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I am Alfred Fatica, Director of NGL Assets with BP America, and am here today to present the Natural Gas Supply Association's perspective on gas quality and interchangeability.

Changes in both the supply and demand of natural gas have resulted in a need for greater gas supplies and has manifested that need through gas prices that are periodically higher than the liquefiable hydrocarbons in the gas stream.

Producers continue to remove hydrogen sulfide, water, CO2 and a dozen other compounds to meet the gas quality specifications of pipeline tariffs. Processors sometimes allow hydrocarbon content - the liquefiable hydrocarbons such as ethane, propane, and butane - to increase in the gas stream in order to provide as much natural gas as possible. Thus, the "gas quality" issue is largely one of hydrocarbon content.

The decision to leave extra hydrocarbon content in the gas stream is a function of the market price of natural gas exceeding that of the liquefiable hydrocarbons. We should not develop a solution that distorts these market signals without recognizing the impact that it will have on supply.

I would like to make three main points during my remarks:

1. Hydrocarbon content in today's gas is higher as a result of the market demanding more supply;
2. Excessive processing reduces supply;
3. Pipeline tariffs should clearly state a reasonable range of acceptable gas quality hydrocarbon characteristics;

1. Hydrocarbon content in today's gas is higher as a result of the market demanding more supply;

A confluence of events in the last several years has resulted in a change in the processing of natural gas:

First, the demand for natural gas has steadily increased, resulting in the need for additional supplies. In the last two years we have increased the imports of LNG by 300% to help satisfy the demand. LNG typically has a higher heating value than conventional natural gas.

Second, the monetary value of natural gas has increased relative to the value of extractable hydrocarbons. The result has been the creation of economic incentives to reduce the extraction of liquefiable hydrocarbons from the natural gas stream. Liquefiable hydrocarbons have a higher Btu content than methane, and a greater volume of these hydrocarbons increases the overall Btu level in the natural gas delivered to the marketplace.

Third, the ownership of processing plants is no longer the realm of the producer-supplier. Independent third parties, whose relationship to producers and pipelines are through contracts, now own the majority of processing plants. Hence, the processors run the plants for economic reasons and abide by the contractual relationships.

2. Excessive Processing Reduces Supply;

Removing hydrocarbon content is energy intensive, and the more processing that occurs the fewer Btus are available for market. Producers/Processors continue to process natural gas today to meet the existing specifications in pipeline tariffs. But by allowing the liquefiable hydrocarbons to remain in the gas phase, producers can effectively increase the supply of gas by increasing the Btu content of the gas from 2-10%. This means that we can stretch our difficult-to-find supply of natural gas. In times of peak demand, such as in the winter, this added supply, created by retaining in the gas stream a greater heating value, can have a material effect in reducing both the level and volatility of gas prices.

3. Pipeline tariffs should clearly state a reasonable range of acceptable hydrocarbon characteristics;

Pipeline tariffs do not consistently include hydrocarbon specifications, and when they do they most often set a minimum Btu level. This has led to a great deal of uncertainty for both supplier and consumer alike.

Pipelines attempted to address end-user customer problems by posting gas quality specifications in Operational Flow Orders. The rationale for these postings is almost always unclear, unknown, and uncommunicated. Processors may have had to unnecessarily remove hydrocarbons from the gas. Recent individual cases have resulted in approximately 5% less supply available to effected customers during peak demand.

It is important that pipeline tariffs clearly state a REASONABLE RANGE of acceptable hydrocarbon specifications. Otherwise we could face:

- Reductions in available supply,
- Higher prices,
- Greater volatility,
- Greater uncertainty and supply disruptions, and
- Impacts on America's ability to compete for foreign supplies, such as LNG.

The current specifications on hydrocarbons, when they exist, do not adequately address the quality needs of end users. Pipelines should institute, in conjunction with the industry,

certain new types of hydrocarbon content specifications in their tariffs to help build a framework that provides end-users and consumers safe, certain and consistent criteria for their many varied applications. From a supply standpoint, the two most important specifications for inclusion should be hydrocarbon dewpoint and the Wobbe index:

Hydrocarbon dewpoint (HDP) specification, established at an appropriate temperature, is an excellent engineering specification because it allows for the proper and consistent design of pressure reduction stations to prevent hydrocarbons in the gas from condensing out of the gas stream and cause liquids to fall out. Each pipeline should adopt in its tariff an HDP specification that satisfies the operational conditions on its specific pipeline system. An HDP specification in the tariff also allows producers and processors to know what is expected of them, and allows downstream customer facilities to be properly designed to prevent a situation where hydrocarbon liquids fallout; and

Wobbe Index specification would replace the minimum/maximum BTU tariff specifications as the appropriate gross heating value range specification. The current practice of capping Btu content creates artificial supply shortages by not allowing processors and/or suppliers to increase the Btu content of the gas to meet demand. The Wobbe index is a measure used to

compare the equivalent thermal content characteristics of different gases. Because natural gas is comprised of many hydrocarbon constituents, there can be many suitable combinations of natural gas compositions. The Wobbe index accounts for these variances and provides the greatest flexibility of supply in meeting end use requirements.

In conclusion, NGSA is committed to working with the rest of the industry to develop a timely and workable solution to this issue in coordination with FERC. I urge the Commission to give us time to work on a solution that is equitable and feasible to balance of needs of adequate supply and system integrity.

Thank you for your time in allowing this presentation.