American Public Gas Association

Weekly Update September 17, 2009

APGA Testifies Before House Agriculture Committee on Over-the-Counter Markets

On September 17th, Dave Schryver, APGA's Executive Vice President, testified before the House Agriculture Committee at a hearing on the U.S. Treasury Department's proposed legislation regarding the regulation of over-the-counter (OTC) derivatives markets. The hearing was very well-attended by the members on the Committee which is a pretty strong indication of the congressional interest in the issue.

In addition to APGA, other witnesses at the hearing included: Glenn English, President of the National Rural Electric Cooperatives Association; Richard Hirst, Senior Vice President and General Counsel for Delta Air Lines; John Damgard, President of the Futures Industry Association; Terrence Duffy, Executive Chairman of the CME Group Inc.; Robert Pickel, CEO of the International Swaps & Derivatives Association; and Johnathan Short, Vice President and General Counsel for the IntercontinentalExchange, Inc. Throughout the hearing, several members from both the majority and the minority stressed that Congress would be passing legislation on the OTC issue.

APGA's testimony expressed support for provisions in the Treasury proposal that would increase transparency and establish aggregate position limits. However, APGA stated that the proposal should be clarified to ensure that public gas systems would not be required to clear their OTC transactions communicating that mandated clearing would constitute "a significant financial and operational burden on these systems, their communities and their consumers." The testimony addressed how the alternative, suggested by some, of requiring end-users to clear their transactions but allowing them to use-non-cash collateral would provide not provide any relief for public gas systems since public gas systems rarely maintain liquid assets in the quantity necessary to meet the requirements associated with clearing. APGA's testimony also communicated that while provisions that require the clearing of all OTC transactions are intended to address systemic risk, the OTC transactions entered into by public gas systems transactions present no systemic risks to the market.

It is likely that both the House and Senate may be debating financial reform and OTC regulation over the next few months. A copy of APGA's testimony is available on the APGA website at www.apga.org. If you have any questions on this article, please contact Dave Schryver of APGA's staff by phone at 202-464-2742 or by email at dschryver@apga.org.

APGA Submits Comments to MMS on Offshore Leasing

Last week, APGA submitted comments to the U.S. Minerals Management Service regarding the Five-Year Plan Draft Proposed Program for lease sales from 2010 to 2015 in the Outer Continental Shelf (OCS). APGA has been a strong proponent of opening up areas in the OCS to responsible natural gas development and APGA's comments express strong support for portions of the plan that would open many new areas in the OCS to gas production. Specifically, APGA supports the proposed offering of leases in four areas off of Alaska, two areas off of the Pacific coast, three areas in Gulf of Mexico, and three areas off of the Atlantic Coast. Many of these areas were formerly protected by congressional and executive restrictions prohibiting oil and gas development on the OCS.

The Five-Year Plan determines where and when companies can lease OCS lands for energy production. Areas in the plan are considered for leasing but do not have to be leased. Areas not included in the plan may not be leased. The proposed five-year plan would open many new areas on the OCS to oil and gas drilling. The plan proposes a total of 31 lease sales on the OCS in 12 of the existing 26 planning areas established by MMS. MMS estimates that this would allow access to approximately 76.47 trillion cubic feet of technologically recoverable natural gas.

In its comments, APGA states that "A critical component of the solution to long-term affordable natural gas is increasing domestic supply through our abundant and untapped natural gas resources." The comments further state that "As Congress considers climate change legislation, increasing natural gas supply becomes even more critical since it is expected that natural gas will play a critical role in reducing greenhouse gas emissions."

A copy of the comments is available on the APGA website at www.apga.org. If you have any questions on this article, please contact Dave Schryver of APGA's staff by phone at 202-464-2742 or by email at dschryver@apga.org.

A copy of APGA's letter is available on the APGA website at www.apga.org/correspondence.

APGA Congratulates New Senate Agriculture Committee Chairman, Reiterates Opposition to Mandatory Over-the-Counter Clearing for Public Gas Systems

This week, the American Public Gas Association (APGA) sent a letter to Senator Blanche Lincoln (D-AR) congratulating her on her appointment as Chairman of the Senate Agriculture Committee and reiterating APGA's opposition to mandatory clearing of over-the-counter (OTC) transactions for public gas systems. Senator Lincoln became the Chair of the Committee when the former Chair, Senator Harkin, stepped down to become Chair of the Senate Health, Education, Labor and Pensions Committee. The mandated clearing of all OTC transactions would require public gas systems to be able to post margin and to meet potential margin calls.

In the case of a standard exchange (NYMEX) traded natural gas contract, the initial margin collateral posted at inception is approximately $5,000 per contract (10,000 MMBtu).

As stated in the letter, proposals that would require all standardized OTC derivatives transactions to be cleared would significantly impair the financial ability of public gas systems to engage in gas supply strategies. The mandated clearing of all OTC transactions would require public gas systems to post initial margin for all transactions and to meet potential margin calls whenever required on little notice. The letter also responds to recommendations that clearing requirements could be less burdensome if some end-users, such as public gas systems, are given the option of posting non-cash collateral. The letter communicates that the alternative of using non-cash collateral would not provide any relief to public gas systems since non-cash collateral would entail the deposit of liquid assets and public gas systems simply do not maintain such liquid assets in the quantity necessary to meet the requirements associated with clearing.

