

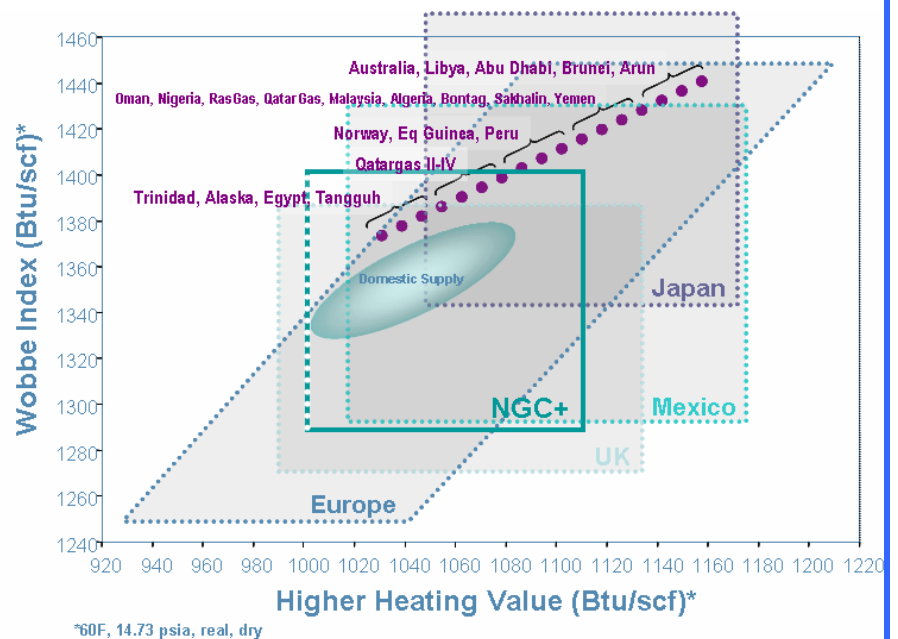
Natural Gas Interchangeability Impacts Supply

Natural gas interchangeability* specifications are a critical factor in global supply development decisions. The U.S. industry segments comprising the Natural Gas Council (NGC) established an exchange of expert ideas and concepts that resulted in a technical consensus framework for determining domestic natural gas interchangeability specifications, as well as the identification of the substantive parameters needed to establish such criteria.

Work on this issue is not yet complete. Despite an active market dialogue, an over-arching policy ensuring the safe, economical maximization of supplies remains a critical role for FERC. Interchangeability specification certainty is a key element of long-term international supply commitments. Maximum U.S. supply flexibility, without compromising safety, is essential to competing in the world market.

The accompanying chart illustrates the preliminary, conservative NGC industry compromise compared to interchangeability parameters in other world markets. The NGC guidelines provide the U.S. with a policy starting point for defining interchangeability and, importantly, insight into how those requirements can impact U.S. access to world LNG supply.

Global supply development decisions are based on a myriad of risks, one of which is uncertain U.S. interchangeability policy. Ultimately, a policy based on the NGC consensus will produce a definable process that maximizes supply and safety, helps reduce business risks, and attracts new natural gas supplies. Although the NGC guidelines are conservative, there may be some special markets within the U.S. or non-combustion applications that may need to be addressed on a case-specific basis. If other world markets are an indication, future experience and R&D could enable the U.S. to broaden its requirements to better compete globally without material impact on safety, the environment, or end-use equipment. U.S. natural gas markets need a FERC interchangeability policy that embraces the consensus work of the NGC.



Source: TOTAL and Shell Trading

NGSA endorses these four key principles:

1. Acknowledgement of the NGC interchangeability specifications as the policy foundation to foster a timely resolution of any future FERC interchangeability proceedings.
2. Placement of natural gas quality and interchangeability specifications in pipeline tariffs, which then serve as the basis for the refusal of natural gas supply and define pipeline discretion.
3. Assurance that natural gas interchangeability issues that arise in a LNG terminal application will be addressed in a separate pipeline proceeding.
4. Commitment to resolve interchangeability issues by balancing safety with the goal of economically maximizing supply.

*Interchangeability is the ability to substitute one gaseous fuel for another in a combustion application without materially changing operational safety, efficiency, performance or materially increasing air pollutant emissions.