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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 :  
- - - - -x

906TH COMMISSION MEETING  
OPEN MEETING

Hearing Room 2C  
Federal Energy Regulatory  
Commission  
888 First Street, N.E.  
Washington, D.C.

Thursday, June 15, 2006  
10:10 a.m.

1 APPEARANCES:

2 COMMISSIONERS PRESENT:

3 CHAIRMAN JOSEPH T. KELLIHER

4 COMMISSIONER NORA MEAD BROWNELL

5 COMMISSIONER SUEDEEN G. KELLY

6 SECRETARY MAGALIE R. SALAS

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18 ALSO PRESENT:

19 DAVID L. HOFFMAN, Reporter

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1 maternity leave, has returned to FERC. That's the good  
2 news.

3 The bad news for me is that she's decided that  
4 she's going to work back to full-time status, slowly.

5 (Laughter.)

6 COMMISSIONER KELLY: Susan Court successfully  
7 wooed her to help in the Office of Enforcement. She will be  
8 working on market monitoring issues.

9 I just wanted to say publicly how wonderful Laura  
10 is and what a terrific advisor she is -- smart, dedicated,  
11 hard-working, and she has just great skills. She's very  
12 good at analysis.

13 She's an excellent writer, and she had very good  
14 people skills. I am so pleased that she agreed to work for  
15 me for the first two years that I was here. And I'm going  
16 to miss you. Thank you very much.

17 (Applause.)

18 COMMISSIONER KELLY: And, not that anyone can  
19 replace Laura, but there is another staff change. Elizabeth  
20 Blau has been working on my staff since Laura left on  
21 maternity leave.

22 She graciously accepted my request that she work  
23 for me in the interim while Laura was away. I say,  
24 "graciously," but I did have to beg her on bended knee in  
25 the Minneapolis Airport, to come work for me.

1                   She had some concerns that if she worked in my  
2 office, she might never leave or return to her home in the  
3 daylight hours. I lied to her and I told her that we don't  
4 work like that.

5                   But she has agreed to stay on my staff  
6 permanently, and I just want to say that she had done an  
7 excellent job, as well, and although she can't replace  
8 Laura, she is like Laura in many ways. She is dedicated,  
9 responsible, hard-working, smart, and she has excellent  
10 skills.

11                   She's a good writer, she is good at analysis.  
12 She's a wonderful person, and thank you very much,  
13 Elizabeth, for the work that you've done for me, and thank  
14 you for agreeing to stay with me.

15                   Then Nora and I want to jointly announce our  
16 employment of a summer intern, Tara Vega. Where's Tara?  
17 Thanks.

18                   Tara is a Junior at Brown University. She is  
19 from Rhode Island. She is going to split her time between  
20 my office and Nora's office, and I was very pleased to get  
21 her, and thought that she would be excellent at helping me  
22 with my speeches.

23                   But I have since read her resume in more detail,  
24 and she is the team captain of the Mock Trial Team at Brown  
25 University, and she is also an actress and she is a stage

1 manager. So, I think, in addition to helping me with my  
2 speeches, I'm going to see if she can't help train me for  
3 future open meetings, so that I make better presentations  
4 and act better.

5 I think we should put her on the payroll for the  
6 new Commissioners, for the EBA dinner.

7 (Laughter.)

8 CHAIRMAN KELLIHER: Thank you. I'm going to  
9 start off with the usual announcements:

10 The biggest announcement last week was the  
11 nomination last Monday of Commissioner Mark Spitzer to be a  
12 member of the FERC for the term expiring June 30, 2011.

13 Mark Spitzer currently serves as Commissioner of  
14 the Arizona Corporation Commission. He's previously served  
15 as Chairman of the Commission.

16 Before that, he served in the Arizona Senate, and  
17 like the President's other nominees, he is superbly  
18 qualified for the Commission. We look forward to an  
19 expeditious hearing and Senate action on his nomination, and  
20 it will be unusual when all these Westerners are confirmed  
21 her to the Commission, and, with Nora's departure and the  
22 arrival of three Westerners, FERC will be composed of four  
23 Westerners and one lonely Easterner.

24 I will be the last of the Easterners or the last  
25 Easterner standing at FERC. It's probably my duty to remind

1 my colleagues to remember the unique characteristics of the  
2 East --

3 (Laughter.)

4 CHAIRMAN KELLIHER: -- as we develop better  
5 electricity policy.

6 Do my colleagues have any comments about the  
7 nominations or others?

8 COMMISSIONER BROWNELL: Hallelujah.

9 (Laughter.)

10 CHAIRMAN KELLIHER: With Mark's confirmation to  
11 the Commission, and the confirmation of the other two recent  
12 nominees, the Commission will be back to five members, a  
13 full complement.

14 I think if you back six years, we have had a full  
15 complement for a total of three months in the past six  
16 years. It will be unusual for us to be back to five, but  
17 that's the way the law was intended to operate, so we'll  
18 have more diversity of views.

19 The nominees are excellent, and I look forward to  
20 serving with them.

21 Service Interruption NOPR: I'm going to announce  
22 some recent business, some meetings we've held, and some  
23 Orders we've issued.

24 We recently issued a Service Interruption Notice  
25 of Proposed Rulemaking. As the 2006 hurricane season

1 approaches, the Commission is concerned with potential  
2 damages to jurisdictional natural gas facilities that could  
3 affect the operation of the energy infrastructure.

4 Further, we want to assure that our ability to  
5 assist in disaster preparedness and recovery efforts is  
6 effective and efficient. To that end, the Commission needs  
7 adequate information to assess the status of the natural gas  
8 infrastructure at any given time, and to communicate such  
9 information to other agencies such as the Department of  
10 Energy and the Department of Transportation.

11 Widespread severe damage can seriously threaten  
12 the stability of the energy infrastructure. The damage done  
13 by Hurricanes Katrina and Rita in the Gulf Coast area in the  
14 late summer of 2005, was widespread and severe.

15 Offshore energy production was shut in.  
16 Pipelines, power lines, and other means of energy  
17 transportation were seriously damaged, and other important  
18 parts of the energy infrastructure system, such as natural  
19 gas processing plants, were closed.

20 Section 260.9 of the Commission's regulations  
21 requires a natural gas company to report serious service  
22 interruptions involving facilities under certificate  
23 authority granted by the Commission under the Natural Gas  
24 Act.

25 This reporting requirement, however, is not

1       adequate to permit a reliable picture of the operational  
2       status of the natural gas infrastructure at any given time,  
3       because the focus is on service interruptions, rather than  
4       physical damage to jurisdictional facilities.

5                Last week, the Commission issued a Notice of  
6       Proposed Rulemaking, which attempts to address this  
7       inadequacy by amending Section 260.9 to require that  
8       jurisdictional companies report any damage to facilities  
9       that limit service through those facilities, regardless of  
10      whether service can be maintained by rerouting gas supplies  
11      through other facilities or by other means that will help  
12      give us a more complete picture of the physical status of  
13      the gas network at any point in time.

14              The Commission looks forward to comments from the  
15      public on these proposed revisions.

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1           Also an announcement, I think some people in this  
2 room are probably aware of regarding wireless broadband  
3 access at FERC headquarters. I'm pleased to announce that  
4 wireless broadband internet service is now available in the  
5 second floor hearing rooms and here inside the Commission  
6 meeting room. At this time, high-speed internet services  
7 are accessible through the following cell phone providers:  
8 Verizon, Sprint, T-Mobile and Velocita -- I think that's  
9 correct. Nextel will be available by next June and Cingular  
10 will be available by mid-July. This access is provided  
11 independent of the Commission and is controlled by the  
12 respective cellular providers. The use of this service will  
13 require the purchase of a wireless air card and data service  
14 plan from one of the aforementioned vendors. If you'd like  
15 further information on establishing a service agreement or  
16 have questions on an existing account, please contact the  
17 vendors directly.

18           A FOIA report. The Freedom of Information Act  
19 has provided an important means through which the public can  
20 obtain information regarding activities of federal agencies.  
21 Under FOIA, the public can obtain records from any federal  
22 agency subject to the exemptions enacted by Congress to  
23 protect information that must be held in confidence for the  
24 government to function efficiently or for other purposes.

25           On December 14, 2005, the President issued an

1 Executive Order aimed at improving FOIA at federal agencies.  
2 Pursuant to this Executive Order, we have designated a chief  
3 FOIA officer, a FOIA public liaison, and established a FOIA  
4 service center to enable a FOIA requester to seek  
5 information concerning the status of a FOIA request and  
6 appropriate information about the Agency's FOIA response.

7 I'm also pleased to announce that we've met the  
8 deadline by sending a review of the Agency's FOIA operations  
9 and drafted a plan for improvement with concrete milestones  
10 for fiscal years 2006 and -7 to the Attorney General and OMB  
11 Director.

12 Next, some announcements regarding gas storage  
13 and transmission siting and some changes to our web site.  
14 As you've noticed, given the attendance at the meeting, we  
15 have a number of orders that we're dealing with today  
16 relating to energy infrastructure. First of all, one order  
17 in particular, C-2, is a final rule on market-based rates  
18 for underground storage facilities. In anticipation of  
19 approval of this rule, the Commission has created a web page  
20 to highlight the Commission's activities with regard to gas  
21 storage. This web page is highlighted on our home page,  
22 [www.ferc.gov](http://www.ferc.gov). The web page contains lists of certificated  
23 and pending storage facilities and jurisdictional storage  
24 fields, the market-based rate proceedings and other  
25 information aimed at educating the public on gas storage.

1           On a similar note, another order, C-1, a notice  
2 of proposed rulemaking on electric transmission siting, in  
3 anticipation of approval of this proposed rule and the grant  
4 of new authority to the Commission, the Commission has  
5 created a web page to highlight this action. You can also  
6 find that on our home page.

7           Let me make some comments about the recent  
8 technical conference on PJM reliability. On June 7th and  
9 8th, the Commission Staff held a two-day technical  
10 conference on PJM Interconnection's reliability pricing  
11 model. This technical conference stemmed from the April  
12 20th initial order on the reliability pricing model. The  
13 purpose of this conference was to address some specific  
14 issues relating to the mechanisms to be used by PJM to  
15 enable customers to satisfy reliability requirements. The  
16 conference was structured as an informal working discussion.  
17 Staff was able to elicit very helpful information and  
18 opinions on how best to develop the auction and demand curve  
19 and long-term fixed capacity alternative approaches for  
20 meeting capacity obligations. We will take the information  
21 from the conference, as well as information provided in the  
22 paper hearing, to develop a ruling on the merits of RPM.  
23 Meanwhile, the parties are actively involved in settlement  
24 discussions with Judge Brenner.

25           This afternoon, after the Commission's monthly

1 meeting, the Commission will meet in the Commission meeting  
2 room with utility and railroad representatives to discuss  
3 rail coal delivery matters and their impact on electricity  
4 markets and electricity reliability. This meeting was  
5 requested in two letters received by the Commission from the  
6 American Public Power Association, the National Rural  
7 Electric Cooperative Association, Edison Electric Institute,  
8 and the Electric Power Supply Association. The purpose of  
9 this meeting is to examine issues raised by certain electric  
10 utility associations with regard to coal inventories at  
11 power stations and rail coal deliveries to their member  
12 companies.

13           These claims raise serious questions about the  
14 adequacy of electricity supply in certain regions of the  
15 country as we enter the summer months. These discussions  
16 are intended to assist the Commission in understanding  
17 better the jurisdictional implications, if any, of these  
18 issues. All interested persons may attend and view a free  
19 webcast of the event through our home page, [www.ferc.gov](http://www.ferc.gov).

20           On July 10th, the Commission is holding a  
21 reliability technical conference. Is it July 10th we're  
22 doing the reliability technical conference -- the 6th, July  
23 6th, I thought. July 6th we are holding a reliability  
24 technical conference.

25           On May 11th, the Commission took an important

1 step towards implementing mandatory reliability standards  
2 for the nation's bulk power system, as required by the  
3 Energy Policy Act of 2005 by issuing a preliminary  
4 assessment of the proposed reliability standards submitted  
5 for Commission approval by the North American Electric  
6 Reliability Council. Written comments concerning the  
7 preliminary assessment are due prior to this technical  
8 conference, on June 26th. The technical conference is on  
9 July 6th. The comment deadline is June 26th and will be  
10 used to help develop a record to assist Staff in evaluating  
11 the proposed NERC reliability standards.

12 After written comments are accepted, on July 6th  
13 at 9:00 a.m. here in the Commission meeting room the  
14 Commission will hold a technical conference to consider the  
15 reliability standards submitted by NERC. The purpose of  
16 this meeting is to provide a public forum to discuss the  
17 stakeholders' views about the effectiveness of the  
18 reliability standards and their effects on the industry.

19 I'd like to clarify one thing. Normally at a  
20 technical conference, the Commission requests supplemental  
21 comments. I do not expect we will do that at this  
22 reliability conference because we have to keep to a certain  
23 schedule to issue proposed reliability standards. We are  
24 trying to do so in September, and that schedule really does  
25 not allow an opportunity for supplemental comments. So make

1       sure your first round of comments on June 26th are good  
2       ones. That will help us at the technical conference on July  
3       6th.

4               Next, another meeting that we're having -- this  
5       one is actually on July 10th. On July 10th, the Commission  
6       will be convening a technical conference on regional  
7       transmission organization border utility issues. In a  
8       recent Commission proceeding, parties raised the issue of an  
9       electric utility's ability to benefit from an RTO an  
10       independent transmission system operator regional market  
11       while avoiding some or all the costs attributable to  
12       membership in the RTO or ISO.

13               At the technical conference, participants will be  
14       asked to identify discrete concerns and contrasting views  
15       established with specific market services, reliability  
16       functions, and other features of RTO and ISO markets,  
17       provide non-members with benefits for which they may not  
18       bear an appropriate share of the respective costs or  
19       otherwise should not be entitled to, and proposed solutions  
20       to identified problems. The Commission is hoping to get  
21       participation from all regions in the country in this  
22       technical conference.

23               Finally, I'd like to note that since the May 18th  
24       open meeting we have issued 98 notational orders, which is  
25       again a pretty impressive production in one month, 98

1 orders. By my math, that's five orders a day every business  
2 day since the last meeting. Again, I'm very grateful to my  
3 colleagues and the assistants for working through the green  
4 blizzard at a pretty blistering pace.

5 At this point, I'd like to highlight two of the  
6 notational orders, what order we've approved in that period  
7 that have been highlighted through press releases. There  
8 are two we did not issue press releases on that I think are  
9 somewhat noteworthy. The first one is Public Service  
10 Company of New York versus National Fuel Gas Corporation.  
11 On June 6th, the Commission issued an order addressing a  
12 complaint filed by the Public Service Commission of New  
13 York, the Pennsylvania Public Utility Commission -- Nora's  
14 alma mater -- and the Pennsylvania Office of Consumer  
15 Advocate against National Fuel Gas Supply Corporation.

16 The state agencies alleged that National Fuel's  
17 rates are unjust and unreasonable and they question whether  
18 National Fuel has the appropriate tariff authority to sell  
19 retained gas. In response to this complaint, we initiated  
20 an investigation into National Fuel's rates under Section 5  
21 of the Natural Gas Act, we set the rates for hearing,  
22 suspended the hearing to allow the parties time for  
23 settlement. We also denied a motion for summary judgment in  
24 which the state agencies asked the Commission summarily to  
25 rule that the amount of gas that National Fuel is retaining

1 for transportation and storage compressor fuel losses and  
2 company use is excessive, because the record did not contain  
3 adequate facts for us to issue a ruling.

4 The second order, Magellan Pipeline Company. On  
5 May 31st, the Commission issued an order conditionally  
6 accepting Magellan Pipeline Company's filed tariff to  
7 establish a distillate handling surcharge for a period of 10  
8 years to recover costs necessary to comply with regulations  
9 of the Environmental Protection Agency relating to ultralow  
10 sulfur diesel petroleum products. The acceptance is  
11 conditioned upon Magellan's separately accounting for all  
12 costs and revenues that relate to its ultralow sulfur diesel  
13 petroleum surcharge.

14 At this point I'd like to ask my colleagues if  
15 they have any comments on some of these business matters  
16 before we go to the consent agenda.

