

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

**Pipeline Posting Requirements under                    )           Docket No. RM07-10-000  
Section 23 of the Natural Gas Act                    )**

**POST WORKSHOP COMMENTS OF  
THE NATURAL GAS SUPPLY ASSOCIATION**

Pursuant to the request of Staff for additional comments at the close of the May 19, 2008 Workshop on Form 552, the Natural Gas Supply Association (“NGSA”) submits these post technical conference comments. Additionally, NGSA has a Request for Rehearing and Supplement comments on file with the Federal Energy Regulatory Commission (“FERC” or “Commission”) in the above captioned docket. These comments are intended to provide additional information on the workshop discussions.

**I. COMMUNICATIONS**

NGSA represents integrated and independent companies that produce and market natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. customers.

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## II. COMMENTS

NGSA offers the following comments to further clarify information surrounding issues raised during the two Commission workshops regarding Form 552 for the Commission's consideration in its issuance of an order on rehearing and clarification. In summary, NGSA's post-technical conference comments address the following key issues:

1. Concern with the looming May 2009 filing deadline in light of continued data collection uncertainty.
2. The requirement to include cash-out, plant reduction volumes and other non-transactional volumetric information in the Form 552 filing.

**A. NGSA urges the Commission to adopt a safe harbor concept for the May 2009 filing by allowing market participants to file as collected data using existing systems and processes.**

FERC's final rule requires that the first report be submitted no later than May 1, 2009 and cover calendar year 2008. NGSA is concerned that this timetable is too aggressive given the complexity and importance of the issue. Although the Commission has held two industry workshops and answered hundreds of questions,

much of the data collection year has already passed without regulatory certainty around the filing requirements. This will result in the industry having to retroactively capture and categorize very large amounts of data, which is a daunting task for an industry focused on compliance and reporting accuracy. Further, NGSAs are concerned that the potential retroactive collection of voluminous amounts of transactional data places the industry at risk for inadvertent errors that could lead to confusing results or costly litigation that could have otherwise been avoided. Thus, should the Commission need to move forward with a filing in May 2009 for the data collection year 2008, NGSAs ask that the Commission provide for an explicit “safe harbor” that will allow companies to base information provided in the May 2009 filing on transactional data collected using *existing* processes and systems.

This safe harbor approach will allow the Commission to continue its diligent work to resolve the remaining clarification issues prior to the start of the 2009 data collection year and to develop clear regulatory reporting requirements that are a cornerstone of a compliance culture. Importantly, allowing time to solidify the reporting requirements prior to data collection will help ensure reporting results that can be accurately understood and consistently applied by industry stakeholders.

Companies are investing thousands of man hours now writing the program code to generate a report for a still murky filing requirement. Admittedly, the written answers provided at the second workshop were helpful and based on the clarity provided during the most recent workshop, NGSAs are optimistic that remaining issues

can be resolved by year-end and, thus, enable the industry to accomplish necessary programming with clear regulatory requirements that will facilitate an efficient and full year of data collection in advance of the May 2010 compliance obligation.

**B. NGSa continues to believe that only the volumetric information for transactions that impact the wholesale natural gas market are appropriately includable in the data provided on Form 552. The inclusion of volumes that *reference* the indices, such as cash-out and plant thermal reduction volumes, is in many cases duplicative of existing regulations, ripe for human error, and, at worst, potentially misleading market information. If the Commission continues to require this information on Form 552, NGSa suggests these two elements be combined and reported as a separate line item.**

The Commission is correct in its belief that there are monetary exchanges between parties where the value exchanged is based on a reported index price or some compilation of multiple indices and other fixed amounts. The use of the index price for these accounting transactions provides an expedient accounting remedy that, prior to index formation, would have been resolved through an in-kind transfer of natural gas. The reference to an index price does not contribute to price formation because the monetary exchange occurs after the index formation. To further complicate matters, the reference to the index price may in fact be only part of the equation used to determine the monetary exchange. In the case of cash-out volumes, the “volume” may actually already be reflected in the Form 552 report since it was “scheduled” to flow. The inclusion of cash-out volumes actually double counts the volume by layering it on top of the volume that was actually scheduled to flow and contributed to the formation of the index. With cash-outs included, the resulting volume reflected on the Form 552 will be skewed because it will include “scheduled volumes” and have added to it the

number representing the part of the scheduled volume that did not flow but instead was “cashed-out.”

