVEY: Yeah, the argument -- and there is one argument in there that is worth considering, that we discussed, I think, before, which is, not only did the Hurricanes disrupt production, they also disrupted some of the demand.

COMMISSIONER BROWNELL: Right.

MR. HARVEY: There was clearly some economic activity that was pushed off. But that's kind of for the analysis, and since there were both of those, then there really shouldn't have been an effect.

In fact, as we looked at it and we talked about sort of the differences in the way the prices behaved in the East, in the West, and some other things, anytime you disrupt the underlying structure, it changes a lot of the dynamics.

So, for example, a lot of the production that was disrupted, isn't really pointed to the West, and so western markets really weren't affected in the same way that eastern markets were affected.

There's none of that level of analysis in there. It's just, at the high level, you destroyed demand, you

destroyed production, those should have netted out and it would have been okay, and it just doesn't work that way.

COMMISSIONER BROWNELL: In some of the uncertainty that you referenced in your report this morning, in terms of market participants' assessments of the risk of higher prices have increased -- and this isn't part of that because of the uncertainty of what we recognize now was perhaps an over-reliance on the Gulf for supply?

MR. HARVEY: It could be -- it could come from a number of things, why that futures price is so high, compared to where it was last year.

One could be, we did see sort of our first serious Summer burning a lot of gas, and I think there are some concerns about that.

I think there's just a lot more heightened awareness of the potential disruptive elements of hurricanes and other natural kinds of things like that. So I think some of that is involved in it.

But the futures market isn't a forecast, so, I mean, it kind of just expresses worries, I think, at this point.

COMMISSIONER BROWNELL: Right.

MR. HARVEY: So it's not clear that it will necessarily work that way, and certainly what we're seeing in the very short-term market, with the very high levels of

storage that we've got, is that the spot market is going to basically be coming in at about as low a price as it can, vis a vis oil, without really breaking that relationship like I talked about today.

And that may continue; it may keep pulling that futures down over time. But there is clearly a lot more worry about the future embedded in that market.

COMMISSIONER BROWNELL: The states have really done a great job of using you, Steve, and your team, as a resource. You reported at NARUC and I know that you've talked to a number of the states.

And I really commend them, because they got on top of the facts pretty early, produced a lot of consumer information, that allowed people to exercise choices in buying.

And I hope that maybe in the future -- and I would suggest we send all the reports that we have to the Attorneys General, maybe the Association, so everybody gets it, because I think that you asked the right question, Joe; is this the kind of a report on which you want to base public policy?

And we are faced with an incredible number of challenges, because we've had a long period of under-investment, perhaps an over-reliance on unstable sources, and we're looking at a number of options.

But to make the right policy decisions -- and we're making them for 20 years; these are not short-term investments and short-term decisions -- I think we really all have to be disciplined by a set of facts that are validated, as you have validated a bunch of your work with the CFTC and DOE and other industry sources.

I would hope that we could have a stronger working relationship, because I would think that, at time when customers are confused, to mislead them with a report that is not based on any empirical evidence, is not as responsible as we all might be as public policymakers, so I really look forward to working out a more productive information-sharing, so that we can make these public policy decisions in a way that benefits customers.

COMMISSIONER KELLY: Thank you Nora; I agree with that. Steve, the report also raises concerns about the transparency of the natural gas market, and I was wondering if you could comment on the nature of the transparency of the natural gas market?

MR. HARVEY: The report expresses concerns about what they call the over-the-counter market. It's a little bit different than we tend to think. We tend to think in terms of the physical market and the financial market, because of our concerns around the physical market and around physical customers.

The over-the-counter market doesn't cut it that way, so it includes both physical and financial things. And the recommendations coming out of it, related to increased reporting of positions by people involved in those over-the-counter markets, and seemed to be pointed towards reporting that in a fair amount of detail to the CFTC.

So, it didn't really seem to bring up, sort of transparency on our end of things. We've done a fair amount of work in the last couple of years on transparency in the physical markets, in the area that we've been focused on, particularly with regard to price indices.

Some of it's actually referred to in the report in sort of round about way, but the report we did almost two years ago on confidence in the way those indices work.