17 COMMISSIONER KELLY: I was just going to mention  
18 that earlier this week I was at the annual conference of the  
19 National Utility Regulatory Attorneys. Their big concern  
20 was natural gas prices, both of course last year's prices,  
21 the high prices, and the volatility, but also concerns about  
22 what the future will bring.

23 At the conference, there was a call for more  
24 information on damaged infrastructure. So I'm very pleased  
25 that we have issued a NOPR that will allow us to get this

1 information, I just wanted to recognize that it will serve a  
2 needed that is perceived pretty broadly across the states by  
3 state regulators.

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1                   CHAIRMAN KELLIHER: I think the experience last  
2 year showed that we had an inadequacy in our requirements.  
3 Companies did the right thing. When it was a damaged  
4 facility, they tried to work around it and maintain  
5 service.

6                   That's what you want them to do, but our  
7 reporting requirements on service interruptions was on  
8 service interruption, not physical damage.

9                   We did collect good data, but there wasn't a  
10 reporting requirement that was sufficient. We collected the  
11 data we needed on physical damage, but it's better to have  
12 the reporting requirement in place from the get-go.

13                   Madam Secretary, let's turn to the consent  
14 agenda.

15                   SECRETARY SALAS: Thank you, Mr. Chairman. Good  
16 morning Commissioners.

17                   Since our the issuance of the Sunshine Notice on  
18 June 8th, E-14 has been struck from the Commission's agenda.

19                   The consent agenda for this morning is as  
20 follows: Electric Items - E-2, 5, 6, 7, 9, 10, 15, 18, 19,  
21 and 20.

22                   Gas Items: G-3 and G-5.

23                   Hydro Items: H-1, 2, 3, 4, 5, and 6. As to H-6,  
24 Chairman Kelliher is concurring, with a separate statement,  
25 and Commissioner Brownell votes first this morning.

1 COMMISSIONER BROWNELL: Aye.

2 COMMISSIONER KELLY: Aye, noting my concurrences.

3 CHAIRMAN KELLIHER: Aye, noting my concurrence in  
4 H-6.

5 SECRETARY SALAS: The first item on the  
6 discussion agenda is A-3. This is the Energy Market Update.  
7 It is a presentation by Steve Harvey and Jeff Wright.

8 MR. WRIGHT: Good morning, Mr. Chairman and  
9 Commissioners. My name is Jeff Wright.

10 Along with Steve Harvey, we would like to take a  
11 look at natural gas storage in the U.S., in light of your  
12 consideration of the Final Rule in Item C-2, entitled Rate  
13 Regulation of Certain Natural Gas Storage Facilities.

14 First, I will speak to the existing and potential  
15 storage infrastructure in the United States. In addition, I  
16 would like to address the prudence of increased levels of  
17 storage, in relation to the developing world market for  
18 natural gas.

19 Then Steve will explain how to create market-  
20 based proxies for valuing storage and show how they have  
21 increased over the past few years.

22 First, let me briefly summarize the U.S. gas  
23 storage situation.

24 (Slide.)

25 MR. WRIGHT: There are 390 underground storage

1 facilities in the U.S., according to the Energy Information  
2 Administration.

3 These storage fields are generally located in the  
4 areas shown on the map. Approximately 205 of these fields  
5 are under Commission jurisdiction.

6 This chart shows the level of storage in the U.S.  
7 both jurisdictional and nonjurisdictional.

8 (Slide.)

9 MR. WRIGHT: The green line at the top, shows the  
10 total storage capacity on a monthly basis from 1989 until  
11 March of this year.

12 This is an incredibly stable amount. In fact,  
13 the total U.S. storage capacity has increased by only 1.4  
14 percent over that time period, as evidenced by the fairly  
15 flat line.

16 The base gas, or the gas that needs to stay in  
17 place in the storage field to provide the pressure necessary  
18 to extract the working gas, has also been fairly constant up  
19 to this period, varying between 3.8 trillion cubic feet and  
20 4.2 trillion cubic feet.

21 The working gas, the gas that is being stored and  
22 withdrawn, naturally varies over the course of the year,  
23 generally hitting a peak in October, at the beginning of the  
24 heating season, and its low point is in April, at the end of  
25 the heating season.

1                   During this time period, the maximum amount of  
2 working gas in storage at the beginning of the heating  
3 season, was about 3.5 trillion cubic feet in 1990.

4                   Over this time, the peaks do not vary much. The  
5 valleys do tend to vary, year-to-year, and this can be  
6 attributed to a number of variables, chiefly the weather  
7 during that particular Winter or withdrawal period.

8                   Commission Staff has estimated, based on its  
9 analysis of historic data, that approximately 5.2 trillion  
10 cubic feet of the total storage capacity and 2.5 trillion  
11 cubic feet of the working gas capacity, is under Commission  
12 jurisdiction.

13                   (Slide.)

14                   MR. WRIGHT: Since 2000, the Commission has  
15 approved projects totalling 263 billion cubic feet of  
16 capacity and 12.4 billion cubic per day of deliverability.

17                   These seem to be large numbers, but when one  
18 looks at the nation's storage capacity and working gas  
19 capacity, it is apparent that these approvals do not have an  
20 overwhelming impact on the overall totals.

21                   It is also noteworthy that Commission  
22 certification of storage capacity and deliverability has  
23 trended downward since 2002. In fact, there's only one  
24 pending storage project at the Commission, Bobcat Gas  
25 Storage in Louisiana, that would add 12 billion cubic feet

1 of storage capacity and 1.2 billion cubic feet per day of  
2 deliverability.

3 (Slide.)

4 MR. WRIGHT: What does the future hold for  
5 storage projects at the Commission? This map shows the  
6 location for potential storage projects totalling 148  
7 billion cubic feet of capacity and the ability to deliver  
8 4.7 billion cubic feet per day.

9 Again, those are not exciting numbers. The one  
10 point of interest, is the location of the potential storage.  
11 A good proportion of the potential storage capacity is  
12 located in the Southeast, particularly in the Gulf Coast  
13 area.

14 This is no coincidence, as the vast majority of  
15 approved and proposed liquified natural gas projects are  
16 located along the Gulf Coast, as well.

17 (Slide.)

18 MR. WRIGHT: At previous Commission meetings,  
19 we've discussed that the additional storage infrastructure  
20 that is expected to result from policies adopted in the  
21 Storage Rule, will increase customer alternatives and  
22 mitigate price volatility.

23 What also needs to be emphasized, is the  
24 synergies that will take place between LNG and storage. On  
25 the agenda for consideration later in this meeting, are

1 three new sites for LNG terminals, two of which are on the  
2 Gulf Coast, an expansion of an existing terminal, and an  
3 expansion of an approved terminal in the Gulf that is  
4 currently under construction.

5 In total, this will add 9.7 billion cubic feet  
6 per day of deliverability, and, of this amount, the Gulf  
7 sites account for 7.7 billion cubic feet per day.

8 When combined with the seven new LNG terminals  
9 that have been approved in the Gulf area, the total, 11.2  
10 Bcf per day of deliverability, there will be a total of 18.9  
11 billion cubic feet per day of regasified LNG looking for a  
12 home in the Gulf region.

13 The perfect place for this gas that is not  
14 immediately sent to meet consumer demand, would be  
15 underground storage.

16 (Slide.)

17 MR. WRIGHT: A quick look at the current LNG  
18 situation in the Atlantic Basin, makes this clear. Spain is  
19 now oversupplied to such an extent that it is causing delays  
20 in shipping, as LNG tankers cannot be emptied fast enough.

21 This is to our gain, as cargoes that can come to  
22 the U.S., are doing so. However, this will be a short-term,  
23 that is, a summertime phenomenon.

24 Eventually, cold weather will come to Europe and  
25 gas demand there will increase.

1                   Now, I will highlight two countries, in  
2 particular: Spain and the United Kingdom, that will affect  
3 U.S. LNG imports into the U.S.

4                   According to information available from the  
5 International Energy Agency, Spain's working gas in storage  
6 comprises eight percent of its annual consumption.

7                   In comparison, the U.S. ratio of working gas to  
8 consumption, stands at about 17 percent. Spain also has a  
9 daily regasification capacity of approximately 3.4 billion  
10 cubic feet per day, with an additional 1.8 Bcf per day of  
11 capacity coming online in the near future.

12                   Looking at the UK, we see that its working-gas-  
13 to-consumption ratio stands at three percent. Further, the  
14 UK has recently become a net importer of natural gas, as its  
15 indigenous gas production has steeply declined.

16                   As an answer to its supply needs, the UK  
17 inaugurated LNG service in 2005 at the Isle of Grain, with  
18 .4 Bcf per day of deliverability. But there are plans in  
19 the works to expand the UK's LNG deliverability by 3.6 Bcf  
20 per day at the Isle of Grain and at other new LNG terminals.

21                   These are substantial amounts, when you consider  
22 that Spain and the UK had annual gas demands of about one  
23 trillion cubic feet and 3.5 trillion cubic feet,  
24 respectively, as compared to U.S. annual consumption of  
25 around 22 to 23 trillion cubic feet.

1                   What this means is, during the Winter season, the  
2 U.S. will face considerable competition from Spain and the  
3 UK for LNG, a significant component of these two countries'  
4 gas supplies.

5                   (Slide.)

6                   MR. WRIGHT: There is an upside to the U.S. for  
7 the LNG situation in the Atlantic Basin, and that is more  
8 LNG is available to the U.S., due to the traditional decline  
9 in demand for gas during the Summer months.

10                  An additional benefit is that gas prices have  
11 fallen from their recent Fall and Winter levels. The yellow  
12 line in the chart above, was derived from data provided by  
13 the Office of Fossil Energy of the Department of Energy, and  
14 shows the decrease in the weighted average price of LNG  
15 delivered to the U.S. through April of this year.

16                  In April, the weighted average cost was \$6.77 per  
17 million British Thermal Units. The Henry Hub price  
18 comparable to the LNG price, has now dropped below the \$6  
19 level.

20                  The reaction to the availability of the LNG and  
21 the favorable pricing is evident as LNG imports have soared,  
22 and according to the U.S. Waterborne LNG Report, are  
23 expected to set monthly records in July.

24                  What does this LNG discussion have to do with  
25 storage? We know that the U.S. needs LNG to meet future gas

1 demand, as domestic and Canadian production flattens.

2 An excellent way to meet the need for more gas  
3 supply during periods of high demand, is to construct more  
4 gas storage. This allows not only domestically-produced gas  
5 to be put underground for cold-weather consumption, but also  
6 LNG, which can be delivered, regasified, and stored during  
7 those months when LNG is not in high worldwide demand,  
8 especially in the Atlantic Basin, and when prices are at  
9 lower levels.

10 Given the high level of working gas in storage  
11 coming out of the last Winter season, it will not take long  
12 to fill up the remaining capacity.

13 At that point, the U.S. will not be able to take  
14 advantage of the cheaper plentiful supply of LNG.

15 An increase in the amount of storage capacity  
16 will allow the U.S. LNG capacity-holders to benefit from  
17 market developments and be in a better position to meet gas  
18 demands during the heating season, at less volatile and  
19 hopefully lower prices, which will ultimately benefit  
20 natural gas users in the U.S.

21 Now I'll turn the presentation over to Steve.

22 (Slide.)

23 MR. HARVEY: Thanks, Jeff. I'm going to spend a  
24 few minutes discussing how we assess the market value of  
25 storage, look at recent storage values compared to history,

1 and consider what recent increases in storage market value  
2 might mean, particularly in light of current record storage  
3 inventories.

4 The bottom line is that gas markets are  
5 signalling that gas in storage is currently quite valuable  
6 to customers, despite the fact that storage inventories are  
7 much higher than usual for early Summer.

8 While customer value is certainly not the only  
9 factor in making investment decisions, a market signal of  
10 strong current customer value is certainly an incentive to  
11 storage facilities investors.

12 How do storage customers value storage services?  
13 Natural gas storage is useful to them, because it takes  
14 supply out of the market at certain times and returns it at  
15 other times.

16 That ability can be used to enhance reliability  
17 by moving supplies from, say, Summer, when gas demand tends  
18 to be lower, to Winter, when demand increases.

19 Local natural gas distribution companies, or  
20 LDCs, by far, the largest user of wholesale storage services  
21 in the United States, tend to use storage this way.

22 At the same time, other companies can use storage  
23 to create value by moving supply from times when prices are  
24 low, to times when prices are high.

25 That means injecting gas into storage whenever

1 that company expects prices to rise in the future. If a  
2 company using this strategy hedges its sale in the future,  
3 using, for example, the NYMEX futures market, then the risks  
4 associated with the strategy are low.

5 These two strategies, reliability-based and  
6 market-based, look quite similar. Prices tend to be higher  
7 at the same time demand is higher.

8 But the strategies are not the same. For  
9 example, an LDC using storage to ensure the reliability of  
10 its service, may continue to inject, even when prices are  
11 high, after last Summer's hurricanes, for example, in order  
12 to have enough gas in storage to meets its obligations.

13 Doing that might well increase prices, but the  
14 activity is completely reasonable for the LDC to meet its  
15 business obligations.

16 Market signals, alone, don't and shouldn't  
17 dictate storage behavior. Depending on the technology used  
18 in building the storage, that Jeff discussed earlier, a  
19 storage unit may be able to shift supplies from Summer to  
20 Winter or even from day to day.

21 Reservoir storage built out of depleted gas  
22 fields, generally operates best on a seasonal basis, and  
23 although investments in enhancements have increased  
24 reservoir storage flexibility significantly over the past  
25 few years, salt cavern storage has far quicker in-and-out

1 capabilities, making it possible to shift supplies over much  
2 shorter periods.

3 For reservoir storage, value tends to reflect  
4 seasonal price differences. For salt caverns, day-to-day  
5 market volatility is more important.

6 For this presentation, I'll use market  
7 information to value reservoir storage and review recent  
8 trends in that value.

9 (Slide.)

10 MR. HARVEY: About one year ago, a reservoir  
11 storage customer knew several things about how to value gas  
12 through the next year. Those things included recent spot  
13 and futures prices.

14 The storage customer could measure the value of  
15 storage, under the assumptions that the customer could buy  
16 gas that day, inject it into storage, withdraw it in the  
17 future, we'll say, during the typical U.S. withdrawal period  
18 from November through March, and hedge the future sale on  
19 the futures market.

20 This figure shows the key information at Henry  
21 Hub, Louisiana, as of one year ago last Friday. The  
22 difference between the average futures prices during the  
23 withdrawal period, and the actual price of gas that day, was  
24 about \$1.20 per million British Thermal Units, or MmBtu.

25 That was the futures-based market value of

1 storage one year ago.

2 (Slide.)

3 MR. HARVEY: Of course, last Summer and Winter  
4 did not occur exactly as expected one year ago. What would  
5 have happened if our storage customer had simply bought gas  
6 then, not hedged the sales price on the futures market, and  
7 simply sold into the spot market, day-to-day, throughout the  
8 withdrawal period?

9 In that case, the storage customer would have  
10 realized prices more than a dollar higher, \$2.24 per MmBtu.  
11 Last year's storage looked like a good investment early in  
12 the Summer, and if you didn't lock in its value early in the  
13 Summer and simply accepted spot prices, day-to-day through  
14 the Winter, it turned out to be an even better investment.

15 (Slide.)

16 MR. HARVEY: If we look back over the years at  
17 these calculations of customer value, each early June, using  
18 both approaches, based on futures and on realized prices, we  
19 see a very strong recent increase in relative storage  
20 values.

21 This last Friday, the futures-market-based value  
22 of storage looked like a little more than \$3.56 per MmBtu,  
23 almost three times what it was last year at the same time.

24 This value has been even higher in the recent  
25 past. It was higher than \$4, about a month ago.

1                   Over the past few years, these values, as of  
2                   early June, have grown steadily. I didn't have the space to  
3                   show earlier years, but, generally, the values jump up and  
4                   down a lot.

5                   Only these years have so clear a progression of  
6                   increasing value. Still, during the five years before the  
7                   beginning of this chart, no futures-based value was higher  
8                   than 60 cents per MmBtu.

9                   In addition, we can calculate the Summer/Winter  
10                  price differences for the next few years in the futures  
11                  market. As of last Friday, futures-based storage values for  
12                  the next four years, range from \$1.85 to \$1.95 per MmBtu.

