

Federal Energy Regulatory Commission

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BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

- - - - -x
IN THE MATTER OF: :
CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :
CONSENT MARKETS, TARIFFS AND RATES - GAS :
CONSENT ENERGY PROJECTS - MISCELLANEOUS :
CONSENT ENERGY PROJECTS - CERTIFICATES :
DISCUSSION ITEMS :
STRUCK ITEMS :
- - - - -x

924TH COMMISSION MEETING
OPEN SESSION

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

Thursday, October 18, 2007
10:11 a.m.

1 APPEARANCES:

2 COMMISSIONERS PRESENT:

3 CHAIRMAN JOSEPH T. KELLIHER (Presiding)

4 COMMISSIONER SUEDEEN G. KELLY

5 COMMISSIONER MARC SPITZER

6 COMMISSIONER PHILIP MOELLER

7 COMMISSIONER JON WELLINGHOFF

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1 P R O C E E D I N G S

2 (10:11 a.m.)

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

8 Please join us in the Pledge of Allegiance.

9 (Pledge of Allegiance recited.)

10 CHAIRMAN KELLIHER: We have a relatively short
11 meeting today, not as short as under the Betsy Moeller and
12 Jim Hecker days, I don't think, but we have a fairly short
13 discussion agenda, but we actually have a good number of
14 Orders.

15 I think we have 39 Orders we're approving today:
16 Twenty-five electric; eight gas and certificate, and six
17 hydro, so hydro is surging today.

18 (Laughter.)

19 CHAIRMAN KELLIHER: Sorry, I didn't mean to do
20 that. But before we turn to the votes, the business
21 matters, I just want to make a few statements, a few
22 announcements.

23 First of all, we have a visitor, we have foreign
24 visitor today, Dr. Kadje is visiting today from the Economic
25 Community of West African States, and he's in the United

1 States, observing how U.S. agencies go about our business,
2 how we go about regulating. Why don't you stand up and I'll
3 embarrass you for a few minutes.

4 (Laughter.)

5 CHAIRMAN KELLIHER: How we go about regulating
6 the energy industry, and application of some of our
7 approaches to the West African Power Pool.

8 And Dr. Kadjé is the Commissioner, is the ECOWAS
9 Commissioner for Infrastructure, and he's keenly interested
10 in improving reliability and encouraging private-sector
11 investment in energy infrastructure in West Africa.

12 He has met with Mark Robinson and others from the
13 Office of Energy Projects, and they have been briefed on the
14 functions of the Office of Enforcement, as well as the
15 Market Monitoring Center.

16 They are here to observe the Commission in
17 session, so I hope we're on our best behavior, and set a
18 good example, but do commend you for looking at the Office
19 of Energy Projects.

20 The Commission has been in the business of energy
21 infrastructure since 1920, so it's something we've been
22 doing for a long time, and we do it very efficiently.
23 You're not the first foreign visitor to look to the Office
24 of Energy Projects as a model.

25 So, I think you picked a good model, but I thank

1 you for being here, and we'll try to set a good example for
2 you today.

3 And let me make some announcements about recent
4 Senior Staff changes, and then to turn to Phil Moeller for
5 an announcement, as well. I'd just like to comment briefly
6 on some of the recent Senior Staff changes, namely, the
7 appointment of John Moot as Chief of Staff and Cindy
8 Marlette as the General Counsel.

9 In particular, the Chief of Staff position merits
10 some comment, because the Chief of Staff is not a permanent
11 fixture at the Commission, and I think some comment would
12 probably help clarify the role of the Chief of Staff as I am
13 Chairman.

14 I've come to the conclusion recently that there's
15 a need for Senior Staff members to focus on the major policy
16 challenges facing the Commission, someone who is not totally
17 absorbed in the Open Meeting and notational cycle, someone
18 who can focus on the major policy changes facing the Agency,
19 and someone who can focus on the challenges that are just
20 over the horizon, and someone who can advise the Chairman
21 and the Commissioners on these challenges.

22 And I've also come to the conclusion that there's
23 a need for a Senior Staff person to help coordinate the
24 major program offices and direct those offices, as
25 necessary, consistent with the will of the Chairman and the

1 Commission.

2 And some of the major challenges facing the
3 Commission today, involve the interaction of multiple
4 Commission offices, for example, the reliability mission
5 involves the interaction of the Office of Electric
6 Reliability -- and, Joe, welcome.

7 (Laughter.)

8 CHAIRMAN KELLIHER: Welcome to the big table.

9 (Laughter.)

10 CHAIRMAN KELLIHER: -- the Office of
11 Enforcement, as well as the Office of General Counsel, so
12 that challenge, in particular, involves the coordination of
13 three offices.

14 I think, also, the Chief of Staff role should be
15 defined to suit the needs and the preferences of the
16 Chairman, and I believe that a Chief of Staff with that kind
17 of role, will improve my effectiveness as Chairman, and also
18 improve the performance of the Commission.

19 And with that role in mind, if you start with the
20 role, then you think about the person, and from that
21 perspective, I think Mr. Moot is the logical choice and the
22 perfect choice, and I'm glad that John accepted this role.

23 As a lawyer, I know it must be hard to leave the
24 General Counsel's slot, and John, I have to concede,
25 probably had no lust to be Chief of Staff of the Commission,

1 and was somewhat reluctant to accept promotion.

2 But he recognized that it would help me be an
3 effective Chairman, a more effective Chairman, and agreed
4 that it was in the best interest of the Commission, and I am
5 thankful that he accepted the role.

6 Now, in accepting this new role, I think John has
7 proven himself to be a model public servant, yet again, and
8 someone who puts the interests of the Agency before personal
9 preferences.

10 And I always try to work in a little bit of
11 history into our open meetings, so I think I'll try here.

12 (Laughter.)

13 CHAIRMAN KELLIHER: If you look at, in the
14 abstract, what is the Chief of Staff, what's the perfect
15 role of a Chief of Staff, actually, there's a very good
16 model for that, that was written in 1838 by Baron Jemini,
17 who was the Chief of Staff for one of Napoleon's marshals,
18 not one of Napoleon's best marshals, but --

19 (Laughter.)

20 CHAIRMAN KELLIHER: But he was a very good Chief
21 of Staff, and he wrote a book afterwards, that explained the
22 role of a Chief of Staff, and I think there's some good
23 wisdom in there, and he said, quote, "The best means of
24 organizing the command of an Army, is to assign, as his
25 Chief of Staff, a man of high ability, of open and faithful

1 character, between whom and the Commander, they may be
2 perfect harmony. The victor will gain so much glory that he
3 can spare some to his friend, who has contributed to his
4 success."

5 And I think I have to acknowledge what's probably
6 not a secret, that I think there's perfect harmony between
7 John and me, and I think there's trust and respect between
8 John and the Commissioners.

9 As a sign of my regard for John, I just want to
10 publicly say that I am going to root for the Red Sox
11 tonight.

12 (Laughter.)

13 CHAIRMAN KELLIHER: But Phil Flynn and my father
14 are not watching this meeting.

15 (Laughter.)

16 CHAIRMAN KELLIHER: Now, to replace John as
17 General Counsel, that was actually a very easy decision. I
18 was happy to name Cindy Marlette as General Counsel.

19 And I have to work in another reference, not
20 historical, but one of my favorite books as a young man, was
21 T.H. White's "The Once and Future King," and Cindy, since
22 she is the former and now current General Counsel, she is
23 the once and future General Counsel, and she's also the
24 Grover Cleveland of FERC General Counsels.

25 (Laughter.)

1 CHAIRMAN KELLIHER: And I want to express my
2 complete -- but you will have a much more impressive record
3 than I think Grover Cleveland did.

4 (Laughter.)

5 CHAIRMAN KELLIHER: But I want to say that I have
6 complete confidence in Cindy, and that she certainly will
7 prove herself to be a superb General Counsel, because she
8 has already proven that.

9 Now, these two appointments, I do have to say, do
10 further strengthen the ranks of the Washington College of
11 Law faction at the Commission, my alma mater, so we can
12 better meet the threat posed by the Nevada and the West
13 Virginia factions here in the Agency.

14 But I think these changes will generally
15 strengthen the ranks of the Commission's Senior Staff, and
16 improve the ability of the Staff to discharge the will of
17 the Commission.