What we have done, in order to work with the way things are today, is to try to pull as much information as we can out of the data that is available to us, from an oversight basis, on an ongoing basis, mainly commercially-available information from a variety of brokers, index providers, and the like.

That gives us a fairly full view, on a day-to-day basis, of, in general, what's going on in a regional way, that allows us to understand that.

When we have questions about that information -- and we do, systematically, every day, at a 11:00, go through

those sources of information in a fair amount of detail -- when we have questions about that, we'll often follow up, calling pipelines or trading organizations or others, to make sure that we understand what's going on.

To the extent that we can't get answers that way, we can turn things over, basically, to Enforcement, where they can, in the context of an investigation, use subpoena powers that allow them to get as much information as there is, basically.

What the report is saying, in effect, doesn't really consider that, doesn't ever really consider what we've done in terms of the way we've set things up, in any detail.

What it says is, we've really got to be given, or somebody's got to be given all the information up front, all the time, in order to do that oversight.

I don't know. I mean, I don't know what the right answer is, necessarily. I mainly know what I have, and so what I'm going to pull out of day-to-day work, and I think we've pulled a lot out. On the basis of that, we look at what's available, and then we can look in more depth when we feel like we have to.

But, you know, that's a question, and I guess that's a question beyond my qualifications to answer as to what the right level of that would be.

COMMISSIONER KELLY: Well, if I could summarize -- and tell me if I'm wrong -- what you're saying is that for our purposes of overseeing the natural gas market, we have as much transparency -- we have as much information as we need to investigate any anomaly that your Office might find.

In fact, I have been to those briefings at 11:00, those sessions at 11:00, and I know that you actually investigate every anomaly that you find.

MR. HARVEY: We do a fairly detailed job, I think, but you can tell me if I'm wrong, but I think you saw that.

COMMISSIONER KELLY: It was detailed. And might also point out that Congress, in the Energy Policy Act, did give us the ability to facilitate greater price transparency, if we determine that the cost is -- the benefit is worth the cost, and I know that your Office is now in the process of looking at possible options that we might undertake to facilitate price transparency.

But in making that decision, it seems that we need to understand the nature of the problem, the nature of the benefits that requiring more reporting would provide us with, and also the cost involved in requiring that information.

MR. HARVEY: Right, and I think any option has some big implications in terms of how the market works, so

there's costs associated with it.

And one of the disappointments in looking at the study, which was trying to quantify some of the dangers, right, some of the things that you would try to rely on, like the $5 billion a month, is that that conclusion was so weak.

And so we don't really have a good -- we don't -- it didn't help us on the cost/benefit analysis of what the right policy decision would be in this case.

COMMISSIONER KELLY: Joe, I had a question about the underlying -- the presentation that was made. Is now a good time to ask a question?

CHAIRMAN KELLIHER: Yes.

COMMISSIONER KELLY: I just wanted to clarify, Steve, that when you were talking about the fact that prices have declined today to the early 2005 levels, however, futures prices are still higher than we've seen in the last year, is it fair to say that today's price increase is due, in part, to an increase in supply, a short-term increase in supply, because we have plenty of gas in storage?

MR. HARVEY: Yes.

COMMISSIONER KELLY: Okay. When I was in the middle of talking, actually delivered today's number, which was a fairly small withdrawal, actually -- and we are at 60 percent above the five-year average, and I think about 2.5

percent above the all-time high for this particular time of the year, and we're sort of running out of withdrawal season.

The next three reports, I guess, will do it for the withdrawal season, so we almost certainly will be going into April and the injection season, half a Tcf or so above where we would normally even think of at a fairly high level.

And so, in the spot market, that really does put some downward pressure on the overall price, but, as I said, it's kind of hard -- you've got a relationship that's not always the same with oil, but we're really probing sort of the lowest level of what that relationship can look like right now.

So, I don't know which one wins in the end in terms of that.

COMMISSIONER KELLY: Well, either way, I think it's good news, at least for the short term, for consumers.

But I also wanted to clarify that in the longer term, there has been no fundamental change in our supply situation. Last year, our numbers report that supply declined a bit, and I know that EIA's numbers show that it declined even more, by 1.3 percent, even with an increase in Canadian imports.

