



Interstate Natural Gas Association of America

U.S. Interstate Pipeline Industry

Joan Dreskin, General Counsel

Interstate Natural Gas Association of America

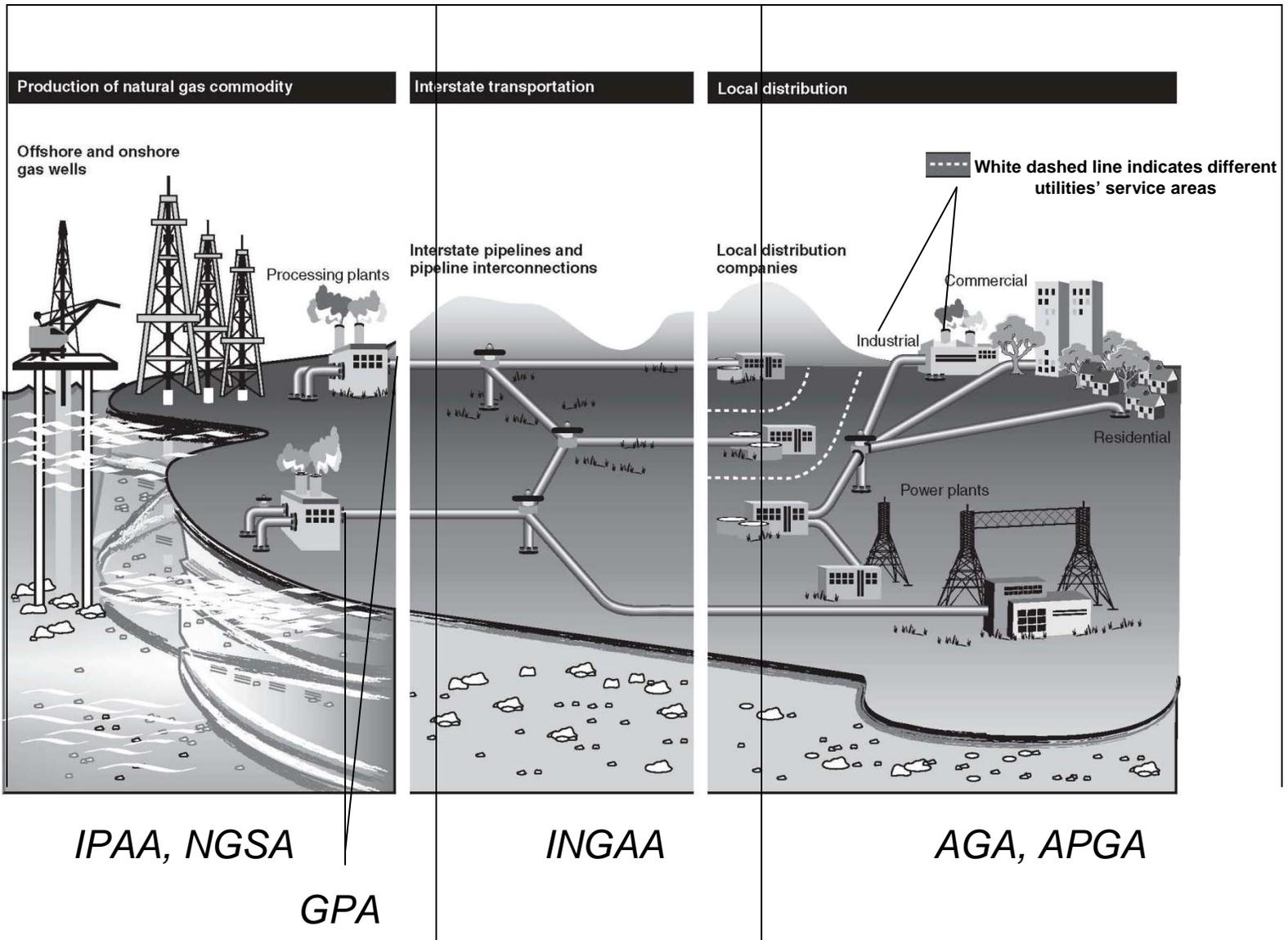
Indo-U.S. Regulatory Workshop

Washington, D.C.