18 Anyway, these announcements were made last week,
19 but I just wanted to really clarify my thinking in making
20 these announcements.

21 Colleagues, any comment before we turn to -- I
22 think Phil had a staff change. Phil, would you like to
23 announce that?

24 COMMISSIONER MOELLER: Thank you, Mr. Chairman.
25 I want to introduce a new Policy Advisor to my Staff, Robert

1 Ivanauskas. He's a native of Chicago. He's an attorney,
2 he's worked for People's Gas in Chicago, the Citizens
3 Utilities Board there, was with a couple of law firms here
4 in D.C., Swidler Berlin and Alston and Burt.

5 And I didn't ask him this ahead of time, but I
6 found out, you know, if you grow up in Chicago, you pick
7 sides and you pick the Cubs, and that's a good thing.

8 (Laughter.)

9 COMMISSIONER MOELLER: Please welcome him.

10 (Applause.)

11 CHAIRMAN KELLIHER: One other announcement: I'd
12 like to announce the appointment of Commissioner Marc
13 Spitzer to be the FERC member of the Surface Transportation
14 Board's new Rail Energy Transportation Advisory Committee.
15 This is a subject that the Commission looked at in June of
16 last year, when we had a meeting and looked at rail
17 transportation issues and how it might affect electric
18 reliability, you know, with a focus on coal inventories.

19 STB is establishing a Rail Energy Transportation
20 Advisory Committee that will look not just at coal
21 transportation, but also transportation of ethanol and other
22 biofuels, and Marc has agreed to be our representative on
23 that panel. I think that shows the Commission's strong
24 interest in these issues, and I think that will be taken
25 well by electricity consumers.

1 I want to thank you for accepting the
2 appointment. Do you have a comment?

3 COMMISSIONER SPITZER: Thank you, Mr. Chairman.
4 Very briefly, I'm grateful to both you and the Surface
5 Transportation Board for this opportunity.

6 I became acutely aware of the need for
7 reliability, timely shipments of coal in the context of our
8 cooperatives in Arizona, and the issue was on my radar
9 screen at the time of the FERC hearing in June of 06, and I
10 followed that and commend very much, the FERC's involvement
11 then, and I'm enthusiastic and interested now in pursuing
12 this opportunity to ensure reliable deliveries of coal to
13 the utilities throughout the country.

14 CHAIRMAN KELLIHER: Great, thank you.

15 COMMISSIONER MOELLER: Mr. Chairman?

16 CHAIRMAN KELLIHER: Yes, sir?

17 COMMISSIONER MOELLER: I just want to say that I
18 will be rooting on Commission Spitzer from the sidelines,
19 because that is often the weak link, the transportation of
20 energy in this country. I know that a couple of summers
21 ago, it cost consumers millions of dollars, and so I'm glad
22 you made the appointment, and I appreciate Commissioner
23 Spitzer's willingness to serve.

24 CHAIRMAN KELLIHER: Thank you. I actually
25 considered serving myself, because the STB, formerly the

1 ICC, that's the model for this Agency and all the multi-
2 member Commissions, and I thought it would be interesting to
3 see another agency at work with a different dynamic. But I
4 thank you for taking the role.

5 I have one award I'd like to make, before I get
6 to the business session. I'd like to announce that I'm
7 giving the exemplar of the Public Service Award to Emory
8 Gargon. Is Emory here? I think this is a half surprise --
9 there he is. Thank you.

10 And if you can stand, Emory, while I embarrass
11 you for a few minutes?

12 (Laughter.)

13 CHAIRMAN KELLIHER: Emory, of course, is the
14 Commission's Deputy Chief Information Officer. He received
15 his Bachelor of Science Degree in Mineral Economics from
16 Penn State University and began his Federal Government
17 career at FERC in October of 1978 as a Physical Scientist in
18 the former Office of Pipeline and Producer Regulation.

19 He's worked in the Information Technology field
20 since 1995, and he has recently successfully managed a
21 budget exceeding \$25 million and a staff of 155 government
22 and contractor personnel. This year, in particular, due to
23 the Continuing Resolution, Emory's budget was the hardest
24 hit in the Agency, but, nonetheless, he managed to
25 accomplish essentially -- perform essentially the same work

1 with fewer resources.

2 And some of his specific accomplishments: He
3 fully integrated the dockets and registry functions into the
4 Chief Information Officer Contractor Support Operation. He
5 deployed the following projects on time: The ATMS Phase II
6 Workload Tracking; Migration from FAMIS External Database to
7 FERC Online Database; E-Library Security and Performance
8 Enhancements; Virtual Agenda 2.5; and E-Registration, E-
9 Services; E-Subscription, and E-Library Upgrades.

10 And Emory has also, of course, been the leader on
11 implementing and coordinating the phased deployment of the
12 E-Filing System, which has been a huge undertaking.

13 FERC receives currently over 70,000 documents and
14 issues over 20,000 documents per year, and in FY2007, over
15 70 percent of qualified documents, were received
16 electronically.

17 Emory personally has received an excellent rating
18 by the Department of Energy Inspector General, and FERC's
19 FSMA evaluation for Information Technology Security, in
20 November of last year, and is on track to receive a third
21 consecutive excellent rating in 2007.

22 Emory has also managed the annual Office of
23 Management and Budget Information Collection Budget Program
24 recording zero data collection violations.

25 So, Emory is a superb employee; he has certainly

1 earned this award, and he, unfortunately, will be leaving
2 the Agency soon. I try to give these awards to encourage
3 people to stay and work even harder.

4 (Laughter.)

5 CHAIRMAN KELLIHER: But you've earned it,
6 nonetheless, so I'd be happy to give you this award.

7 Colleagues, any comments?

8 COMMISSIONER WELLINGHOFF: Well, I just want to
9 say that I know that Emory deserves the award, just based on
10 the headaches I've given him in the last year alone.

11 (Laughter.)

12 COMMISSIONER WELLINGHOFF: It's well deserved,
13 Emory.

14 CHAIRMAN KELLIHER: I think John has been angling
15 for the job. He wants to be Commissioner and Chief
16 Information Officer at the same time.

17 (Laughter.)

18 CHAIRMAN KELLIHER: Emory, why don't you come up
19 and we'll give you your award.

20 (Presentation made; applause.)

21 CHAIRMAN KELLIHER: Commissioner Kelly?

22 COMMISSIONER KELLY: Emory, before you go, I just
23 wanted to thank you for your service to FERC. I think you
24 were the first person that I met here, actually, when I
25 first came.

1 And Joe's talked about your responsibility for E-
2 filing, and I think of you as the E-everything person.

3 Every community has an unsung hero, and the head
4 of IT, is the unsung hero. I rarely see you on the 11th
5 floor, and that's because everything works so smoothly.

6 Unfortunately, when you do hear from us, as
7 Commissioner Wellinghoff noted, it's because there's a
8 problem. So, I want to apologize for not calling you every
9 week and telling you how well everything is going.

10 (Laughter.)

11 COMMISSIONER KELLY: Emory is a Penn State
12 graduate and Emory knows this as well as probably most of us
13 here, that Penn State has -- it's five and two, and not done
14 as well as maybe it has in the last few years, but the USA
15 Today poll does rank it now 25th, after their crushing
16 defeat of Wisconsin over the weekend.

17 (Laughter.)

18 COMMISSIONER KELLY: One thing that makes me sad,
19 is that Joe Paterno is still coaching there after 42 years
20 and you've decided to retire from FERC, before having served
21 42 years.

22 (Laughter.)

23 COMMISSIONER KELLY: But we're going to miss you,
24 and thank you very much for your service.

25 CHAIRMAN KELLIHER: Thank you. With that, why

1 don't we turn to business, and before we turn to the consent
2 agenda, I'd just like to point out that since the September
3 20th Open Meeting, the Commission has issued 59 Notational
4 Orders.

5 And, Madam Secretary, let's turn to the consent
6 agenda.

7 SECRETARY BOSE: Thank you. Good morning, Mr.
8 Chairman, good morning, Commissioners. Since the issuance
9 of the Sunshine Act Notice on October 11, 2007, the
10 Commission issued a Notice of Change in Meeting on October
11 17, 2007, adding Docket Number EL00-98-184 and correcting
12 the Company name in Item E-1.