But as Jeff mentioned, Canadian imports are not

projected to increase like they did last year, in the upcoming year, and, in fact, you gave me Jeff, earlier, that the quarterly data that shows, although Canadian imports increased significantly in the third quarter, in the first, second, and fourth quarters, they were below the previous year's imports.

So I'd like to clarify that in the longer term, we are not looking at any increase in supply from domestic production -- or significant increase in supply from domestic production, Canadian imports, or LNG.

MR. HARVEY: Little bits, sort of incrementally. I do think it's a very good point.

We had the warmest continental January on record; we had the fifth warmest December, January, and February on record. We've had high prices recently, and that's had effects on demand, as well.

And, as a result, we're sort of not any place different than we were -- not hugely different than we were last year at this time, with the exception that a little bit of production is out still from the Gulf and we've got an enormous amount of storage and inventory.

That should be relevant through the Summer, depending on what goes on. That should have effects during the Summer, but we go into another Winter, and when we go into another Winter, it's sort of like resetting the whole

thing.

And the next Winter isn't likely to be the fifth warmest Winter again. It will look something more like average and we'll begin to probably trend more towards a typical long-term steady state, which is still fairly tight supply-sand-demand balance overall.

COMMISSIONER KELLY: And so in the even longer term, we still need to be looking at sources other than domestic production, including Alaskan natural gas and imported gas through LNG?

MR. HARVEY: Yes. It would be a serious mistake to say, given the extraordinary events of the last six months, that where we are today, would keep us from going ahead and developing those supply capabilities, because in the next few years, that's when those will pay off for us.

Even if we don't need it tomorrow, we're going to need it before long.

COMMISSIONER KELLY: Thanks.

CHAIRMAN KELLIHER: I must say that I really appreciated this briefing and going through the AG report, but it is disappointing to realize how flawed the report is, and my question at the beginning was, is the report a sound basis for public policy development, and it seems that the answer is, probably not.

But I encourage you to keep on looking at it, and

see if there's anything useful that we can draw from it, and help inform our policy.

But I just want to reiterate that we have the same goal of the Attorneys General, and we have acted -- not just talked, but acted about protecting the consumer in recent months, and just to recap some of the things we've done, what we've been focused on since the Hurricanes, since there was a significant supply loss that is understated in the AG report, but since that supply loss, we've acted to prevent prices from going higher still, because of manipulation.

We issued the Anti-Manipulation Rules; we issued the Enforcement Policy Statement; we defined how we would impose civil penalties; we have acted to improve our ability to detect market manipulation through the Memorandum of Understanding with the CFTC.

We've acted to mitigate the physical damage to the networks through the emergency orders that we've approved, and through the waivers that we've granted.

We have acted to continue strengthening the infrastructure over the long term, to expand the infrastructure to allow for more efficient use of the existing infrastructure.

And we're also considering using the authority under EPAct. As Commissioner Kelly, as Suedeen pointed out,

we have discretionary authority under EPAct to require greater transparency in both electricity and gas markets.

We're not required to act; we're authorized to act. And so that authority is interesting, because if you look at that and the market manipulation authority that we were given in EPAct, it really is a new duty to protect the integrity of markets.

It's different than -- different but related to our historic duty to protect the consumer, but now we have a duty to protect the integrity of markets, and really the question before the Commission is, should we exercise that discretionary authority and how should we do that?

And I think at some point, we will have a public proceeding and we'll ask the question to all the interested stakeholders and to some of the price index developers, et cetera. So we're open to suggestion on how to improve our policy.

I wish the report was more helpful in that direction.

I also want to pick up on what Nora said about the state commissions. The state public utility commissions also really rose to the challenge this Winter.

A number of them took very aggressive actions to inform customers, to make sure they understood that prices would be high, before that first bill hit, and some of them

had very aggressive conservation programs.

So the state commissions really rose to the challenge this Winter, and I think they deserve credit, as you gave them.

I do want to ask Jeff a question. I don't want him to escape unscathed. So, it's not a hostile question at all.

(Laughter.)

