Stranded Gas Hearings

(0409021300a Minutes)

The Federal Energy Regulatory Commission's Regulation of the U.S. Segment(s) of an Alaska Natural Gas Pipeline

Robert Cupina, Deputy Director, Office of Energy Projects, Federal Energy Regulatory Commission (FERC);
John Katz, Assistant General Counsel for Energy Projects, Federal Energy Regulatory Commission (FERC), September 2, 2004.

CHAIR SAMUELS called the meeting back to order and the committee moved to the next presentation by Robert Cupina, Deputy Director, Office of Energy Projects, Federal Energy Regulatory Commission (FERC), and John Katz, Assistant General Counsel for Energy Projects, FERC. Chair Samuels informed members that Mr. Cupina's office is responsible for processing applications for the construction and operation of interstate and international natural gas facilities including LNG and licensees for non federal hydro-electric projects as well as managing the dam's safety program. Mr. Katz is senior counsel at FERC where he specializes in hydroelectric licensing and natural gas pipeline certification matters.

MR. CUPINA said that natural gas is a critical component of the nation's energy mix and informed members:

> The Department of Energy predicts that growth and demand over the next several decades will require a significant increase in gas production and delivery capacity. Supplies from the Lower 48 sources, imported LNG and Alaskan gas, will all be needed to meet projected demand. An application to construct and operate an Alaskan pipeline may be filed with FERC under either the Alaska Natural Gas Transportation Act (ANGTA) or the Natural Gas Act (NGA). We have no application before us right now and we would encourage sponsors to make a single filing to avoid time-consuming duplicative processing and potential litigation. Whatever form a proposal to us takes, we are positioned to review such a project comprehensively and expeditiously so that gas can reach the market in a timely fashion. Alaska gas pipeline provisions in the national energy bill will ensure such timely completion by clarifying that NGA proposals, to compete with ANGS, (A) and (D) be considered by providing that FERC is the lead agency and by imposing strict processing timeframes.
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> So, our comments today and our answers are based on the commission's current competitive market non-subsidization approach to major new pipeline projects. These open-access policies under which shippers are able to buy gas directly from production areas and separately obtain transportation capacity on interstate pipelines should serve the interests of the state of Alaska as well as of all other shippers. At the same time, we are mindful that the size, scope, and importance and uniqueness of an Alaskan pipeline as well as certain provisions in the National Energy Bill may call for some variance in that approach to insure its development.

SENATOR GRETCHEN GUESS said that it has been implied that FERC doesn't consider rolled-in tariffs, but only considers incremental tariffs and asked if he could comment on that.

MR. CUPINA replied:

> For a new pipeline, we'd just be talking about an initial rate. So, at that juncture you're not really talking about rolled-in or incremental. It's usually when there's an addition to that system or some expansion that the issue of how to recover the cost for that expansion arises. The policy has been in general for an expansion – we would consider rolling in, in fact we require rolling-in when [end of tape]

MR. CUPINA continued:

> The new rate would be higher than the existing rate that is incrementally priced. So, there's roll-in when it benefits the existing shippers by lowering their rate.

MR. KATZ added:

> As you probably know from reading [the proposed federal energy bill] and its impacts with regard to expansion and other issues... the draft energy bill required that if the commissioner was going

> to require an expansion of an Alaska gas pipeline, that it was required by the proposed law to insure that the rates established would not require existing shippers on the pipeline to subsidize expansion shippers. So, that is fairly consistent with the commission's existing policy.

CHAIR SAMUELS asked if the ability to roll in tariffs could be contracted away. "If in the Stranded Gas Act between Alaska and the applicant wanted to have rolled in tariffs, how would FERC view that?"

MR. CUPINA asked if he was talking about all expansions.

CHAIR SAMUELS replied yes – just in the instance:

> Let's say that the price was going to increase the tariff, not just decrease, could it be contracted away or how would FERC view the ability to contract away the ability to have incremental tariffs as opposed to mandating rolled-in tariffs?

MR. KATZ replied that it depends. The right to not have rates increased is a right of the existing shippers, not a right of the pipeline. He realizes that in some scenarios in Alaska the shippers are the pipeline, so that might be different than a typical case.

> In a typical case, I don't know that the commission would allow the pipeline to contract the rights of shippers. In a case where the shippers and the pipeline have the same identity, it might view it differently.