13 No items have been struck from this morning's
14 agenda. Your consent agenda for this morning, is as
15 follows:

16 Electric Items: E-1, E-3, E-4, E-5, E-6, E-7, E-
17 8, E-9, E-11, E-12, E-13, E-15, E-16, E-17, E-19, E-20, E-
18 21, E-22, E-23, E-24, E-25, E-26, and E-27.

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

20 Hydro Items: H-1, H-2, H-3, H-4, H-5, and H-6.

21 Certificate Items: C-2, C-3, C-4, and C-5.

22 Commissioner Moeller is not participating in
23 Consent Items E-7 and E-8.

24 As required by law, Commissioner Spitzer is not
25 participating in Consent Item E-1.

1 We will now take a vote on this morning's Consent
2 Agenda Items, beginning with Commissioner Wellinghoff.

3 COMMISSIONER WELLINGHOFF: I vote aye.

4 SECRETARY BOSE: Commissioner Moeller?

5 COMMISSIONER MOELLER: With the exception of E-7
6 and E-8, I vote aye.

7 SECRETARY BOSE: Commissioner Spitzer?

8 COMMISSIONER SPITZER: Madam Secretary, noting my
9 recusal in Item E-1, I vote aye.

10 SECRETARY BOSE: Commissioner Kelly?

11 COMMISSIONER KELLY: Aye.

12 SECRETARY BOSE: Chairman Kelliher?

13 CHAIRMAN KELLIHER: Aye.

14 Let's turn to the discussion agenda.

15 SECRETARY BOSE: Thank you. The first item for
16 presentation, is A-3, concerning the Winter Energy Market
17 Assessment for 2007-2008. There will be a presentation by
18 Steve Harvey, from the Office of Enforcement, and Jeff
19 Wright, from the Office of Energy Projects. They will be
20 accompanied by Chris Peterson from the Office of Energy
21 Projects.

22 (Slides.)

23 MR. HARVEY: Mr. Chairman, Commissioners, today
24 I'm pleased to present the Office of Enforcement's Winter
25 2007-2008 Energy Market Assessment. With me is Chris

1 Peterson, who recently took on acting leadership of the
2 Division of Energy Market Oversight's Natural Gas Group.

3 After I'm finished with the Winter Assessment,
4 I'll turn it over to Jeff Wright of the Office of Energy
5 Projects, to discuss infrastructure.

6 The Winter Assessment is Staff's annual
7 opportunity to share observations about natural gas,
8 electric, and other energy markets into the Winter.

9 For a second year, the prospects for natural gas
10 markets, as we head into the Winter, are very good. The
11 spot prices have been a bit higher this year than last,
12 reflecting increased use of gas, but they have not moved up
13 as strongly as oil.

14 Current gas prices reflect robust storage
15 inventories and predictions for generally mild Winter
16 weather. I will begin the presentation by reviewing key
17 national and international conditions affecting U.S. gas
18 markets.

19 New capacity additions, in the form of pipelines
20 and liquified natural gas or LNG facilities, may change some
21 regional pricing dynamics late in the Winter, and I will
22 spend a few minutes discussing some of those changes this
23 morning, as well.

24 Overall, current conditions for natural gas
25 demonstrate significant flexibility to deal with most

1 challenges that might arise through the Winter. Natural gas
2 prices are up slightly this year compared to last.

3 This graph compares next-day spot natural gas
4 prices traded at Henry Hub, Louisiana, on the
5 Intercontinental, or ICE, in 2007 and 2006. Henry Hub spot
6 prices so far this year, shown in red, have averaged almost
7 \$6.95 per million British Thermal Units, or MmBtus, up
8 between 20 and 25 cents from last year and shown in blue.

9 Warm weather late in 2006, continued into the
10 first half of January, only to see a colder-than-normal
11 February in the United States.

12 The graph shows how low early January spot gas
13 prices gave way to weather-driven increases in February.
14 Prices remained above 2006 levels from February through
15 June.

16 Summer weather in 2007, though hotter than
17 normal, did not reach the same temperatures as in 2006. The
18 Summer of 2006 in the United States, defined by the National
19 Climatic Data Center, as June through August, was the
20 hottest since 1900; the Summer of 2007, was only the sixth
21 hottest.

22 Consequently, July and August of 2006, natural
23 gas price increases, were not matched in 2007. Meanwhile,
24 much of the United States has seen unseasonably warm weather
25 into September and October, increasing natural gas burned

1 for electric generation, well into what we generally
2 consider the shoulder period when nuclear and coal plants
3 are down for planned maintenance in preparation for the
4 Winter.

5 Consequently, Henry Hub spot prices have not
6 declined as much as they did in the Autumn of 2006. Current
7 natural gas market conditions are the result of a variety of
8 national and international factors.

9 I'll review these next, including high oil
10 prices, growing domestic gas production, record LNG
11 deliveries that have begun to slow, increasing use of gas
12 and electric generation, strong storage inventories, and
13 current Winter weather forecasts.

14 One of the most dramatic changes in energy market
15 conditions, has been the increase in oil prices. The spot
16 West Texas Intermediate Crude oil price, averaged about \$66
17 a barrel in 2006, and has averaged only about a dollar
18 higher this year.

19 But oil prices reached a new record, if we don't
20 adjust for inflation, briefly at \$89 a barrel this week,
21 representing an almost 50 percent increase in price over the
22 same week last year.

23 Last year, I pointed out that gas prices had
24 fallen below competing oil product prices for longer in the
25 Summer of 2006, than we had seen for some time.

1 This graph of gas and oil product prices into New
2 York City in 2007, shows that starting mid-Summer, gas
3 prices have been much lower than No. 6 fuel oil, known as
4 residual fuel oil, or "resid." For many years prior to
5 2006, New York gas prices traded between resid and heating
6 oil prices, with occasional exceptions when gas prices rose
7 on weather.

8 We can see some of these weather-related
9 increases on the graph in February and March. This Winter,
10 we are likely to see these kinds of prices again in the
11 Northeast during cold spells. Sustained relatively lower
12 gas prices are expected to continue into early 2008, as
13 represented in the forward prices on the graph.

14 Apparently, natural gas has been able to capture
15 the remaining competitive fuel-switching consumption,
16 without driving prices up, at least compared to oil.

17 The change may reflect a new relationship between
18 gas and oil prices. In effect, gas and oil price
19 competition may be dead, at least for now.

20 In part, gas prices have remained lower because
21 of increases in production due to new gas wells. Realized
22 gas production is, in part, a function of drilling activity
23 and the yield or productivity of new wells.

24 This graph of drilling rig use, collected by
25 Baker Hughes, shows that current prices continue to support

1 growth in drilling for natural gas. How this affects the
2 overall supply situation, is less clear, because we know
3 that, on average, the productivity of wells drilled, has
4 declined.

5 Nevertheless, the Energy Information
6 Administration or EIA, reports that total marketed U.S.
7 production in 2007 through July, was up over the same period
8 in 2006, by a little over two percent.

9 Overall, EIA estimates that 2007 marketed
10 production will be 19.6 trillion cubic feet, about a 1.3
11 percent increase.

12 In addition to production increases, the United
13 States enjoyed record LNG deliveries during the first part
14 of 2007. Through mid-October 2007, U.S. LNG sendout
15 averaged 2.5 billion cubic feet or Bcf a day, up 50 percent
16 from the same period in 2006.

17 The first half of 2007 deliveries, largely
18 coincided with reduced demand in Europe, improved global
19 liquefaction plant use, and new supplies from the Middle
20 East.

21 During the Summer, with hot weather and pipeline
22 outages in Northern Europe and the July shutdown of Tokyo
23 Electric Power Company's Kashiwazaki-Kariwa nuclear plant,
24 after an earthquake, international prices rose and U.S. LNG
25 sendout levels began to drop.

1 We see that response on this graph. At the top,
2 is total U.S. sendout this year, with EIA's Winter forecast
3 of LNG imports. On the graph, we can see that sendout is
4 somewhat correlated to whether and how much spot Henry Hub
5 prices exceeded those at, in this example, the United
6 Kingdom's National Balancing Point.