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Natural Gas Production, Interstate Transportation, and Local Distribution



Source: GAO Reports 06-968

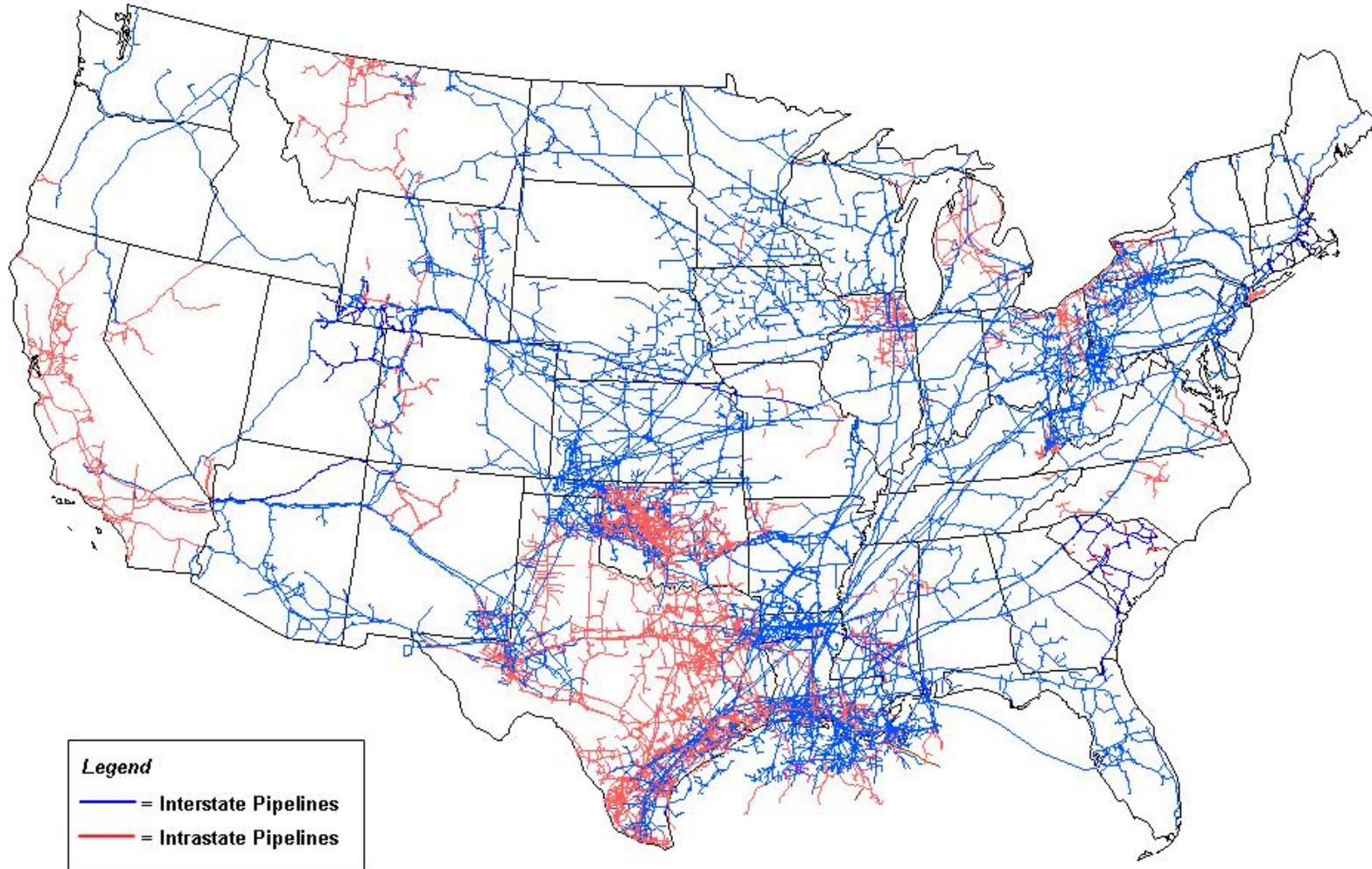
Interstate Pipelines

- Provide unbundled transportation and storage service
- Provide transportation on non-discriminatory basis
- Do not sell gas
- Transport gas owned by our customers

Who are our customers?

