FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D.C. 20426

NEWS RELEASE

NEWS MEDIA CONTACT:
Tamara Young-Allen
(2020) 502-8680

FOR IMMEDIATE RELEASE
November 16, 2006
Docket No. RP06-437,
RM05-23-001 & AD04-11-001

COMMISSION GRANTS GAS STORAGE MARKET-BASED RATES FOR FIRST TIME UNDER NEW EPACT RULES

The Federal Energy Regulatory Commission today for the first time granted an interstate natural gas storage operator market-based rates under a new approach adopted in Order No. 678, a final rule issued June 16.

Separately, the Commission also today clarified and denied requests for rehearing of Order No. 678, which established more flexible criteria for evaluating proposals for market-based pricing of natural gas storage services.

Among other things, the final rule implemented section 312 of the Energy Policy Act of 2005, which permits the Commission, in appropriate circumstances, to authorize storage providers to charge market-based rates when the storage providers do not demonstrate that they lack market power. The Commission adopted the rule to reduce natural gas price volatility and encourage development of natural gas storage capacity in the United States.

Commission Chairman Joseph T. Kelliher said, “We undertook this reform of market-based pricing for gas storage with the goal of expanding our Nation’s gas storage capacity, and today we approve the first application using the new criteria. Further development of gas storage will help reduce price volatility and benefit consumers.”

In a declaratory order, the Commission determined Northern Natural Gas Co. may charge market-based rates to initial shippers that submit winning bids and signed precedent agreements for firm delivery service from a planned expansion of the company’s underground storage aquifer field in Redfield, Dallas County, Iowa.

Northern Natural proposes to expand the Redfield storage facility by approximately 10 billion cubic feet with a peak withdrawal rate of up to 175 million cubic feet of gas per day. The company provides delivery services from Redfield to customers in the upper Midwest.

Northern Natural is the first storage operator to request market-based rates using criteria established under Order No. 678. Under the rule, a storage provider may receive market-based rates for storage and storage-related services related to a specific facility placed in service after August 8, 2005, if the Commission determines that (1) market-based rates are in the public interest and necessary to encourage the construction of the storage capacity in the area needing storage services; and (2) customers are adequately protected.

Based on the facts presented in the case, the Commission determined Northern Natural qualifies because it meets the following criteria to negotiate market-based rates:

1) The rates involve storage services from a "specific facility" that would require FERC authorization and would be placed into service after the August 8, 2005, implementation of the Energy Policy Act.

2) The market-based rates must be in the public interest and necessary to encourage the construction of storage capacity in the area needing storage services. When considering whether market-based rates are in the public interest, the Commission stated that it considers whether additional storage is in fact needed in the area of the project, the risks of the project, and the strength of the applicant's showing that market-based rates are necessary for the project to go forward. The order finds that additional storage is needed in this area, since the proposed expansion has been fully subscribed with long-term contracts, most of which extend to 20 years. It further finds that Northern Natural has shown that the project entails significant risk, including significant engineering uncertainties, including the potential need for treatment facilities, the possible need to construct additional wells, and the difficulty in determining the volume and price of base gas.

3) Northern Natural's existing customers and those that signed precedent agreements are adequately protected against market power, the Commission determined. Among other things, Northern Natural included all of its estimated capacity in an open season and its capacity was fully subscribed under long-term contracts, which guards against withholding. In the event that capacity exceeds the projected volumes, Northern Natural committed to providing any additional capacity to the highest bidder that did not receive capacity under its open season.

The Commission found Northern Natural also adequately protects existing customers because its rates are unaffected by the market-based rate proposal. Northern

Natural must separately account for all costs and revenues associated with facilities used to provide the market-based services. Maintaining separate records will help the Commission ensure that existing customers will not subsidize the costs of the expansion project.

R-06-73