CHAIRMAN KELLIHER: I want to understand how storage might -- storage in the U.S. -- might be used differently with respect to Atlantic LNG markets.

What kind of storage capacity is there in Europe? And you're completely unprepared for this question, because I did not -- it's a question that came up during your presentation. I know that's not necessarily what you want to hear, but is there much storage capacity in Europe, and, to the extent we and Europe both rely more on LNG, if we had more storage capacity than Europe, generally, would we tend to import more LNG in the Summer and store it in market areas and Europe rely more on LNG imports in the Winter. That's just a general question. I'm curious.

MR. WRIGHT: Well, I think you got it right. Now, I don't know exactly what the storage situation is in Europe, but I know, for instance, Spain virtually has no storage.

CHAIRMAN KELLIHER: I thought we had much larger storage capacity than Europe, but that's a vague impression.

MR. WRIGHT: For instance, Spain brings in so much LNG -- in fact, they were leasing a boat to store LNG offshore, to that extent, so they could have more supplies on hand.

I do believe there is more storage in Eastern Europe in connection with Gasprom, Ukraine, and those areas. I don't -- I haven't read much about storage in Western Europe, but I believe the scenario you raise, where LNG, the LNG markets, in the Winter, the volumes will trend in the Atlantic, probably more towards Europe where the demand and colder Winters sometimes --

And with our amount of underground storage, you can get that scenario, which I mentioned, where you pack in LNG in the Summer, you get it into your underground storage, so you can utilize it in the Winter, maybe not having to rely so much on cargoes being shipped to the U.S. during the Winter and getting into that kind of price war in the Atlantic Basin.

CHAIRMAN KELLIHER: I just want to make one last --

MR. ROBINSON: There is a regional aspect of this, that kind of goes counter to the prevailing logic, and that's in New England where there isn't that availability to

store. And LNG in that area needs to be more of a base load coming consistently, which is one of the advantages of having those onshore tanks for LNG, where you get a seven-day storage there.

But even then, you're only talking about, at most, about a seven-day storage period.

MR. WRIGHT: And that's why I mentioned that one scenario. If you can push back Gulf and southern supplies coming to New England, you can take advantage of LNG being stored in western Pennsylvania, western New York, and actually utilize the pipelines in the Northeast area, to get LNG, stored LNG back into the market when it's needed.

CHAIRMAN KELLIHER: I just want to get back to something that I think Jeff said, not Steve. But you were talking about how gas that's being withdrawn now, is actually more expensive than gas that's available in the market.

I just hope that -- I'm not sure -- you tend to talk about price, so I should have guessed that, but I just hope that there's not buyer's remorse for putting gas in storage this Winter, because who would have known that January would have been the warmest, the mildest January in 112 years?

I just hope there isn't that buyer's remorse, because it's a little bit like someone buying a life

insurance policy and being disappointed that they didn't die.

(Laughter.)

CHAIRMAN KELLIHER: They bought an insurance policy, and it was a good bet at the time; it certainly seemed to be a good bet in the Fall, and who would have known what January's weather and half of December's weather would have been?

MR. HARVEY: That's exactly why we wanted to bring it up. There is, in effect, a bill still to be paid in the wholesale market for that insurance for the last Winter.

It is important to understand that it's a bill that you have to pay in order to be prepared for a typical Winter. And it has to do with this sort of -- conditions we're in right now are not typical of having this much inventory sitting in there. It's not a normal thing, but a one in 20 warm Winter is not a typical thing, either, but we've got to get back to being ready for the normal kind of situation, or even the cold Winter situation, which is what storage is for.

CHAIRMAN KELLIHER: I want to thank both of you for your presentations. It was excellent and very helpful, and I guess we'll start hearing some on power issues, more about power in the future. Thanks very much.

SECRETARY SALAS: The next item for discussion is E-5. This is Southwest Power Pool and it is a presentation by Jignasa Gadani, who is accompanied by Jennifer Amerkhail, Partha Malvadkar, Nathaniel Davis, and Chris Wilson.

MS. GADANI: Good morning. On January 4, 2006, the Southwest Power Pool, Inc., filed revisions to its open access transmission tariff, intended to implement a real-time energy imbalance market and establish a market monitoring and market power mitigation plan.

