Federal Energy Regulatory Commission
November 6, 2007
State of the Natural Gas Industry Conference
AD07-15-000
Statement of
Chairman Joseph T. Kelliher

"Welcome to the Commission's annual natural gas conference. This year the conference will take a broad look at the state of U.S. natural gas markets.

I look forward to hearing the views of the experts we have assembled today. But before we hear from our expert panelists, I would like to make a few brief remarks.

This conference is timely. In my view, U.S. natural gas markets are undergoing a fundamental change. To begin with, the notion of "U.S. gas market" is somewhat of an abstraction, since the market is really North American rather than national. The market ceased being national when U.S. gas production no longer sufficed to meet U.S. demand, and we relied on Canadian imports to make up the difference.

However, we are now at the point when North American gas production is inadequate to meet North American demand. U.S. gas producers have had impressive success developing new reserves in the Lower 48. However, production in other areas is declining. Overall, U.S. gas production remains roughly flat, while Canadian imports decline and demand continues to rise.

The reality is that liquefied natural gas (LNG) is the fastest growing source of U.S. natural gas supply, and will remain the case for the foreseeable future. So, our gas market is steadily becoming less North American and more international. I hope panelists will discuss the implications of that change today.

The United States has done a good job authorizing increased LNG import capacity. But increased import capacity does not mean increased imports. We are in competition with other importing regions of the world for LNG supplies. And we are not predestined to prevail in that competition.

The United States has certain advantages and disadvantages in that competition. We have a number of advantages. First, our significant domestic gas production. Second, our underground storage capacity, which is far greater than any of the other LNG importing countries. Third, our robust pipeline network, the most expansive in the world. Fourth, access to both the Atlantic and Pacific LNG markets, when the Sempra project in Baja begins operation. Fifth, the transparency of our natural gas market.

Our principal disadvantage is the aversion by U.S. gas purchasers to enter into long term supply contracts for LNG. Frankly, I do not see that FERC has much ability to encourage buyers to enter into long term LNG purchase contracts. Our state colleagues have a far greater ability to encourage gas utilities to enter into long term contracts, and I urge them to provide sufficient regulatory certainty.

To be clear, I do not think there is competition among the North American countries for LNG imports. I think it is more of a question of North America competing with Europe and the Asia-Pacific nations for imports. Our success in that competition is vital to our energy security.

Another development in our natural gas markets is the convergence of the physical and

futures markets. These markets cannot properly be considered as separate markets, since prices in one market affect prices in the other. It is important for the Commission to understand the implications of this convergence.

As these changes unfold, there remains the need to develop an adequate natural gas infrastructure. As other aspects of the market changes, that is a constant. This has been a very significant year for gas pipeline construction. The Commission has approved more pipeline expansion this year than at any point during the last years, with the exception of 2001. As domestic production shifts and LNG imports rise, we face the continued need for new infrastructure.

I look forward to hearing the views of the panelists today."