

Richard J. Kruse  
Senior Vice President

December 8, 2000

**Via Facsimile 713-356-0067**

Executive Committee  
Gas Industry Standards Board  
1100 Louisiana, Ste. 4925  
Houston, TX 77002

Re: BPS Recommendation to GISB Executive Committee,  
as Revised by the Executive Committee on November 16, 2000

Dear Members of the Executive Committee:

Algonquin Gas Transmission Company, East Tennessee Natural Gas Company, Egan Hub Partnership and Texas Eastern Transmission Corporation (hereinafter referred to as ADuke Energy Gas Transmission®) are pleased to have the opportunity to comment on the proposal to modify certain GISB standards and adopt new ones related to time lines for capacity release, including the accommodation of intraday or partial day capacity releases and elimination of the restrictions on partial day recalls. Duke Energy Gas Transmission's principal concern is with the flowing day recall aspects of the proposed modifications and additions to the GISB standards. Duke Energy Gas Transmission has carefully reviewed the proposals and their potential effect and relationship with the Duke Energy Gas Transmission FERC gas tariffs and services. While Duke Energy Gas Transmission does not necessarily oppose flowing day recalls, if properly crafted and integrated with the services they provide, Duke Energy Gas Transmission remains unconvinced that the changes are required by Order No. 637 and has concluded that the proposals upon which the Executive Committee has requested comments leave open a myriad of issues that must be addressed more definitively without which flowing day recalls cannot be implemented. Some of these might be addressed by the business practice subcommittee. Others, however, may have to be dealt with by the FERC on a pipeline to pipeline basis.

To put the proposal in context, the standard open access service required by the Commission be put in place under Order No. 636 is a daily service, typically with provisions for uniform hourly takes except to the extent that pipelines can accommodate swings and still provide underlying firm service. The existing GISB standards and conventions were developed based on this underlying service. Certainly the Duke Energy Gas Transmission business practices conform to the GISB standards which in turn are based on the underlying services that were being provided by interstate pipelines at the time they were developed.

The proposed flowing day recall standards would allow the recall of capacity mid-day and reallocation of that capacity to the releasing shipper. The capacity could then be reput back to the replacement shipper. The problem is magnified exponentially when one considers as well that a replacement shipper can in turn become a releasing shipper under the Commission's capacity release rules. The service that is released has a maximum daily quantity. If a releasing shipper releases the entire MDQ that results in a contract for the entire MDQ with the replacement shipper. If the releasing shipper releases a portion of the MDQ, that results in two contracts - one with the releasing shipper and one with the replacement shipper with the MDQ divided between the two. Duke Energy Gas Transmission makes every effort to accommodate hourly swings during the day, capped at the maximum daily quantity. What happens, however, if the replacement shipper has utilized virtually all of the contract quantity, whether scheduled or not, under its contract at the time of the recall? There is virtually nothing to recall. Yet this very basic question has not been addressed at all in the proposed changes to the GISB standards. At best, the proposed standards state that recalls should not be limited to situations where the acquiring shipper has not scheduled the capacity. Situations is undefined and non-scheduled flows are not taken into account. No distinction is made between primary and secondary rights. Without addressing this question in a comprehensive and specific fashion, there is a very serious question as to whether the GISB proposals would result in a fundamental change in the services being provided to customers on interstate pipelines. The possibility for degradation of service is very real.

Duke Energy Gas Transmission would emphasize again that it is not necessarily opposed to a flowing day recall provision. However, at this juncture there are so many unanswered questions, as well as a multitude of technical issues, that would need to be addressed in order to implement a flowing day recall, that Duke Energy Gas Transmission can only conclude that it is premature to adopt any such standards and that considerable additional research and analysis must be undertaken, perhaps on a pipeline to pipeline basis, in order to have a workable program. If the rules are not made clear in all of their aspects, price signals will be severely distorted or at best ambiguous.

Duke Energy Gas Transmission has identified a number of specific issues that it believes needs to be addressed before the adoption of any flowing day recall provisions. These issues are identified below: This list is not intended to be exhaustive, but rather is intended as a basis for the additional discussion that will be necessary to properly address flowing day recall issues.

- § First and foremost, Duke Energy Gas Transmission believes it is important that it be clear that the flowing day recall cannot result in an increase in contract quantity on a daily basis. Put another way, if the replacement shipper has utilized virtually all of its MDQ (the

released capacity) in the first half of the day, there is nothing to be recalled and the recalling shipper is not entitled to use that capacity during the remainder of the day. Any other rule would result in a "free option" that is directly contrary to the policy positions taken by the Commission in Order No. 637. As indicated above, the proposed rule is completely unsatisfactory on this point.