Today's draft Order conditionally accepts SPP's filing, in part, and rejects parts of the proposal.

The draft Order suspends SPP's filing for five months from the requested effective date of May 1st, permitting it to become effective on October 1st, 2006, subject to further Orders.

The draft Order notes that SPP has improved its imbalance market proposal, pursuant to the guidance provided by the Commission in an Order issued earlier last year in SPP's initial proposal.

The draft Order finds that SPP's imbalance market, subject to conditions in the Order, will bring benefits to the SPP region, including more efficient dispatch for customers, improved access to real-time markets by independent power producers, more efficient use of the constrained transmission system, and fewer transmission

loading relief events.

While the draft Order recognizes SPP's concerted efforts to bring such benefits to its market participants at the earliest possible time, it finds that certain parts of SPP's proposal, are incomplete or require further modification.

It cannot be determined, whether SPP's proposed imbalance market is designed and monitored properly, and allows for efficient market operations and is just and reasonable.

SPP admitted that it's filing is missing several components, including the external market monitor contract, a new transmission losses compensation provision, a standard form of market participant agreement, and a standard form reserve sharing agreement.

Therefore, the draft Order directs SPP to supplement its proposal within a timeframe that allows timely review by the Commission, prior to the effective date for market implementation of October 1st, 2006.

Furthermore, the draft Order directs SPP to institute transitional safegaurds during the initial market implementation period for customer protection. These safeguards include a two-tiered offer cap for all bids into the market for the first six months of operation; market readiness performance metrics and a reversion plan; a market

readiness certification; and price correction authority in the event of temporary market or system operational problems.

The draft Order finds that these safeguards should provide additional confidence in the reliable implementation and functioning of the imbalance market and help limit exposure to the imbalance market prices during the first few months of the market's operation.

Thank you.

CHAIRMAN KELLIHER: Thank you for that presentation. The Staff has described the substance of the Commission's Order and some of the reasoning, but I just want to elaborate to some extent, on at least my reasoning on why we took the action we did.

And as I indicated, this is the second Order where the Commission has dealt with the SPP imbalance proposal. We rejected the proposal last September, because it was incomplete and it lacked -- it was incomplete, it was inadequately supported, and it lacked certain market features.

And, as you said, this report is more complete, but it really still falls short of Federal Power Act standards.

The filing last September, really relied heavily on the stakeholder process as the basis for the proposal,

and at the time, we found that the Commission -- under the Federal Power Act, we just can't rely solely on the fruit of a stakeholder process to meet Federal Power Act standards.

This one is more complete, but it still is missing a number of significant market design elements. I think we are taking the right action here.

We have learned this lesson once already in the California ISO, where we approved the California ISO's markets, even though they were lacking certain market design features. And I think we learned that lesson once, and what we're doing here, I think, is the correct action.

We are going to make sure that all the market design feature are correct and well considered, before market operations begin, and I think we're reflecting a view that it's more important that the market -- that we get it right, than we get it fast.

We do recognize that there are very significant economic benefits that could be realized through the imbalance markets, but we can't grasp at those benefits at the risk of a market design that's incomplete.

So, I think we're taking the right action here. I ask my colleagues if they have comments.

COMMISSIONER KELLY: I agree with you, Joe. I know that because of our decision in this case, we're going to move the effective date from the proposed date in May, to

October.

And I also realize that there are many parties who wish to gain the benefits of the imbalance market as soon as possible, and I just want to stress that I -- and, I believe, we, all absolutely share that goal, but we need the details of the market to be fleshed out before we start.

And setting up an organized market is a very complex undertaking. It has far-reaching implications for reliability and for the economic health of the region, and it's important that we make sure that everything that can be done in advance, is done in advance.

But I do look forward to being able to vote in favor of the imbalance market, as soon as we get those details.

CHAIRMAN KELLIHER: Great.

COMMISSIONER BROWNELL: I'd like to say that I'm disappointed because of the missed opportunities, to be sure, but also I think we've learned the lesson, not only in California, but again and again and again in the Midwest and in other markets, that incomplete filings and incomplete market design, add to costs.

