

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Regulation of Short-Term Natural Gas	)	Docket No. RM98-10-008
Transportation Services	)	
	)	
Regulation of Interstate Natural Gas Transportation	)	Docket No. RM98-12-008
Services	)	

**MOTION FOR LEAVE TO INTERVENE, PARTIAL PROTEST  
AND REQUEST FOR A TECHNICAL CONFERENCE OF  
THE NATURAL GAS SUPPLY ASSOCIATION**

Pursuant to Rules 211, 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. §§ 385.211, -.212 & -.214 (2000), and pursuant to the Notice of Petition issued in the above-captioned docket on March 21, 2001, the Natural Gas Supply Association (“NGSA”) moves for leave to intervene, files its partial protest and requests that a technical conference be established in this proceeding. NGSA’s filing responds to the “American Gas Association Reply to February 1, 2001 Gas Industry Standards Board Report and Petition for Clarification and Directive from FERC Regarding Requirement for Capacity Release Scheduling Equality” filed on March 1, 2001 (the “AGA Petition”). In support of this filing, NGSA states as follows:

**I. COMMUNICATIONS AND CORRESPONDENCE.**

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## **II. EXECUTIVE SUMMARY.**

While NGSA supports the American Gas Association's ("AGA") general objective of promoting greater scheduling equality between released capacity and pipeline services, NGSA opposes AGA's request to implement flowing day recall rights. Flowing day recall rights undermine system reliability and may threaten system integrity. Flowing day recall rights increase the risk that natural gas production will be shut in, at a time when security of supply should be a paramount concern. Flowing day recall rights are not a service enhancement, but threaten to degrade the quality of existing pipeline services. Moreover, flowing day recall rights threaten to undermine competition.

If the AGA Petition regarding this issue is not denied, NGSA requests that the issue of flowing day recalls be set for technical conference to address the issues raised in this filing and in the comments filed today by the Interstate Natural Gas Association of America ("INGAA").

## **III. MOTION FOR LEAVE TO INTERVENE.**

NGSA represents integrated and independent companies that produce and market domestic natural gas. Established in 1965, NGSA encourages the expanded use of natural gas and a regulatory climate that fosters competitive markets.

The AGA Petition raises several issues of great concern to NGSA and its members. While NGSA supports AGA's general view that achieving scheduling equality between released capacity and pipeline services is an essential element in promoting competition, the AGA Petition's proposal regarding flowing day recalls of released capacity could adversely impact the ability of NGSA's members to transport their natural gas to market. NGSA seeks leave to intervene in this proceeding with full rights as a

party.<sup>1</sup> No other party can represent adequately NGSAs interests. As a result, granting NGSAs motion for leave to intervene would be in the public interest.

#### **IV. PARTIAL PROTEST AND REQUEST FOR A TECHNICAL CONFERENCE.**

##### *A. The AGA Petition's Proposal Regarding Flowing Day Recalls Should Be Rejected.*

The general goal stated by the AGA Petition is to enhance scheduling equality between released capacity and pipeline services. NGSAs supports this objective. Some of the solutions advocated in the AGA Petition may promote a transition toward greater scheduling equality. AGAs suggestion regarding the use of contract pre-approval for capacity release transactions is a particularly constructive proposal.

NGSA parts company with the AGA Petition on the issue of flowing day recalls.<sup>2</sup>

##### **❖ Flowing day recalls undermine system reliability and may threaten system integrity.**

Flowing day recalls, particularly recalls of capacity that already has been scheduled, threaten to shut in production, and to increase scheduling problems, overruns, penalties and operational flow orders on interstate pipeline systems. If capacity is recalled, shippers may be unable to obtain replacement capacity within the same day to make a timely nomination (especially if the first nomination cycle has expired). Shippers subject to flowing day recall will face penalties or be unable to serve their markets.

Producers increasingly will face the risk of shutting in production as a result of last-minute nomination changes by third party shippers. If production is not shut in,

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<sup>1</sup> While this is a rulemaking proceeding, the Commission's March 21, 2001 Notice expressly requires parties to move for leave to intervene to obtain "party status" in connection with the AGA Petition.

<sup>2</sup> As the AGA Petition notes, "the phrase 'flowing day recall' is used to refer not only to the ability of a shipper to recall capacity for a partial day but also to recall capacity and nominate service at the evening nomination for the next day's gas flow." AGA Petition, at 7.

substantial penalties may be assessed. This risk may be entirely unforeseeable and is beyond the control of a producer. If the “chain” of capacity releases is sufficiently long, producers may receive no meaningful notice of potential delivery disruptions and no opportunity to secure alternative markets. A shipper subject to a flowing day recall notice may be several transactions removed from the first purchaser from a producer.

