Resolution on Ensuring Stable Natural Gas Markets

WHEREAS, Following a year-long effort, a very broad task force representing all major natural gas stakeholders issued in March 2011 the Bipartisan Policy Center's and the American Clean Skies Foundation's report of the *Task Force on Ensuring Stable Natural Gas Markets*; *and*

WHEREAS, The purpose of the Task Force was to review the conditions for creating a more certain U.S. market for using and producing natural gas and to develop recommendations for government policymakers, federal regulators, State utility commissions, producers and major consumers; *and*

WHEREAS, The Task Force's participants included representatives from natural gas producers, pipelines, distributors, industrial customers, electricity generators, consumer advocates, NARUC, the Natural Resources Defense Council, and other industry experts; *and*

WHEREAS, The report and recommendations of the Task Force were unanimous; *and*

WHEREAS, The report brings good news that the newly understood ample natural gas resource will likely be among the most important factors in stabilizing natural gas prices. Fundamental changes in the domestic supply-and-demand balance for natural gas, including an unprecedented level of available storage and import capacity, should allow markets to function more efficiently and fluidly in the future; *and*

WHEREAS, The report emphasizes the importance by regulators and private market participants to ensure that these positive trends materialize as quickly and fully as possible; *and*

WHEREAS, NARUC previously adopted a *Resolution on Long-Term Contracting* at the NARUC Board of Directors meeting on November 16, 2005, which urged State regulators to consider long term contracting as a potentially appropriate ingredient in a gas utility's portfolio strategy, not discourage long-term transportation and storage contracts when a specific record merits encouragement, and consider pre-approval of long-term contracts, *and*

WHEREAS, The unanimous Key Task Force Findings and Recommendations are as follows:

1. Recent developments allowing for the economic extraction of natural gas from shale formations reduce the susceptibility of gas markets to price instability and provide an opportunity to expand the efficient use of natural gas in the United States; *and*

2. Government policy at the federal, State and municipal level should encourage and facilitate the development of domestic natural gas resources, subject to appropriate environmental safeguards. Balanced fiscal and regulatory policies will enable an increased supply of natural gas to be brought to market at more stable prices. Conversely, policies that discourage the development of domestic natural gas resources, that discourage the demand, or that drive or mandate inelastic demand will, disrupt the supply-demand balance, with adverse effects on the stability of natural gas prices and investment decisions by energy-intensive manufacturers; *and*

3. The efficient use of natural gas has the potential to reduce harmful air emissions, improve energy security, and increase operating rates and levels of capital investment in energy intensive industries; *and*

4. Public and private policy makers should remove barriers to using a diverse portfolio of natural gas contracting structures and hedging options. Long-term contracts and hedging programs are valuable tools to manage natural gas price risk. Policies, including tax measures and accounting rules that unnecessarily restrict the use or raise the costs of these risk management tools should be avoided; *and*

5. The National Association of Regulatory Utility Commissioners should consider the merits of diversified natural gas portfolios, including hedging and longer-term natural gas contracts, building on its 2005 resolution. Specifically, NARUC should examine:

> a. Whether the current focus on shorter-term contracts, first-of-the-month pricing provisions and spot market prices supports the goal of enhancing price stability for end users; *and*
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> b. The pros and cons of long-term contracts for regulators, regulated utilities and their customers; *and*
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> c. The regulatory risk issues associated with long-term contracts and the issues of utility commission pre-approval of long term contracts and the look-back risk for regulated entities; *and*
>
> d. State practices that limit or encourage long-term contracting; *and*

6. As the Commodity Futures Trading Commission (CFTC) implements financial reform legislation, including specifically Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Pub. L. 111-203), the CFTC should preserve the ability of natural gas end users to cost effectively utilize the derivatives markets to manage their commercial risk exposure. In addition, the CFTC should consider the potential impact of any new rulemaking on liquidity in the natural gas derivatives market, as reduced liquidity could have an adverse affect on natural gas price stability; *and*

7. Policymakers should recognize the important role of natural gas pipeline and storage infrastructure and existing import infrastructure in promoting stable gas prices. Policies to support the development of a fully functional and safe gas transmission and storage infrastructure both now and in the future, including streamlined regulatory approval and options for market-based rates for new storage in the United States, should be continued; *and*

8. Finally, regulators should be mindful of the lead time required for markets and market participants to adjust to new policies; *now, therefore be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2011 Summer Committee Meetings in Los Angeles, California, upon recommendation of the Committee on Gas, commends the *Task Force on Ensuring Stable Natural Gas Markets* for its report, supports the efficient use of natural gas, encourages broad distribution of the report, and urges State regulators to give serious consideration to the Task Force's recommendations.

Sponsored by the Committee on Gas
Adopted by the NARUC Board of Directors July 20, 2011