And at a time when people are talking a lot about the costs in RTOs and what it costs to implement a market, I would point to now a pretty significant body of evidence that says that when you get filings like this and then you

have to delay, as we are obligated to do, I think that we ought to be holding people accountable for the process that is causing this.

So I don't know what happened in this, but I think that we all ought to look to each other and the RTOs ought to look to themselves to talk about what needs to get fixed, so that this kind of thing doesn't occur.

And I think people ought to look at the costs of this, and understand that they are making decisions that have an impact. I think that they need to be held accountable for some of those costs, because we certainly hear a lot about it.

So I'm disappointed, and, frankly, I'd like to learn from this about what has to get done better. I just don't think every market design needs to take two, three, five, ten Orders to get done.

CHAIRMAN KELLIHER: Thank you. I think this Order is pretty clear on what they need to do to comply, and what they need to do to get approval. It seems to be a pretty exhaustive treatment, so, hopefully, this Order will do the trick.

COMMISSIONER BROWNELL: Let's hope that everybody reads it with that in mind.

(Laughter.)

CHAIRMAN KELLIHER: Shall we vote?

COMMISSIONER KELLY: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN KELLIHER: Aye.

SECRETARY SALAS: Next for discussion is G-1. This is the Five-Year Review of Oil Pipeline Pricing Index, and it's a presentation by Harris Wood, Robert Fulton, Justin Adder, and Michah Pingley.

CHAIRMAN KELLIHER: I think the entire oil pipeline bar is in the room right now.

(Laughter.)

CHAIRMAN KELLIHER: We'll see how many people leave at the end of this vote.

MR. WOOD: Good morning, Mr. Chairman, Commissioners, my name is Harris Wood--

CHAIRMAN KELLIHER: Is your microphone on, Mr. Wood?

MR. WOOD: Good morning, Mr. Chairman, Commissioners, my name is Harris Wood. Joining me at the table today are Robert Fulton, Justin Adder, and Micah Pingley.

Pursuant to the Energy Policy Act of 1992, the Commission adopted a generally applicable methodology for changing rates for oil pipelines which was based on an index of the Producer Price Index for Finished Goods, or PPI, minus 1 percent, to reflect the changes in oil pipeline energy costs over a five-year period.

At the same time, the Commission committed to review the Index each five years to ensure that the adopted Index would reflect changes in oil pipeline industry costs.

After the first five-year review, that Index was changed to PPI without adjustment to reflect oil pipeline cost changes in the five-year period.

The proposed Order before you is the result of the second five-year review. Using the methodology first utilized by the Commission in establishing the Index in Order No. 561 which has been upheld on two occasions by the U.S. Court of Appeals for the D.C. Circuit, the Order includes that, for the five-year period commencing July 1, 2006 and extending to July 1, 2011, PPI plus an adjustment of 1.3 percent would be the appropriate Index.

We are available to answer any questions you may have.

CHAIRMAN KELLIHER: Great. Thank you.

Staff has explained the substance of the Order, and I just wanted to comment on how we reached this result, or at least how I reached this result.

As you indicated, the starting point of this proceeding was last July. And the starting point last July was proposing to retain the current Index, the Producer Price Index For Finished Goods, or an unadjusted PPI.

We sought comments on that. The record developed in that proceeding showed that PPI unadjusted was an insufficient basis; that it does not accurately track changes in oil pipeline costs. And that there was a need to set an Index above that level.

I think it is important to recognize what happened last year. We know from last year's experience

after the Hurricanes how important the oil infrastructure is in this country. Colonial and Plantation Pipelines were out just for a few days and we saw very significant gasoline price spikes as a result. I think that was a pretty good reminder of the importance of the oil infrastructure.

Two-thirds of the energy consumed in this country is transported by pipelines, most of which we regulate, and overall oil transportation costs are a very small fraction of the retain cost of petroleum products.

I think the cost of oil pipeline transportation accounts for two to four cents of a gallon of gasoline. So it is a pretty slight cost. But the consequences of under-investing in the oil infrastructure are significant, I think demonstrated last year.