13                  Though lower than this year, those future values  
14                  are nonetheless a strong signal of current expectations of  
15                  high customer storage value in the future. Thus, the  
16                  incentive right now to inject into storage, is powerful for  
17                  the market-driven customer, but let's switch the focus to  
18                  the storage developer for a minute.

19                  The amount a customer will pay, has clearly  
20                  risen, but various investment costs have increased, as well,  
21                  costs like buying the base gas needed to create new storage  
22                  fields, as well as the rising interest rates needed to  
23                  finance the investment.

24                  Also, storage facilities have long lives, and  
25                  investment decisions have to reflect longer-term assessments

1 of value than what we can see in current market prices.

2 Recent high storage price differentials, do not  
3 guarantee high storage value in the future, but they are  
4 consistent with a positive market incentive.

5 (Slide.)

6 MR. HARVEY: High recent customer value seems to  
7 mean more for an additional reason: Storage inventories are  
8 at record levels, as well. As of last week's Energy  
9 Information Administration report, natural gas storage  
10 inventories are still almost 7/10ths of a trillion cubic  
11 feet above normal for this time of year, far higher than the  
12 levels for this time in U.S. experience.

13 The blue line at the left of this figure, that  
14 sits high above last year's levels and the five-year range,  
15 shows how distinctive the current situation is.

16 Another way to think about current storage levels  
17 is this: The current level is reached, on average, more  
18 than two months into the future. The fastest fill in EIA's  
19 historical data was at this level more than a month in the  
20 future, the fact that natural gas markets are signalling a  
21 high value for injecting gas into storage at the same time  
22 that there's a record amount of gas in storage.

23 Next, the customer value signal is even stronger.

24 (Slide.)

25 MR. HARVEY: Despite record storage levels in the

1 Summer, the futures market is sending record strong signals  
2 to inject more natural gas as quickly as possible.

3 There could be many reasons for the strength of  
4 this futures-market-based signal -- fears about gas use in  
5 electric generation this Summer, fears of hurricanes, fears  
6 of international pressures on oil prices.

7 Still, the strength of the November through March  
8 seasonal price spread in the face of huge existing storage  
9 inventories, clearly emphasizes the fact that gas markets  
10 value storage right now at unprecedented levels.

11 Jeff and I would be happy to take your questions.

12 COMMISSIONER BROWNELL: Before we get to  
13 questions, Mark has just returned from an international  
14 conference on gas, which kind of changed his perspective a  
15 little bit about what we're confronting in terms of the rest  
16 of the world and competition and development.

17 Maybe, Mark, you'd want to share a little of  
18 that. I think just the little bit you gave me, adds kind of  
19 a level of urgency to planning for our future.

20 MR. ROBINSON: This was the World Gas Conference  
21 in Amsterdam. I was privileged to be able to go. I really  
22 appreciated the opportunity that FERC gave me to do that.

23 COMMISSIONER BROWNELL: For which you owe me.

24 (Laughter.)

25 MR. ROBINSON: The biggest take-away I took from

1 that, was just the worldwide enthusiasm, energy, level of  
2 commitment, dollars being spent on developing the LNG  
3 infrastructure that's going to provide for moving gas all  
4 over the world in just the next few years.

5 Another thing that became very apparent, I think,  
6 in that, is the premium that's going to be placed on where  
7 you can deliver gas, the flexibility of delivering gas. The  
8 U.S. is going to be just one of those places where folks who  
9 are moving gas around the world, are going to be looking to  
10 see if that's the appropriate place at any given point in  
11 time to deliver the gas which they are producing from Qatar,  
12 Russia, Australia, and a dozen other places around the  
13 world.

14 The perspective I got is that we're developing a  
15 position where we're going to be in competition for natural  
16 gas in this worldwide market, and keeping consistent with  
17 the theme here, the more storage that we have, the better  
18 position we're going to be in to compete for that gas at the  
19 appropriate times, and put it into storage, so that we can  
20 use in periods when we need the gas most.

21 I think that's pretty much consistent with what  
22 Jeff and Steve are talking about, as well.

23 COMMISSIONER KELLY: Steve, how's the drawdown  
24 rate of storage been over the last year? Has the drawdown  
25 rate been normal, or with our particularly warm Winter, was

1 the drawdown rate not very normal?

2 MR. HARVEY: It was not normal at all. In fact,  
3 if you look at the withdrawal rates, really into late  
4 December, it looked fairly typical.

5 At that point, extraordinarily warm weather came  
6 in. January was the warmest on record and 8.5 degrees  
7 Fahrenheit above average, so we, in effect, didn't have a  
8 typical January.

9 From that point on, the withdrawal rate slowed  
10 significantly, leaving, at the beginning of the injection  
11 season, more gas in storage to start with, than we've ever  
12 seen before.

13 That's that reason that the inventories are so  
14 high, initially. Withdrawals since then have been  
15 relatively typical for the time.

16 COMMISSIONER KELLY: And replacement has been  
17 relatively typical?

18 MR. HARVEY: That's exactly right.

19 COMMISSIONER KELLY: And the injections occurred,  
20 even though they were paying record high prices for gas?

21 MR. HARVEY: Prices right now for gas, are a  
22 little lower than they were last year, actually, so, yes,  
23 what's interesting, is this differential between current  
24 prices and this Winter.

25 That difference is at a record high level, but

1 current prices are not at record level. It's that  
2 difference that's the highest.

3 COMMISSIONER KELLY: Most -- you said in your  
4 presentation that LDCs are, by far, the largest users of  
5 storage. They tend to use it for peak reliability, rather  
6 than economic reasons, so what would you say about how they  
7 value storage.

8 As I understand it, their injection and  
9 withdrawals are relatively consistent, year-to-year,  
10 regardless of what the price of gas is.

11 MR. HARVEY: That's true. They sort of -- they  
12 would value it in similar ways. I've generalized a little  
13 bit.

14 I think the last numbers I saw, were about 75  
15 percent of interstate storage was used by LDCs. LDCs then,  
16 in general, are going to be concerned about maintaining  
17 reliability.

18 To the extent that they can maintain their  
19 targets to meet reliability, and then do things to help  
20 manage the cost of gas in their storage, that's a good  
21 thing.

22 Obviously, what we saw last Winter was, they  
23 weren't able to get out all of their storage, as they  
24 normally would have, as well, so it's possible that we'll  
25 actually see some accounting issues roll through into the

1 future, based on gas that was purchased at fairly high  
2 levels last Summer, that never got out last Winter, and that  
3 will continue and that will presumably come out in a typical  
4 Winter this year.

5 COMMISSIONER KELLY: Your data on value of  
6 storage, seems to me to be based on the perspective of the  
7 storage provider or maybe, on average, or something, rather  
8 than an assessment of the value of storage from the  
9 perspective of each particular user of storage.

10 There are obviously several different uses for  
11 storage. Each one seems to me -- and I know we discussed  
12 this before -- has different values.

13 MR. HARVEY: Yes. What I did in this, was sort  
14 of a generalized market value from a reservoir storage  
15 perspective. Obviously, an LDC thinking about using that  
16 storage to manage the reliability of their service, would  
17 think about it a little bit differently.

18 They would also think differently in terms of  
19 what they're trying to provide reliability for with regard  
20 to what technologies would be available.

21 For example, salt storage, you can use for  
22 reliability during very high peak periods, but you may fill  
23 it at fairly high price periods in order to do that day-to-  
24 day, actually.

25 The problem -- and one of the underlying problems

1 across the board, is, it's all about geology. If you want  
2 to build certain kinds of storage facilities, you've got to  
3 have the underground characteristics that allow you to do  
4 that.

5 COMMISSIONER KELLY: Have we have any complaints  
6 from users of storage for balancing or peak reliability  
7 purposes, that they haven't been able to get storage built  
8 and they need it?

9 MR. HARVEY: To my knowledge, we haven't had a  
10 lot of complaints about the operation of storage. We are  
11 looking for ways of regularizing our review of that  
12 information, absent complaints, within our oversight and  
13 monitoring efforts.

14 It's something we hadn't focused on, because  
15 there hadn't been as much concern, generically, expressed in  
16 the past.

17 But, we feel, going into the future, it's just  
18 something we need to be looking at on a regular basis.

19 COMMISSIONER KELLY: From the perspective of the  
20 developer or storage, even if there is such a high value, it  
21 would seem to be a good investment for a developer.

22 MR. HARVEY: Right now, again, the market is  
23 signalling that it's got a fair amount of value to it. That  
24 can change, and, obviously, even the futures curve suggests  
25 that it will come down some in future years, but, yes.

1                   COMMISSIONER KELLY: With the potential storage  
2 sites, Jeff, that you showed here on your Slide 5, do we  
3 have any applications pending before us for the development  
4 of any of those sites?

5                   MR. WRIGHT: No. Those are what we see in trade  
6 press, meetings, coming down the road, maybe in the next  
7 couple of years. We only have one before us, that I  
8 highlighted, the Bobcat Gas Storage Field.

9                   COMMISSIONER KELLY: In the Gulf area, where most  
10 of them appear to be, I would suspect that those storage  
11 areas, would be in areas of competition. A lot of storage  
12 providers in that area, have market-based rates.

13                   MR. WRIGHT: There is a considerable amount of  
14 storage in that area, and at market-based rates.

15                   COMMISSIONER KELLY: In Arizona, is that the site  
16 that the Arizona Legislature just legislated against?

17                   MR. WRIGHT: Yes, that's the Copper Eagle site  
18 near Phoenix.

19                   COMMISSIONER KELLY: Is there any chance the  
20 Legislature will open up the possibility of that site for  
21 development, that we know?

22                   MR. WRIGHT: We'd have to look into that I don't  
23 really know.

24                   MR. ROBINSON: Commissioner, I had the  
25 opportunity to speak to one of the legislators, shortly

1 after they passed those provisions. Given the pride which  
2 they felt about passing that law, I didn't get the  
3 impression that they were going to overturn it anytime soon.

4 (Laughter.)

5 COMMISSIONER KELLY: I think that's probably  
6 right. Most of our -- well, all of our LNG terminals have  
7 storage associated with them, right?

8 MR. WRIGHT: Yes.

9 COMMISSIONER KELLY: What's the level of use of  
10 the existing LNG import storage now? Are we using a lot of  
11 it the same way? Is it as full as our underground storage?

12 MR. WRIGHT: No. That's not really how you want  
13 to operate LNG storage. You want to take deliveries.  
14 Generally, let's say, a little over two Bcf per boat load  
15 comes in there. Generally, you have maybe three to four  
16 times the storage capacity as your deliverability, if not  
17 more.

18 But what you want to do, is get that gas in  
19 there, get it in the tanks and get it into the gas system as  
20 soon as possible. It's really an uneconomic way to store  
21 natural gas.

22 Facilities are really there to receive the LNG,  
23 store it until it can be vaporized, and get it into the gas  
24 system. You could actually fill up the gas tanks or the LNG  
25 tanks, if you will, but that's not going to provide a

1       tremendous amount of storage.

2                       Now, I will say --

3                       COMMISSIONER KELLY:  Maybe -- as I understand it,  
4       it's storage that allows it to hold it until it can get it  
5       into the pipe, by and large.

6                       MR. WRIGHT:  But you don't want to hold it for  
7       months there; you want to keep it cycling.

8                       COMMISSIONER KELLY:  And because of the lumpiness  
9       of the LNG delivery, which is -- whatever -- four Bcf, at  
10      once, you need storage until you can get it into the pipe in  
11      the short term.

12                      MR. WRIGHT:  Ease that deliverability for a  
13      steady rate.  I will say that in New England, they do have  
14      to use above-ground LNG storage, but that's because of the  
15      geology.

16                      COMMISSIONER KELLY:  Do we anticipate any more  
17      above-ground LNG storage?

18                      MR. WRIGHT:  I believe we entertained a  
19      potential one recently.  I can't remember exactly where that  
20      was located.

21                      MR. ROBINSON:  There has been, in some areas,  
22      because of the geology, interest in developing new LNG  
23      storage.  It runs into the same type of opposition -- and it  
24      depends on where you are in the country -- that an LNG  
25      terminal gets.

1                   But I think that's part of the operating scheme  
2 for some systems, is to have that LNG storage for those  
3 really tough peak Winter days, and I think it's one point  
4 that we need to make about storage, in general, and the fill  
5 rate that's going on right now.

6                   The fill rate is in advance of previous years,  
7 but, ultimately, it's limited by the storage we have  
8 available and will reach that point. At that point, we're  
9 right back to where we were last year. All the good feeling  
10 about getting early storage in place, will come to an end  
11 sometime in October or November when we're basically  
12 identical to what we were last year and we start worrying  
13 about the weather again.

14                   I just want to emphasize that, regardless of  
15 what's happening right now, we'll be looking at the same  
16 type of scenario we were looking at last November, come this  
17 November.

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1                   COMMISSIONER KELLY: You mean that we'll need to  
2 continue to store gas?

3                   MR. ROBINSON: We'll be basically full and we'll  
4 go into the winter that way, and the winter will dictate how  
5 that level of storage will get us through.

6                   COMMISSIONER KELLY: The NGSa predicts that  
7 actually the storage rate is going to fall soon, it's going  
8 to back off what it has been doing.

9                   MR. ROBINSON: It has to.

10                  COMMISSIONER KELLY: Only half the storage is  
11 FERC-jurisdictional, right?

12                  MR. WRIGHT: No, about 70 percent, 5.2 out of  
13 about 8.

14                  COMMISSIONER KELLY: What is that other 30  
15 percent not FERC jurisdictional? What is it about that  
16 other storage?

17                  MR. WRIGHT: They're state regulated storage, a  
18 large amount in California, for example.

19                  COMMISSIONER KELLY: Is it primarily owned by  
20 LDCs?

21                  MR. WRIGHT: Taking California as an example, to  
22 an extent it's owned by LDCs and there are independent  
23 storage owners in California as well.

24                  COMMISSIONER KELLY: Is there any indication that  
25 they've had difficulties accommodating their storage needs?

1                   MR. WRIGHT: No, they seem to be running quite  
2 full and quite efficiently.

3                   COMMISSIONER KELLY: I had a couple of questions  
4 about rates for storage. How much of the storage under our  
5 jurisdiction is under cost-based rates?

6                   MR. WRIGHT: That would have to be a number we'd  
7 need to look up to get that proportion. I'm not sure.

8                   COMMISSIONER KELLY: Like a lot, a little?

9                   MR. WRIGHT: It's trending more towards market-  
10 based rates.

11                  MR. HARVEY: I would think the installed existing  
12 amount of storage under cost-based rates swamps anything,  
13 given the statistics or the vast majority.

14                  MR. WRIGHT: Maybe the trend is more of the  
15 storage cases we see are market-based rates --

16                  COMMISSIONER KELLY: Because they tend to be in  
17 the production areas.

18                  MR. WRIGHT: Yes, and there's competition there  
19 and they can qualify under our current rules.

20                  COMMISSIONER KELLY: And geologically that's  
21 where you would expect to find depleted gas fields.

22                  MR. WRIGHT: And the salt formations, both in the  
23 Gulf area.

24                  COMMISSIONER KELLY: What is the difference in  
25 storage rates on average of rates storage selling at market-

1 based rates versus storage selling at cost-based rates, do  
2 they tend to be the same, different?

3 MR. WRIGHT: That's a little out of my league at  
4 the moment.

5 MR. HARVEY: We'd have to look at it to be able  
6 to answer exactly. The newer storage, given just the  
7 movement of price of gas over time, a large component of any  
8 storage field's cost is base gas that's required to kind of  
9 manage the whole thing. Simply given that and then given  
10 sort of what rates do over time would suggest that most of  
11 the cost-based storage we've got -- which is fairly old or  
12 fairly long-lived, would tend to be at a lower rate simply  
13 because it's been around for a long time, it's depreciated,  
14 and that's reflected itself in the costs, whereas the  
15 market-based rate would tend to be higher -- it would have  
16 to be higher in order to cover a higher level of costs and  
17 extract what it could out of the market right now in order  
18 to have been built. Without being able to answer the  
19 question exactly, my guess is you would see a big  
20 difference, but a lot of that difference comes from timing  
21 and construction issues.