- Local distribution companies
- Industrials
- Electric power plants
- Producers on supply-push pipelines (our newest customers)

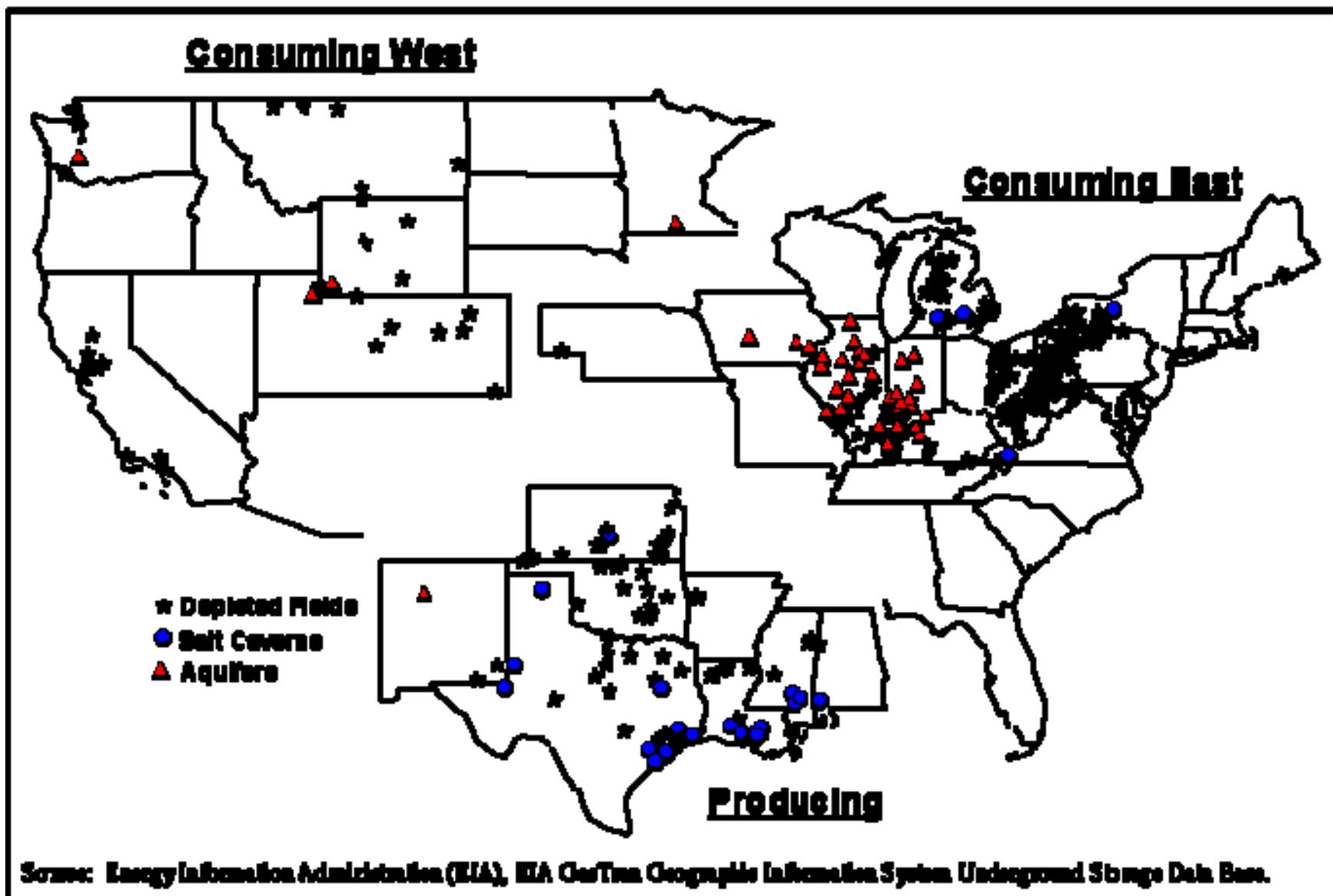
U.S. Natural Gas Pipeline Network, 2009



Source: Energy Information Administration, Office of Oil & Gas, Natural Gas Division, Gas Transportation Information System

305,000 miles of U.S. pipeline; 217,300 miles of interstate pipeline

Figure 2. Underground Natural Gas Storage Facilities in the Lower 48 States



FERC: Our Economic Regulator

- Interstate pipelines are regulated by FERC under the Natural Gas Act
- FERC ensures that pipeline rates are just and reasonable
- Pipeline rates are cost-based
- Pipelines may not increase rates without a new rate case
- Pipeline often must discount rates to meet competition
- Pipeline have negotiated rate authority

FERC Authorizes Pipeline Construction and Operation

- A project found to be the “public convenience and necessity” is provided with a federal right of eminent domain
- State law is preempted if it conflicts with the federal finding of PC&N
- FERC is the lead agency for purposes of preparing an environmental impact statement