So I think we need to be careful in going about setting an Index. As you indicated, staff indicated, the Index methodology has been twice reviewed by the courts and has been twice upheld by the courts. That is what we end up adopting here.

Now the shippers propose that we continue to use PPI or, alternatively, substitute a new methodology. But the record nor proceedings shows that PPI does not accurately track oil pipeline cost changes, so we have a duty under the Energy Policy Act and the Interstate Commerce

Act to set an Index that accurately tracks those changes. PPI is insufficient.

So I appreciate that the shippers don't like the result, but I think they should have no objection to the process we reached to come here. We relied on the record. We relied on the statutory criteria. And we adopt the methodology that has been twice reviewed and affirmed by the courts.

So that is at least what I think we've done here and appreciate my colleagues view.

COMMISSIONER KELLY: Well I think it is important to point out that the shippers themselves agreed that the PPI was insufficient. In fact, the shippers proposed PPI plus .675 increase. Now what we adopt here is PPI plus 1.3 percent, which is what was proposed by the Association of Oil Pipeline.

And in our Order we make clear that the shippers in fact departed from the previously approved Order No. 651 Methodology in coming up with their proposal, but I think it's important to underscore that their proposal agreed with the basic tenet that PPI was not enough.

And, Harris, if I said anything that needs clarification, I would appreciate it. Did I say anything that needed to be clarified?

MR. WOOD: I think that is generally accurate.

COMMISSIONER KELLY: And I also wanted to point out that in large part this 1.3 percent increase over the PPI is necessary to take into account the costs of increased safety regulations.

I am a New Mexican, and the natural gas pipeline explosion that occurred a number of years ago that took lives did happen in my State, and it was a concern all across the country and spurred Congress on to enhance the safety regulation of gas and oil pipelines, and that has been a very good thing.

So in this case, the Department of Transportation also commented not to support a particular Index level but to in fact confirm that it has adopted safety regulations for oil pipelines that impose significant costs and obligations on those operators.

Also the Pipeline Safety Trust also participated in this case and said that it was persuaded by the data contained in the Association of Oil Pipelines' comments that the costs on the industry have increased enough to justify the PPI plus 1.3 percent.

So I just wanted to add that, in a very real way, this cost increase is related to better and safer delivery of oil.

CHAIRMAN KELLIHER: Thank you.

Shall we vote?

COMMISSIONER KELLY: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN KELLIHER: Aye.

SECRETARY SALAS: The final item for discussion this morning is M-1, Revision of Rules of Practice and Procedure Regarding Issue Identification. And it is a presentation by Larry Gasteiger, Carol Johnson, and Liz Molloy.

(Pause.)

CHAIRMAN KELLIHER: We've been getting a lot of tough questions handed to us by--

COMMISSIONER BROWNELL: It's been a long time waiting for this, Mr. Gasteiger.

(Laughter.)

MR. GASTEIGER: We're prepared.

COMMISSIONER KELLY: It's good to have you on that side of the table.

MR. GASTEIGER: Good morning, Mr. Chairman, and Commissioners. My name is Larry Gasteiger from the Office of General Counsel. With me at the table today is Carol Johnson and Elizabeth Molloy, also from the Office of the General Counsel.

M-1 is a draft order modifying Order No. 663 which the Commission enacted in September of 2005. Order No. 663 modified Rules 203 and 713 to require that pleadings

and requests for rehearing contain a separate "Statement of Issues" section which clearly set forth each issue being raised in separate enumerated paragraphs.

Order No. 663 specified that issues not so raised would be deemed waived.

In light of several months' experience under the new rules, the draft order proposes to narrow the requirement for a separate Statement of Issues section to Requests for Rehearing only, thus focusing on the area where clarity is truly critical.

Clear issue identification is essential in Requests for Rehearing to ensure that the Commission fully and adequately addresses parties' issues, and to preserve such issues for appeal.

For this reason, the draft order continues to state that issues that are not raised in a Statement of Issues section of a Request for Rehearing will be deemed waived.

Since the draft order limits the requirement for a separate Statement of Issues section only to Rehearing Requests, the order makes clear that parties are no longer required to include a statement of issues section in other pleadings.