22 COMMISSIONER KELLY: Would you -- if you had a  
23 new cost-based rate storage facility, would you expect that  
24 the cost of it would be the same as market-based rates or  
25 would it go a bit higher?

1                   MR. WRIGHT: The cost of development would be the  
2 same. One thing they're facing, very high costs that were  
3 not faced, say, 40 to 50 years ago, is the cost of the base  
4 gas. If you're pumping half of that reservoir full of gas,  
5 it's considerably more expensive now and a considerably  
6 larger cost, which will be reflected in your cost-based  
7 rates; it'll be higher than your 30, 40, 50 year old field  
8 that's still got gas that's priced from that era on its  
9 books.

10                   COMMISSIONER KELLY: Gotcha. When we set a cost-  
11 based rate for cost-based rate storage, do we flow the cost  
12 of gas through an adjustment clause for the base gas?

13                   MR. HARVEY: The base gas would be a cost of the  
14 project and would be capitalized as part of the project.

15                   COMMISSIONER KELLY: Thank you.

16                   COMMISSIONER BROWNELL: Can I see if I can  
17 summarize what the message is here? LNG storage such as it  
18 is is a flexible tool, for example, in the way they use it  
19 in the northeast and Everett to deal with peak. Classic  
20 storage, regardless of its geological type, is by and large  
21 a tool and almost an insurance policy against extreme  
22 weather conditions.

23                   This year was extreme in a way that we didn't  
24 anticipate. But typically it's a pretty critical component  
25 if you have basically the typical weather, not to even

1 mention the extreme weather. I remember a couple of years  
2 ago when we were skirting with disaster, so these are long-  
3 lived assets.

4 I don't know what the typical age could be  
5 expected to be. I think you said 40 or 50 years. That  
6 fundamentally you're anticipating needs over an extended  
7 period of time and you're not buying that insurance policy  
8 for the upcoming hurricane season, you're buying it for the  
9 next 20 years of hurricane seasons. It makes me real  
10 nervous when I see all those things in the Gulf region but  
11 it is what it is.

12 Is that what you're saying, that we were okay  
13 this winter but largely we are looking for investment either  
14 in new sites or expansions to address the growing demand and  
15 to give us that tool, such as it is, to deal with either  
16 typical or variations of weather; is that where we're going  
17 here?

18 MR. HARVEY: Yes, I think so. As we began the  
19 winter last winter, we would have guessed that the biggest  
20 sort of abnormal effect would have been the hurricanes  
21 keeping supply off the system. That would have made us  
22 nervous in a way that would have made the gas in storage  
23 very valuable in order to help make it through the winter.  
24 We kind of got a curve ball; not a bad curve ball, but with  
25 extremely warm weather in January we actually came out of

1 this last year's cycle not having used storage very much.

2 But I do think -- and this is I think your point,  
3 it's the longer-term issue that matters. And what it may  
4 have done in a certain sense -- and this may be one of the  
5 reasons we're getting these immediate signals of how much  
6 storage is worth -- is reminded everyone, reminded the  
7 market that one of the reasons storage is there is for the  
8 use of big events that have major effects and as an  
9 insurance policy against those, whether that be for price or  
10 whether that be for actual physical reliability purposes.

11 COMMISSIONER BROWNELL: Assuming we continue to  
12 see growth in gas-fired generation, we've talked more and  
13 more in the past couple of years about the convergence of  
14 the two markets; that becomes ever more increasingly  
15 important -- particularly in New England. I have to say it  
16 every time. Sooner or later somebody will listen to me.

17 MR. HARVEY: And more difficult, we certainly saw  
18 last summer -- we have seen, in effect, competition in the  
19 summer between putting gas in storage and burning it in  
20 order to generate electricity. So what you see is less of -  
21 - sort of more demand in the summer, so less of a dip in  
22 effect in the demand. I expect that trend will continue.

23 On the other hand, as Jeff pointed out, what we  
24 might expect to see is a fair amount of LNG during the  
25 summer and it being a much more competitive international

1 market during the winter, and that may adjust for a piece of  
2 that.

3 MR. WRIGHT: Just to add to what Steve said, I  
4 don't think you see the demand in the summer in Europe or  
5 other places in the Atlantic Basin unlike the U.S., which is  
6 almost approaching like a double peak, a summer and winter  
7 peak. There is no real summer peak in Europe, so that makes  
8 it advantageous for us and for the LNG to come here.

9 COMMISSIONER BROWNELL: I think that's true in  
10 the short term. In the long term, they aren't quite so air  
11 conditioner dependent as we are, having spent a pretty hot  
12 summer in the south of France one year. But that's actually  
13 changing with new construction. So that may not even be a  
14 long-term phenomenon, I don't think.

15 Tell me, you may have said this and we've got a  
16 lot of great information here, but you talked about the new  
17 sites. What is the potential for expansions? I have to  
18 assume an expansion is ultimately less expensive in terms of  
19 construction in addressing environmental issues than a new  
20 site and what's the potential there, do you know?

21 MR. WRIGHT: I don't know the exact numbers, but  
22 talking to our engineers they do express an interest that  
23 storage operators should expand existing fields, develop  
24 fields on their existing sites, use technology to actually  
25 reclaim some of the base gas and make that working gas,

1 which would also be a cheaper alternative to building a new  
2 field. And you can effectively increase your storage  
3 capacity using techniques like that rather than going out  
4 and finding a new fields, digging a hole and putting wells  
5 in, which is considerably more expensive.

6 COMMISSIONER BROWNELL: That new technology is  
7 here, that you can get more of the base gas?

8 MR. WRIGHT: That's what I'm told. I'm taking it  
9 on faith from some of our engineers, they said yes, it's  
10 here, they investigated, it's a viable means.

11 COMMISSIONER BROWNELL: I have faith in those  
12 engineers. I'll go for that.

13 Steve, I just want to go back to one comment you  
14 made in response to a question from Suedeen. You said  
15 you're more actively looking at the operations of storage.  
16 Do you mean you're looking at it from an efficiency  
17 financial perspective impact on the market? Have we ever  
18 had anything that would suggest that storage was being  
19 operated inappropriately somehow?

20 MR. HARVEY: No, in fact, because of that, we  
21 haven't looked at -- it's really the reporting to us more  
22 than the operations, per se, would be a better way to say  
23 it. We haven't systematically reviewed that material. We  
24 think it's appropriate to systematically review that  
25 material, not because we necessarily suspect anything but as

1 we go forward, just to make sure we're keeping an eye on  
2 market-based storage in particular and just integrating it  
3 into our regular monitoring kind of activities.

4 COMMISSIONER BROWNELL: Thank you.

5 COMMISSIONER KELLY: Steve, I have some questions  
6 about the prices currently being charged for storage in  
7 market-based rate areas. How has that price been tracking  
8 over the last couple of years?

9 MR. HARVEY: I don't know. I haven't looked at  
10 that in particular.

11 COMMISSIONER KELLY: Do we have any evidence that  
12 there's scarcity pricing in the price for storage, that  
13 storage prices are rising because of unmet demand for  
14 storage and intense competition?

15 MR. HARVEY: In general, storage in effect -- I  
16 don't think of it in terms of having necessarily so much  
17 value in terms of storage competition on storage. Storage  
18 value, as I kind of described it even in the presentation  
19 comes from changing market values over time. Market-based  
20 rates would tend to be, depending on their term, would be  
21 negotiated in different ways and would relate much more to  
22 what people were seeing as volatility or the seasonal  
23 differentials, depending on what the storage is. That's  
24 really where those values would be coming from.

25 So they would look very, very different than

1 older cost-based rate storage which had depreciated, the  
2 rates had played out over 10, 20, 30, 40 years. They would  
3 look structurally much higher but the value would literally  
4 be coming out of the summer/winter kinds of differentials or  
5 daily volatility, if it's a salt cavern storage.

6 COMMISSIONER KELLY: My conclusion is that we  
7 haven't shown anything that shows us there's a dysfunctional  
8 storage market at the moment.

9 MR. HARVEY: No, I haven't seen anything that  
10 would suggest that at all.

11 COMMISSIONER KELLY: Thanks.

12 CHAIRMAN KELLIHER: You've indicated that storage  
13 capacity has increased 1.4 percent since 1988. There's a  
14 couple of explanations for that, but one is somehow we're at  
15 a physical limit. That, you indicate, is not the case. We  
16 haven't somehow reached our peak physical limit for gas  
17 storage capacity.

18 MR. WRIGHT: I'll talk to that right now. In  
19 talking, you know, with our technical people, it's their  
20 belief in looking through the use of storage you're  
21 certificated or you're approved storage at a certain level  
22 based on some preliminary engineering findings. That does  
23 not necessarily mean that you can meet that top level. And  
24 what we've seen -- I think I had the peak year of 3.5  
25 trillion cubic feet. It's the belief amongst our technical

1 people that that's about the top limit of storage in this  
2 country, 3.5 Tcf of working gas capacity. We may not ever  
3 get to that 8 or 8.4 Tcf.

4 CHAIRMAN KELLIHER: Okay. 8.4 is the total --

5 MR. WRIGHT: The total physical storage capacity.

6 CHAIRMAN KELLIHER: Of existing projects?

7 MR. WRIGHT: Existing -- all storage in the  
8 United States, jurisdictional and non-jurisdictional.

9 CHAIRMAN KELLIHER: That's the existing  
10 facilities, not potential facilities?

11 MR. WRIGHT: No, that's the disconnect. I was  
12 looking at the total universe, not the FERC universe.

13 CHAIRMAN KELLIHER: The potential for storage  
14 expansion exists?

15 MR. WRIGHT: Yes.

16 CHAIRMAN KELLIHER: It hasn't been realized or  
17 there haven't been many attempts to realize the potential in  
18 the past 20 years. That might have been beautiful and  
19 natural, in the past 20 years, we've had something called a  
20 gas bubble which no longer exists and that depressed the  
21 value of gas storage. But the gas bubble doesn't exist.  
22 Now we have very enhanced value for storage. It may be that  
23 \$3.56 is not going to be the norm; it may be ephemeral. But  
24 will it go back to negative 73 cents? I tend to doubt it  
25 given the fact that the bubble, the supply/demand balance is

1 much tighter than it was over the past 20 years and it will  
2 probably remain tight.

3           And we have a related issue. I think it's very  
4 interesting that you talked about storage and LNG. I think  
5 some people naturally would think those are two separate  
6 things, but they don't seem to be. One of the LNG  
7 developers told me that they expect the way things will work  
8 at least in the Atlantic is that LNG tends to come to the  
9 U.S. versus Europe in the summer months because we have much  
10 more storage capacity, something that you highlighted, than  
11 Europe does.

12           If that -- as our LNG imports rise, if that  
13 actually is the case, storage may routinely fill up early in  
14 the United States, then it'll be diverted away from us in  
15 the winter months when prices are highest here. That's what  
16 we saw last year. That may not be an anomaly. That may be  
17 the regular course of affairs.

18           And to me that means we have to increase gas  
19 storage capacity. Maybe it'll just naturally happen. Maybe  
20 if we do nothing, just a greater value placed in storage  
21 will provide some incentive for people to do something they  
22 had no interest in doing the past 20 years. But I think we  
23 have to act, both on the market-based rates side and the  
24 cost-based rates side.

25           On the cost-based side, we have shown flexibility

1 in that we have the so-called equitable policy on cost-based  
2 rates for gas storage. That really traces back to 1976. We  
3 approved a departure from that last year in the salt bill  
4 order. We've shown flexibility on cost-based rates and if  
5 people want to build under cost-based rates, we want to  
6 encourage that. But from some developers' point of view,  
7 market-based rates may be their only option.

8 One question I had is what is the typical length  
9 of a storage contract. If someone wants to buy storage  
10 service and their interest is the difference in value  
11 seasonally -- they're in storage for economic reasons rather  
12 than, say, the reliability rationale of a gas utility. How  
13 long would their contract be? Are they signing a 20-year  
14 contract or are they signing a one-year contract? Because  
15 it seems if there's large interest in buying gas storage  
16 services of very short duration, it seems the market-based  
17 rate developer is more apt to serve that need, because they  
18 will assume some risks in return that a cost-based rate  
19 developer may not be interested in a one-year contract.

20 I'm just curious, do you have some notion of what  
21 the typical length of a storage contract is? Are they 20  
22 year contracts?

23 MR. WRIGHT: Typically, before, let's say, the  
24 end of the gas bubble, you would have long-term contracts --  
25

1                   CHAIRMAN KELLIHER: From the utilities, right?

2                   MR. WRIGHT: Generally your LDCs wanting to have  
3 that insurance policy, as Commissioner Brownell said, in  
4 place, have it year to year and not have to worry about it  
5 too much. I think you characterized it well that with more  
6 volatility in gas prices, if someone wants to take a risk of  
7 a market-based storage project, you know, they're taking the  
8 risk but they want the upside so they'll probably want  
9 short-term contracts and not lock into a rate. Of course,  
10 they could construct a contract that does have escalators  
11 and all kinds of things that would reflect the market values  
12 as well.

13                   MR. HARVEY: There's another market at play here.  
14 It is a financing issue for a project like this. These are  
15 fairly large projects and it gets back to the motivation of  
16 the customer. Can you build a storage facility simply based  
17 on people wanting to take a market-based value of that? In  
18 certain kinds of technologies and certain places, you might  
19 well be able to do that. In order to finance that effort,  
20 the longer term and the more stable the cash flow you've  
21 got, the better.

22                   Presumably from a financing perspective, cost-  
23 based rates -- fully subscribed with cost-based rates is not  
24 a terrible position to be in if you're a storage developer.  
25 If you can't be fully subscribed with cost-based rates, it

1       could be a very terrible place to be in terms of your  
2       ability to manage cash flow over time.  It really kind of  
3       depends on the technology:  what are you extracting the  
4       value from and the nature of the customers interested in  
5       working with you on it.

6               My guess is that in order to make most of these  
7       work, you need a fairly long set of commitments from at  
8       least a certain key set of customers, and that probably  
9       generally means distribution companies looking at it from a  
10      reliability perspective.

11             CHAIRMAN KELLIHER:  Thank you.

12             COMMISSIONER BROWNELL:  The bottom line is  
13      there's not going to be capital if the capital markets don't  
14      perceive a need.  Regardless of what we do.  the capital's  
15      not going to be available to get these projects built.

16             MR. HARVEY:  But we've seen them built so yes,  
17      making the finance argument is a critical step in this whole  
18      process.  That's where some flexibility is probably helpful.

19             COMMISSIONER BROWNELL:  Okay.

20             COMMISSIONER KELLY:  In the past, how we dealt  
21      with the lumpiness of storage at cost-based rates for  
22      storage, have we seen any storage investor go belly-up  
23      because they weren't able to recover their investment under  
24      cost-based rates?

25             MR. WRIGHT:  I've seen projects fail due to lack

1 of subscription, but an established storage operator, I  
2 cannot recall anyone ever selling out or declaring  
3 bankruptcy.

4 COMMISSIONER KELLY: Joe rightfully points out  
5 that there hasn't been a lot of storage development in the  
6 last 20 years, but that could indeed be because there hasn't  
7 been a demand for more. Could that be the case?

8 MR. WRIGHT: I think so. I think, though, if you  
9 adopt the mechanisms you're going to speak to today in the  
10 final rule, maybe that is the jump start that's needed or  
11 the prod to develop more storage capacity and on a more  
12 timely basis.

13 COMMISSIONER KELLY: What will market-based rates  
14 do for a storage developer that cost-based rates won't? If  
15 you were a storage developer, why is it that you would need  
16 market-based rates, not cost-based rates?

17 MR. HARVEY: To the extent that you're not fully  
18 subscribed but still trying to pull the project together,  
19 because it may be at a minimum level or something like that,  
20 market-based rates look like an opportunity to extract value  
21 from the market over time, whereas cost-based rates look  
22 like a ceiling at times when you might make money versus the  
23 times when you don't.

24 Again, the table I have in here sort of showed a  
25 marching-up value. That's not been true over the last 10

1 years and the values have been much smaller. It really is  
2 related to a storage developer saying all right, I'm willing  
3 to take on some additional risk, but to do that I would need  
4 to be able to extract a little more value out of the market  
5 sometime than I would necessarily be able to under cost-  
6 based rates.

