

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

Revisions to Forms, Statements, and Reporting)
Requirements for Natural Gas Pipelines)

Docket No. RM07-9-000

**INITIAL COMMENTS OF THE
NATURAL GAS SUPPLY ASSOCIATION**

Pursuant to the Federal Energy Regulatory Commission's ("Commission" or "FERC") Notice of Proposed Rulemaking issued September 20, 2007, the Natural Gas Supply Association ("NGSA") respectfully submits these Initial Comments in the captioned proceeding.¹ In support of the Commission's efforts to revise its financial forms, statements, and reports for natural gas companies, NGSA respectfully states the following:

I. COMMUNICATIONS

Communications regarding these comments should be directed to the following individual:

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¹ Revisions to Forms Statements, and Reporting Requirements for Natural Gas Pipelines, Notice of Proposed Rulemaking, Docket No. RM07-9-000, 120 FERC ¶ 61,256 (September 20, 2007) (hereinafter "NOPR").

II. IDENTITY OF COMMENTER

NGSA represents integrated and independent companies that produce and market domestic 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. consumers.

III. INITIAL COMMENTS

For more than three years, NGSA, in conjunction with the American Public Gas Association (“APGA”), the Independent Petroleum Association of America (“IPAA”), and the Process Gas Consumers Group (“PGC”), collectively the “Industry Coalition,” has suggested modifications to the annual Form 2 reports that would dramatically improve the quality of information collected therein.² Most recently, the Industry Coalition provided a list of specific suggestions to improve the information contained in the annual and quarterly financial forms in response to the Commission’s February 15, 2007 Notice of Inquiry.³

NGSA remains encouraged that the Commission has recognized the necessity of improving the information contained in the annual and quarterly financial forms, and has included a number of the Industry Coalition’s suggestions in the NOPR. While NGSA supports the proposed revisions set forth in the NOPR, NGSA respectfully recommends that the Commission also adopt the following suggestions, in order to more fully ensure that the

² See, e.g., *Quarterly Financial Reporting and Revisions to the Annual Reports*, Docket No. RM03-8-000, “Comments of the Industry Coalition on Proposed Revisions to the Annual Reports” (filed Aug. 22, 2003).

³ *Assessment of Information Requirements for FERC Financial Forms*, Docket No. RM07-9-000, “Initial Comments of the Industry Coalition” (filed Mar. 28, 2007) (hereinafter “Industry Coalition Comments”) at 4-7.

Commission and the public have sufficient information to assess the justness and reasonableness of pipeline rates.

A. Additional Adjustments to Form 2 are Needed with Respect to Capital Structure and Rate of Return on Equity.

1. The Commission Should Modify Form 2 to Require Pipelines to Identify the Entity Whose Capital Structure is Reported on page 218a.

In its initial comments in response to the Notice of Inquiry, the Industry Coalition suggested that the Commission modify Form 2 to require pipelines to provide additional information on the entity whose capital structure is being reported on page 218a. This minor change, which would add little to no burden to pipelines' reporting requirements, would allow Form 2 users to properly determine whether the reported capital structure should be used for purposes of cost of service and rate of return calculations.

In its reply comments in response to the Notice of Inquiry, the Interstate Natural Gas Association of America ("INGAA") stated that it has no objection to identifying the entity whose capital structure is reported on page 218a of Form 2.⁴ Nevertheless, the Commission did not specifically require this identification in the NOPR or add an additional note to that page regarding this information. Given that pipeline customers need this information, and that INGAA does not oppose such a requirement, the Commission should make the conforming changes to Form 2 requiring identification of the entity whose capital structure is reported.

⁴ *Assessment of Information Requirements for FERC Financial Forms*, Docket No. RM07-9-000, "Reply Comments of the Interstate Natural Gas Association of America" (filed Apr. 27, 2007) (hereinafter "INGAA's Reply Comments") at 11 ("INGAA members have no objection to identifying the entity whose capital structure is reported on page 218a, which calls for a computation of the allowance for funds used during construction ("AFUDC").").