As with Order No. 663, Order No. 663-A is an Instant Final Rule which will become effective upon

publication in the Federal Register.

Order No. 663-A--

CHAIRMAN KELLIHER: Would you repeat that last sentence just to--

(Laughter.)

MR. GASTEIGER: Order No. 663-A is an Instant Final Rule which will become effective upon publication in the Federal Register.

I would further point out that Order No. 663-A will be accessible on the web on the FERC home page under the "What's New" section.

We would be happy to answer any questions the Commission might have.

CHAIRMAN KELLIHER: Thank you.

First of all I want to say I support limiting application of Order 663, also known as "the Gasteiger Rule," --

(Laughter.)

CHAIRMAN KELLIHER: -- to Rehearing Requests.

I just want to reiterate what the purpose of Order 663 was in the first place. It was to make it easier for the Commission to identify issues raised in pleadings, and to address them.

So it makes it easier for us to identify and address them. By making it easier to identify issues, it

will reduce the prospect that issues will be missed in the Commission's review of comments, and it is very critical that we do so in Rehearing Orders.

Generally, if you look at the Commission's track record in courts, when we lose it is not--generally when the Commission loses it's because we haven't adequately addressed issues that have been raised on rehearing. And this requirement, by keeping the requirement that there be a Statement of Issues in Rehearing Requests, it will help improve our record in the courts.

Also, Order 663 was intended to make it harder for parties to bury issues in their pleadings. There have been occasions where in the courts we have had to grapple with whether a passing reference in a footnote was adequate to be an issue presented to the Commission.

This Order 663-A will eliminate the need for that kind of debate because if it's in a footnote and it's not in a Statement of Issues, it will be deemed waived.

As Staff indicated, we're limiting application of 663 to Rehearing Requests. It is not necessary to extend the requirement to other pleadings, but it is critical that we retain the requirement in Rehearing Requests.

So I support the Order.

Colleagues, do you have comments?

COMMISSIONER KELLY: I also support the Order. I

supported the first Rule, Larry, and I think it was a great idea on your part. I support 663-A as well.

What we did see in the last six months was a lot of confusion among the Bar of how this Rule actually played out. And I think that making this change will eliminate the confusion and that the Rule will benefit everyone.

I am particularly pleased that the Rule will be posed on the FERC web site. I have made no secret of the fact over the past six months that, given that this is an Instant Rule, it really is our burden to make the Bar more aware of this.

I know, being a lawyer myself, that all lawyers are deemed with knowing the law the instant it changes. But we have seen that the fact that we did not go through the normal APPA Rulemaking process, which we are entitled to bypass in situations like this, but because we did not go through that process the Bar was not as aware of the Rule as it would have been if we had gone through that process.

So I am very pleased. I know there was some resistance, but I am very pleased that it is going to be posted on the FERC web site so that those practitioners, particularly the ones that don't always practice before us, will be aware of it.

And I say that in large part because the remedy

for violating this Rule is to lose your protest. And that is a very important right. And losing that right is very serious and, for a practicing lawyer, is tantamount to malpractice because it loses the client's case.

So given that this Rule actually is a very, very serious Rule with great consequences, I think it is important for us to advertise the fact that it exists, and I'm glad it's going to be on the web site.

COMMISSIONER BROWNELL: I'm going to resist the urge to ask for a dramatic reading of the Order, Larry, because you have borne endless, endless grief for this. I think this is a good change.

I too take pretty seriously the fact that you lose your right to protest. The last time I asked EEI--NRECA and APPA to particularly let their small practitioners know, they were terrific about getting the word out, and I would ask them that again.

Suedeen, I would like to say that I actually believed lawyers knew the law as soon as it was passed. I'm not sure that some of them know some that are passed a long time ago, but we will let that pass.

(Laughter.)

COMMISSIONER BROWNELL: I support the Order.

CHAIRMAN KELLIHER: Let's vote.

COMMISSIONER KELLY: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN KELLIHER: Aye.

Thank you very much, and that is the end of our meeting. Thank you.

(Whereupon, at 11:45 a.m., Thursday, March 16, 2006, the meeting was adjourned.)