7 COMMISSIONER KELLY: When you say extract more  
8 value from the market, does that mean that you charge future  
9 customers more or does that mean -- and/or does that mean  
10 that in charging future customers you would take a portion  
11 of that value premium that I suspect otherwise goes to the  
12 producer to the storage provider?

13 MR. HARVEY: Again what you're doing on storage -  
14 - let's talk reservoir storage, because it's simpler for me  
15 to do. You're sort of picking times when you can inject  
16 versus times when you can withdraw. Using futures or swaps,  
17 you can kind of see that a little bit better and you can  
18 even lock into that, which takes some of the risk out of the  
19 game, which is a good thing.

20 But over time, those values change and so that's  
21 what's really going to determine over the short term, even  
22 down to like annual contracts, anything, a year or two,  
23 that's really what's going to determine what the value is,  
24 what you can charge a customer and they would be okay with.  
25 It doesn't directly take anything out of anyone else's share

1 because all you're doing is sort of moving between one time  
2 and another time and looking at what the then-available  
3 market prices are for those two different times.

4 Indirectly, yes, it affects prices on either  
5 side. Presumably we kind of want that because it may bring  
6 up prices a little bit when prices are low, but it takes  
7 down prices when prices are high. So that's not a bad  
8 thing. That's kind of where the value is coming from is by  
9 balancing those market signals as opposed to really  
10 extracting it out of anyone. Because a customer can simply  
11 say, as long as it's not for reliability reasons, if I'm  
12 looking at this -- and if you're not fully subscribed as a  
13 project, that's not what they're looking at it as. If I'm  
14 just looking at it as a market thing, I'm just pulling value  
15 out of market signals, I'm not pulling it out of any  
16 particular customer.

17 COMMISSIONER KELLY: If a particular project was  
18 risky because it wasn't fully subscribed and we were doing  
19 cost-based rates, would we take that risk into account in  
20 stating returns?

21 MR. HARVEY: I don't know the answer to the  
22 question. In theory, to take the risk out it's less a  
23 matter of looking at return and more a matter of looking at  
24 distributing the costs over the smaller base. That might  
25 price the cost-based storage out of the market.

1                   MR. WRIGHT: I think it would change the return  
2 though on a cost-based project. You're still going to look  
3 at your sampling of companies in similar situations and  
4 cost-based operators. I don't think you're going to give  
5 them a higher rate of return because they can't contract for  
6 their capacity.

7                   COMMISSIONER KELLY: You wouldn't look at that as  
8 a risk? We wouldn't look at that as a risk?

9                   MR. WRIGHT: Not for making rates, I don't  
10 believe. It's a risk for the operator obviously.

11                   COMMISSIONER KELLY: Thanks.

12                   CHAIRMAN KELLIHER: Thank you very much for the  
13 presentation.

14                   SECRETARY SALAS: The next item for discussion is  
15 C-1, regulations for filing applications for permits to site  
16 transmission facilities. It is a presentation by John  
17 Schnagl, Carolyn Van Der Jagt, Lauren O'Donnell and Ed  
18 Abrams.

19                   MR. SCHNAGL: Good morning, Chairman and  
20 Commissioners. I'm John Schnagl from the Office of Energy  
21 Projects. Joining me at the table for this presentation are  
22 Ed Abrams and Lauren O'Donnell from the Office of Energy  
23 Projects, and Carolyn Van Der Jagt from the Office of  
24 General Counsel.

25                   Section 1221 of the Energy Policy Act of 2005 or

1 EPAct requires the Commission to issue rules specifying the  
2 form and content of the application for an electric  
3 transmission construction permit. The proposed rulemaking  
4 describes the application process for permits to construct  
5 new or to upgrade existing interstate electric transmission  
6 facilities located within national interest electric  
7 transmission corridors. These corridors will be designated  
8 by the Department of Energy following completion of their  
9 transmission congestion study.

10 The proposed rule builds on the Commission's  
11 extensive experience in licensing transmission and  
12 hydroelectric generation and issuing certificates for  
13 interstate natural gas pipelines. It applies this knowledge  
14 and experience to the new electric transmission construction  
15 permit program.

16 The proposed application process described in the  
17 draft Notice of Proposed Rulemaking would provide the  
18 information needed for the Commission to make the factual  
19 determinations required by EPAct. Specifically, that the  
20 proposed facilities are eligible for an electric  
21 transmission construction permit, will be used in interstate  
22 commerce or in the public interest, will reduce transmission  
23 congestion and protect and benefit consumers, are consistent  
24 with sound national energy policy and will enhance energy  
25 independence and will maximize the use of existing

1 facilities.

2 The draft Notice of Proposed Rulemaking would  
3 require an extensive pre-filing process to facilitate issue  
4 identification and resolution, provide all interested  
5 entities with accurate and timely project information,  
6 provide for openness and transparency throughout the permit  
7 process, and provide for preparation of one NEPA document  
8 for all federal actions and coordination among agencies  
9 issuing authorizations under federal law.

10 As in the Commission's existing siting programs,  
11 we intend to work closely and cooperatively with states,  
12 tribes, regional planning agencies, other permitting  
13 entities, as well as the public to achieve informed and  
14 timely decisions. We look forward to working cooperatively  
15 and collaboratively with all interested entities to get  
16 appropriate electric transmission built where it is needed.

17 The proposed process is designed to allow the  
18 Commission to complete its NEPA responsibilities, to conduct  
19 a thorough evaluation, and to take action upon a request for  
20 an electric transmission construction permit within one year  
21 from the date an application is filed, as required by the  
22 Energy Policy Act of 2005.

23 Thank you. We'd be happy to take any questions.

24 CHAIRMAN KELLIHER: Thank you.

25 After you.

1                   COMMISSIONER BROWNELL: I'm going to be quick  
2 here and I promise I won't make the statement that I made  
3 before about the projects team and their desire to site  
4 transmission. See, I can say it nicely.

5                   A lot of people who have not been involved with  
6 pipeline siting and our certification program but will now  
7 be involved in transmission don't, I think, fully grasp the  
8 extensive nature of the outreach and what goes on during the  
9 prefiling process. Since I frequently run into the project  
10 teams as they come back from town meetings around the  
11 country, even I have grown to have a greater appreciation of  
12 just how detailed and extensive that collaboration is.

13                   Could you just describe some of that for purposes  
14 of educating all of us how this will work and maybe talk  
15 about how many pipelines we sort of certificate -- I'm going  
16 to get it right sooner or later -- a year and what  
17 percentage of those generally end up in settlement. Because  
18 I think the number of settlements we see really speaks to  
19 the success of the involvement of the other agencies, the  
20 tribes, the landowners, interested mayors, et cetera, et  
21 cetera.

22                   MR. SCHNAGL: I'll be happy to take the first  
23 shot at some of those questions and then defer some of them  
24 to my fellow team members.

25                   First of all, the prefiling process that has been

1 developed and has been improved over time involves working  
2 together with state, local agencies to identify the problems  
3 very early in the process. It gets the FERC Staff out of  
4 the public meetings very early to make sure that those  
5 problems are identified so that we can begin to go through  
6 an issues resolution process. We attend public meetings.

7 Much of the prefiling process gathers the  
8 information for the NEPA or the environmental impact  
9 statement that will be appropriate for transmission  
10 projects. It gets that information collected, it  
11 establishes the record, it conducts the public meetings, it  
12 answers information that the state and local entities may  
13 have and allows everybody to really put on the record their  
14 concerns and issues, so that when an application -- and all  
15 of this is used to perfect, shall we say, the application so  
16 that when it is filed with the Commission a pipeline project  
17 is very well defined and we can move forward with that  
18 application in an expedited fashion.

19 So it involves a tremendous amount of information  
20 exchange, both here to the Commission as well as from the  
21 Commission Staff outside to all interested entities. A  
22 number of public meetings that it provides for public  
23 involvement and it really just establishes the record that  
24 we use to help evaluate the program and these facilities for  
25 any Commission actions.

1                   In terms of the number of pipeline projects done  
2 in the last year, Mark, you have a handle on that?

3                   MR. ROBINSON: We typically certificate between  
4 500 and 2000 miles of pipeline per year.

5                   Just to add one thing to John's discussion on  
6 prefiling, the whole concept behind prefiling is to  
7 proactively pursue issues, not just wait to see if somebody  
8 shows up or something. To go out and go to the states, go  
9 to the people who would most be affected by lateral  
10 infrastructure, anything that moves along the course of the  
11 land and see what their problems are and trying to resolve  
12 those before they ever get into an application.

13                   If we can move a transmission line or move a pipe  
14 to avoid a wetland or avoid a state-protected area or work  
15 with the state for any other interest that they may have, to  
16 do that before the application even comes to us, that's an  
17 issue the Commission never even has to address. That's what  
18 prefiling is all about, to minimize the issues before an  
19 application is ever brought to the Commission so that we are  
20 left that the Commission really does need have to decide.

21                   MS. O'DONNELL: I just wanted to add that to the  
22 extent a lot of this may be new to the applicants, it's not  
23 new to the agencies and it's not new to the states. We have  
24 been working with a great majority of the states that would  
25 be involved in the process and the federal agencies, so they

1 are very familiar with the process and comfortable with the  
2 process. I think ultimately that's going to help the  
3 electric transmission lines along as well.

4 COMMISSIONER BROWNELL: I'd just like to make one  
5 observation for the applicants. I was recently in the  
6 northwest and had just many, many, many questions by a  
7 number of people in the audience about a particular LNG  
8 project and talked about the prefiling process and our  
9 experience and how it worked. As it turns out, the  
10 applicant had fundamentally told interested stakeholders  
11 that the FERC was not interested in what they had to say and  
12 was kind of hiding behind the FERC. I think the project  
13 staff subsequently had a little educational meeting with  
14 that applicant. But I don't want to overstate the need for  
15 the applicants to be aggressively searching out for the  
16 issues and not expect the public simply to accept blindly  
17 what it is they have to say.

18 We see every day the implications and the impact  
19 on customers of the weak infrastructure we have in  
20 transmission. I think this is critically important, as is  
21 the work of DOE. I think we also need to explain to  
22 customers the choices we've made in the country and the  
23 costs they are paying for not having sufficient  
24 infrastructure. That becomes more critical at a time when  
25 we need more fuel diversity. We have new technologies that

1 perhaps will allow us to introduce clean coal. We have 20  
2 states with RPS standards. I don't see any wind farms in  
3 downtown Boston; in fact, we may never see any in  
4 Massachusetts. But I think it's really important to look at  
5 the needs of the country and the needs of customers, and I  
6 don't think customers understand they're paying a pretty  
7 severe price for our lack of commitment to develop long-term  
8 big infrastructure.

9 COMMISSIONER KELLY: I know that Congress  
10 wrestled with this provision before it approved it in the  
11 Energy Policy Act. Basically the issue that it raises is  
12 one of the states' concerns that transmission siting has  
13 historically been within their exclusive jurisdiction.  
14 Being out and about and talking to state regulators, I guess  
15 the message that I would like to send to them is that there  
16 is no reason why our proposal of this NOPR today, that they  
17 should feel concerned about our desire to take away their  
18 jurisdiction. In fact, backstop siting authority only comes  
19 to us in those circumstances where the state doesn't act.

20 I would anticipate that the states will act and  
21 that it will be the rare case that comes to us. But if  
22 those cases do come to us, I think the prefiling process, as  
23 you've explained it, Staff and Mark, should comfort people  
24 that all of the issues that are typically of concern to  
25 people with transmission siting: land use, environmental

1 impacts and various other concerns that people have in the  
2 siting of infrastructure, will be taken into account and  
3 that there will be a full participatory process.

4 I thought that I should just raise the issue  
5 which is the elephant in the room directly.

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1                   CHAIRMAN KELLIHER: I want to thank Staff for  
2 their presentation and just make a few comments about this  
3 Rule. As Suedeen has referenced, and Nora, the Energy  
4 Policy Act had certain policy goals.

5                   One of them, one of the principle policy goals,  
6 was strengthening the energy infrastructure, particularly  
7 the transmission grid.

8                   There are other goals about promoting competition  
9 in wholesale power markets, assuring reliability of the bulk  
10 power system.

11                   I think the proposed Rules that we're issuing  
12 today, are completely consistent with those goals, and they  
13 help promote those goals. Obviously, we're moving to  
14 strengthen the energy infrastructure by implementing the  
15 federal siting provisions, but I think that, by doing so, we  
16 will help promote competition in wholesale power markets,  
17 because we will help promote a more robust grid and a  
18 stronger grid. It will also be a more reliable grid.

19                   I think that's what Congress included the  
20 provision in the Energy Policy Act. They recognized that a  
21 robust transmission grid was necessary to assure competitive  
22 markets; it was necessary to ensure reliability, and they  
23 came to the conclusion that preexisting law was inadequate;  
24 that the former siting process was inadequate and needed to  
25 be improved.

1                   But the approach they took last year, I just want  
2                   to emphasize how deferential it is towards the role of the  
3                   states.

4                   Congress really came to the same conclusion with  
5                   respect to gas pipelines in 1947. The approach Congress  
6                   took in 1947, was to completely preempt the states, and  
7                   establish an exclusive federal role to site natural gas  
8                   pipelines, something that was entrusted to the Commission.

9                   It's something that we do very efficiently,  
10                  without a lot of outcry from the states or other parties, I  
11                  might point out. But the approach Congress took last year,  
12                  was very different.

13                  They did not provide for exclusive federal siting  
14                  of transmission. They established a federal role to  
15                  supplement the state role, not to supplant the state role.

16                  I think it's important to recognize that Congress  
17                  took a very deferential approach. I think our rules are  
18                  equally deferential.

19                  Now, the law last year imposed certain limits on  
20                  the Commission. As I said, it's not an exclusive siting  
21                  role.

22                  It limited us to siting transmission projects in  
23                  corridors designated by the Department of Energy. I just  
24                  want to take a moment to commend the Department of Energy on  
25                  how it's proceeding on the congestion study.

1                   They, to my knowledge, are on time to issue the  
2 congestion study by August 9th. Then, at some point  
3 following that, they will begin designating transmission  
4 corridors.

5                   I think DOE has proceeded admirably on the  
6 congestion study. I particularly want to mention Kevin  
7 Colabar, the leader of the DOE effort.

8                   I also want to commend DOE for the Delegation  
9 Order they gave us recently, which granted the Commission,  
10 the lead agency role for environmental review, once a  
11 construction permit is filed.

12                   It's out intent to have the Commission's final  
13 transmission siting rules -- at least it's my intent, and I  
14 won't speak for my colleagues, but my intent that we'll have  
15 final transmission siting rules in place by the time the  
16 Department of Energy may start designating transmission  
17 corridors.

18                   The obvious limit, that you can only come to FERC  
19 and seek construction permit of a project, is in a  
20 designated corridor, and that limit is something we respect  
21 -- we recognize and respect.

22                   There are other limits, though, in the Energy  
23 Policy Act, that we also recognize and respect.

24                   There are three basic ways a construction permit  
25 could be sought from the Commission:

1                   First of all, if state law does not provide for  
2                   siting, or does not consider the interstate benefits from  
3                   siting transmission facilities;

4                   Second, if an applicant is not eligible for  
5                   siting under state law, for example, if they are not a  
6                   utility under state law.

7                   Under those circumstances, the applicant can come  
8                   directly to the Commission.

9                   The third path is if the state rejects a proposed  
10                  transmission project, does not act within a year, or  
11                  conditions a project to the point where it's no longer  
12                  economically viable.

13                  Our proposed siting rule respects those  
14                  additional limits Congress placed on us.

15                  My colleagues have talked about prefiling.  
16                  Prefiling has proved to be a very important component of  
17                  siting other energy infrastructure.

18                  It's something the Commission uses in the area of  
19                  hydropower licensing. I think it was developed in  
20                  hydropower.

21                  We developed it initially in the hydropower area,  
22                  and it worked successfully. We've applied it in both gas  
23                  pipeline siting and LNG siting, and it's something that  
24                  works very well.

25                  It fosters early identification and resolution of

1 issues. Since it's succeeded in the area of other  
2 infrastructure development, we're applying it in this area,  
3 as well -- transmission siting.

4 Also, to assist the public and practitioners --  
5 it may be my last website announcement of the day, but we  
6 are posting a flow chart on our website.

7 (Slide.)

