



NEWS

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NGSA to FERC: “Proactive regulation is the only way to manage modern markets,” said Richard J. Sharples, Chairman of NGSA.

(Washington, D.C.) The Natural Gas Supply Association (NGSA) today filed a request for rehearing with the Federal Energy Regulatory Commission (FERC) on its Final Rule for pipeline transportation services. Richard J. Sharples, Chairman of NGSA and President of Anadarko Energy Services, said, “The message is clear: producers of natural gas believe that creating efficiencies in the market affects, and benefits, all consumers of natural gas. Those efficiencies, however, can be measurably increased if FERC creates a system that prevents problems, rather than a system that has to clean them up.”

On February 9, 2000, FERC issued a Final Rule, which has major implications for the natural gas market and for customers of natural gas pipelines because it clears up many issues that have been outstanding for several years (Order No. 637, Regulation of Short Term Transportation Services, and Regulation of Interstate Natural Gas Transportation Services, Docket Numbers RM98-10-000 & RM98-12-000). NGSA filed a request for rehearing in order to ask FERC to reconsider certain issues contained in the rule.

Sharples continued, “NGSA commends FERC on several initiatives contained in the rule, including requiring increased accessible pipeline data, which should enhance the Commission’s and pipeline shippers’ ability to monitor the marketplace. Moreover, FERC did not allow pipelines to sell short-term primary capacity at market rates, acknowledging that it could harm healthy competition by enabling pipelines to use their market power.

“FERC also continued its policy of reviewing non-standardized services offered by pipelines, rather than allowing negotiated terms and conditions without prior regulatory oversight or review. FERC review (and customer comment) prior to acceptance of negotiated terms and conditions is key to avoiding possible preferential contracts, especially agreements favoring corporate affiliates.

“NGSA, however, is asking FERC to reconsider certain other issues. First and foremost, this rule permits seasonal rates, allowing pipeline rates to vary with the season, in lieu of a monthly average rate year-round. While NGSA does not necessarily oppose seasonal rates, it is opposed to implementing seasonal rates without also requiring that pipelines go to FERC for a review, and an update of their rates to ensure their annual revenue requirements are not indefinitely exceeded.

“NGSA outlines the following reasons to FERC for implementing rate review:

- With seasonal rates, pipelines are likely to collect revenues in excess of annual revenue requirements because it allows pipelines to continue their current discount adjustment, a seasonal rate in itself, while increasing peak seasonal rates.
- In addition, pipelines may incur other savings that, because they do not come to FERC to update their rates, are not passed on to their customers. Based on FERC information, the following was found about major interstate pipelines:
 - Pipeline operation and maintenance costs have declined 41 percent from 1994 to 1998, representing over \$3 billion;
 - Sixty percent of pipelines have not filed a rate case in the last three years.”

“Another area of concern,” Sharples continued, “is that FERC’s rule would allow pipelines the opportunity to keep up to 50 percent of excess revenues. There is no justification for allowing pipelines to share in over-collections, much less 50 percent. We are requesting that FERC allow all pipeline shippers, both those with long and short-term capacity, to be credited with any excess revenues derived from seasonal rates.

“In addition, NGSA is opposed to lifting the price caps for short-term capacity releases, which allows shippers to sell excess capacity at market rates, because it sets the system up for market power abuse. Sixteen of 42 interstate pipelines have affiliates holding more than 20 percent of the firm capacity under contract. Five of these pipelines have affiliates holding more than 60 percent capacity under contract. Given these numbers and the heightened concern that this policy creates for affiliate preferences, NGSA has requested that FERC implement safeguards *now* in an attempt to at least minimize possible market abuses by (1) limiting the potential for abuse, (2) reducing not only actual discrimination, but also the *perception* that pipelines and their affiliates are engaging in discrimination, and (3) thereby moving the natural gas transportation industry toward a more competitive market place.

“Most importantly,” Sharples concluded, “FERC must proactively protect the integrity of the marketplace. Currently, FERC policies require customers to file complaints about pipeline service issues instead of the FERC preventing market abuse and encouraging competitive behavior. Current policy pits customers against transporters and is inherently inefficient. We look forward to working with FERC on these and other issues.”

NGSA represents integrated and independent companies that produce and market the majority of the natural gas produced 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.

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