- \$ A second major issue that must be addressed is establishing how interstate pipelines are to track recalls and reputs during the day both from a service prospective, as well as from a scheduling, nomination, confirmation and computer prospective. There has been little analysis of the time and cost associated with the extensive changes that may be necessary.
- \$ A third major issue is the impact on the secondary market. A right to recall during a flowing gas day necessarily impacts the value of the capacity to replacement shippers and their ability to market gas to points utilizing the released capacity. This issue, as many of the issues raised by the proposal to have flowing gas recalls, appears to be more of a policy and economic issue that should be for the Commission to decide, not GISB.
- \$ Cash outs would also have to be addressed. With intraday recalls and reputs certainly cash outs would have to be calculated on a daily basis, not on a monthly basis.
- \$ Notifications to marketers and producers would need to be automated to allow for the short notices of recall or reput of the released capacity.
- \$ Numerous changes to the capacity release tariff provisions, as well as the computer systems that support capacity release, would be required in order to allow for validations to reflect the shorter time lines, to allow nominations on the same day as the date of the capacity release, to accommodate the expected increase in releases and recalls and reputs, to permit the tracking of the release from the originating releasing shipper to the acquiring shipper and back to the releasing shipper (including multiple releases) and to permit validation of contract entitlements (*i.e.*, how will the entitlements be divided?).
- \$ The entire nomination confirmation process would need to be revised to reflect flowing day recalls and reputs. While Duke Energy Gas Transmission has identified this as a very significant issue, it has yet to quantify the cost of the changes that would be required. However, Duke Energy Gas Transmission believes that the cost would be significant.

- \$ Substantial revisions in the rules need to be made to ensure that the burden is put on shippers as to recall/reput rights. Advance communication by shippers as to recall/re-release/reput transactions is an absolute prerequisite to any program that embraces releasing shipper recall during the flowing gas day. Also, it is critical that interstate pipelines (transportation service providers) be held harmless for reliance on such communications.
  
- \$ The entire issue of imbalances and allocations of capacity with partial day flows due to recall has yet to be addressed comprehensively. By way of example, the replacement shipper has scheduled for the day 100 units. Because the pipeline has available hourly flexibility, the pipeline is able to accommodate takes above 1/24th of 100 units during the first twelve hours of the day. The replacement shipper is comfortable with this course of action because of its anticipated needs during the second twelve hours of the gas day. In other words, the replacement shipper is confident it will not run an imbalance and incur any kind of penalty. The releasing shipper, however, recalls the capacity mid-gas day. On a prorated basis, the replacement shipper is now out of balance. However, the imbalance may be due to the action of the releasing shipper recalling the capacity. Is the replacement shipper to be held to an imbalance? Does it depend on what the releasing shipper does during the remainder of the gas day? None of these questions have been answered, and it is essential that they be answered prior to any attempt at implementation of a flowing day recall approach. If they cannot be answered satisfactorily, the flowing day recall would have to be rejected in favor of a daily approach.
  
- \$ Depending on the answers to the questions outlined above, the entire billing systems of interstate pipelines would have to be revised. Again, Duke Energy Gas Transmission has not estimated the cost, but there would be a cost associated with the activity.

Duke Energy Gas Transmission is certain that it has only outlined the proverbial tip of the iceberg in this response to the Executive Committee's request for comments. What Duke Energy Gas Transmission is certain of, however, is that the issue has not been discussed in the detail it deserves and the economic and policy issues associated with the issue likewise have not been addressed appropriately. The ripple effects throughout the electronic communication systems of interstate pipelines and the business practices of interstate pipelines have been addressed only superficially at the point. Duke Energy Gas Transmission stands ready to enter into further discussions with interested parties.

Executive Committee  
Gas Industry Standards Board  
December 8, 2000  
Page 5

Again, Duke Energy Gas Transmission is not opposed to properly crafted within-day recalls, but believes the details have not been thoroughly thought out. If you have any questions with respect to this submission of comments, please contact the undersigned at your convenience.

Very truly yours,

Richard J. Kruse  
Senior Vice President  
Duke Energy Gas Transmission  
5400 Westheimer Court  
Houston, TX 77056  
Phone 713-627-5368  
Fax 713-627-4027

RJK/bh