8 CHAIRMAN KELLIHER: That will describe the  
9 process, the transmission siting process here at the  
10 Commission.

11 I think the proposed rule is very sound. It's  
12 faithful to the Energy Policy Act. It recognizes the limits  
13 Congress has placed on us, and stays within those limits.

14 I think, given the Commission's experience in  
15 siting other projects, particularly pipelines, that we're  
16 certainly well prepared to perform the role Congress gave us  
17 last year.

18 I support the proposed Rule. Shall we vote?

19 COMMISSIONER BROWNELL: Aye.

20 COMMISSIONER KELLY: Aye.

21 CHAIRMAN KELLIHER: Aye. Thank you very much.

22 SECRETARY SALAS: Next for discussion, is E-1,  
23 Devon Power, LLC, a presentation by Jeff Dennis, Kevin  
24 Huyler, Morris Margolis, and David Mead.

25 MR. DENNIS: Mr. Chairman and Commissioners, good

1 morning. My name is Jeff Dennis, from the Office of General  
2 Counsel. With me this morning are Kevin Huyler, Morris  
3 Morgolis, and David Mead from the Office of Energy, Markets,  
4 and Reliability.

5 E-1 is a Draft Order accepting a settlement  
6 agreement that will establish a new capacity market  
7 structure in New England.

8 The Draft Order accepts the settlement agreement  
9 finding that, as a package, it presents a just and  
10 reasonable outcome for these proceedings, and that it is  
11 consistent with the public interest.

12 In 2003, the Commission initiated these  
13 proceedings in response to an increase in the number of  
14 reliability must-run or RMR agreements filed by generators  
15 in New England.

16 The Commission noted that certain resources  
17 needed for reliability, were having difficulty recovering  
18 sufficient revenues, and expressed concerns about the  
19 effects that RMR agreements have on the competitive markets.

20 Among other things, the Commission directed ISO  
21 New England and stakeholders, to propose a long-term  
22 mechanism to implement location or deliverability  
23 requirements to ensure that capacity within congested areas,  
24 is appropriately compensated for reliability.

25 In March 2004, ISO New England filed a proposed

1 locational installed capacity or LICAP mechanism as a long-  
2 term solution to the identified deficiencies in New  
3 England's capacity market.

4 The proposal featured designated capacity zones  
5 and a downward-sloping demand curve to procure capacity  
6 within each zone on a monthly basis.

7 In a 2004 Order, the Commission generally found  
8 the use of capacity zones and a downward-sloping demand  
9 curve, acceptable, but set the parameters of the demand  
10 curve and other issues for hearing.

11 The Commission also instituted additional paper  
12 hearing procedures concerning the appropriateness of the  
13 capacity zones designated in ISO New England's proposal.

14 In June 2005, the Presiding Judge issued an  
15 initial decision on the demand curve parameters. Following  
16 the initial decision, several state utility commissions  
17 requested oral argument before the Commission on the LICAP  
18 mechanism.

19 In response to those motions, and in response to  
20 Congress's directive in Section 1236 of the Energy Policy  
21 Act of 2005, that the Commission consider the states'  
22 objections to LICAP, the Commission held oral argument in  
23 September 2005.

24 Following the oral argument, the Commission  
25 instituted settlement procedures to allow New England

1 stakeholders, the opportunity to pursue an alternative to  
2 LICAP.

3 The settlement agreement accepted and the Draft  
4 Order before you, is a product of these procedures, and  
5 resolves all of the issues in the LICAP proceeding. Of the  
6 115 parties to the settlement proceedings, 107 either  
7 support or do not oppose the settlement agreement, and only  
8 eight parties formally opposed the settlement agreement.

9 Seventy-eight percent of the New England Power  
10 Pool Participants Committee voted to support the settlement  
11 agreement.

12 Kevin Huyler will now describe that settlement  
13 agreement.

14 MR. HUYLER: The settlement agreement provides  
15 for the implementation of a forward capacity market as an  
16 alternative to the LICAP proposal.

17 The forward capacity market closely resembles  
18 alternatives to LICAP presented by state public utility  
19 commissions at the oral argument in this proceeding.

20 The forward capacity market contains several  
21 concepts that were not present in the proposed LICAP design:  
22 First, to determine price, the forward capacity market uses  
23 an auction mechanism, rather than an administratively-  
24 determined demand curve.

25 Second, the forward capacity market procures only

1 that amount of capacity that is required to meet the  
2 installed capacity requirement.

3 Third, the resource commitment period is an  
4 entire year, rather than the monthly commitment in the LICAP  
5 proposal; and,

6 Fourth, there is a three-year forward procurement  
7 period.

8 The forward capacity market proposes to establish  
9 the price of capacity as determined in annual descending  
10 clock auctions. These capacity auctions will procure  
11 capacity, three years ahead a given commitment period.

12 This three-year period is designed to enable  
13 potential new entrants to compete in the capacity auctions.  
14 In cases where a new resource is selected to provide  
15 capacity, that resource must meet several identifiable  
16 milestones to demonstrate that it will come online prior to  
17 the commitment period.

18 This new capacity is permitted a one-time option  
19 to lock in a five-year commitment, in order to provide a  
20 predictable level of revenues, and to facilitate financing.

21 Load-serving entities are permitted to self-  
22 supply capacity resources outside of the auction. The first  
23 auction is planned for early 2008, for an initial commitment  
24 period that begins in June, 2010.

25 Subsequent auctions will be a full three years

1 prior to the commitment period.

2 The amount of capacity procured in each forward  
3 capacity auction, will match the amount required to meet New  
4 England's installed capacity requirement. This requirement  
5 will be set in advance through a stakeholder process.

6 The forward capacity market also includes a  
7 locational component. Prior to each auction, ISO New  
8 England will identify transmission limits that are expected  
9 to bind during the commitment period.

10 In cases of binding transmission limits, separate  
11 and simultaneous auctions will be held for each identified  
12 capacity zone. Prior to the first commitment period in  
13 June, 2010, the settlement agreement includes a transition  
14 mechanism that begins in December of this year.

15 During this interim period, all capacity  
16 resources will be paid a transition payment that is adjusted  
17 for availability during shortage hours, and that is netted  
18 against existing RMR contracts.

19 In addition, the resource commitment period for  
20 those receiving payments during the transition period, is a  
21 six-month seasonal period, as compared to the existing one-  
22 month period.

23 Under the settlement agreement, market rules for  
24 the implementation of the transition period, will be filed  
25 by the Commission by October 1, 2006. The market rules for

1 the forward capacity market will be filed with the  
2 Commission by February 15, 2007.

3 This concludes our presentation. We'll be happy  
4 to answer any questions you might have.

5 CHAIRMAN KELLIHER: Let me start this time. As  
6 we know from oral arguments in the proceeding up to this  
7 point, New England is facing the prospect of an electricity  
8 supply problem.

9 Maybe not today, maybe not this Summer, but soon.  
10 And this really isn't a matter of dispute.

11 In an oral argument held last September, the  
12 nature of the problem facing New England became apparent.  
13 The demand for electricity in the region is growing, supply  
14 is not increasing to meet demand, and the region is facing  
15 the prospect of real supply shortages and very high prices.

16 There is consensus around these basic facts,  
17 although there's disagreement about how soon supply  
18 shortages and how high prices might be realized, but there's  
19 really little doubt that New England is not adding adequate  
20 electricity supply.

21 Last year, according to a recent ISO New England  
22 report, New England added a total of 11 megawatts to its  
23 regional electricity supply -- a total of 11 megawatts.

24 At the same time, compared to the prior year,  
25 peak demand rose 2700 megawatts. Those are exactly the

1 kinds of trends we saw leading up to the California and  
2 Western crisis before the year 2000.

3 The Commission held oral argument on ISO New  
4 England's LICAP mechanism last year, because the region was  
5 concerned that it was being denied an opportunity to propose  
6 a workable alternative to LICAP.

7 We thought, at the time, based on oral argument,  
8 that there was sufficient consensus that we urged the  
9 parties to engage in settlement discussions around a  
10 workable alternative to the ISO New England LICAP proposal.

11 We authorized settlement discussions and we  
12 appointed a Settlement Judge. The discussions were  
13 productive and resulted in a settlement that's before us  
14 today.

15 I just want to take a moment to point out that  
16 Judge Brenner's performance, by all accounts, really was  
17 superb during the settlement discussions. I think he did a  
18 fantastic job.

19 Now, a great majority of the parties did settle,  
20 as Staff has just indicated, 107 out of 115. I think the  
21 reason they did that, is because they recognize that it was  
22 better for the region to propose a regional solution to the  
23 problems facing New England.

24 They negotiated in good faith on a series of  
25 difficult issues and acted responsibly.

1                   They also trusted that the Commission would give  
2                   great deference to the region, in consideration of the  
3                   proposed settlement.

4                   I just want to commend the parties for working  
5                   collaboratively to reach this settlement. There were some  
6                   significant non-settling parties.

7                   I will not criticize the non-settling parties.  
8                   Some of them played a very responsible role, particularly  
9                   the Maine parties.

10                  The Commission concludes that the settlement is  
11                  just and reasonable. It will serve to assure adequate  
12                  electricity supply, and assure just and reasonable wholesale  
13                  power prices in New England.

14                  Specifically, we find that the settlement meets  
15                  the standard of review under the Trailblazer Order.

16                  Our decision today is not without controversy. I  
17                  would expect that it will be criticized by some in the  
18                  region, but, in the end, I would prefer to have acted to  
19                  prevent a crisis, a crisis that New England knows it is  
20                  confronting, than be criticized for failing to act  
21                  responsibly.

22                  So I support the settlement. I'm glad it's  
23                  before us today.

24                  Colleagues? Comments?

25                  COMMISSIONER KELLY: I agree with you, Joe, that

1 what this really is, is a story of achieving regional  
2 solutions to regional problems.

3 I think that it is also appropriately seen as an  
4 excellent success story.

5 Of course, as with most success stories, included  
6 in that success story, is also the story of a great  
7 commitment of time and pain -- personal and institutional.

8 It took a while, a long time, for parties to come  
9 up with this settlement, and it was painful, but,  
10 ultimately, successful.

11 As Joe correctly pointed out, there is a big  
12 problem in New England. We attempted to band-aid that  
13 problem. That band-aid hasn't worked very well.

14 We've had a proliferation of cost-based RMR  
15 agreements, as generation that should have been permitted to  
16 retire and has been kept on for local reliability. It's  
17 not efficient, it's often not good to the environment, and  
18 it's often more expensive than it needs to be.

19 What we're all ultimately looking for, is an way  
20 to ensure that there is adequate generation and transmission  
21 investment in the future.

22 To my delight, and, frankly, to my surprise, the  
23 vast majority of the parties did actually reach a settlement  
24 that they believe will meet their broad, varied interests in  
25 an acceptable manner.

1           I have examined their settlement proposal, and I  
2 believe it is a very balanced and reasonable way to address  
3 the underlying problems.

4           I believe that there are a number of ways to  
5 reach the underlying problems, but the settling parties in  
6 this region, chose this approach, and it is perfectly  
7 acceptable.

8           So I'm very pleased to be able to vote for the  
9 settlement today.

10           COMMISSIONER BROWNELL: First and foremost, I  
11 want to thank Judge Brenner. I happen to have been spending  
12 a lot of time in New England, meeting with various people,  
13 and kept running into the parties who, in spite of a very  
14 contentious and long and almost endless debate -- I think  
15 it's been about four or five years in New England -- were  
16 all getting along, and the Judge was able to maintain, I  
17 think, his sense of humor, but provided just enormous  
18 leadership.

19           I think -- I'm told he's getting a degree in  
20 clinical psychology.

21           (Laughter.)

22           COMMISSIONER BROWNELL: I told him he ought to  
23 write a book and then sell it to the parties, under the  
24 assumption it never gets published. Maybe he should run the  
25 UN; he did such a good job.

1                   We did it to him again. With all due apologies,  
2                   Judge, we're sorry, but I think the parties really rolled up  
3                   their sleeves and put aside some of their parochial  
4                   interests, and I think the number of settling parties is  
5                   extraordinary.

6                   I have to thank my friends at the Connecticut  
7                   PUC, because I'm often so critical of Southwest Connecticut  
8                   and the jeopardy in which they have put their state.

9                   But it is not the PUC; it is others whose  
10                  interest is more political than oriented towards their  
11                  constituency and the goodwill and benefit of the State.

12                  I think all the parties -- and I think this is an  
13                  example -- when it's about money, it gets ugly, and they can  
14                  hide behind policy flags or whatever they want, but, in the  
15                  end, it's about money, and we're going to see that again and  
16                  again and again as markets evolve.

17                  I hope -- well, it's full-time employment for the  
18                  Judge, but I hope this will serve as kind of a good lesson  
19                  learned. I don't think it needs to take five years every  
20                  time.

21                  Thanks to one and all, and I'm pleased to support  
22                  it.

23                  CHAIRMAN KELLIHER: Great. Shall we vote?

24                  COMMISSIONER BROWNELL: Aye.

25                  COMMISSIONER KELLY: Aye.

1                   CHAIRMAN KELLIHER: Aye. Thank you.

2                   SECRETARY SALAS: I will note for the record that  
3 Commissioner Kelly is concurring on E-1, with a separate  
4 statement.

5                   Next for discussion is C-2, Rate Regulation of  
6 Certain Natural Gas Storage Facilities. It is a  
7 presentation by Ed Murrell, Berne Mosley, Sandra a Delude,  
8 and Susie Holmes.

9                   MR. MURRELL: If I get started quickly, I can  
10 still say good morning, so good morning.

11                   COMMISSIONER BROWNELL: If you end quickly, you  
12 can, too.

13                   (Laughter.)

14                   MR. MURRELL: I intend to attempt that. I'm Ed  
15 Murrell, representing the team that's been working on the  
16 Gas Storage Pricing Rule. With me this morning are Sandra  
17 Delude and Berne Mosley, representing a fairly large Staff  
18 team, many of which are not with us this morning, but have  
19 made significant contributions to the final result.

20                   I am going to attempt to truncate my comments  
21 this morning, to speed things up. Let me just get right  
22 into it:

23                   The Draft Final Rule this morning, will, for the  
24 most part, follow the path that the NOPR the Commission  
25 issued in December, put forward.

1                   There are two exceptions: The first exception is  
2                   that for market-based rates that are authorized based on a  
3                   showing of lack of market power, the Draft Final Rule will  
4                   not impose a generic five-year reporting requirement.

5                   The second significant change is that for  
6                   applications under Section 4(f), the Commission is changing  
7                   its definition of facilities eligible for application for  
8                   market-based rate authority, to allow pretty much any  
9                   storage facility constructed after August 8, 2005, to make  
10                  an application and attempt to make the showing to justify  
11                  the Commission's grant of market-based rates.

12                  COMMISSIONER BROWNELL: Good job.

13                  (Laughter.)

14                  CHAIRMAN KELLIHER: That is truly impressive.

15                  COMMISSIONER KELLY: Nora, you've had a wonderful  
16                  influence. I don't think you can leave the Commission.

17                  (Laughter.)

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1                   CHAIRMAN KELLIHER: We talked about this  
2 indirectly earlier, so I'm going to make very brief  
3 comments. In my view, what we're doing today is we're  
4 acting to reduce price volatility in gas markets and provide  
5 greater assurance that we can meet peak demand by  
6 encouraging expansions of the natural gas storage capacity.  
7 In recent years, we've seen very high levels of price  
8 volatility, we've also almost contemporaneously seen record  
9 levels of gas in storage. To me, that suggests that our gas  
10 storage levels currently are inadequate. Inadequate to the  
11 point that now this year we have some analysts predicting  
12 that if storage is full historically early, which seems to  
13 be the case, that we will actually see domestic gas  
14 production shut in.

15                   I think Congress sent a clear signal to the  
16 Commission last year in the Energy Policy Act that the  
17 Commission should be more flexible with respect to market-  
18 based rates for new storage. In this rule, by reforming the  
19 Commission's old analysis, as well as implementing the new  
20 EAct provision, we respond to Congress' recognition of the  
21 need for greater storage infrastructure and the rule  
22 obviously implements both parts of that: it makes changes  
23 to the traditional market-based rate analysis by considering  
24 credible competitive alternatives and substitutes for gas in  
25 storage as substitute products so in effect, we take a

1 broader view of the product market. Secondly, we implement  
2 the new authority under EPAAct.

