

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Natural Gas Interchangeability)

Docket No. PL04-3-000

NATURAL GAS SUPPLY ASSOCIATION
COMMENTS ON TECHNICAL CONFERENCE AND
PETITION FOR RULEMAKING

Pursuant to the procedures established in a Federal Energy Regulatory Commissions ("Commission" or "FERC") Notice Seeking Comments on the May 17, 2005 technical conference ("May 2005 Technical Conference") and the Natural Gas Supply Association ("NGSA") petition for rulemaking filed on May 16, 2005 ("NGSA Petition"), NGSA offers the following comments for the Commission's consideration.

NGSA represents integrated and independent companies that produce and market natural gas in the United States. NGSA is actively involved in pursuing regulatory and legislative issues that affect the association's members. Established in 1965, NGSA encourages expanded use of natural gas and supports regulatory and legislative actions that foster competitive markets. Correspondence regarding these comments should be directed to -

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The purpose of the NGSA Petition was to place before the Commission a workable proposal for new natural gas quality and interchangeability regulations based

on the findings of the two industry technical work papers¹ filed with the Commission on February 28, 2005 by the Natural Gas Council (“NGC”) in docket number PL04-3. Indeed, the NGS Petition represents the only comprehensive, fully implementable proposal based on the work of the NGC technical groups that is before the Commission in this proceeding. To summarize, the NGS Petition urges FERC to -

1. Use the cricondenthem hydrocarbon dew point (“CHDP”) methodology to establish a pipeline “safe harbor”, subject to a minimum safe harbor national cricondenthem hydrocarbon dew point (“CHDP”) of 15 degrees Fahrenheit based on industry research.
2. Establish the following pipeline interchangeability specifications :
 - a. 1400 Wobbe² Index,
 - b. 4 percent inert gas maximums, and
 - c. 1.5 mole percent butanes plus limit.
3. Require pipelines to implement tariff language that creates a non-discriminatory “safe harbor” mechanism that maximizes supply and establishes the use of aggregation, blending and pairing³ on a non-discriminatory basis.
4. Establish a complaint procedure that allows parties the opportunity to address the feasibility and reasonableness of the established gas quality specifications regarding any operational problems that may result on the system or at local facilities.

While no industry consensus exists regarding policy, the overwhelming majority of the participants in the May 2005 Technical Conference agreed that natural gas quality and interchangeability specifications in pipeline tariffs are essential to resolving regulatory and business uncertainty. Absent the Commission implementing a workable

¹ White Paper on Liquid Hydrocarbon Drop-out in Natural Gas Infrastructure (“Hydrocarbon Liquid Drop-Out White Paper”) and White Paper on Natural Gas Interchangeability and Non-Combustion End Use (“Interchangeability White Paper”), collectively referred to as “White Papers”.

²Based on gross or higher heating value (“HHV” at standard conditions of 14.73 psia, 60 degrees Fahrenheit, dry, real basis. (See Interchangeability White Paper, p. 26.)

³The term refers to the contractual “pairing” of natural gas volumes of differing qualities for the purpose of blending to achieve a desired quality.

solution, this uncertainty in the natural gas marketplace will adversely affect the efficient energy capital deployment and supply development needed to respond to the nation's increasing energy needs. Further, the Commission and the industry now have the technical foundation to establish a clear and specific policy essential for increased regulatory certainty without the need for continued complaint driven individual proceedings.

NGSA recognizes that additional research and development is important to the industry and will likely lead to a broadening of the natural gas quality and interchangeability parameters set forth in the White Papers. However, the desire for additional information should not stall the implementation of this critical and essential regulatory policy. NGSA submits the following comments to clarify aspects of the NGSA Petition based on the views expressed at the May 2005 Technical Conference in hope that a workable solution can be achieved.

I. The CHDP methodology should be used to determine the tariff hydrocarbon liquid drop out "safe harbor" subject to the 15 degree Fahrenheit national floor.

As proposed in the NGSA Petition, interstate pipelines would be required to use the Hydrocarbon Liquid Drop Out White Paper methodology to determine the CHDP to be set forth in the tariff as the "safe harbor." If necessary a pipeline could enforce a CHDP specification at temperatures above the "safe harbor" on a non-discriminatory basis via electronic bulletin board postings. Natural gas flowing at temperatures at or below the posted CHDP requirement or the "safe harbor" level would also be accepted

since it exceeds the posted requirement. If blending does not result in an acceptable flowing natural gas stream at certain times, the pipeline would enforce the “safe harbor” CHDP requirement. A CHDP requirement of a temperature below the “safe harbor” would require the issuance of an operational flow order or equivalent mechanism (collectively referred to as “OFO”).