It is anticipated that the regulation of OTC markets will be discussed as part of financial overhaul legislation Congress will debate this fall. A copy of APGA's letter to Chairman Lincoln is available on the APGA website at www.apga.org/correspondence. If you have any questions on this article, please contact Dave Schryver of APGA's staff by phone at 202-464-2742 or by email at dschryver@apga.org.

Senate Energy & Natural Resources Committee studies economic impacts of climate change legislation

The Senate Energy & Natural Resources Committee held two hearings this week regarding the potential costs and price volatility in the energy sector, as well as the cost and economic impact on the government, created by climate change legislation that would establish a greenhouse gas trading program. The hearings also focused on ways to reduce and contain those costs.

The first hearing on Tuesday, September 15 included witnesses from policy analysis organizations, academia and the Congressional Research Service. The panel included Eileen Claussen, president, Pew Center on Global Climate Change; Jason Grumet, president, Bipartisan Policy Center; Dr. Joseph Mason, professor, Louisiana State University; Dr. Michael Wara, law professor, Stanford University; Brent Yacobucci, energy and environmental policy specialist, Congressional Research Service.

The second hearing on Thursday, September 17, focused on energy and economic related effects that could occur from climate change legislation. The committee heard from Dr. Douglas Elmendorf, director, Congressional Budget Office; Dr. Richard Newell, administrator, U.S. Energy Information Administration; Dr. Larry Parker, energy and environmental policy specialist, Congressional Research Service; and Reid Harvey, chief of climate economics branch of the climate change division, U.S. Environmental Protection Agency.

The committee focused mostly on mechanisms to contain costs including appropriate levels of offsets, allowance allocations, a price collar for issuing allowances, safety valves if allowance prices get too high, and other options. Five Senate committees have jurisdiction over the climate change legislation in the Senate and each of them will be holding hearings this month on different areas that could impact the bill. Those committees include Environmental & Public Works, Energy & Natural Resources, Agriculture, Finance and Foreign Relations.

Senate Environmental and Public Works Committee Chairman Barbara Boxer plans to introduce climate change legislation in the near future that will be considered the primary climate change legislative vehicle in the Senate. Since Boxer's legislation has not yet been finished, most of the economic and cost projections in these hearings focused on the Waxman-Markey Clean Energy & Security Act (ACES) legislation that passed the U.S. House of Representatives in June. Boxer plans to offer similar but not identical legislation to Waxman-Markey.

If you have questions on this article please contact Nate Hill at 202-464-2742 or nhill@apga.org.

APGA Discusses Pipeline Safety with State Regulators' Association
On Wednesday APGA's Bert Kalisch and John Erickson spoke at the Annual Meeting of the National Association of Pipeline Safety Representatives (NAPSR) in Indianapolis. NAPSR is the association of state pipeline safety regulators and therefore has a great deal of influence both with how pipeline safety rules are enforced with APGA member systems and with the federal regulatory programs. At last year's NAPSR Annual Meeting, APGA discussed our position on the proposed Distribution Integrity Management Programs (DIMP) regulations and found that our position and NAPSR's position were very similar and as a result NAPS and APGA, were successful in convincing the Pipeline And Hazardous Materials Safety Administration (PHMSA) to make changes to the rule to make it less burdensome on small operators.
At this year's meeting, APGA found that NAPSR shared our concerns about several pending regulations including the proposal to include fire-only events as reportable incidents. We also showed NAPSR the developmental version of SHRIMP, the DIMP plan development tool being created by the APGA Security and Integrity Foundation (SIF). NAPSR has actively participated in the development of SHRIMP as well as other SIF programs. NAPSR's participation and support is key to ensuring that DIMP plans developed by SHRIMP will meet the expectations of state regulators. SHRIMP is scheduled to be released this November in time for the issuance of the final DIMP rule.
For further information please contact John Erickson, APGA Vice President, Operations 202-464-0834 or jerickson@apga.org.

Weekly Storage Report

Here is the weekly EIA Summary Report issued Thursday, September 17, 2009. A 66 Bcf **increase** has been reported.

EIA Storage Report Highlights for **Friday, September 11, 2009**:

Summary

Working gas in storage was 3,458 Bcf as of Friday, September 11, 2009, according to EIA estimates. This represents a net increase of 66 Bcf from the previous week. Stocks were 496 Bcf higher than last year at this time and 487 Bcf above the 5-year average of 2,971 Bcf. In the East Region, stocks were 153 Bcf above the 5-year average following net injections of 45 Bcf. Stocks in the Producing Region were 261 Bcf above the 5-year average of 849 Bcf after a net injection of 11 Bcf. Stocks in the West Region were 72 Bcf above the 5-year average after a net addition of 10 Bcf. At 3,458 Bcf, total working gas is above the 5-year historical range.

http://www.eia.doe.gov/oil_gas/natural_gas/ngs/ngs.html