3 I hope that the reforms that we're taking today,  
4 as well as the flexibility that we've shown in the past on  
5 cost-based rates will actually help expand gas storage  
6 capacity. I think it's pretty clear at this point that we  
7 need an expansion of U.S. storage capacity. I support the  
8 final rule and ask my colleagues if they have some comments.

9 COMMISSIONER BROWNELL: I've expended all the  
10 energy I had on gas storage this morning.

11 (Laughter.)

12 COMMISSIONER BROWNELL: I'm happy to turn it over  
13 to you, Suedeen.

14 COMMISSIONER KELLY: This has been a difficult  
15 rulemaking to work through because of the complexity of the  
16 issues and also because of the different positions from  
17 which the Commissioners began their rule. I want to thank  
18 Staff and my colleagues for working so well to educate us  
19 and accommodate a consensus. I am happy with the final  
20 rule. I believe that we have achieved a final rule that  
21 balances our two duties: our duty to ensure that we have  
22 adequate gas storage and also our duty to protect the  
23 consumer -- to protect the customer as we attempt to ensure  
24 that we have adequate storage.

25 I would like to expand just briefly upon my views

1 of several aspects of the rule. I think of this rule as  
2 being separated into two tracks: a non-EPAct track in which  
3 we revise the Commission's market power analysis  
4 historically used for storage to permit the consideration of  
5 close alternatives in a market power test, and then an EPAct  
6 track where we propose regulations to enact the new Natural  
7 Gas Act 4(f) authority to grant market-based rates for  
8 storage even when a lack of market power has not been  
9 demonstrated.

10 With regard to the non-EPAct revisions, I believe  
11 the final rule adequately explains the level of detail an  
12 applicant will need to achieve in order to show that its  
13 proposed non-storage alternatives can actually serve as a  
14 substitute for storage.

15 In particular, I want to mention Southern  
16 California Edison, which provided excellent comments in this  
17 rulemaking proceeding. They pointed out that storage serves  
18 three basic functions: price arbitrage, balancing and peak  
19 reliability. In my view, there is no single non-storage  
20 service that can serve all these functions. There may well  
21 be a combination and an appropriate combination of non-  
22 storage services that can serve as substitutes, as the draft  
23 notes. For example, pipeline capacity combined with spot  
24 gas purchases and appropriate financial instruments may be a  
25 viable substitute for traditional storage.

1                   With regard to the NGA 4(f) revisions, in my mind  
2                   it will be a unique situation indeed where additional  
3                   storage is shown to be needed in a particular region and it  
4                   truly can't be build under our normal procedures. I don't  
5                   think that our existing approach is broken. I don't see any  
6                   significant unmet demand for storage, nor do I see any  
7                   scarcity pricing associated with storage. In short, the  
8                   market for storage isn't broken and seems to have been  
9                   working well. Nevertheless, if such a unique situation is  
10                  shown, then I fully agree that extraordinary steps to help  
11                  get the capacity built that is necessary may be necessary.

12                  Congress provided that the grant of market-based  
13                  rate authority without a showing of lack of market power  
14                  would be the appropriate extraordinary step used to address  
15                  this unique circumstance provided that customer protection  
16                  can be maintained. And I believe that the final rule  
17                  appropriately implements Congress' intent.

18                  CHAIRMAN KELLIHER: Thank you.

19                  COMMISSIONER BROWNELL: Aye.

20                  COMMISSIONER KELLY: Aye.

21                  CHAIRMAN KELLIHER: Aye. Thank you very much.

22                  SECRETARY SALAS: On C-2, also noting  
23                  Commissioner Kelly's concurrent statement. Next for  
24                  discussion is G-1 and G-2. This will be a joint  
25                  presentation. Berne and Ed get to say with for this one,

1 with the addition of Andrea Hilliard. This is a natural gas  
2 interchangeability and natural gas supply association.

3 MS. HILLIARD: Good afternoon. I'm going to  
4 follow in the tradition of my co-teammate, Fast Eddie  
5 Murrell --

6 (Laughter.)

7 MS. HILLIARD: -- and try to keep this as short  
8 as possible as I'm standing between you-all and lunch.

9 CHAIRMAN KELLIHER: You're standing between us  
10 and the railroads really.

11 (Laughter.)

12 MS. HILLIARD: I'm Andrea Hilliard from the  
13 Office of General Counsel. You know Ed Murrell and Berne  
14 Mosley, who were here for the prior presentation. I'd like  
15 to thank Joe, Carol, Monica and Kareem Monib for providing  
16 technical assistance that we've drawn on for the past two  
17 years.

18 Gas quality issues have come to the Commission's  
19 attention at a seemingly growing pace over the last couple  
20 of years we initiated a process 2-1/2 years ago to work with  
21 industry, we held technical conferences, we received  
22 hundreds if not thousands of pages of testimony. We heard  
23 from industry experts. We also had some industry  
24 representatives present us with proposals for how to address  
25 issues of natural gas quality and interchangeability.

1           The Natural Gas Council worked with a number --  
2           divided into a number of working groups and came up with two  
3           reports that were filed here with the Commission. We have  
4           used those reports -- which we refer to as the NGC+ reports  
5           -- to serve as the technical backdrop and, in fact, really  
6           the sound science underlying what the Commission is  
7           announcing today in its policy statement.

8           Our policy statement is based upon five  
9           principles. I'll repeat them very quickly: only natural  
10          gas quality and interchangeability specifications contained  
11          in a Commission-approved gas tariff can be enforced. Two,  
12          pipeline tariff provisions on gas quality and  
13          interchangeability needs to be flexible to allow pipelines  
14          to balance safety and reliability concerns with the  
15          importance of maximizing supply, as well as recognizing the  
16          evolving nature of the science underlying gas quality  
17          specifications.

18          Pipelines and their customers should develop gas  
19          quality and interchangeability specifications based on  
20          technical requirements.

21          Four, in negotiating technically-based solutions,  
22          pipelines and their customers are strongly encouraged to use  
23          the NGC+ reports and the interim guidelines therein as a  
24          common scientific reference point for resolving gas quality  
25          and interchangeability issues. To the extent pipelines and

1 their customers can't agree in disputes they have over  
2 natural gas quality and interchangeability, those disputes  
3 can be brought to the Commission to be resolved on a case-  
4 by-case basis.

5 We chose to proceed in the form of a policy  
6 statement as opposed to a Notice of Proposed Rulemaking for  
7 a number of reasons. Principally, at least from my  
8 perspective, I think we chose to go this route because the  
9 NGC reports identified a number of data gaps that needed to  
10 be fleshed out through more research. The Department of  
11 Energy has an on-going research effort that will help  
12 identify ways to plug those gaps.

13 Also the private sector is stepping to the plate  
14 with on-going research. Because we have chosen to take  
15 action today in the form of a policy statement, we are  
16 issuing an order in item G-2 today which would deny a  
17 petition for rulemaking by the Natural Gas Supply  
18 Association for firm rules in this area.

19 We're open to your questions.

20 CHAIRMAN KELLIHER: Great. Does the chemist want  
21 to go first, the resident chemist?

22 COMMISSIONER KELLY: Thank you, Joe.

23 I must say that I have a great affinity for this  
24 issue, in part because it does take me back to my halcyon  
25 days of studying organic chemistry, particularly

1 hydrocarbons, methane, propane, ethane, butane, pentane,  
2 hexane --

3 (Laughter.)

4 COMMISSIONER KELLY: And this rulemaking involves  
5 all of that and more.

6 Also, I think it's an example of the fact that  
7 natural gas today is probably the most significant energy  
8 resource in U.S. policy. It's significant because it's  
9 important not only to the natural gas industry, heating and  
10 cooling, but also to the electric industry. And it's  
11 important because we don't have enough of it in the United  
12 States.

13 This approach that we adopt here is consistent  
14 with our concern that we don't have enough natural gas, so  
15 rather than issue some one size fits all rule that would  
16 ultimately have the effect of keeping possible gas supplies  
17 out of the market, we opt for a case-by-case approach to  
18 resolving these issues on a pipeline-by-pipeline basis.  
19 That involves more work from each of the parties, but it  
20 will also result in more benefits, not only in ensuring that  
21 the most natural gas possible can be put into our system,  
22 but also in ensuring that each of the specifications  
23 associated with each LNG terminal will fit the needs best of  
24 that area.

25 I'd like to extend my appreciation to the members

1 of the Natural Gas Council Plus. They volunteered and they  
2 collaborated for a year together to get through the tough,  
3 the granular, the technical and, of course, the very  
4 exciting work which resulted in the report on liquid  
5 hydrocarbon dropout and natural gas infrastructure, as well  
6 as the report on natural gas interchangeability and  
7 noncombustion end uses. The Commission will use that as the  
8 technical framework to resolve gas quality and  
9 interchangeability issues into the future. So the works  
10 will live on.

11 I'd also like to note that this effort has  
12 introduced me to new chemistry concepts that I hadn't even  
13 known existed, like the hydrocarbon dew point. I'm pleased  
14 that our case-by-case approach will allow me to continue to  
15 think about these issues.

16 (Laughter.)

17 COMMISSIONER BROWNELL: I kind of, myself, kind  
18 of adopted the WOBBE index as my favorite comment. It's a  
19 room clearer at a cocktail party.

20 (Laughter.)

21 COMMISSIONER BROWNELL: Having sat through two  
22 technical conferences on this issue, I'm more than thrilled  
23 that the Natural Gas Council and the associations were able  
24 to come to some consensus. The lack of perfect science, the  
25 variation from pipeline to pipeline really made it almost

1 impossible for us to do an adequate job and one that did  
2 allow the flexibility that we need so desperately in this  
3 sector. I know it was difficult. The difficult part will  
4 come when we have to decide who pays for what.

5 I've met with a number of participants recently  
6 and said we ought to get a little bit accurate on what the  
7 potential costs are. I think a lot of people are getting  
8 worked up, some baggage is being accumulated without any  
9 real discussion of what the costs are. There are existing  
10 contracts where these have already been worked out. We do  
11 have some experience.

12 I hope all this great work does not go for naught  
13 because people cannot figure out who's going to foot the  
14 bill. The reality is in the end the customer foots the bill  
15 and we need to do the responsible thing for them.

16 I'm pleased we've made this progress. There's  
17 lots more to go. I'm hoping that case-by-case ultimately  
18 ends up in some framework where people can know where to go  
19 and each contract isn't a brand new day.

20 I'm happy to support this order. I'm never going  
21 to study all the lanes, I'm sorry, I'm not going to say  
22 that.

23 CHAIRMAN KELLIHER: My undergraduate education  
24 was on international law and diplomacy. Knowing something  
25 about the treaty of Utrecht hardly ever helps with

1 Commission matters, certainly not this one. I think two of  
2 the greatest gifts we can give our new colleagues are action  
3 today on the Devon Power and Gas quality interchangeability  
4 statement. So it's a gift to the new Commissioners.

5 I have flashbacks to my first technical  
6 conference on this issue. It was a long day, very new  
7 concepts to me. So to me when the Commission deals with gas  
8 quality and interchangeability issues, we really have two  
9 policy goals we have to balance to some extent: one is to  
10 meet the needs to consumers by accommodating the greatest  
11 economic mix of gas supply with minimum barriers to new  
12 supply sources. Really, the second is just to assure the  
13 safe and reliable operation of interstate natural gas  
14 pipelines. To me, those are really the two policy goals we  
15 have to bear in mind. Whatever approach we take has to be  
16 consistent with those goals.

17 That's what we've tried to do here. We've  
18 steadily addressed gas quality and interchangeability issues  
19 in recent years through complaints, tariff proceedings,  
20 certificate proceedings. I think our actions in those areas  
21 have balanced those two policy goals. We don't have any  
22 generic policy in this area. The pipelines have very  
23 different standards that are in their tariffs, they have  
24 different practices and enforcement mechanisms. But I think  
25 the action we're taking today provides a clear Commission

1 approach to deal with issues on a case-by-case going  
2 forward.

3 Like my colleagues, I want to comment the work of  
4 the Natural Gas Council and the working groups.

5 We conclude in this policy statement that the  
6 interim guidelines are a sound basis to deal with gas  
7 quality and interchangeability issues going forward. We've  
8 actually already found that, because we've been applying  
9 them in complaint proceedings up to this point.

10 One reason, as Andrea mentioned, that we are  
11 including a policy statement and largely adopting the  
12 interim guidelines is that the working groups identified the  
13 need for additional scientific research. Those guidelines  
14 are interim because of the lack of scientific knowledge in  
15 some areas.

16 I want to commend the Commission, in an era when  
17 it's actually difficult to find R&D dollars, particularly in  
18 the fossil fuel area, the Department of Energy has made this  
19 a priority and they're funding the significant research we  
20 need on gas quality and interchangeability.

21 I also want to commend the industry for reaching  
22 a high level of consensus in this area. It's probably fair  
23 to say a year ago there was not much consensus, there was  
24 pretty sharp division among the different sectors, the  
25 different trade associations then there were actually

1 divisions within the individual sectors. I think the  
2 industry has done a great deal to develop a level of  
3 consensus over the past year. That's helped us get in a  
4 position where we can act today.

5 So I support the policy statement. I think we're  
6 taking a careful and deliberate approach. I think the  
7 policy statement is the right way to proceed. And I want to  
8 commend the Staff for their hard work on this issue.

9 Shall we vote?

10 COMMISSIONER BROWNELL: Aye.

11 COMMISSIONER KELLY: Aye.

12 CHAIRMAN KELLIHER: Aye.

13 SECRETARY SALAS: Next for discussion is C-3,  
14 revisions to the blanket certificate regulations and  
15 clarification regarding rates. It's a presentation by  
16 Gordon Wagner and John Leiss.

17 MR. WAGNER: Good afternoon, Chairman and  
18 Commissioners, Gordon Wagner from the Office of General  
19 Counsel. With me is John Leiss from the Office of Energy  
20 Projects.

21 C-3 is a draft Notice of Proposed Rulemaking that  
22 addresses the Commission's blanket certificate program. C-3  
23 also discusses the Commission's policy regarding the  
24 pipelines negotiating different rates for the same service  
25 based on when potential customers commit to taking service.

1                   In November 2005, the Interstate Natural Gas  
2 Association of America and the Natural Gas Supply  
3 Association jointly submitted a petition that requested the  
4 Commission to revise its existing blanket certificate program  
5 to allow for the construction of additional facilities under  
6 blanket authorization. The joint petition also requested  
7 the Commission clarify its policy regarding charging a  
8 different rate to foundation shippers, that is, those  
9 shippers whose early support for a project provides the  
10 necessary financial basis to enable the project to go  
11 forward.

12                   In response to the petition, the draft NOPR  
13 proposes to expand the scope of the Commission's blanket  
14 certificate program to encompass mainline facilities and  
15 facilities which would alter the capacity of a mainline,  
16 certain previously-excluded storage facilities and certain  
17 facilities transporting gas to or from a liquefied natural  
18 gas plant or a synthetic gas plant.

19                   Currently the construction and operation of such  
20 facilities requires case specific Section 7 certificate  
21 authorization. In addition to expanding the types of  
22 projects that can be undertaken pursuant to blanket  
23 certificate authority, the draft NOPR proposes to raise the  
24 per-project cost limits for blanket projects from 8.2  
25 million to 9.6 million for projects that do not require

1 prior notice and from 22 million to 27.4 million for  
2 projects that do require prior notice. This is to account  
3 for the increase in construction costs in excess of overall  
4 inflation that has occurred since the blanket certificate  
5 program was established in 1982.

6 Further, in recognition of the expanded scope of  
7 eligible projects, the draft NOPR would add 15 days to the  
8 current notice period to landowners and the public and  
9 modify the blanket certificate programs environmental  
10 compliance conditions.

11 In their joint petition, INGAA and NGSA also  
12 asked the Commission to clarify its policy regarding  
13 differential rates. The draft NOPR clarifies that a natural  
14 gas company may charge different customers different rates  
15 for the same service based on when a customer signs up for  
16 service as long as all potential customers have an equal  
17 opportunity to qualify for the most favorable rates.

