UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Standards for Business Practices for Interstate Natural Gas Pipelines)	Docket RM96-1-030

COMMENTS OF THE
INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA

Pursuant to the Commission's Notice of Proposed Rulemaking ("NOPR") issued in this docket on July 16, 2009, 128 FERC ¶ 61,031, the Interstate Natural Gas Association of America ("INGAA") submits the following comments on the Commission's proposal to amend its pipeline business operation regulations at 18 C.F.R. 284.12 in accordance with North American Energy Standards Board ("NAESB") standards for facilitating index-based pricing of capacity releases and flexible use of pipeline delivery and receipt points.[1] While INGAA generally supports the Commission's proposal, INGAA urges the Commission to defer requiring implementation of the index-based capacity release and flexible receipt and delivery point standards until six months after the Commission completes its consideration of NAESB Wholesale Gas Quadrant ("WGQ") Standards for Business Practices Version 1.9, which NAESB is scheduled to publish on September 30, 2009 and file with the Commission shortly thereafter.

[1] For index-based pricing of capacity release transactions, NAESB modified the Wholesale Gas Quadrant (WGQ) Standards 5.3.1, 5.3.3, and 5.3.26; added WGQ Definitions 5.2.4 and 5.2.5; added WGQ Standards 5.3.61, 5.3.62, 5.3.62a, 5.3.63, 5.3.64, 5.3.65, 5.3.66, 5.3.67, 5.3.68, and 5.3.69; and for flexible points of receipt and delivery, added WGQ Standard 1.3.80.

(Version 1.9 will include, among other new standards, modifications to the index-based capacity release business standards that are not included in this NOPR, as well as companion technical standards that are needed for a successful implementation of the index-based release business standards.) As an alternative procedure, the Commission could simply consider the comments submitted in response to this NOPR along with comments to be submitted in response to a NOPR on Version 1.9. Regardless of the procedure, INGAA recommends that the Commission defer any required implementation of the standards proposed here until after consideration of Version 1.9 for several reasons.

First, with respect to index-based pricing of capacity releases, deferring implementation will enable the Commission to consider and implement the most recent version of the NAESB business standards, and thereby avoid confusion that might otherwise occur in attempting to implement already outdated standards on an interim basis.

Second, deferring implementation will afford the pipeline industry and its customers adequate time to implement the technical standards for index-based releases that are to be included in Version 1.9, but that are not part of the instant NOPR. Those technical standards are an integral part of the business standards, which cannot be implemented effectively without them.

Third, implementing the proposed new flexible receipt and delivery business standard will be a complex task for many pipelines.

Fourth, implementation of all final standards in Version 1.9 at the same time, after a sufficient transition period, will avoid disruptions that might otherwise occur if Version 1.9 is implemented piecemeal. Although the precise timing need not be decided here, INGAA estimates that a six month transition period would be sufficient for pipelines, and adequate to ensure that significant scheduling changes associated with implementing the new flexible point standard will not have an adverse disruptive impact during the upcoming 2009-2010 heating season.

Finally, this approach will not impede shippers' ability to use index-based releases. As the Commission observed (NOPR at P 8), existing regulations authorize releasing shippers to use price indices or other formula rates on all pipelines. In fact, this approach will ensure that future index-based capacity releases can be processed quickly and efficiently by employing the related technical standards.

BACKGROUND SUMMARY

In a previous NOPR in this proceeding, FERC Stats. & Regs. ¶ 32,609 (2006), and in Order 698, *id*. at ¶ 31,251 (2007), *order on clarification and reh'g*, Order 698-A, 121 FERC ¶ 61,264 (2007), the Commission provided clarification and guidance to NAESB regarding Commission policies on (1) use of gas indices for pricing capacity release transactions; (2) flexibility in the use of receipt and delivery points; and (3) changes to the intra-day nomination schedule to increase the number of scheduling opportunities for firm shippers. In September 2008, NAESB reported to the Commission that the WGQ had adopted business practice standards related to flexible gas receipt and delivery points and index-based pricing for capacity releases, but that none of the standards proposed for modifying the intra-day nomination schedule achieved a sufficient consensus to warrant NAESB's imprimatur.

