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## NEWS

### **NGSA Recommends Consistent “True-Up” Approach for Pipeline Fuel Cost Recovery**

(Washington) ... The Natural Gas Supply Association (NGSA) supports a consistent “true-up” policy for actual pipeline fuel needs in interstate transportation markets, rather than a mixed bag that also includes fixed-rate collections that can often result in unnecessary customer costs, it said in comments to the Federal Energy Regulatory Commission (FERC) today.

“Fuel efficiency is important and should be promoted through FERC’s rules and regulations where it is economically feasible,” said Patricia Jagtiani, NGSA vice president of regulatory affairs. “However, FERC should not allow those efforts to trump its fundamental obligation under the Natural Gas Act to protect consumers from unjust and unreasonable practices.”

NGSA, a Washington-based trade group representing large producers and marketers of natural gas, seeks a fuel-cost policy that requires pipelines with fixed fuel-use percentages to convert to mechanisms that track the actual use of fuel and then “true-up,” or reconcile collections with actual pipeline needs at regular intervals.

“Once tracker/true-up mechanisms are in place, however, we are supportive of incentive mechanisms negotiated between each individual pipeline and its customers as a means of providing additional motivation for pipelines to continue to increase their fuel efficiency,” Jagtiani said.

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In order to operate the interstate natural gas transmission network, pipeline companies require a certain amount of the fuel they ship to run compression stations and other transportation-related operations. Of concern to NGSAs, however, is what certain pipelines are allowed to do with any excessive amounts of fuel they procure from customers but no longer need for system reliability.

Some pipelines with fixed fuel percentage are earning more revenues from selling shipper fuel than they earn from their primary transportation business. Since pipelines were required to exit the merchant function a decade and a half ago, allowing fixed fuel charges to continue subverts the goals envisioned by unbundling the gas industry to separate the merchant function from the transportation of natural gas, according to the NGSAs filing.

The commission's own analysis, as well as analysis performed by NGSAs, show ample evidence that the use of fixed fuel charges has resulted in instances whereby pipelines have made excessive over-collections for many years, the association said. Under a fixed fuel approach, fuel percentages cannot be updated to reflect changing circumstances absent a pipeline rate case or shipper complaint.

NGSAs do not believe a one-size-fits-all approach is appropriate when crafting pipeline incentive mechanisms to promote increased fuel efficiency. Instead, pipeline customers should work with the individual pipeline companies and craft fuel incentives that are tailored to meet the particular needs of the individual system. Shippers recognize the importance of fuel efficiency and have shown a strong willingness to negotiate these types of fuel incentives in recent years.

In the meantime, the association said, FERC should take immediate steps to rectify the two divergent practices for pipeline fuel retention: pipelines with fixed fuel retention percentages that only change with a full-scale rate proceeding, and others that recalculate fuel retention percentages at regular intervals through some form of tracking mechanism that also includes a reconciliation of available re-sale volumes, which otherwise can result in under- and over-collections of revenue.

"Requiring all interstate natural gas pipelines with fixed fuel percentages to convert to a fuel tracker that also includes a true-up mechanism would be a much-needed and positive step," Jagtiani said. "Implementation of these new fuel-retention requirements should be required without delay."

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*NGSA represents integrated and independent companies that produce and market domestic natural gas. Established in 1965, NGSAs 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.*