18 This concludes my presentation and I'll be glad  
19 to take questions.

20 CHAIRMAN KELLIHER: I'll start. First of all, I  
21 want to point out that in the petition for rulemaking that  
22 we received, the petitioners started off with a word of  
23 praise about the Commission and I think I'll quote from it.  
24 I think it's a real tribute.

25 COMMISSIONER KELLY: Because it's rare.

1 (Laughter.)

2 CHAIRMAN KELLIHER: I thought it was a very  
3 persuasive way to start a petition for rulemaking.

4 (Laughter.)

5 CHAIRMAN KELLIHER: In this petition, INGAA and  
6 NGSAs stated: "There's little to be improved in the  
7 Commission's processing of certificate applications once  
8 those applications have been filed." They also later on  
9 said -- quote -- "There are few changes to the current  
10 authorization process that would accelerate the process  
11 beyond its current efficient state." I think that's a real  
12 tribute to the professionalism and dedication of the  
13 Commission Staff, particularly in the Office of Energy  
14 Projects. Right off the bat, I thought these people have  
15 some good ideas.

16 (Laughter.)

17 CHAIRMAN KELLIHER: Even though our process  
18 actually works very well, we're always looking for  
19 improvements. The Commission's certificate program is very  
20 strong, but we do not close our mind to the possibility that  
21 it can be improved further.

22 In the petition for rulemaking, INGAA and NGSAs  
23 sought changes in three areas. First, they asked the  
24 Commission to allow blanket authorization for certain main  
25 line expansions, storage enhancements and liquefied LNG

1 takeaway facilities. Second, they sought adjustments in the  
2 dollar limits for blanket facilities, raising the limits to  
3 reflect current project development costs. Third, they  
4 requested favorable rate treatment -- they requested the  
5 Commission to allow favorable rate treatment for anchor or  
6 foundation shippers. We proposed changes in all three  
7 areas.

8 The proposed rule also makes changes designed to  
9 benefit landowners and the public. The landowner  
10 notification period would be increased. A proposed project  
11 would have to be described in greater detail and certain  
12 environmental conditions and noise compliance and monitoring  
13 requirements would be clarified.

14 I just want to close by saying it's not often  
15 that we see this level of consensus emerge from the gas  
16 industry. I want to commend INGAA and NGSA for rolling up  
17 their sleeves and crafting the petition for rulemaking. I  
18 think they advanced very sound arguments for their proposal  
19 and the fact that you are unusual allies did make it easier  
20 for the Commission to act today on the petition for  
21 rulemaking.

22 I support the proposed rule.

23 COMMISSIONER KELLY: I support this NOPR also.  
24 It meets the "four r's" test. It's a reasoned response to a  
25 reasonable request and it recognizes that there have been

1 some fundamental changes in the natural gas industry since  
2 the 1982 promulgation of the blanket certificate program. I  
3 think after 24 years it is appropriate to look at that  
4 program and see if it needs any touchups or tuneups.

5 This NOPR expands the program without undermining  
6 its purpose, which is to expedite the process of adding and  
7 improving gas facilities and services while ensuring that  
8 there are no adverse impacts on existing rates, services or  
9 the environment. I believe that the proposed increased  
10 blanket caps are reasonable. In my view, the increased caps  
11 will not and should not result in projects larger in scope  
12 than originally envisioned by the blanket certificate  
13 program as I mentioned passed 24 years ago. Rather, the  
14 cost caps reflect the realities of increased gas utility  
15 construction materials costs and should ensure that the  
16 nature of the blanket certificate program remains unchanged  
17 rather than shrinks.

18 Another thing I just wanted to mention about the  
19 NOPR is it's a proposal to require prior notice for all of  
20 the new types of projects that would be included in the  
21 expanded program. This means not only that stakeholders  
22 will have an opportunity to review the potential impacts of  
23 each proposed project that might be of concern to them, but  
24 they will have a longer time period in which to do just  
25 that. So I'm very pleased to vote for this NOPR.

1                   COMMISSIONER BROWNELL: I would only add -- this  
2 is so odd for me to do this, I'm wondering if the dollar  
3 amounts are enough given the increased cost of raw  
4 materials, the international demand, particularly from Asia.  
5 I would encourage the Commission to do a test run on this  
6 and, a year from now -- just because I want to give some  
7 tasks, too -- and see if this is doing what it's intended to  
8 do. I think this is a great start. I think it's a good  
9 idea. I think they were modest in their request. I just  
10 wonder if this is too modest an amount. But I'm happy to  
11 support the order.

12                   CHAIRMAN KELLIHER: Can I make one comment? It  
13 is a proposed rulemaking, so if parties in the record can  
14 suggest that higher dollar limits are appropriate, they're  
15 welcome to do so.

16                   COMMISSIONER KELLY: Go for broke.

17                   CHAIRMAN KELLIHER: I don't know if that's a  
18 comment in the middle of the vote --

19                   (Laughter.)

20                   COMMISSIONER BROWNELL: Aye.

21                   COMMISSIONER KELLY: Aye.

22                   CHAIRMAN KELLIHER: Aye. Thank you.

23                   SECRETARY SALAS: Finally, in the discussion  
24 agenda, we will have a joint presentation of items C-4, -5,  
25 -6, -7, -8, -9 and -10. This is a group of LNG import

1 projects. It's a presentation by Richard Foley, Alisa  
2 Lykens, Edwin Holden and Robert Shelton.

3 MR. FOLEY: Good day, Mr. Chairman and  
4 Commissioners. I'm Richard Foley of the Office of Energy  
5 Projects. Items C-4 through C-10 for LNG projects on both  
6 the Gulf coast and the east coast. Joining me at the table  
7 are Staff members who worked on the Cove Point LNG project  
8 applications Alisa Lykens, Environmental Division of the  
9 Office of Energy Projects, Evan Holden of the Office of  
10 General Counsel and Robert Sheldon of the Office of Energy  
11 Markets and Reliability.

12 (Slide.)

13 MR. FOLEY: For your consideration, we have three  
14 new terminals and takeaway pipelines, the proposed expansion  
15 of an existing terminal that's currently under construction,  
16 expansion of an existing operating terminal with further  
17 additional pipelines and underground storage, and two  
18 modifications to that terminal. In total, we're asking you  
19 to approve 18 new storage tanks, an initial increase of 8.2  
20 Bcf per day of vaporization and eventually 9.7 Bcf per day  
21 of vaporization, 361 miles of new pipeline or laterals for  
22 takeaway capacity, 23,000 horsepower of new compression and  
23 additional storage on one of the interstate pipelines that  
24 is redelivering these LNG supplies. Although these are  
25 grouped together, these were all evaluated in detail by

1 different project teams. Some of these projects had unique  
2 issues and complex issues that were reviewed with the  
3 specific site characteristics involved. This  
4 contemporaneous review of each project by the Commission and  
5 other U.S. cooperating agencies enhanced our mutual working  
6 relationships and resulted in a comprehensive project.

7 (Slide.)

8 MR. FOLEY: This group of projects spans a time  
9 when the Commission's authority over LNG projects was  
10 clarified and enhanced by the Energy Policy Act of 2005. In  
11 order to comply with EPAct 2005, the Commission and other  
12 agencies were able to adjust their review schedules and keep  
13 these projects moving forward. Also, EPAct 2005 made  
14 important changes to the Commission's review of rate and  
15 tariff issues for LNG projects. It required some additional  
16 careful consideration of Cove Point's applications in C-4,  
17 C-9 and C-10.

18 (Slide.)

19 MR. FOLEY: The Commission has done a safety and  
20 environmental review of each of the proposals before you.  
21 This comprehensive review considered safety, engineering,  
22 cryogenic design alternatives, pipeline construction,  
23 environmental impact and operations. Commission Staff has  
24 recommended that in each draft order you consider many  
25 conditions to ensure the applicants' compliance with Staff

1 findings regarding safety, design and the operations of each  
2 proposed LNG project. Some conditions are uniform for all  
3 projects, while others are site-specific. Depending on the  
4 projects, about 35 to 55 of the 70 to 90 conditions per  
5 project relate directly to project safety. Finally,  
6 Commission Staff will inspect the proposed LNG terminals  
7 during construction and regularly thereafter when service  
8 begins.

9 (Slide.)

10 MR. FOLEY: The Staff teams were case managers,  
11 environmental project managers who worked on environmental  
12 assessment and environmental impact statements. The  
13 environmental project managers were assisted by several  
14 environmental LNG design and safety review engineers.

15 (Slide.)

16 MR. FOLEY: The Staff teams also included Staff  
17 attorneys and rate and tariff analysts, as well as pipeline  
18 design review engineers and Staff accountants where needed.

19 (Slide.)

20 MR. FOLEY: We're here to answer the questions  
21 you may have on these projects. If there's any specific  
22 other project that you have a question on, we can get a  
23 Staff member to assist. This concludes our presentation.

24 CHAIRMAN KELLIHER: Thank you. Colleagues?

25 COMMISSIONER KELLY: I just have one question. I

1 know that some of the commenters were concerned about Cove  
2 Point LNG's existing customers subsidizing the expansion  
3 project. Could you explain what steps this order takes to  
4 address those subsidization concerns?

5 MR. FOLEY: The new customer is going to be on a  
6 non-tariff service. All those costs for the new project  
7 will be paid for and negotiated by the non-tariffed contract  
8 between those two customers. None of the other services  
9 will be affected.

10 The project's been designed with the capacity  
11 needed for the new customer to be completely sufficient in  
12 those areas and then the tariff has been set up so that even  
13 though this new customer is in the non-tariff situation, it  
14 will adopt most of the general rules that would prevent any  
15 discrimination. Everything's been separated as much as  
16 possible.

17 In order to ensure the monitoring will come forth  
18 we expect in rate cases, the full books and records of the  
19 cost of the expansion would be maintained by the company and  
20 available in the future when needed to evaluate if there's  
21 any chance of any kind of subsidization.

22 COMMISSIONER KELLY: And as I understand it, the  
23 order requires Cove Point LNG to keep separate books and  
24 records for the costs associated with each service.

25 MR. FOLEY: Yes, that is correct.

1                   COMMISSIONER KELLY: Those will be disclosed. So  
2 any costs that the parties want to track to assure  
3 themselves that existing customers are not subsidizing the  
4 expansion project, they'll be able to track, is that  
5 correct?

6                   MR. FOLEY: Yes.

7                   COMMISSIONER KELLY: Then as you mentioned,  
8 should they have any problems, there will be a Section 4  
9 proceeding in which they can raise their concerns.

10                  MR. FOLEY: Yes.

11                  COMMISSIONER KELLY: Thank you.

12                  COMMISSIONER BROWNELL: I have a question. One  
13 of the intervenors raised an issue that gets a lot of media  
14 attention as it's raised, but the answer doesn't get  
15 discussed much. That is about leaks on an existing  
16 customer's system, WGL to be specific. That was raised.

17                  You have a pretty extensive discussion of that in  
18 the order. Would you like to tell us kind of what the  
19 answers are on that particular issue?

20                  MR. FOLEY: The basic answer was that there are  
21 leaks on Washington Gas' system and that the LNG,  
22 particularly the dryness of the LNG, the lack of heavy  
23 hydrocarbons, was not a significant cause to those leaks.  
24 Other factors -- in all the materials submitted indicated  
25 that the other factors were a much more likely cause of

1 those leaks, that the LNG was not responsible.

2 COMMISSIONER BROWNELL: The other causes, correct  
3 me if I'm wrong, had to do with some of the maintenance  
4 procedures of using hot tar on the seals and some other kind  
5 of maintenance and age issues, is that correct?

6 MR. FOLEY: Most of these seals were installed  
7 many years ago and the discussions that we had at the  
8 conferences indicated that Washington Gas had put hot tar  
9 material around certain of the seals to prevent damage from  
10 water and corrosion, but this hot tar had also damaged the  
11 internal rubber seals that squish together when nothing gets  
12 tightened and that happened to be one of the main causes  
13 that we identified. There were some other causes of leaks  
14 that were also factors.

15 COMMISSIONER BROWNELL: I think increased  
16 operating pressure on an old system was one of them.

17 MR. FOLEY: They'd raised some pressures on the  
18 systems, the pressure had crept up and possibly that was a  
19 fairly significant cause of the leaks. Also the  
20 temperatures that the leaks occurred.

21 COMMISSIONER BROWNELL: I just think it's  
22 important. This is a good demonstration of how when safety  
23 issues are raised we give an objective look -- I think we  
24 actually used some consultants, or perhaps the applicant  
25 did, and that these issues need thorough vetting before

1 people come to conclusions. I've heard this issue raised on  
2 other projects without any informed discussion of what  
3 actually happened here. I'm glad you've dealt with it as  
4 thoroughly as you have. I hope you'll continue to use this  
5 as a way to demonstrate that you do take these issues  
6 seriously but we all have to be responsible in some of the  
7 conclusions we come to; they need to be based on fact.

8 MR. ROBINSON: I'll just add one thing to that.  
9 One of the things we did do to try to flesh this out is to  
10 have a technical discussion where we brought in experts not  
11 only from Washington Gas Light but also the manufacturer of  
12 the seals, the applicant, and then our own expertise as  
13 well. And through a full day of discussions which nobody  
14 would have enjoyed at this table, it became apparent that  
15 there were other issues involved with these leaks that have  
16 a much higher probability of being related to the leaks than  
17 an isomer of pentane -- not even just pentane, and its  
18 concentration in that gas stream would have had in terms of  
19 being the cause of the leaks on the system. I think Staff  
20 really utilized that technical conference approach that  
21 we'll use in other instances as well where we have these  
22 types of highly technical issues involved with an LNG  
23 terminal.

24 COMMISSIONER BROWNELL: Thank you.

25 CHAIRMAN KELLIHER: Very brief comments.

1                   First of all, the amount of capacity that we're  
2 approving, if you take the LNG projects in aggregate, you  
3 said it starts at 8.2 and it ranges up to 9.7 Bcf a day.

4                   MR. FOLEY: Yes.

5                   CHAIRMAN KELLIHER: Just to give people a sense  
6 of how much that is, that's twice what we would get from an  
7 Alaska Pipeline; is that twice the capacity of the Alaska  
8 Pipeline if built?

9                   MR. FOLEY: I think the Alaska Pipeline's at most  
10 targeted at about 4.5 Bcf a day, possibly to 6.

11                  CHAIRMAN KELLIHER: My math suggests it is twice  
12 the capacity of the Alaska Pipeline that we're approving  
13 today with these LNG projects. So it really is a very  
14 significant source of new supply.

15                  I also want to again emphasize something that you  
16 brought out in your presentation. The Commission's primary  
17 role, when it looks at LNG projects -- we're a safety  
18 regulator and we have high standards. We apply them. When  
19 projects don't meet that standard and if we can't condition  
20 them to the point where they meet it, we reject them. There  
21 are a large number of conditions that we attach to these  
22 projects. We set between 35 and 55 safety conditions per  
23 project. We take that role as a safety regulator seriously  
24 and we are very willing to attach conditions as needed so  
25 that the project meets the safety standards. I just wanted

1 to emphasize that I support the orders which I guess we'll  
2 approve en bloc; I don't think anyone has a separate  
3 statement on these orders.

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1                   COMMISSIONER KELLY: I just wanted to focus on  
2 the fact that we are approving two terminals in the Mid-  
3 Atlantic area, the Crown Landing Project and the Cove Point  
4 Project. Because it is located far away from domestic  
5 sources of gas and near the end of the North American gas  
6 pipeline grid, the region experiences higher gas  
7 transportation costs, decreased gas availability, and, thus,  
8 gas volatility.

9                   I am pleased to be able to approve these  
10 terminals. My hope is that it will increase the supply of  
11 gas into the Mid-Atlantic and hold the price and the  
12 volatility of gas down in that area.

13                  CHAIRMAN KELLIHER: Shall we vote?

14                  COMMISSIONER BROWNELL: I like it when we do  
15 that. Aye.

16                  COMMISSIONER KELLY: Aye.

17                  CHAIRMAN KELLIHER: Aye. Thank you. We'll start  
18 the railroad meeting -- why don't we start the railroads at  
19 1:15. The train will be leaving the station 15 minutes  
20 late. This meeting is adjourned.

21                  (Whereupon, at 12:40 p.m., the meeting was  
22 adjourned.)

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