With respect to index-based pricing, the proposed NAESB standards, as described by the Commission, provide that:

> shippers wishing to release capacity may use a variety of specified indices and methods to evaluate bids. The standards provide that pipelines must support at least two non-public price index references that are representative of receipt and

> delivery points on its system, and must support all price indices it references in its gas tariff, or general terms and conditions of service. Releasing shippers are permitted to use alternative indices if the releasing shipper provides licenses to the pipeline for the use of those indices. The standards provide that the releasing shipper is responsible for providing the pipeline, and the replacement shipper, with the method of calculating the reservation rate from the index. The pipeline is required to adhere to the standard capacity release timeline for processing releases if the releasing shipper has provided the pipeline with sufficient instructions to evaluate corresponding bids. However, if the offer includes unfamiliar or unclear terms and conditions, or an index not supported by the pipeline, the pipeline may process the release on a slower time frame.

NOPR at P 9. When it filed its report with the Commission in September 2008, NAESB had not completed its evaluation and development of the corresponding technical standards that would be required to fully implement these business standards. The revised and new technical standards needed to support index-based releases were completed and approved by the WGQ Executive Committee and have now been adopted and ratified through the NAESB consensus process. See NOPR at P 14 & n.10. The technical standards will be included in Version 1.9 of the standards. NOPR at P 10. NAESB plans to publish the WGQ Standards for Business Practices Version 1.9 on September 30th and send it to the Commission at that time or shortly thereafter.

With respect to receipt and delivery point flexibility, pipelines have not been required to conduct the "redirects" as proposed in the new standard. As described in the NOPR, the new business standard

> would require pipelines to permit shippers to redirect scheduled quantities to other receipt points upstream of a constraint point or delivery points downstream of a constraint point without a requirement that the quantities be rescheduled through the point of constraint. This standard will provide shippers, including gas-fired generators, with increased flexibility to obtain capacity or gas from other shippers without adversely affecting other shippers' scheduling rights.

NOPR at P 12. Unlike the proposed NAESB standards for index-based pricing of releases, the flexible point business standard does not include new or modified technical standards for implementation.

With respect to intra-day nomination timeline modifications, none of the various proposals to change the existing standards considered by NAESB achieved a sufficient consensus to warrant new or revised NAESB standards. NOPR at P 18. Accordingly, the Commission decided not to propose any changes to its regulations on intra-day nominations, and left the matter of implementing changes to individual pipelines. NOPR at PP 21-22.

COMMENTS

The Commission Should Defer Implementation of the Proposed Standards until after Adoption of NAESB Version 1.9 Standards.

INGAA supports the Commission's proposal to adopt NAESB standards for index-based capacity release transactions (subject to the pending modifications discussed below) and for increased receipt and delivery point flexibility, as well as its conclusion that there is not sufficient basis at this time to change the Commission's existing regulations governing the intra-day nomination timelines. INGAA's sole concern goes to the timing of requiring compliance with new standards applicable to index pricing and flexible receipt and delivery points. In INGAA's view, a number of considerations support an approach under which the Commission would defer any requirement to implement the NAESB standards that are the subject of the instant NOPR until after it finalizes Version 1.9 of the NAESB standards.

A. The Proposed Standards for Index Pricing of Releases Are Not the Final NAESB Standards.

After NAESB sent its September 2008 report to the Commission, the NAESB WGQ Executive Committee decided that one definition and two business standards needed modification. These modifications were approved by the WGQ Executive Committee on May 14, 2009.[2] The modified definition and business standards will be included in NAESB's September 2009 publication along with the corresponding technical standards as well as the rest of Version 1.9. As a result, these modified standards were not included in this NOPR. Requiring implementation of the business standards as outlined in this NOPR now, and requiring modifications to the business standards in a separate rulemaking process shortly thereafter, would be inefficient and may cause confusion among pipelines and shippers.