In addition to skewing the information provided in the report, the inclusion of cash-out volumes in Form 552 is duplicative of other Commission regulations making the requirement inefficient. Pipelines currently file cash out reports with the Commission annually listing the volume cashed out by shipper. Thus, the Commission already has the information it is seeking. Furthermore, if an index price is relied upon by a FERC jurisdictional entity, use of the index price is already set forth in the pipeline’s approved tariff. In many instances, cash-out volume information is posted on pipeline Electronic Bulletin Boards (EBBs) as a way to facilitate imbalance trading and resolution among shippers, thus the data is already publicly available with very little lag.

NGSA remains unclear regarding the inclusion of plant thermal reduction volumes or plant volume reductions in Form 552. Plant volume reductions typically occur when natural gas, at the inlet of a plant, contains hydrocarbon liquid content. This hydrocarbon liquid is extracted and is then sold as natural gas liquids, etc. Like pipeline cash-out volumes, the value exchanged may be based on a reported index price or some compilation of multiple index prices or other fixed amounts. The use of the index price for the valuation of plant thermal reductions is an expedient accounting remedy that, prior to index formation, would have been resolved through an in-kind transfer of natural gas or liquids. The inclusion of plant thermal reduction volumes in

the Form 552 data would further skew the results of the report by layering a volume associated with hydrocarbons (e.g. natural gas liquids) into the natural gas purchases and sales transactions volumes.

In addition to the risk of overstating the transaction volumes, plant thermal reductions are accounted for outside the natural gas transactional or marketing system in individual plant accounting systems. Further, the amounts are often subject to multiple revisions as accounting data is refined. Inclusion of these liquid hydrocarbon volumes in the Form 552 data would require a manual effort to collect the data from possibly dozens of plants and through many revisions. To summarize, the collection of plant thermal reduction data for purposes of reporting on Form 552 is labor intensive because it is often tracked outside the transactional system and is prone to errors due to the numerous accounting adjustments that can occur up to twelve months after the fact in some cases. By nature plant thermal reductions are essentially for a liquid hydrocarbon volume not sold into the wholesale natural gas market. And, if it is sold as natural gas, that volume is already reported as an existing element elsewhere on Form 552.

If the Commission continues to require cash-out imbalances and plant volume reduction information on Form 552, NGSAs strongly suggest these two elements be combined and reported as a separate line item. Given the difference between these volumes and the wholesale transaction volumes reported in Form 552, it would be more appropriate for these two components be consolidated and shown separately from the

wholesale transaction volume line(s). Furthermore, separating this data will provide all parties, including the Commission, greater flexibility in utilizing all the reported information in ways which can eliminate or mitigate the inherent data uncertainty and inaccuracy associated with cash-out and plant reduction volumes.

**C. While the workshops and clarifications have been helpful, implementation questions still remain and NGSAs wish to relay its understanding of the reporting requirements and regarding Joint Operating Agreements.**

Based on the participation and the dialogue throughout the workshops, it has become increasingly clear that the completion of what appears to be a very simple form requires a great deal of analysis and programming to generate the information requested. It would be very helpful to NGSAs members, as well as the industry, if the Commission provided a data flow diagram for the industry to follow to ensure accurate and consistent interpretation of the data to be captured for the report.

Further, NGSAs wish to confirm its understanding of the Commission's guidance regarding the reporting of the volumes associated with transactions stemming from a Joint Operating Agreement. When a well is operated under a Joint Operating Agreement, with various individual terms, an operator often sells the natural gas attributable to other working interest owners. It is NGSAs' understanding that regardless of the form of the transaction between the operator and the working interest owner, these wellhead transactions should not trigger a reporting requirement as a purchase and a sale, because the first downstream sale to a non-owner will be reported at the time of that transaction.

## Summary

NGSA urges the Commission to provide the industry with an explicit “safe harbor” allowing market participants to file using existing data collection procedures and systems if the Commission determines that it must move forward with the May 2009 filing deadline. NGSA is concerned that because so much of the data collection year has passed it will be difficult to recreate or accurately adjust data collection as the requirements become finalized over the remaining months of the year.

Also, NGSA encourages the Commission to rethink its requirement to include cash-out and plant thermal reduction “volumes” that reference the indices. NGSA is concerned that the inclusion of such volumes in Form 552 data could overstate transaction volumes and misrepresent the size of the market. Alternatively, if such information is required, NGSA suggests that the information should be consolidated and placed on a separate and new line on Form 552.

Respectfully submitted,



Jennifer Fordham