

National Fuel Gas Distribution Corporation
Comments on Proposed Gas Quality Standards and
Comments upon 1) WGQ Pipeline Segment Minority Report and
2) Duke Energy Gas Transmission Comments
Recommendation - Request No. R06008
November 30, 2006

National Fuel Gas Distribution Corporation (“Distribution”) supports adoption of modified existing NAESB WGQ Standards Nos. 4.3.90 and 4.3.92 as well as proposed NAESB WGQ Standard Nos. 4.3.x1 and 4.3.x2 as contained within Recommendation posted for R06008 on the NAESB web site. Distribution urges all NAESB members to support these proposed standards. Recognizing that opposition exists with the pipeline segment, Distribution urges all parties to find compromise language that will garner sufficient super-majority support without compromising the effectiveness of gas quality report available to the industry.

Within WGQ Pipeline Segment Minority Report (“Minority Report”) suggested changes to proposed NAESB WGQ Standard No. 4.3.x2 and to the list of examples of gas quality attributes in modified WGQ Standard No. 4.3.90 are worthwhile and not opposed by Distribution. Otherwise, the Minority Report is a regrettable step backward from the consensus building process.

For reference, the Description of Proposed Standard or Enhancement from the Request is repeated:

While the implementation of NAESB WGQ Standard 4.3.90 (and other related standards) by most Transportation Service Providers (TSPs) has been commendable, some TSPs interpreted the standards language to limit the data to be provided to just those items specified within their tariffs. This was counter to the intention of the Executive Committee (EC) - that all available data at representative points be made available. For example, some TSPs post BTU values but none of the hydrocarbon components. The language of 4.3.90 can be read (but misinterpreted) to provide for such a result, therefore, modifications are proposed to reduce that ambiguous nature of the existing standards language. These proposed changes will still preserve another intention of the EC - that implementation of 4.3.90 would not require procurement of incremental gas quality equipment by the TSP.

Additionally, the addition of Wobbe Number to the list of gas quality attributes reflects growing industry acceptance of Wobbe as a key measure of interchangeability [e.g. 1) NGC+ White Paper on Natural Gas Interchangeability and Non-Combustion End Use, 2) Initial Decision Docket Nos. RP04-249-001, April 11, 2006]

The proposed changes do not affect most pipelines (with the possible exception of modified WGQ Standard No. 4.3.92) because they implemented the initial gas quality standards consistent with the language in the recommendation. While regulatory means existed to address the implementations of the pipelines that implemented in what some believe was in a non-compliant fashion, the NAESB process was chosen to address this issue because the premise of an organization like NAESB is that it is more cost-effective and efficient to work

out such issues in a business environment. Additionally, there is an aspect of “best practices” that comes into play. Perhaps it was naive but out of some respect for the concept of customer service, Distribution hoped that competitive forces would have encouraged pipelines to move towards emulating the best implementations. In one case, Distribution has observed provision of an interchangeability index by a pipeline that had not initially provided such information. Unfortunately, this is an exception and based upon the remaining content of the Minority Report, the Pipeline Segment is endorsing language that justifies the least commendable implementations or essentially, the “worst practices”, as industry standards. If acceptable, effective modifications cannot be found, then the NAESB process has been a failure. Further, prospective standards development will be more explicit; excluding language that formerly provided pipelines with implementation flexibility that except for the current case, has been beneficial.

Specifically, the Pipeline Segment posted a workpaper for 9/11/06 BPS meeting that included language that except for the above-mentioned non-objectionable changes to modified WGQ Standard No. 4.3.90 and proposed WGQ Standard No. 4.3.x2 is identical to the language in the Recommendation. In the Minority Report, the pipelines proposed appending the phrase “that could be included in the posting for the applicable Gas Day(s) and Location(s):” to “Listed below are examples of gas quality attributes”. This phrase recreates the uncertainty in the existing Standard that permitted some pipelines to interpret Standard 4.3.90 to give them discretion to withhold gas quality data that is available. That aside, if the language in the Recommendation was acceptable on 9/11/06, why is not acceptable today?

Similarly, the Pipeline Segment provided seven supporting and no opposing votes to a motion approving the language for modified WGQ Standard No. 4.3.92 (see page 4 of the Recommendation). Now the Minority Report takes a position inconsistent with the vote. Distribution will concede that the modified language codifies the best practice of those who implemented exceeding the current language for WGQ Standard No. 4.3.92. Never-the-less, proposed language asks for a feature that utilizes a readily available software feature and that would save the industry money. It is true that producers, shippers and end users can download a series of individual days into a spreadsheet a sort the data by point and date, and then only retain the information in which they are interested. There are, however, many more producers, shippers and end users interested in gas quality data than there are pipelines providing such data. A change that would at the very least reduce the data manipulations of the many would seem to be cost effective for industry – minimal pipeline implementation costs would be offset by cumulative customer savings.