Supply and transportation disruption likely will not be isolated on a given pipeline system. Intraday recalls may well trigger a series of nomination changes that can strain or overwhelm the nomination process. To compound this concern, recalls likely will take place at peak periods of demand on a pipeline system, a time in which the margin for error is smallest.

In addition, supply and transportation disruption cannot be contained within a single pipeline system. Upstream and downstream pipelines likely will face the adverse impacts of a flowing day recall regime. In its comments in this proceeding, INGAA addresses further and in more detail the operational risks associated with permitting flowing day recalls. NGSAA supports INGAA’s views on these operational issues.

❖ **Flowing day recall rights are not a service “enhancement.”**

Current GISB standards do not permit flowing day recalls. Recently, in *Transcontinental Gas Pipeline Corp.*, 94 F.E.R.C. (CCH) ¶ 61,388, slip op. at 8 (March 30, 2001), the Commission addressed a pro forma filing by Transco that discussed the issue of partial day recalls. The Commission noted:

The Commission’s policy regarding GISB standards is that these standards represent minimum standards that pipelines may exceed, unless such standards reduce other shippers’ rights or unduly impede effectiveness of the interstate grid.

The *Transco* order observed that partial day recalls “add flexibility” to a pipeline’s system.<sup>3</sup>

While the *Transco* order still is subject to rehearing, and while any future Transco filing regarding flowing day recalls remains subject to protest, flowing day recalls cannot be considered a service “enhancement,” given the fact that flowing day recalls threaten to undermine the security and stability of the interstate pipeline grid, as noted above.

❖ **Flowing gas day recall rights may undermine competition.**

Were the AGA Petition regarding flowing day recall rights to be granted, competition in the secondary market would be undermined. Given the opportunity, there is nothing to preclude flowing day recall rights from becoming a standard contract term demanded by LDC’s. Given the economic and operational risks on replacement shippers that flowing day recall rights create, independent shippers and marketers would not place a high value on this capacity, thus making capacity release less comparable to primary firm transportation—a result completely at odds with the Commission’s objectives in Order No. 637. The adoption of flowing day recall rights actually could limit the amount of reliable secondary market capacity available.

Those parties who elect to run the risks associated with taking released capacity subject to flowing day recall rights would face further competitive risks. LDC’s would have enhanced opportunities to displace independent shippers and marketers by recalling released capacity on an intraday basis and re-releasing that capacity to an LDC marketing affiliate on purely economic grounds.

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<sup>3</sup> However, the *Transco* order did not permit Transco to implement any change regarding this issue and directed Transco to “fully justify” any future proposal, and particularly to address whether partial day recalls will have any adverse effect on nomination and scheduling timelines on competing pipelines.

The potential damage to the market from flowing day recalls is real and immediate. Is it necessary for the industry to assume this risk to provide LDC's with additional "flexibility"? The answer is no. LDC's today have the ability to use a secondary market that is fast, efficient and reliable to obtain supplies on an intraday basis. They can do so without breaking up confirmed supply sources from related transportation. Simply put, AGA has failed to show that today's secondary market does not provide the desired flexibility to acquire intra-day supplies.

*B. If the AGA Petition's Proposal Regarding Flowing Day Recalls Is Not Rejected, the Commission Should Convene a Technical Conference to Address, Inter Alia, the Operational Consequences of the AGA Petition's Proposal.*

Flowing day recalls of released capacity can injure customers by undermining security of supply. Shippers and marketers face potential high penalties and/or loss of markets that may have taken years to develop. Producer-suppliers face enhanced risks of shutting in natural gas supplies at a time when those supplies are most needed. Pipelines and all their customers face the risk of an overtaxed nomination process disrupting operations on a broad scale. To make matters worse, all of these risks would be created to adopt a proposal that may inhibit competition.

Before any of the risks of flowing day recall rights are imposed on the natural gas

industry, at a minimum, a technical conference should be convened to address the issues raised in this filing and in the comments of INGAA.

Respectfully submitted,

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DATED: April 16, 2001

**CERTIFICATE OF SERVICE**

Pursuant to Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2000), I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 16<sup>th</sup> day of April 2001.

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