B. Technical Standards Are Essential for the Standardized Implementation of Index-Based Capacity Release Standards.

Technical standards for implementation of the proposed index pricing business standards are not included in the instant NOPR but will be included in Version 1.9. *See* NOPR at P 10. In general, as NAESB has explained, the translation of business practice standards to technical implementation of those standards is accomplished through the identification of the data required to support the transactions, definition of information requirements for the data, and mapping of that data into specific electronic transactions. See NAESB Report on Order 698 at 2 (September 3, 2008). Indeed, NAESB considers a review of the technical aspects of business practice standards "an essential step in the standards development process" so those who must implement the business practices do not have to design and build technical solutions for the business practices once on their own and again after technical standards have been established. Such a

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[2] NAESB WGQ Definition 5.2.4, Standard 5.3.2 and Standard 5.3.23. *See* NAESB WGQ 2007 Annual Plan Item 7a/NAESB WGQ 2008 Annual Plan Item 4a/NAESb WGQ 2009 Annual Plan Item 4/Recommendation Part 2 – Technical Implementation and NAESB WGQ 2008 Annual Plan Item 9 / 2009 Annual Plan Item 3a (Order Nos. 712 and 712-A) and R07018 (Spectra Energy) R08019 and R08024 (Boardwalk Pipeline Partners LP).

duplication of effort "can be time consuming and expensive, not to mention disruptive to the parties to the transactions." *Id.*

For example, modified WGQ Standard No. 5.3.2[3] sets out very specific timelines for all parties to a capacity release transaction to complete various aspects of the transaction. (Pipelines, for example, must issue contracts within one hour of an award posting.) Those business standards, however, provide little guidance as to how to meet the time standards in practical terms. The technical standards for implementing the timelines, by contrast, specify the data that the parties to a release must communicate electronically for all pertinent aspects of a particular release to be processed efficiently and accurately. (See, e.g., revised Standards 5.4.1, 5.4.2, etc.) In short, without the corresponding technical standards, shippers may not be able to communicate the information in a sufficiently standardized manner to enable the pipeline to process an index-based release offer, bid, bid evaluation or award within the business standard timeline.

Notwithstanding the interstate pipeline industry's general support for the standards adopted through the NAESB WGQ standards development process, actual implementation is not an overnight process for many pipelines. Due to the complexity of the standards, it will take some time and effort for most pipelines to put in place systems that identify and map the necessary data into specific electronic transactions that will enable compliance with the new business practice standards. With respect to index pricing of releases in particular, only a small number of pipelines are presently being called upon by their customers to apply the

[3] As discussed in Part A, NAESB has modified the standard since its September 2008 report to the Commission.

Commission's policy permitting the use of price indices in the capacity release process. Implementation of the business and technical standards for index-based releases likely will be extensive and intricate for other pipelines that have less experience with index-pricing of releases. Even those pipelines that do have experience will be required to make system changes to fully implement new standards for complying with the policy.

Moreover, it bears emphasis that without simultaneous implementation of technical standards, there is no assurance that the timelines of the business standards can or will be achieved. As the Commission recognizes (NOPR at P 9), the provisos in NAESB WGQ Standard 5.3.1 that impose upon the releasing shipper an obligation to provide "valid information," a "credit-worthy" replacement shipper, and "sufficient instructions" to evaluate the bid, along with the proviso relating to "special terms and conditions," afford the pipeline some leeway to effectuate a release on a slower timeline.[4] At present, and in the absence of standardized technical means for communicating the necessary price index information,

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[4] Standard 5.3.1 provides:

> The capacity release timeline applies to all parties involved in the capacity release process provided that:
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> > 1) all information provided by the parties to the transaction is valid and the acquiring shipper has been determined to be credit worthy before the capacity release bid is tendered;
> > 2) for index-based capacity release transactions, the releasing shipper has provided the capacity release service provider with sufficient instructions to evaluate the corresponding bid(s) according to the timeline; and
> > 3) there are no special terms or conditions of the release.
>
> Further, the capacity release service provider may complete the capacity release process on a different timeline if the offer includes unfamiliar or unclear terms and conditions (e.g. designation of an index not supported by the Transportation Service Provider).

additional time will almost always be required to process an index-based release transaction, often through a telephone call from pipeline personnel to the releaser to ensure that the pipeline understands the offer and requirements for bid evaluation. But the point of the technical standards is to facilitate effective and efficient capacity release communication as well as support the timelines established in modified NAESB WGQ Standard 5.3.2 without need for telephonic clarifications and invocation of the "Special Terms" or other exceptions that may delay the completion of the release.

