



## NEWS

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### **NGSA Suggests Adoption of Improved Regulatory Structures to Support the Continued Use of Negotiated Rates**

(Washington, D.C.) ... The Natural Gas Supply Association (NGSA) today filed comments with the Federal Energy Regulatory Commission (FERC) on its "Notice of Inquiry Concerning Natural Gas Pipeline Negotiated Rate Policies and Practices."

Patricia Jagtiani, NGSA Vice President of Regulatory Affairs, said, "Overall, NGSA believes the negotiated rate program should be continued; however, we are requesting that FERC ensure customer confidence in negotiated rate transactions by revising its program in some key areas."

For the past six years, interstate pipeline companies have had the ability to negotiate rates with shippers as an alternative to using traditional cost-of-service rates stated in the pipeline's tariff. When implementing this program, FERC appropriately recognized that the tariff recourse rate must be available to all shippers to mitigate market power concerns.

NGSA's comments focus on two key areas: (1) a viable cost-based recourse rate must be available to shippers and (2) pipeline capacity allocation procedures must be improved to mitigate potential market power concerns.

First, a shipper must always be able to elect the recourse rate in lieu of a negotiated rate. However, in many instances, the recourse rate stated in the pipeline's tariff has become misaligned with costs and should no longer be considered just and reasonable.

Jagtiani continued, "We have reached a point where the Commission must take action to ensure that pipeline recourse rates are in line with approved returns. Absent just and reasonable recourse rates, customers are not afforded the true protection needed to have a valid alternative to negotiated rates."

The Commission also asked for comments on limiting or restraining index price differentials, which many negotiated transactions are based upon. NGSA urged that rather than imposing an outright ban on the index-based negotiated rate transactions that are now the focus of this proceeding, a better approach would be to focus on creating and expanding market rules that promote transparency and mitigate even the potential for anticompetitive conduct.

Jagtiani emphasized that, “Like the electric transmission industry, good market design is essential for the gas pipeline industry as well to ensure fairness in the marketplace.”

NGSA believes that FERC should focus in the first instance on improving the procedures used to allocate interstate pipeline capacity, especially when index-based negotiated rate transactions are involved. In its comments, NGSA highlighted several recommendations essential if index-based negotiated rates are permitted, including:

- 1) To promote transparency, the pipeline must post the transaction on its electronic bulletin board as soon as an agreement in principle is reached between the pipeline and the shipper;
- 2) Once the index-based negotiated rate transaction is posted, the pipeline must allow competitive bids from other parties for all or a portion of the capacity; and
- 3) The pipeline must sell as interruptible service all unused capacity, including currently subscribed capacity that is not being utilized for firm service by a firm shipper, at any price in excess of variable costs that clears the market, up to the recourse rate.

Jagtiani concluded, “While negotiated rates have become an option used by pipelines and shippers today, it is important that FERC ensure the continued strength of this program by addressing the areas of concern NGSA has outlined in its comments.”

*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.*