2. The Commission Should Add a Field Requiring Pipelines to Document what Common Equity Option they Utilized when Computing AFUDC on page 218a of Form 2.

FERC allows pipelines the option to use either the rate granted in the last rate proceeding or the average rate earned during the preceding three years when reporting common equity at line (5), column (d) on page 218a.⁵ In its initial comments in response to the Notice of Inquiry, the Industry Coalition proposed that a pipeline using a three-year average should document that it is not using the approved return on equity, but rather using its own calculation, and provide its calculation of how the average was derived.⁶ In its reply comments, INGAA stated that it did not have an objection to listing which option is reported, provided that a “black box return figure reported may be viewed as an acceptable proxy for the pipeline’s ‘approved’ rate of return.”⁷ Although the Coalition’s suggestion was not fully incorporated into the NOPR, NGSA asks the Commission to adopt INGAA’s compromise to document which option is reported.

NGSA supports INGAA’s proposal to permit pipelines to use a calculated black-box return rate when documenting return on equity on page 218a. However, NGSA asks the Commission to add a line or box on the page for the pipeline to indicate if the reported return is (a) a rate formally approved in a rate case, (b) a calculated black-box settlement approved rate, or (c) an actual three-year average rate. Currently, there is no way to tell which type of return is being reported. Given that there can be a large variance between the approved rate of return and the actual, realized rate of return, it is clear that rates of return on equity submitted on Form 2 are useful only insofar as the methods used to derive them are identified. Requiring pipelines to

⁵ See note on Form 2 page 218a.

⁶ Industry Coalition Comments at page 5.

⁷ INGAA’s Reply Comments at 12.

check off a box to indicate which rate of return is reported will add little to no burden, while guaranteeing that the information already required on Form 2 will be more useful. Also, FERC should make clear that the rate of return on equity listed under any of these options should be the entity's own ROE and not that of its parent or any other affiliate.

Finally, if the debt reported on page 218a is issued by a company other than the company whose capital structure is being provided on this page, the company issuing the debt should be identified.

IV. The Commission Can Greatly Enhance the Usefulness of Fuel-Related Data with a Few Minor Adjustments to Forms 2 and 3Q.

The Commission's proposal to provide more transparency to fuel usage, retention and disposition by modifying the information required on pages 300 and 521 will be extremely helpful to pipeline customers. With a few minor adjustments, however, this information can be made even more useful to both the Commission and pipeline shippers.

First, the Commission should add a column to proposed page 521 of Forms 2 and 3Q for pipelines to identify the specific accounts being used to record the various sources and disposition of fuel gas. With this information, users will be able to reconcile the volumes broken out by account reported on proposed page 521 to data recorded elsewhere on Forms 2 and 3Q (e.g., fuel sales should match Account 495, or Account 498 if the pipeline records revenue for fuel). The new, expanded page 521 would allow shippers to verify that fuel purchases match what is reported in O&M expenses.

Additionally, because few, if any, sales of gas by pipelines technically fall under the specific Account Nos. 480-484 designations on page 300 of Forms 2 and 3Q, which delineate various types of gas sales, it is important for the Commission to require pipelines that continue to use these accounts to add footnotes on pages 300-301 detailing the type of transaction(s) being

reported. The fact that most pipelines have been out of the merchant business for over 15 years now has rendered the activities listed for each of these accounts outdated (e.g. sales for resale and residential/commercial sales). As a result, the Commission and pipeline shippers should be aware of why these activities are taking place.

The necessity of this change is underscored by the fact that the forms currently allow pipelines to use these “sales” designations without providing any explanation of their specific activities. For example, some pipelines report significant levels of sales for resale in Account No. 483 in their Form 3Q.⁸ In theory, without the suggested change, every single sale of gas made by pipelines and reported in those accounts could be lumped into this amorphous “sales for resale” category.

Similarly, some pipelines report significant sales in Account No. 488 “Miscellaneous Service Revenues” and do not provide any further explanation.⁹ This account, according to the specifications in the Commission’s regulations, should not be used for any activities generating such significant revenues. Thus, along with Account Nos. 480-484, the Commission should require pipelines using Account No. 488 to specify the source(s) of such revenue.