Under the “safe harbor” concept as described herein processing economics will determine the degree of processing through the competitive marketplace while the “safe harbor” assures that a minimal degree of process will occur during uneconomic times. The “safe harbor” concept described herein is a common pipeline practice today; thus, NGSAs seek to have this practice adopted throughout the industry along with tariff language clarifying non-discriminatory application of the CHDP requirements. This process would allow for the continued safe operation of the pipeline through the OFO mechanism and would maximize supplies on a non-discriminatory basis. The “safe harbor” will provide the industry with the regulatory certainty that will limit the risk associated with uneconomical natural gas processing.

II. The NGSAs Petition contains a complaint procedure that allows parties the opportunity to address any operational problems that may result on the system or at local facilities.

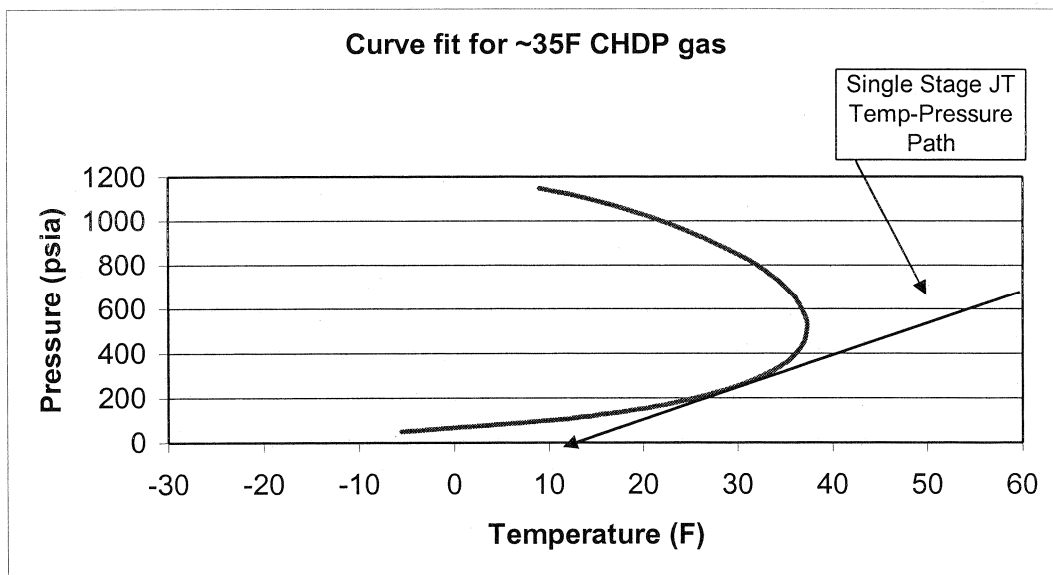
Based on the data used during the technical working group process and set forth in NGSAs April 1, 2005 comments in this docket, it is NGSAs view that the CHDP methodology if applied throughout the country, is likely to consistently produce a cricondentherm that is 15 degrees Fahrenheit or greater given the actual historical data

provided by the industry during the technical process⁴. (While NGSA believes that historical data fully justifies a 15 degree Fahrenheit CHDP, NGSA would emphasize that changes in the natural gas supply mix, plus the actual ability of the customer to receive any natural gas currently tendered without experiencing problems, are more relevant for addressing the natural gas quality issue than the use of historical data alone.⁵) Correspondingly, NGSA believes that the White Paper data supports the establishment of a 1400 Wobbe maximum natural gas interchangeability specification and from a policy standpoint, the use of the tolerance band concept could be applied on a case-specific basis as provide for in the public interest procedure described in

⁴ Data gathered by the technical group shows a simple average maximum CHDP for the nation of 32.3 degrees Fahrenheit for the period 2002-2003 suggesting that the country can accommodate a CHDP that is twice that of the proposed 15 degree Fahrenheit floor.

⁵ For example, consider a customer who has been receiving -70 degree Fahrenheit CHDP natural gas historically. But say the pipeline's delivery point to that customer can accommodate natural gas flowing at 60F. Under these conditions, the delivery point could physically receive a nominal 35F CHDP gas at 700 psi through a single stage letdown without experiencing any liquid fallout. See the figure below.