The only substantive difference between the Recommendation and the Pipeline Segment Position as of 9/11/06 is the language for Proposed WGQ Standard No. 4.3.x1. The Recommendation triggers provision of interchangeability data “As soon as practical, but no later than the initiation of discussions to develop tariff-based gas quality interchangeability provisions”. The Pipeline Segment Workpaper for 9/11/06 and the Minority Report trigger provision upon the presence of tariff-based language concerning interchangeability. Distribution believes the Pipeline position stands the NGC+ Interchangeability Workpaper on its head; development of tariff-based interchangeability provision is in part dependent upon data analysis of historic gas composition data. That there is not an interchangeability issue on a given pipeline today is immaterial; the reasonable likelihood that one might exist

in the future resulting from a change in the gas supply mix proposed to flow in a pipeline is what trigger the data requirement and the usefulness of the NAESB gas quality reporting data.

All parties should keep in mind that the Wobbe Number, a common interchangeability index referenced with the NGC+ Interchangeability Workpaper and the Commission's Policy Statement¹ is calculated by dividing the BTU by the square root of the specific gravity; two readily available gas quality attributes. It's hard to imagine provision of a Wobbe Number is burdensome for any interstate pipeline.

Turning to the Duke Energy Gas Transmission ("Duke") comments, Distribution believes Duke is grossly mischaracterizing the Recommendation. While Distribution does not object to Duke's reiteration of the Policy Statement, it notes that Duke has not included cites to language in the Policy Statement indicating the deference the Commission provides to the NGC+ Workpapers. In any event, the Recommendation is not making the list in modified WGQ Standard No. 4.3.90 an all-inclusive list nor is it mandating that that pipelines provide every gas quality attribute in the list. The Recommendation's language makes clear that if a pipeline currently has such gas quality data available at its representative reporting points, then it should report that data. This is nothing new; it was the intention when the Gas Quality Standards were initially passed by the NAESB EC on September 16, 2004.

Duke's next error (also present in the Minority Report) is a reference to language in Proposed Standard No 4.3.x1 that is not present in the Recommendation. Duke objects to one customer triggering a pipeline to provide interchangeability data. The actual language in the Recommendation, as referenced above, states that the pipeline should provide the interchangeability data "As soon as practical, but no later than the initiation of discussions to develop tariff-based gas quality interchangeability provisions". It is doubtful that one customer could trigger initiation of the referenced discussions so Duke's concern has hopefully been addressed. Distribution believes Duke made this error because the inadvertently reference language previously considered in BPS and the "Joint Statement of the American Gas Association and the Interstate Natural Gas Association of America," filed on June 2, 2006, ("Joint INGAA-AGA Statement") that is referenced in footnote 58 of the Policy Statement. Sections II-C of the Joint INGAA-AGA Statement refers to a single customer. Sections II-A and II-C provide a better description of the process that would lead to the discussions referenced in 4.3.x1 – there's clearly a collaborative process envisioned within the Joint INGAA-AGA Statement concerning resolution of gas quality issues. Distribution believes the Pipeline Segment should take a cue from this statement and work from the 9/11/06 BPS workpapers to develop compromise language on proposed WGQ Standard No. 4.3.x1 and that the resulting package of Standards will garner sufficient super-majority support without compromising the effectiveness of gas quality report available to the industry.

Michael Novak

¹ POLICY STATEMENT ON PROVISIONS GOVERNING NATURAL GAS QUALITY AND INTERCHANGEABILITY IN INTERSTATE NATURAL GAS PIPELINE COMPANY TARIFFS (Issued June 15, 2006).



June 2, 2006

Chairman Joseph T. Kelliher
Commissioner Nora Mead Brownell
Commissioner Suedeem G. Kelly
Federal Energy Regulatory Commission
888 1st Street, NE
Washington, DC 20426

Re: Natural Gas Interchangeability, Docket No. PL04-3-000

Dear Chairman Kelliher and Commissioners Brownell and Kelly:

As a result of discussions among the Interstate Natural Gas Association of America (INGAA), the American Gas Association (AGA) and our respective member companies about how to incorporate a proposed Natural Gas Council "Plus" technical framework on hydrocarbon liquid dropout and interchangeability specifications, INGAA and AGA have reached agreement on how individual pipelines, their customers and other interested parties can proceed in addressing gas quality issues. That agreement is set out in the Joint Statement on Issues Related to Natural Gas Quality that we are filing in this docket today.