Finally, the specific sub-accounts proposed for Account 495 on lines (1) through (11) on page 308 of Form 2 will serve to increase consistency among pipelines in the types of revenues being recorded on this page. However, there may be instances when other gas revenues do not neatly fit into the specified boxes. For example, neither line pack nor excess storage gas can be found in these sub-accounts. To the extent that a pipeline has revenues associated with such

⁸ See Natural Gas Pipeline of America (NGPL) and Transcontinental Pipeline (Transco) Form 3, Account No. 483, reporting \$45 and \$32 million, respectively, as sales for resale for the second quarter of 2007.

⁹ Transco reported \$75 million in Account No. 488 “Miscellaneous Service Revenues” in its second quarter 2007 Form 3Q.

items not listed, they should specify each such type and amount of revenue on a separate line under line 11 and provide sufficient detail and explanation for customers to identify the accounts to which these revenues are attributable.

V. If Form 11 is Eliminated as Proposed, then FERC Should Ensure that Volume Information is Sufficiently Captured in the Forms 2 and 3Q.

If adjustments are made to ensure that monthly volume data remains available to pipeline shippers in the same detail in which it is currently provided in Form 11 (e.g., by the type of service and by rate schedule), then NGSA can support the elimination of Form 11. Customers rely on the information provided in Form 11, given that it is the only place in which contract demand and volume information is available. NGSA believes that the following adjustments would ensure that Forms 2 and 3Q sufficiently capture volume data.

First, the Commission should require pipelines to provide volume (MDQ and commodity) information separated by service (firm or interruptible transportation, parking and lending, storage etc.) and by rate schedule on proposed page 313 of Form 2. NGSA notes that this proposed page, which provides information on negotiated and discounted rate services, provides for both revenue and volume information, and therefore reflects the Commission's understanding that volumes are one of the two critical components of assessing pipeline rates. However, volume information needs to be separated into MDQ and commodity components and provided by service (firm or interruptible transportation, parking and lending, etc.) and rate schedule in order to maximize its usefulness to pipeline customers.

Second, the Commission should require pipelines to provide volume (MDQ and commodity) information by service and rate schedule for incremental services on proposed page 217 of Form 2. This proposed page, which reflects incremental services, does not provide any volume information, for either contractual or throughput volume.

Pipeline shippers need both MDQ and commodity volume information by service and rate schedule in order to properly attribute costs to incremental services and design rates. For example, when a pipeline customer is assessing pipeline rates, it must have volume information by service type and rate schedule in order to properly allocate costs to incremental services and to design rates to see what the overall rate impact would be for that customer specifically. This level of assessment is critical before expending the amount of time and money necessary to bring forward a complaint.

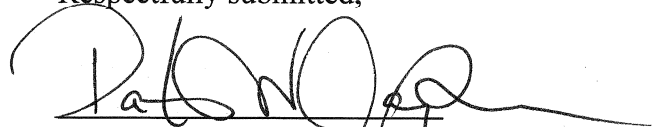
While aggregate revenue information may provide good evidence that the pipeline is over-recovering with respect to its entire system, the impact on an individual customer can only be assessed using volumes for cost allocation/rate design. Only the Commission pursuing the overall public interest would file a Section 5 complaint for the system as a whole rather than understanding the likely impact on a specific customer. As requested above for negotiated and discount rate services, this information would be much more useful if broken down by service and rate schedule.

Finally, now that the Commission is proposing to eliminate Form 11, the Commission should require reporting of volumes by service and rate schedule on pages 300 through 301 of Form 3Q in the same format that information is reported on pages 302 through 307 of Form 2.

VI. CONCLUSION

In consideration of the foregoing, NGSA respectfully requests that the Commission adopt the proposed revisions to its financial forms, statements, and reports contained in the NOPR, along with the further revisions set forth in the Initial Comments above.

Respectfully submitted,



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