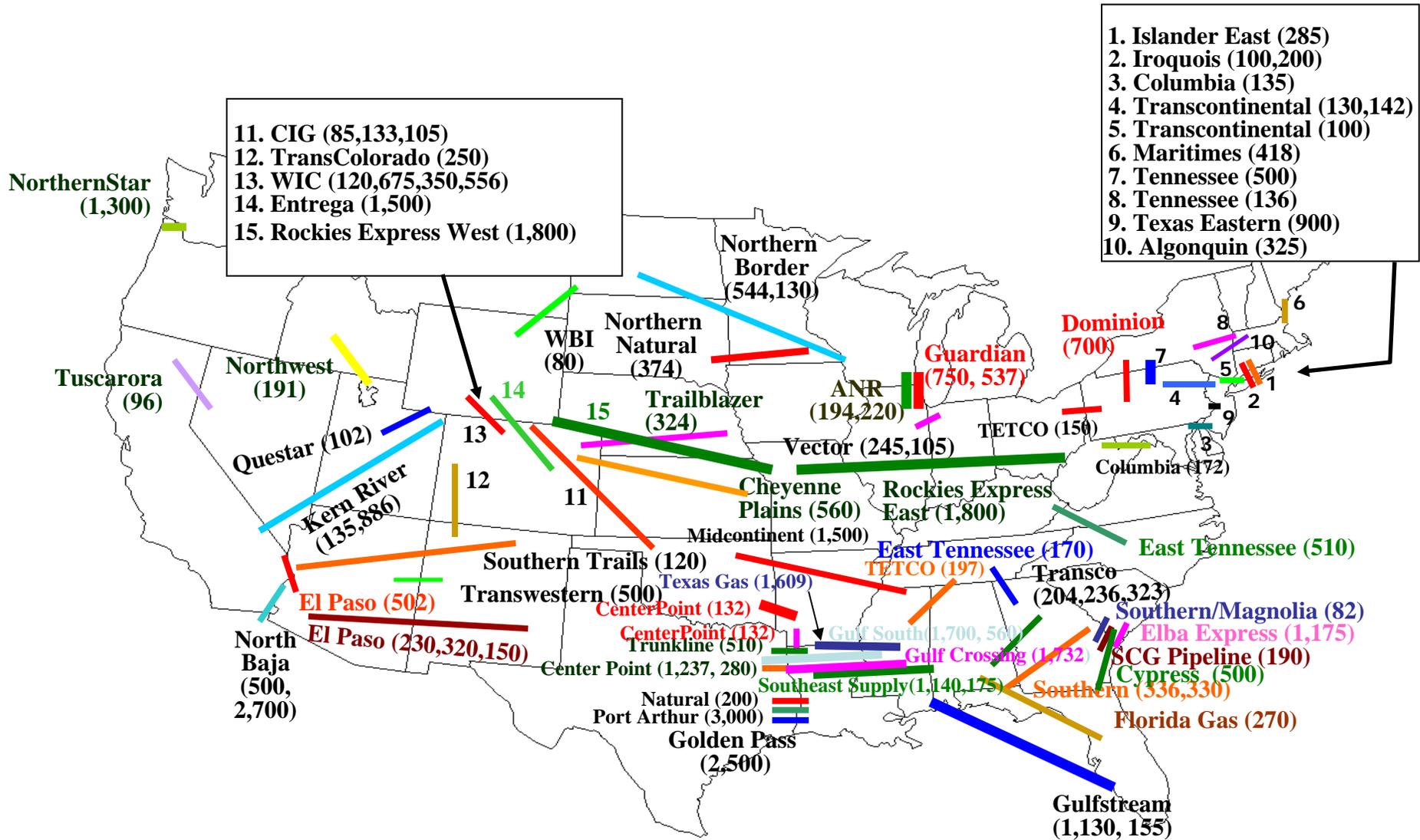
Competitive Entry

- Multiple proposed projects often compete for a market opportunity
- No legal or regulatory preference for incumbents serving a market
- Multiple projects may be approved if they can satisfy the need criteria and pass environmental review
- FERC given considerable latitude in determining need and in making a determination of public convenience and necessity
- Winners and losers are picked by the market, not FERC

Natural Gas Infrastructure: The Success Story

- FERC does not second guess the market in determining need
 - Project sponsor's willingness to put capital at risk
 - Contractual commitments as evidence of need
 - Incremental pricing prevents cross subsidization
- Pipelines only build what contracts will support
- Pipelines do not build reserve capacity