700 psi pipeline flowing pressure as a starting point
 Single stage pressure reduction (extreme example)= 49F of cooling
 60F flowing temperature less 49F of JT cooling = 11F final temperature
 Fit JT line to HDP curve and read off corresponding CHDP of the curve (37F)



Attachment A of the NGS Petition. However, the NGS Petition also provides for a complaint process whereby parties may seek the establishment of a cricondentherm of less than 15 degrees Fahrenheit and a different Wobbe standard in instances where the pipeline demonstrates operational problems or where it can be demonstrated that it is more operationally and economically efficient for a pipeline to adopt a cricondentherm and/or interchangeability safe harbor that is below the national minimum instead of remedying the situation downstream. Technically feasible "downstream" options for addressing liquids fall out include multi-stage pressure letdown, gas heaters, and pipeline insulation, and such methods should be considered as options in order to avoid unnecessary, uneconomic solutions that accommodate an individual downstream gas quality requirement. Resolving any isolated liquids fall out issues with a more economical, technical feasible downstream remedy will allow the industry to avoid a situation where all the natural gas in an entire pipeline system and the interconnecting pipelines has to be processed to the "lowest common" requirement when a specific downstream remedy is a more economical option.

III. The proposed CHDP "safe harbor" and the generic interchangeability specifications, combined with other existing pipeline quality specifications, such as water content, objectionable properties limits, carbon dioxide and sulfur maximums, etc., adequately define merchantability.

NGSA does not support a policy requiring interstate pipeline adoption of a broad "merchantability" clause. This proceeding has exclusively focused on the issues of hydrocarbon dew point and interchangeability. To interject the concept of

“merchantability” at this late stage of the process would result in counter-productive and unnecessary delay. If the Commission adopts NGSAs recommendations regarding CHDP and interchangeability, FERC will have taken the necessary steps to resolve the natural gas quality issues that need to be resolved. Since most pipelines already have quality specifications in their tariffs relating to other constituents in the natural gas stream (such as sulfur, carbon dioxide and water), establishment of CHDP and interchangeability standards will complete the necessary actions to ensure safe and adequate natural gas supplies.

NGSA proposes that the CHDP safe harbor and generic interchangeability specifications be added to pipeline tariffs where none exist currently. If a pipeline already has CHDP, Wobbe, inert levels and butanes limits, NGSAs does not advocate the removal or replacement of those specifications. NGSAs does wish to clarify that pipelines should not be permitted to add additional specifications, such as a higher heating value limit, that would undercut the CHDP safe harbor and generic interchangeability specifications without a demonstration consistent with the regulations proposed in the NGSAs Petition.

Also, with the changing nature of end-use applications combined with the growing and changing interstate pipeline grid, the imposition of a “merchantability” clause would risk saddling the pipeline industry with a tremendous financial exposure by creating what would amount to an additional warranty and indemnification obligation. This financial exposure or risk would undoubtedly result in severe supply

flexibility reductions as pipelines would have no alternative but to enforce stricter gas quality specifications in order to avoid downstream liabilities.

IV. The Commission should require pipeline adoption of a 1400 Wobbe Index, a 4 percent inert gas maximums, and a 1.5 mole percent butanes plus limit, reserving the use of the +/-4 percent Wobbe tolerance band on a case-specific, as needed basis.

As proposed in the NGSa Petition, absent an existing gas interchangeability quality specification, all interstate pipelines should be required to establish a 1400 Wobbe Index, a 4 percent inert gas maximums, and a 1.5 mole percent butanes plus limit. Importantly, NGSa recognizes that the Interchangeability White Paper includes the use of a Wobbe tolerance band of +/- 4 percent of the local historical average. While clearly a concept recognized in the White Papers, the only way the tolerance band can be applied pragmatically is on a case-specific basis, as outlined in the public interest procedure in Attachment A of the NGSa Petition. NGSa posits that the use of this band would inherently result in a multitude of variable pipeline gas quality specifications. The implementation of the tolerance band on a historical delivery point basis would create a myriad of varying local standards. This would, for all practical purposes, create a lowest-common-denominator result as individual pipelines would be forced to limit their natural gas quality specifications to fit the most restrictive locality, thereby further restricting needed gas supply. In short, applying the +/- 4 percent tolerance band to each delivery point simply makes no sense from a national perspective. The local historical tolerance band is a concept that can be applied on a

case specific basis, as part of the public interest procedure provided in Attachment A of the NGSa Petition, where the local history can be defined and specifically determined, the regional boundaries can be drawn, the end use equipment can be identified and pipeline blending capability and options can be evaluated.