7 Given the forward projection of higher European
8 prices, compared to the United States, which you can see at
9 the bottom right of the slide, EIA's current projections may
10 be optimistic, which underscores an important point: LNG
11 will be available when U.S. prices are relatively high,
12 basically, times of more stress in energy markets here than
13 abroad.

14 Consequently, expanding LNG capacity serves as a
15 sort of insurance policy, not used much when times are good,
16 but very helpful if times get bad. That leads to the
17 apparent dichotomy that not using the new capacity will
18 signal a better domestic supply/demand balance than using it
19 will.

20 An important change in natural gas consumption in
21 the United States, has been increased demand by electric
22 generation. According to EIA, in the first half of the
23 decade, net U.S. generating capacity increased by about 20
24 percent, of which 97 percent of the added generation was
25 gas-fired.

1 As electricity demand grows, much of the
2 available incremental capacity is gas-fired, resulting in
3 significant increases in gas use. Between 2005 and 2006,
4 consumption of gas in electric generation, outside the
5 Winter months, leapt nine percent.

6 So far this year, analysis by Bentek of
7 interstate pipeline flows, indicates another increase of
8 around ten percent. Winter consumption of gas in electric
9 generation, has been growing even faster, 14 percent between
10 last Winter and the Winter before.

11 Growth in demand generally keeps upward pressure
12 on gas prices and indicates that any disruptions to gas
13 supply in the Winter -- and, right now, we don't anticipate
14 any of those -- would affect electricity markets
15 significantly.

16 Our best way of assessing the net effects and
17 supply and demand factors in the U.S. natural gas market, is
18 to look at storage inventories.

19 At this point, the United States appears to be
20 heading towards another near-record level of storage. In
21 April, at the beginning of the injection season, inventories
22 were below last year's level.

23 Early in the Summer, inventories grew in
24 comparison to last year, surpassing last year's level in
25 July. Starting in July 2006, fierce heat across the United

1 States, actually resulted in two weeks of net national
2 storage withdrawals.

3 Since this July, storage inventories have fallen
4 slightly below last year's level, although we should recall
5 that last year's peak inventory was greater than any since
6 November of 1990.

7 Basically, we expect to see full storage this
8 year, and, effectively, full storage goes a long way towards
9 protecting the country from disruptions and price spikes
10 associated with tight supply/demand balances in the Winter.

11 Ultimately, the performance of natural gas
12 markets next Winter, will be driven by weather. Weather
13 forecasting into the next season, is notoriously difficult,
14 though energy traders carefully review and often act on
15 their beliefs regarding weather forecasts.

16 The current Winter forecasts from the National
17 Oceanic and Atmospheric Administration, published almost a
18 month ago, indicates warmer-than-normal Winter temperatures
19 across much of the United States, driven by La Nina
20 conditions in the Pacific Ocean.

21 If true, gas prices could remain stable, or even
22 see some downward pressure. U.S. gas market dynamics are
23 likely to change late this Winter, as new infrastructure
24 becomes available.

25 Major pipeline projects include the Independence

1 Trail Pipeline, designed to bring more gas onshore from the
2 Gulf of Mexico, which is already transporting about 6/10ths
3 of a Bcf per day on its way to a Bcf.

4 The next phase of the Rockies Express Pipeline,
5 which will transport gas from the Cheyenne Hub to Mid-
6 Continent Pipeline interconnects in Missouri, as early as
7 2008.

8 In addition, several new North American LNG
9 terminals are expected to begin at least limited operations,
10 before or during the first quarter of 2008, including
11 Freeport for a Bcf and a half a day, Northeast Gateway, for
12 8/10ths of a Bcf a day, and the Sabine Pass Terminal for 2.6
13 Bcf a day.

14 Sempra's terminal in Baja, Mexico, the one Bcf a
15 day Energia Costa Azul facility, is also expected to be in
16 operation sometime early next year.

17 As we've seen, new LNG terminals do not mean
18 additional supply, so much as they mean additional capacity.
19 Depending on the international gas prices, the supply may or
20 may not be available in U.S. markets.

21 I'd like to look in a little bit more detail of
22 the dynamic that we've seen this year, though, in the
23 Rockies. On September 14th, the natural gas market in the
24 Rockies produced a documented transaction for natural gas
25 sold on ICE, for only one penny per MmBtu.

1 The same day, the price at Henry Hub averaged
2 \$6.23 per MmBtu. The difference in prices nationally and in
3 the Rockies, is further evidence of the extreme price
4 volatility that can result from constraints on the
5 interstate pipeline system.

6 As we can see on this graph of both the Cheyenne
7 Hub gas prices and of export capacity use out of the
8 Rockies, producers have been producing effectively as much
9 as can be used in or delivered from the Rockies since early
10 2007.

11 When there simply isn't anywhere else to take the
12 gas, prices will respond, even to extremes. For a small
13 decrease in capacity, the price effect is large.

14 On the graph, you can see that when the red
15 capacity line goes down, the price falls as well, even down
16 to one penny. The dichotomy is that gas prices across the
17 rest of the country, remain high, and are driven down only
18 where the supply is bottled up.

19 The fix for this kind of price volatility is
20 infrastructure. Forward markets are reflecting the
21 expectation that with its expected early 2008 completion,
22 Phase II of the Rockies Express Pipeline will reduce the
23 difference between Rockies prices and those to the East and
24 West.

25 This graph of historical and forward prices,

1 indicates that the average difference between Henry Hub and
2 the Colorado Interstate Gas Pipeline pricing point, or CIG,
3 is expected to narrow somewhat with the capacity addition,
4 though not disappear.

5 CIG is broadly representative of other points in
6 the Rockies. The market signals, while definitely painful
7 in the short term for producers and western state tax
8 revenues, do appear to be attracting investment in
9 infrastructure.

10 Back in the Gulf of Mexico, new LNG terminals at
11 Sabine Pass and Freeport, will add 4.1 Bcf a day of new
12 sendout capacity to an area well interconnected with
13 existing pipelines.

14 Still, depending on the vagaries of the
15 international LNG market, those terminals may attract few
16 cargoes this Winter, or they may temporarily overwhelm the
17 existing pipeline network.

18 In the unhappy event that U.S. gas prices become
19 relatively high in international terms, heavy deliveries
20 into the area, could overload the system for some periods,
21 depressing prices locally at the index points identified on
22 the map.

23 In the short term, local supply-oriented prices
24 could get quite low, though I hope not the one penny that we
25 saw in the Rockies, under similar circumstances. Such

1 prices could reduce drilling.

2 In the long term, low and volatile supply area
3 prices would be a strong incentive to develop further
4 pipeline infrastructure along the Gulf Coast. We will see
5 what, if anything, these new terminals do to market
6 performance in the area.

7 In summary, for a second year, the prospects for
8 natural gas markets going into the coming Winter, are very
9 good. Increased use of gas in electric generation and
10 historically high oil prices, continue to push up the price
11 of gas, while robust storage inventories and predictions for
12 generally mild Winter weather, push down.

13 New supplies, including resources in the Rockies
14 and new LNG terminals, are not exactly matched to pipeline
15 infrastructure, resulting in supply area price volatility
16 that may create incentives for investment in pipeline
17 infrastructure over time.

18 Overall, current conditions for natural gas
19 demonstrates significant flexibility to deal with most
20 challenges that might arise through the Winter. And now
21 Jeff will discuss new capacity issues.

22 MR. WRIGHT: Thank you, Steve. Good morning, Mr.
23 Chairman and Commissioners. As Steve said, this morning I
24 would like to take a look at the natural gas infrastructure
25 -- pipelines, storage, LNG terminals -- that the Commission

1 has approved in 2007, and, in addition, what projects are
2 currently being analyzed at the Commission, as well as
3 projects that may be expected to be filed with the
4 Commission in the not too distant future.

5 Further, I will touch upon what gas
6 infrastructure has actually gone into service this past
7 year.

8 The table on the slide before you, presents a
9 summary of the pipeline facilities that the Commission has
10 approved from 2000 up to this meeting. These approvals
11 totalled over 76 billion cubic feet per day of pipeline
12 capacity, nearly 11,000 miles of pipeline, over three
13 million horsepower of compression, at an estimated cost of
14 \$24 billion.