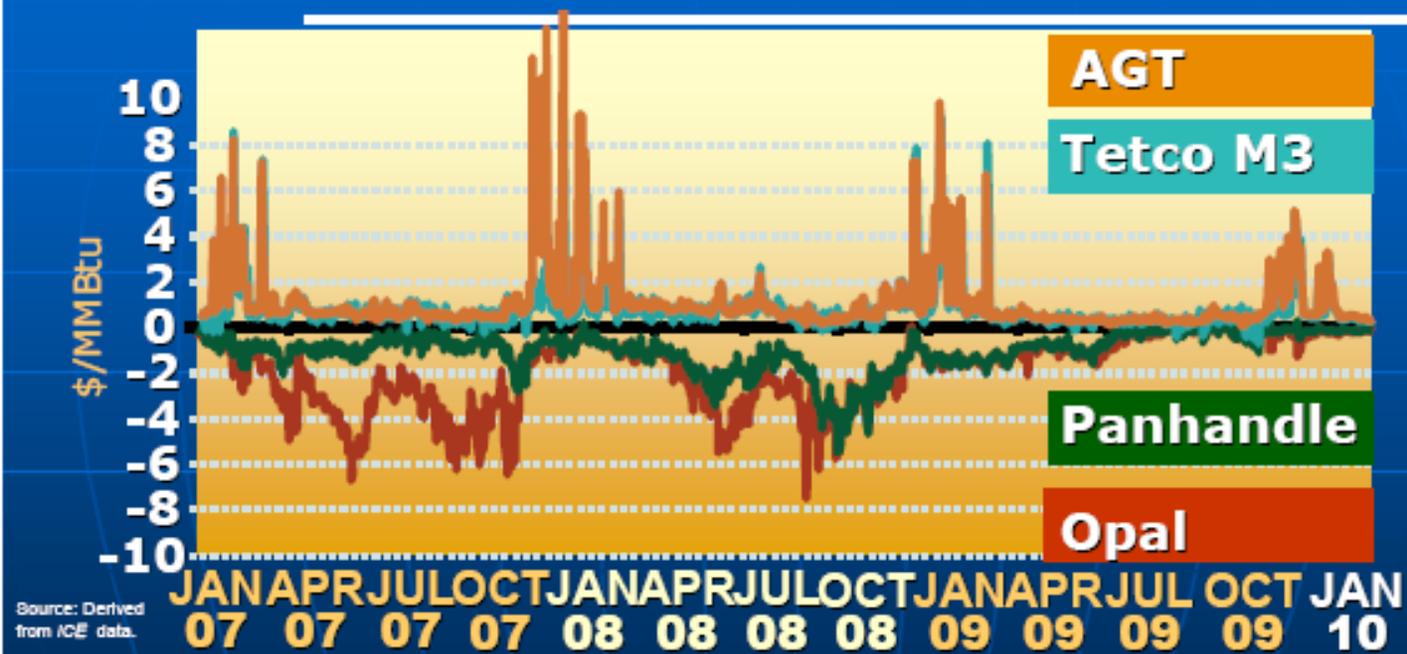
Between 2000 and 2009 FERC approved 15,000 miles of interstate pipeline



Natural Gas Infrastructure Benefits Consumers

- Equalizes gas commodity prices across the U.S.
- Reduces gas price volatility
- Reduces delivered gas prices for consumers
- “The United States is closer than ever before in being a single natural gas market with congestion limited to a few markets for a few periods during the year.” FERC, *State of the Markets Report 2009*

New Infrastructure Created National Gas Market



Source: Derived from ICE data.

What is FERC doing right?

- Lets the market work
- Regulates under a federal siting law that recognizes the inherent interstate character of the natural gas industry
- Provides a stable economic regulatory regime that gives investors confidence

Siting Challenges:

State Action Under Federal Law

- While action pursuant to NGA section 7 preempts state law, it does not supersede state actions pursuant to federal law
- In some cases, states act pursuant to delegated federal authority, e.g., Coastal Zone Management Act, Clean Water Act
- Absent direction from Congress, the federal courts will not break a stalemate

Joan Dreskin
General Counsel
Interstate Natural Gas Association of America

10 G Street, N.E. Suite 700
Washington, DC 20002
(202) 216-5928

jdreskin@ingaa.org

<http://www.ingaa.org>