V. With clear interstate pipeline natural gas quality and interchangeability requirements, a resource report as part of the Section 3 process is unnecessary. The importance of additional R&D should not forestall regulatory certainty.

NGSA does oppose the adoption of a “resource report” as part of the Section 3 application for an LNG import facility. There would be no demonstrated need for such a report if the interconnecting interstate pipeline tariffs already contain clear and specific natural gas quality and interchangeability requirements. The requirement for a resource report only adds an additional hurdle in the LNG siting process and is an unnecessary additional risk to place on LNG import facility development. Further, the resource report would become outdated with any downstream pipeline modification or change in the natural gas flow that might result from the addition of a new receipt or delivery point.

From a practical standpoint, such a resource report is unnecessary if the NGSa’s natural gas quality proposal is accepted. This is the regulatory and business certainty that is required for these costly economic projects to be successful. Furthermore, any uncertainty caused by a policy which allows the possibility of variable and changing specifications may result in artificial limits on a terminal operator’s flexibility to access world LNG supplies, and may hinder project sponsor’s ability to enter into

corresponding upstream and downstream contractual commitments. The requirement for LNG importers to meet the quality specifications of the downstream interconnected interstate pipelines should be all that is necessary.

NGSA would like to take this opportunity to correct an incorrect assumption about LNG. Some commenters at the technical conference referred to a “rate of change” of gas quality in gas containing LNG. In subsequent discussions, we have learned that their concern is that “slugs” of LNG would cause their turbines to require frequent retuning. For many reasons, retuning due to LNG should not be necessary. Although it is true that LNG with different quality characteristics may arrive from different exporting countries, at any given importation facility all the LNG goes into the same storage tanks where it is commingled and mixed. Once the LNG is withdrawn from storage it must meet the gas quality specifications of the downstream interconnected pipelines. There are no slugs of LNG. Further, given the additional mixing which occurs with flowing pipeline gas, any downstream gas quality changes will occur infrequently in a manner that can be handled by good communications among the industry stakeholders⁶

As noted in the NGSA Petition, the interchangeability guidelines are “interim” and are conservative. It has been generally accepted that the results of any future research would serve to expand, not further contract, these gas quality specifications. Thus, despite the Interchangeability White Paper’s assertion that the guidelines are

⁶ It should be noted that NGSA has further advocated that pipelines provide real-time operational natural gas quality information on their electronic bulletin boards. (See Appendix A regulation C at page 18 of the NGSA Petition.)

“interim,” pending the results of future study, a clear and specific natural gas policy on this issue needs to be established now in order to provide the regulatory and business certainty that will allow new gas supply investment and infrastructure to move forward. NGSAs encourages the Commission to avoid labeling regulations as “interim.”

VI. NGSAs supports *de minimus* volume waivers where operationally feasible.

Consistent with the White Papers, NGSAs continues to support a requirement that all pipelines consider the feasibility of a non-discriminatory waiver process for small volumes of natural gas without access to processing where operationally feasible. The small volume waiver procedure should be set forth in the pipeline tariff as part of the non-discriminatory “safe harbor” mechanism that maximizes supply and establishes the use of aggregation, blending and pairing on a non-discriminatory basis. Specifically, interstate pipelines should be required to implement a tariff mechanism to waive hydrocarbon liquid drop out and interchangeability standards for *de minimus* amounts of production without access to processing facilities to the extent it is operationally feasible and so long as the delivered gas remains within the pipeline’s specifications. Although we recognize that there can be no national “*de minimus*” number because of different pipeline configurations, NGSAs believes that this number can, and must, be determined on a case-by-case basis.

CONCLUSION

NGSA submits these comments to help clarify points in the NGSA Position and issues raised during the May 2005 Technical Conference. The NGSA Petition, if adopted, provides the regulatory certainty essential to allow for continued supply flexibility and growth. NGSA also expects to file additional comments in this docket.

WHEREFORE, NGSA respectfully requests that the Commission consider these comments as part of its consideration of the issuance of a rulemaking to resolve the uncertainty surrounding the natural gas quality and interchangeability issue.

Respectfully submitted,

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