15 Using the information from the previous slide,
16 this graph shows the dramatic increase in both the capacity
17 and mileage approved by the Commission. In fact, the
18 approval of 21.5 billion cubic feet of capacity per day,
19 represents a 50-percent increase over the capacity approved
20 the previous year, and constitutes over 28 percent of the
21 total capacity approved since the beginning of 2000.

22 The increase in approved mileage was even more
23 dramatic, with nearly a 75-percent increase over 2006, and
24 over 20 percent of the mileage approved this decade.

25 We have definitely moved out of the trend of

1 recent years, which was characterized by the approval of
2 high-capacity, short-mileage pipelines that are associated
3 with LNG terminals, whose purpose is to deliver regasified
4 LNG to the existing grid.

5 In the past two years and in this year, in
6 particular, we've seen the trend move back to the more
7 traditional long-line pipelines, and this trend is
8 exemplified by the Rockies Express, or REX, West Pipeline
9 and the pipelines leading from East Texas to
10 interconnections with existing long-line pipelines headed to
11 load centers.

12 On this map, we can see some of the major
13 projects approved in 2007. The projects highlighted here,
14 will help the U.S. obtain gas supplies from areas and
15 sources that are replacing, in part, traditional supply
16 areas such as the shallow offshore Gulf of Mexico and the
17 Western Canadian Sedimentary Basin.

18 In 2001, the Gulf accounted for about one-quarter
19 of U.S. production, at 5.1 trillion cubic feet, but has
20 declined to where it's only about 17 percent of U.S.
21 production, or 3.1 trillion cubic feet.

22 Meanwhile, net imports from Canada, primarily
23 from the Western Canadian Sedimentary Basin, have declined
24 from a high of almost 9.9 billion cubic feet per day in
25 2002, to less than 9 Bcf per day so far this year.

1 And by 2025, EIA projects that net imports from
2 Canada will average less than 3.8 billion cubic feet per
3 day.

4 While the Rocky Mountain area has been an
5 important supply region in the past, its importance is
6 increasing. In 2001, the Rockies accounted for 19.8 percent
7 of U.S. proven reserves. By the end of 2005, proven
8 reserves accounted for about 22.3 percent of total U.S.
9 proven reserves, but still not enough supplies are getting
10 out of the Rockies to the markets that value it the most,
11 due to the lack of pipeline capacity, resulting in the
12 dramatic price drop that Steve illustrated earlier.

13 One cure for this is the REX West pipeline, which
14 will take Rocky Mountain gas supplies in an easterly
15 direction. Customarily, western sources of gas have headed
16 to the southwest and to California. Ultimately, if REX East
17 is approved, natural gas will, for the first time, be
18 transported from the Rocky Mountain region to eastern Ohio
19 in one pipeline, for ultimate consumption in the Northeast
20 U.S., a region traditionally served by Gulf volumes.

21 If we look to East Texas, we see much development
22 in the shale fields, notably the Barnett Shale near the
23 Dallas-Ft. Worth area. The pipes approved in this area,
24 will transport in excess of three billion cubic feet per
25 day, to interconnections with pipelines headed to demand

1 centers in the Northeast and Florida.

2 Two other pipelines of note, while not lengthy,
3 are important nonetheless: I would first direct your
4 attention to the short pipeline in the Southwest. This is
5 the North Baja Pipeline.

6 This year, the Commission approved its proposal
7 to reverse flow so that gas flows from Mexico to the -- so
8 that gas does flow from Mexico to the U.S., and to increase
9 its capacity via pipeline looping to 2.7 billion cubic feet
10 per day.

11 This major expansion is to accommodate the
12 regasified LNG that will flow from the Costa Azul LNG
13 terminal near Ensenada on Baja California. Initially, Costa
14 Azul will have a flow of one billion cubic feet per day,
15 commencing early next year.

16 Costa Azul already has approval to expand its
17 facility by another 1.6 billion cubic feet per day, and is
18 expected to start construction on the expansion next year.

19 The final pipeline approval I would like to note,
20 is the expansion of the Maritimes and Northeast Pipeline
21 crossing from Canada into Maine, and terminating in
22 Massachusetts.

23 The Commission approved an expansion of the
24 Maritimes facilities by over .4 billion cubic feet per day,
25 mostly by compression, to accommodate the importation of

1 regasified LNG from the Canaport LNG import terminal in
2 Canada, to supply the U.S. Northeast.

3 The Canaport terminal in St. John, New Brunswick,
4 is expected to have a regasification capacity of one billion
5 cubic feet per day, most of which is to be exported to the
6 U.S., and this supply is expected to come online in late
7 2008.

8 Currently, there are numerous projects before the
9 Commission, totally almost 18 billion cubic feet per day of
10 capacity, and 2800 miles of pipeline.

11 While there are still pipeline projects dedicated
12 to LNG, approximately 47 percent of this capacity, there are
13 major projects to transport North American production: The
14 Rockies Express East project, from the terminus of the
15 Rockies Express West in Missouri, to Eastern Ohio, as well
16 as various other proposals to transport gas from the Barnett
17 Shale and the Fayetteville Shale in East Texas, Oklahoma,
18 and Arkansas, and an expansion of the Transwestern Pipeline
19 to bring more gas to the ever-growing Phoenix area.

20 In our pre-filing category, those cases that are
21 beginning their environmental reviews prior to making a
22 formal filing with the Commission, we see very little LNG-
23 related pipeline activity. Much of the 3.3 billion cubic
24 feet per day of capacity and 600 miles of pipe, is spread
25 around the country.

1 Now, taking a look at potential projects that may
2 be filed within a couple of years, we see the potential for
3 over 18 billion cubic feet per day of capacity and over
4 4,000 miles of pipeline. None of these potential projects
5 are directly related to LNG terminals.

6 I do note that these totals contain an amount for
7 the transportation of Alaskan North Slope gas to the Lower
8 48. Currently, under the State's Alaska Gas Line Inducement
9 Act, there is a request for applications that closes on
10 November 30th, and if everything goes to schedule, the State
11 could issue a license to a potential applicant by May of
12 next year.

13 Changing the focus to storage, I would note that
14 since 2000, the Commission has approved 275 billion cubic
15 feet of storage capacity and daily delivery from that
16 storage of 14.6 billion cubic feet.

17 Storage proposals, especially in recent years,
18 have centered around the Southeast Gulf Coast area where
19 high-delivery salt formations can be utilized to store
20 regasified LNG in addition to traditional gas production
21 from this region.

22 The Commission has several storage projects that
23 are pending and in the pre-filing program, that total close
24 to 200 billion cubic feet of capacity and another 6.7 Bcf
25 per day of deliverability.

1 Over 60 percent of this capacity is located in
2 Texas and the Gulf Coast states. There are potential
3 projects totalling about 250 Bcf capacity, and another 3.5
4 Bcf per day of deliverability, and, again, the majority of
5 these possible projects, appear to be located in the
6 Southeast, with several other potential projects in the
7 Northeast.

8 And has been the case for the last several years,
9 there is a distinct lack of storage development in the
10 western U.S.

11 Switching to LNG, we see that since December of
12 2002, the Commission has approved 14 new terminals sites --
13 three this year. All of these sites, except for two, are
14 located on the Gulf Coast.

15 The total sendout of these approved terminals, is
16 24.7 billion cubic feet per day. In addition, the
17 Commission has approved expansions at five locations, that
18 total 6.4 billion cubic feet per day, with a total sendout
19 capacity, between new sites and expansions, of 31 billion
20 cubic feet per day.

21 Currently, there are four new terminals and two
22 expansions under construction that total 10.1 billion cubic
23 feet per day in sendout capacity.

24 The Commission is currently processing
25 applications for eight new terminals, LNG terminals, with a

1 combined redelivery capacity of 9.2 Bcf per day, and these
2 proposed terminals are located in Oregon, California, in
3 Maine, near the Canadian border, in Long Island Sound, and
4 near Baltimore, Maryland.

5 In conclusion, I would note that, up to this
6 point in 2007, we've seen seven pipeline projects placed
7 into service, with a capacity of 4.4 billion cubic feet per
8 day. This includes Center Point's Carthage to Perryville
9 Project that will transport over 1.2 Bcf per day of East
10 Texas gas to interconnections in Louisiana and also Southern
11 Natural's Cypress Pipeline that will move a half Bcf per day
12 of regasified LNG to Florida, a major new source of gas for
13 that state.