In short, the technical standards are an integral part of index-pricing business standards for capacity releases, and accordingly implementation should await final Commission approval of Version 1.9.

C. Implementation of the Revised NAESB Flexible Points Standard Will Require Many Pipelines to Make Extensive Changes.

Although NAESB determined that no technical standards needed to be modified to support implementation of the new redirect requirements, the scheduling system modifications that the majority of pipelines will need to make to implement the change will also take considerable time and effort to implement.

Until the development of the new redirect standard, the general NAESB scheduling rules would identify any change to a key data element in a previously scheduled nomination as a new nomination. (For example, key data elements in a nomination record can include the receipt point and/or the delivery point. See NAESB Standard 1.3.27). Upon the receipt of a new nomination in an intra-day cycle, the scheduling rules would allocate the capacity available in that cycle to all new nominations, usually without regard to any prior scheduling related to the same contract. The new redirect standard will require pipelines to create processes to identify new or revised nominations from a shipper on, at least, the same contract that had been scheduled in a prior scheduling cycle to flow through the point of constraint. Once identified, the pipeline will need to manage the new or revised nominations in the same manner as a previously scheduled transaction in the intra-day cycle. Depending on existing processes, the pipelines will have varying degrees of difficulty in recognizing redirect nominations and modifying their intra-day scheduling and capacity allocation processes to protect a shipper's previously scheduled capacity from one intra-day cycle to the next. Therefore, each pipeline, including the few pipelines that already offer one form or another of this service, will have to make unique and potentially extensive changes to their systems to comply with the redirect standard.

D. Implementation of Version 1.9 as a Package after the Upcoming Heating Season Is the Most Prudent and Efficient Approach.

There are efficiencies inherent in INGAA's proposal to adopt and implement the entire package of the Version 1.9 standards in their entirety rather than one or two standards at a time, particularly if some of those standards lack technical implementation guidelines. The proposed new standards for index-based capacity release and flexible receipt and delivery points are included in Version 1.9, which also will include numerous other standards such as changes to the Trading Partner Agreement, minimum technical characteristics, modifications to accommodate Order 712 and market-based rates in the capacity release process, confirmation processing, new gas quality standards and a number of new and modified data elements. As NAESB has explained, segmented implementation "can be time consuming and expensive, not to mention disruptive to the parties to the transactions." NAESB Report on Order 698 at 2 (September 3, 2008). Instead of requesting comments and implementation on a piecemeal basis in different rounds or dockets, a uniform compliance implementation date for Version 1.9 for all new standards would save pipelines, Commission staff and the industry substantial time and resources.

Although the matter need not be decided here, if the Commission agrees with INGAA's recommendation to defer implementation of the standards proposed in this NOPR, INGAA estimates that an appropriate time period for requiring compliance with standards to be approved in Version 1.9 would be six months.

In addition, it is important that implementation not be required during the 2009-2010 winter heating season. Given the issues presented above, pipelines are concerned that if the Commission adopts the proposed standards (with or without changes informed by other comments), and requires compliance shortly thereafter, the implementation date would fall during the 2009-2010 winter heating system. Based on the previously described implementation complexities, such timing would require pipelines and their customers to make changes to business systems, and scheduling and coordination processes during the most critical season for gas transportation and market requirements.

CONCLUSION

INGAA supports the Commission's proposal to adopt NAESB standards for index-based pricing of capacity releases and flexible receipt and delivery points in accordance with the foregoing comments, and respectfully requests that the Commission defer implementation of final standards for index pricing of releases and flexible points until an appropriate time after it issues an order adopting NAESB WGQ Version 1.9.

Respectfully submitted,

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