We sincerely hope that other segments of the natural gas industry join INGAA and AGA in endorsing this approach and that the framework set out within the agreement can be integrated with the approach to gas quality issues that may be formulated by the Commission.

We thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald F. Santa, Jr.", written in a cursive style.

Donald F. Santa, Jr.
President
Interstate Natural Gas Association of America

A handwritten signature in black ink, appearing to read "David N. Parker", written in a cursive style.

David N. Parker
President and CEO
American Gas Association

JOINT STATEMENT OF THE AMERICAN GAS ASSOCIATION AND THE INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA ON ISSUES RELATED TO NATURAL GAS QUALITY

- I. Safety and reliability have been the hallmark of the natural gas industry. A fundamental shared goal of the AGA and INGAA is to promote the continuation of the historic safety and reliability of the natural gas industry as gas demand grows and as supply sources change. A key component of safety and reliability is the quality of natural gas; it should be sufficient to provide for safe and reliable service all the way to the customer who has contracted for and paid for the gas.

- II. We agree that a pipeline-by-pipeline approach is necessary to address and resolve any natural gas quality concerns regarding hydrocarbon liquid drop out (specifically, whether to establish a CHDP) and interchangeability of natural gas supplies (specifically, whether to establish an interchangeability specification such as Wobbe in the pipeline tariff). (Together these issues are referred to hereinafter as “gas quality issues.”) We also agree that discussions between interstate pipelines and their customers are vital and should be conducted in a timely fashion. Accordingly, AGA and INGAA endorse the following Joint Statement, which does not foreclose further guidance from the Federal Energy Regulatory Commission on these matters:
 - A. The parties acknowledge that the white papers prepared by the NGC have created the technical framework for reviewing and establishing hydrocarbon liquid drop out and interchangeability specifications. The parties further acknowledge that NAESB standards are providing customers and stakeholders with information regarding the current quality of pipeline gas. Additionally, should a pipeline or its customers desire to begin discussing hydrocarbon liquid drop out and/or interchangeability issues (including the possibility of tariff changes) they should notify one another. As soon as practical, the pipeline and its customers should exchange historical information regarding the quality of gas delivered by the pipeline and used by the customer and other relevant information such as any problems experienced in connection with hydrocarbon liquid drop out and the interchangeability of gas supplies. All interested parties should be able to participate in this process.

 - B. Once necessary information has been shared, interstate pipelines and their customers should meet to discuss specifications to address hydrocarbon liquid drop out and the interchangeability of natural gas supplies and, if necessary, the need for pipeline tariff revisions in order to ensure the continuation of this reliability. Group discussions with all customers will be beneficial, although individual meetings are also encouraged. The signatories agree that separate meetings on hydrocarbon liquid drop out and interchangeability may be appropriate depending on the pipeline’s individual circumstances. In these instances, the pipeline will work with its customers to prioritize the scheduling of the meetings to determine which meeting, if appropriate, should occur first.

- C. If no customer contacts a pipeline with concerns regarding hydrocarbon liquid drop out and/or interchangeability, the pipeline will not be required to initiate gas quality discussions under the process described in this Joint Statement. In addition, the signatories agree that pipelines with existing tariff specifications that expressly address hydrocarbon liquid drop out and/or interchangeability, and pipelines that have resolved these issues through settlement or administrative litigation, will not be required to participate in this process with regard to a resolved issue unless the customer seeking to initiate gas quality discussions can point to a change in circumstances that warrants the re-opening of that issue. Nothing in this Joint Statement will require any pipeline to take actions inconsistent with its obligations under an existing settlement.
- D. If as a result of these discussions, tariff revisions to current gas quality specifications are deemed necessary, AGA and INGAA anticipate such tariff revisions being submitted in the form of a negotiated settlement (with the goal of filing no later than one year from the date of this Joint Statement) and the FERC reviewing and approving such settlement. If at any time during such discussions parties express concern regarding the progress being made on reaching a consensus on the need for tariff revisions, AGA and INGAA anticipate that such discussions will continue under the guidance of the FERC mediation Staff or other alternative mediation services with the goal of filing a consensus document with FERC no later than one year from the date of this Joint Statement.
- E. Nothing in this Joint Statement affects parties' rights or obligations under the Natural Gas Act.