14 There have been nine storage projects that
15 commenced service this year, with a combined capacity of 85
16 billion cubic feet and about 1.8 Bcf per day of
17 deliverability.

18 And while no LNG facilities have gone into
19 service this year, we should expect to see new sites and
20 expansions commence service next year.

21 This concludes the presentation, and Steve and I,
22 along with Chris, will be happy to answer any questions you
23 may have.

24 CHAIRMAN KELLIHER: Thank you, gentlemen. I have
25 a few questions and then will turn to my colleagues.

1 Let me start off with California. What's the
2 solution to California's increased gas demand? You pointed
3 out the North Baja Project, that that was approved, but
4 there weren't any projects that you identified, that would
5 go from the Rockies to California.

6 What is the solution? How is California going to
7 meet its increased gas demand? Is it going to be through
8 LNG coming in from Mexico, other LNG projects on the West
9 Coast, or will it be expansions of existing projects running
10 from the Rockies, or is it all of the above?

11 MR. WRIGHT: Well, in our On the Horizon view, we
12 have noted from the trade press, that there's possible
13 expansion, re-looping, or compression on the Kern River
14 System, so there may be some Rockies' volumes headed that
15 way.

16 Outside of that, I would think some of the Costa
17 Azul LNG volumes coming up through North Baja, could satisfy
18 some demand, and further north, if there is approval of
19 Oregon-based LNG facilities and the accompanying pipelines
20 that could very easily tie into the GTN pipeline that flows
21 between Canada and Northern California.

22 CHAIRMAN KELLIHER: Okay. But do we think a Kern
23 expansion, plus North Baja, would suffice to meet
24 California's increased demand?

25 MR. WRIGHT: Well, that would -- maybe Southern

1 California's, but that wouldn't tie directly into Northern
2 California.

3 CHAIRMAN KELLIHER: Okay, thank you. Then I had
4 a couple of questions for Steve. There's been a great
5 debate as to, is LNG affecting U.S. prices or is it
6 exclusively a price taker? At what point will LNG affect
7 U.S. prices?

8 And your presentation suggests that there is a
9 suggestion that we might be at that point. You did say
10 current market conditions are the result of a variety of
11 national and international factors, and you talked about the
12 relationship between Henry Hub and -- what is it? NPB?

13 MR. HARVEY: The National Balancing Point in the
14 United Kingdom, yes.

15 CHAIRMAN KELLIHER: Okay. Are LNG imports
16 affecting U.S. prices? Did they this Spring when we saw
17 record levels of LNG imports, or are they not quite at the
18 point where they're affecting U.S. prices?

19 MR. HARVEY: I think, in general, right now, you
20 could say they're really not affecting U.S. prices; that the
21 movement of cargoes is pretty much determined relative to
22 U.S. prices, versus sort of other competing interests
23 internationally.

24 CHAIRMAN KELLIHER: Okay, but it's pretty
25 interesting that now if we want to project what LNG imports

1 are going to be, as you said, it's not just a question of
2 looking at capacity; it's looking at what are prices in
3 Europe, what is the weather, is this going to be a cold
4 Winter in Europe; were there earthquakes in Japan.

5 MR. HARVEY: Right.

6 CHAIRMAN KELLIHER: In 2005, we saw that LNG
7 imports went to Europe, in part, because there was low
8 rainfall in Spain that year, so they relied more on gas than
9 they would otherwise have, so it's interesting, as the gas
10 market becomes less North American and more international,
11 we do have to look at those kinds of considerations.

12 What kind of pipeline output is coming from
13 Russia to Western Europe?

14 Okay, I just had some questions, really, about
15 price effects. Colleagues? Commissioner Kelly?

16 COMMISSIONER KELLY: Jeff, I think one of the
17 most significant things that I take away from what you've
18 reported on today -- and I like your comments on this -- is
19 that New England seems to be poised to be the big winner in
20 reaping the benefits of the significant gas industry
21 development that we have seen over the last several years.

22

23

24

1 For example, LNG imports coming from St. John New
2 Brunswick are poised to make their way into the New England
3 market, giving a new supply to New England, and then you
4 reported on the pipelines that have been approved and are
5 being built to take the Barnett and Fayetteville shale gas
6 up to New England. And with Rex West being built, and if
7 Phase II Rex East is approved, that will bring the new gas
8 development in the Rockies into New England.

9 Is that how you see it, too?

10 MR. WRIGHT: Well I would not limit it to New
11 England. When I speak of the Northeast, I am probably
12 speaking from say the Washington Metropolitan Area all the
13 way up the Coast.

14 I would think with the LNG development from
15 Canaport, if not the offshore Northeast Gateway that is
16 being developed and could come on line this December,
17 supplies from the Gulf may not travel as far as Boston
18 anymore. They may find a home in New York City, which is
19 always a great user of gas, as well as other metropolises,
20 such as Philadelphia, Washington, Baltimore.

21 So I think the population continues to grow. I
22 don't think all of this gas will go to New England, per se,
23 but it will feed the Mid-Atlantic's thirst for more energy.
24 And, as Steve noted, the electric generation which continues
25 to consume gas as opposed to other fuel sources.

1 COMMISSIONER KELLY: Do you and Steve see an
2 impact in competitiveness from these new sources of supply
3 going into markets that have traditionally been served
4 primarily from the Gulf Coast?

5 It appears to me that there is going to be more
6 competitiveness. Do you anticipate that that will affect
7 price?

8 MR. HARVEY: Definitely. I think it already has.
9 The Centerpoint Pipeline Project that Jeff mentioned
10 literally sort of connects the East and the West. After
11 Hurricanes Katrina and Rita, we saw a real disconnect there,
12 sort of across the border of Texas and Louisiana.

13 That sort of immediately responds to that price
14 differential. And we have seen that price differential
15 change based on that.

16 So the interrelation between sort of the market
17 signals and the infrastructure seems to be pretty active I
18 think in the gas area, and it is projects like that that are
19 directly responding to that that I think signify that.

20 MR. WRIGHT: I would also throw in that it sounds
21 like a lot of capacity is out there. I'm not going to say
22 that all this is going to get built. Again, it's capacity.
23 It depends how much you use it, as well.

24 I would also note that going along those
25 pipelines from the Southeast to the Northeast you also have

1 growing areas, such as Atlanta and the Carolinas that will
2 consume more and more gas, as well.

3 COMMISSIONER KELLY: Okay, well then we talked
4 about competitiveness and price and new supplies. How about
5 reliability? It would appear that with the increasing
6 amount of infrastructure particularly, as you point out,
7 into the Northeast that there will be better reliability.
8 Is that a fair statement?

9 MR. WRIGHT: I think that's a fair statement to
10 make, yes; and exploiting--it's also reliability in terms of
11 bringing supplies from areas that traditionally haven't been
12 exploited, or haven't served these areas as well, which will
13 help to offset reductions in other domestic production
14 areas.

15 COMMISSIONER KELLY: It sounds like overall this
16 is a Good News story.

17 MR. WRIGHT: Pretty much.

18 COMMISSIONER KELLY: Thank you.

19 CHAIRMAN KELLIHER: Commissioner Moeller.

20 COMMISSIONER MOELLER: Thank you, Mr. Chairman.

21 Thank you for an excellent presentation,
22 gentlemen. First kind of an overall observation. I think
23 it is clear that as a country we are becoming more dependent
24 on natural gas, and particularly for electricity generation.

25 I think we should make it clear that that is

1 where this country is heading right now. You certainly have
2 heard about coal plants being cancelled throughout the
3 country, and new nuclear is far away, or at least a few
4 years away. And although many of us greatly support
5 renewables, they are often location-constrained with a
6 transmission lag.

7 So let's make it clear that natural gas seems to
8 be the fuel of choice for the foreseeable future, especially
9 given the uncertainty over regulation of carbon; and
10 policymakers should be clear on that.

11 I guess I would like your observations, and then
12 I have a couple of questions.

13 MR. HARVEY: I think in those statistics that I
14 sort of gave you, you see that. Now those are very directly
15 related to growth in electricity demand at a time when a
16 whole lot of new natural gas sort of lagged a little bit
17 from a period when a whole lot of new natural gas generation
18 had been put into service. So that is naturally where the
19 growth is going to be.

20 I think at the end of the day these will be
21 economic kind of determinations. And certainly as that
22 grows, that is putting upward pressure on the price of
23 natural gas. And at some point it is possible that there is
24 a reaction to that sort of increasing price of natural gas
25 based on the additional demand.

1 It does look--the storage injections this year
2 look very different than the last couple of years, in part
3 because of weather differences. We have had sort of
4 abnormally warm weather in September and October. I think
5 they just came out with September being like the 7th or 8th
6 warmest on record. And obviously we are in the middle of it
7 today in the East.

8 That has really ratcheted up I think the use of
9 natural gas, and that has really kind of changed some of the
10 traditional dynamics of injection into storage. So as that
11 plays out, there may be economic signals sort of depending
12 on the responsiveness of new supply on the natural gas side
13 through LNG, through U.S. production that could ultimately
14 lead you in a different direction. But I think right now
15 that is certainly where we are going.

16 COMMISSIONER MOELLER: One question about what
17 seemingly is an unrelated event of a nuclear plant shutdown
18 in Japan that actually had kind of an intriguing effect
19 maybe for the first time of the Pacific market and the
20 Atlantic market being linked.

21 Will you elaborate a little more on that?

22 MR. HARVEY: Sure. The plant that was lost--it
23 was not "lost," but that was off-line based on the
24 earthquake in July is I believe the largest nuclear plant in
25 the world serving Tokyo. As it is out, that leaves a great

1 deal of demand on burning natural gas in Japan. And the
2 Tokyo Electric Company has dispatched--we've seen recently
3 and, Chris, you might want to elaborate on this a little
4 bit--we have seen recently that, given their tankers, they
5 have begun dispatching their tankers to Trinidad and
6 actually picking up what we've seen as a sort of separate
7 Atlantic and Pacific market in LNG begins to get blurred as
8 it makes sense for Tokyo Electric to send tankers to go pick
9 up gas in Trinidad.

10 We have actually seen more of that trend. Chris,
11 I don't know, you had some recent numbers on that.

12 MR. PETERSON: Yes. Just to put that in
13 perspective, apparently Tokyo Electric will require about 90
14 Bcf of incremental natural gas to fuel gas-fired power
15 plants to make up for lost power production from its nuclear
16 facility over the course of its current fiscal year, which
17 is an amount of LNG imports equivalent to a peak month here
18 in the U.S. that we experienced this summer.

19 So the new dynamic is that traditionally Atlantic
20 Basin LNG, Trinidad, Nigeria, Egypt, plants in those
21 locations primarily served Europe and to a lesser extent
22 North America and that's been growing, but now because the
23 anticipated gas prices in Asian markets is around \$11, \$12
24 for the remainder of the year, current spot prices here in
25 the U.S. are around \$7.

1 Even with the \$2 to \$3 logistics' and freight
2 costs you need to move gas to those markets, they have been
3 attracting some of the LNG that had been coming here during
4 our record-setting months earlier this year.

5 MR. HARVEY: In effect this is probably related
6 to more flexibility in the number of tankers in effect than
7 the trains of supply that are available for LNG that creates
8 this kind of situation. But it is interesting because it
9 begins to internationalize the Atlantic and the Pacific
10 trade in LNG as well.

11 COMMISSIONER MOELLER: Which further underscores
12 that this is a commodity that is more and more set at a
13 world price so to speak.

14 MR. HARVEY: Absolutely.

15 MR. WRIGHT: And affected by world events at
16 critical times.

17 COMMISSIONER MOELLER: The last question has to
18 do with on slide 4, Steve, you talked about the volatility
19 in the Northeast early in the year. Can you explain that a
20 little bit more?

21 MR. WRIGHT: For several years--and this is a
22 little bit related to Commissioner Kelly's question earlier
23 about the Northeast--for several years during cold snaps in
24 the Northeast the capacity constraints into the area have
25 shown pretty strong signals during those periods of time of

1 very high localized prices in the Northeast. Not just New
2 England, but really down into New York. That was a picture
3 of New York, prices in February and March going into the
4 \$20-\$25 range.

5 It does appear--it's interesting. We were
6 looking at forward prices before coming down, and last year
7 the forward prices going into the winter were about \$1.50
8 higher than they are now going into the winter. We were
9 kind of scratching our heads trying to think, well, is it
10 infrastructure at this point? Which it doesn't appear to be
11 for this winter.

12 It may be the general acceptance of the
13 expectations for a warmer winter. So basically the
14 expectation isn't that it will be as high, but we still
15 would expect during, as cold fronts come through in the
16 Northeast, that the capacity will get very tight and the
17 markets will reflect that higher price.

18 It is in effect the reverse of what is going on
19 in the Rockies on the up side. And in general it does
20 signal investment in infrastructure, and we do seem to see
21 some attention in that direction.

22 COMMISSIONER MOELLER: Thank you.

23 CHAIRMAN KELLIHER: Colleagues?

24 (No response.)

25 CHAIRMAN KELLIHER: Thank you very much for that

1 presentation. It was very interesting. Thank you.

2 SECRETARY BOSE: Next we will have a presentation
3 on Discussion Items E-2 and E-14 together concerning the
4 North American Electric Reliability Corporation in Docket
5 No. RR07-16-000, and Mosaic Fertilizer LLC, and City of
6 Tampa Florida, in Docket Nos. RC07-01-000, and RC07-02-000,
7 respectively.

8 There will be a presentation by Regis Binder and
9 Kumar Agarwal from the Office of Electric Reliability. They
10 are accompanied by Jonathan First and Samuel Higginbottom
11 from the Office of the General Counsel, Mary Agnes Nimis
12 from the Office of Electric Reliability, and John Okrak from
13 the Office of Enforcement.

14 MR. BINDER: Good morning, Mr. Chairman, and
15 Commissioners.

16 My name is Regis Binder. I am the Acting
17 Director of the Division of Logistics and Security within
18 the Office of Electric Reliability.

19 In the Draft Order for Item E-2, the Commission
20 conditionally accepts for funding the 2008 Business Plans
21 and Budgets for the North American Electric Reliability
22 Corporation and the eight Regional Entities.

23 In addition, the Draft Order approves the Western
24 Interconnection Regional Advisory Bodies, or WIRAB, budget
25 and funding.

1 The submitted budgets set forth a total funding
2 requirement under Section 215 of the Federal Power Act
3 allocable to end users in the United States of approximately
4 \$82.6 million for 2008.

5 This amount includes approximately \$22.8 million
6 for NERC, \$59.4 million for Regional Entities, and \$404,000
7 for WIRAB funding.

8 The NERC application also included a series of
9 metrics that provide comparative information regarding the
10 organization and business plans of the eight Regional
11 Entities.

12 The Draft Order finds these metrics to be helpful
13 and directs NERC to continue to improve and to refine the
14 metrics.

15 The Draft Order also directs NERC and the
16 Regional Entities to make compliance filings on or before
17 December 14th, 2007, correcting or explaining
18 inconsistencies in the budgets and business plans of the
19 Regional Entities, and providing further information.

20 In addition, the Draft Order directs NERC and the
21 Regional Entities to make compliance filings on or before
22 April 1st, 2008, including, among other things, a true-up of
23 actual 2007 expenditures to the 2007 budgets for NERC and
24 each of the Regional Entities, certain accounting
25 instructions and revisions to NERC's records' retention

1 policy,

2 The Draft Order authorizes NERC to issue billing
3 invoices to fund the Fiscal Year 2008 operations allocable
4 to the United States for NERC, the Regional Entities, and
5 WIRAB. This authorization is not conditioned upon the
6 submission or Commission approval of the required compliance
7 filings.

8 At this time, I would like to turn the microphone
9 over to Kumar Agarwal to present Agenda Item E-14.

10 MR. AGARWAL: Thank you, Regis.

11 The Draft Order in E-14 remands to NERC two
12 decisions in which NERC found that two Florida entities,
13 Mosaic Fertilizer and the City of Tampa, were properly
14 included on the NERC Compliance Registry by the Florida
15 Reliability Coordinating Council, and thus subject to NERC's
16 mandatory and enforceable Reliability Standards.

17 The Draft Order states that: NERC did not
18 adequately address Mosaic's and Tampa's arguments. The
19 Draft Order remands these proceedings to NERC so that NERC
20 may either reverse its decisions or issue a revised
21 Registration Determination with further explanations.

22 This concludes our presentation. We will be
23 happy to answer any questions you may have.

24 CHAIRMAN KELLIHER: Thank you very much. Thanks
25 for your presentations. I just want to make a brief comment

1 on what we are doing today.

2 Basically what we are doing is we are acting to
3 assure adequate funding for the Electric Reliability
4 Organization and the Regional Entities. These bodies were
5 given a very important role under the Energy Policy Act of
6 2005 to develop and propose standards to the Commission, to
7 work on standards that we direct them to improve over time,
8 and also to assist the Commission in enforcing mandatory
9 standards subject to the Commission's review.

10 I want to point out that in particular I have
11 been impressed with the commitment of the Regional Entities
12 towards effective enforcement.

13 Now these Entities have a very important role and
14 it is necessary that they have adequate funding to discharge
15 that role. And today we provide them the resources that
16 they need to discharge the statutory roles they were given
17 by Congress two years ago; and that these Orders do
18 represent a significant increase in funding for these
19 Entities, on the order of 23 percent.

20 So we are providing them the resources. We are
21 providing them with more resources, and they should be able
22 to do their jobs. So I support the Orders.

23 Colleagues? Commissioner Kelly.

24 COMMISSIONER KELLY: I just have a few
25 observations.

1 First, budgets can actually be surprisingly
2 interesting documents to read. I think that, looking at
3 NERC and the Regional Entities' budgets submitted this year
4 provides a very good proxy on the progress that the country
5 is making towards establishing Mandatory Reliability
6 Standards.

7 If you look at the budget and what it's allocated
8 for in 2007 and compare it to how the money is going to be
9 spent in 2008, you see that in 2007 we spent a substantial
10 amount of time and resources on developing Mandatory
11 Standards.

12 If we look towards 2008, you see that that work
13 is going to continue but the bulk of the work is going to be
14 spent--and the resources--are going to be spent on ensuring
15 compliance with the Standards. And that is a significant
16 step along the path of establishing these Reliability
17 Standards.

18 Then I just wanted to comment on staff's
19 description of what we have done with our Conditional
20 Acceptance.

21 NERC, I think wisely, establishes in the budget
22 document for itself and for each Regional Entity, it
23 segregates out the activities that the Entities are
24 undertaking pursuant to Section 215 of EPAC, which of course
25 gets rolled into rates and is paid for by the Consumers

1 through this process.

2 But also a lot of these Entities, particular
3 Regional Entities, have activities that they have
4 traditionally done that are not mandated by Section 215.
5 And NERC has come up with a template to use for that. We
6 have seen that some additional guidance would be helpful,
7 and so that is what we are doing. We are providing
8 additional guidance to NERC for completely identifying and
9 segregating the Section 215 activities from the
10 non-statutory, if you will, activities.

11 I think that is an important thing to do just to
12 ensure that there is no potential for cross-subsidization
13 among these activities.

14 Then finally I wanted to commend NERC and take
15 this opportunity to commend NERC for making such significant
16 progress towards the goals of consistency by formulating
17 this common template. I think that the additional
18 clarifications that we are seeking in this Order will help
19 the Commission complete its review of the 2008 plan.

20 CHAIRMAN KELLIHER: Thank you. Commissioner
21 Moeller.

22 COMMISSIONER MOELLER: Thank you, Mr. Chairman.
23 I look forward to supporting both Orders and the compliance
24 filings on E-2.

25 But on E-14, I think it is significant--and you

1 pointed it out--these are the first two cases of us sending
2 to NERC the appeal of their decisions, or getting
3 clarification on the Compliance Registry. The dependability
4 of the grid is something that may not be the most glamorous
5 thing we do, but it is probably one of the most important
6 things.

7 I understand the need to get all entities--
8 especially in a place like Florida where supplies are
9 tight--but we also do not want this to be too burdensome on
10 smaller entities. The Compliance Registry has made many
11 Entities nervous about their role in it, and we look forward
12 to the response.

13 Because the last thing we want in tightening
14 times is to discourage certain maybe small producers of
15 power from continuing to produce that power because of
16 potentially burdensome requirements.

17 So again I look forward to a timely response from
18 NERC to both the City of Tampa and Mosiac. Thank you.

19 CHAIRMAN KELLIHER: Thank you. Colleagues?
20 Commissioner Spitzer.

21 COMMISSIONER SPITZER: Thank you, Mr. Chairman.

22 I have said often government is about balancing
23 competing interests. I am able to support these two Orders
24 because I think they do balance the competing interests very
25 well.

1 On the funding side, the elected officials of
2 this country and the consumers have an overriding
3 expectation on reliability, and it is essential to fund the
4 reliability functioning from NERC and the Regional Entities.

5 At the same time, we recognize that we are
6 talking about a lot of money in here. It is essential that
7 the FERC administration of NERC be thoughtful and balance
8 these considerations.

9 I think we have done that in a way that shows
10 oversight without unnecessary micromanagement. I commend
11 our staff for accomplishing that objective. And I am also
12 pleased that the WIRAB issue was resolved amicably.

13 On E-14, I would also note my agreement with
14 Commissioner Moeller. Again, you cannot have entities that
15 are vital to the reliability opt out. At the same time, we
16 need to provide a failsafe mechanism to ensure that even the
17 smallest entity has Due Process. That is, an essential
18 component of our legal system is a meaningful opportunity to
19 be heard.

20 And the remand here I think balances respect for
21 the FERC--excuse me, for the NERC process with the right of
22 every Entity to have a meaningful opportunity to be heard.
23 So these competing interests are balanced adequately, I
24 think, and respectfully and I am pleased to support these
25 Orders.

1 CHAIRMAN KELLIHER: Thank you. Commissioner
2 Wellinghoff.

3 COMMISSIONER WELLINGHOFF: I too support both of
4 these Orders. Thank you, Staff, for your presentation on
5 these. I simply would just also echo the comments of
6 Commissioner Moeller and Commissioner Spitzer on E-14. I
7 think we do need to ensure that we are not burdening these
8 smaller Entities, and I look forward to NERC looking at this
9 again and getting back to us.

10 Thank you.

11 CHAIRMAN KELLIHER: I like the idea of a remand.
12 We get our Orders remanded to us from time to time--

13 (Laughter.)

14 CHAIRMAN KELLIHER: --so it's nice--

15 COMMISSIONER MOELLER: --that we can remand to
16 somebody, yes.

17 (Laughter.)

18 CHAIRMAN KELLIHER: --that we can be on the
19 giving end. So we look forward to seeing what they do on
20 remand.

21 Commissioner, Moeller.

22 COMMISSIONER MOELLER: Just a quick question for
23 the team, maybe elaborating on NERC's penalty authority of
24 large entities versus small entities.

25 Jonathan, you look ready to answer that.

1 (Laughter.)

2 MR. FIRST: NERC has a document that is approved
3 by the Commission called "The NERC Sanctions Guidelines."
4 That document sets out the considerations that NERC and the
5 Regional Entities will apply when considering the assessment
6 of a penalty.

7 One of the considerations in that document is the
8 size of the Entity that is in noncompliance. So I think
9 through that NERC has the ability to consider the size of an
10 Entity in the penalty context.

11 COMMISSIONER MOELLER: Very good. Thank you.

12 CHAIRMAN KELLIHER: Colleagues, shall we vote?

13 SECRETARY BOSE: We will take a vote on these
14 items together, beginning with Commissioner Wellinghoff.

15 COMMISSIONER WELLINGHOFF: I vote aye.

16 SECRETARY BOSE: Commissioner Moeller.

17 COMMISSIONER MOELLER: Aye.

18 SECRETARY BOSE: Commissioner Spitzer.

19 COMMISSIONER SPITZER: Aye.

20 SECRETARY BOSE: Commissioner Kelly.

21 COMMISSIONER KELLY: Aye.

22 SECRETARY BOSE: And Chairman Kelliher.

23 CHAIRMAN KELLIHER: Aye.

24 Thank you very much for a productive meeting.

25 Thank you.

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1 (Whereupon, at 11:22 a.m., Thursday, October 18,
2 2007, the 924th FERC Commission meeting was adjourned.)

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