

The Federal Energy Regulatory Commission (Commission) is proposing an integrated package of revisions to its regulations governing interstate natural gas pipelines to reflect the changes in the market for short-term transportation services on pipelines. Under the proposed approach, cost-based regulation would be eliminated for short-term transportation and replaced by regulatory policies intended to maximize competition in the short-term transportation market, mitigate the ability of firms to exercise residual monopoly power, and provide opportunities for greater flexibility in the provision of pipeline services. The proposed changes include initiatives to revise pipeline scheduling procedures, receipt and delivery point policies, and penalty policies, to require pipelines to auction short-term capacity, to improve the Commission's reporting requirements, to permit pipelines to negotiate rates and terms of services, and to revise certain rate and certificate policies that affect competition.

DATES: Comments are due November 9, 1998.

ADDRESSES: Federal Energy Regulatory Commission, 888 First Street, NE, Washington DC, 20426.

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1) A Different Model for Regulating the Short-term Market

- a) The Commission is proposing to create more uniform nominating procedures for released capacity so that it can better compete with capacity from the pipelines and delivered gas transactions.
- b) Commission is proposing the use of capacity auctions for all short-term capacity.
- c) To monitor the marketplace, the Commission is proposing to establish reporting requirements to provide capacity and pricing information to all shippers.

2) Creating Greater Competition Among Short-Term Service Offerings

- a) In order to place capacity release transactions on a more equal footing with pipeline services, the Commission is proposing that pipelines provide purchasers of released capacity, like shippers purchasing capacity from the pipeline, with the opportunity to submit a nomination at the first available opportunity after consummation of the deal. This will enable shippers, for instance, to acquire released capacity at any of the nomination or intra-day nomination synchronization times and nominate gas coincident with their acquisition of capacity.
- b) The proposal would provide that a pipeline that requires the replacement shipper to enter into a contract must issue the contract within one hour

of submission of the transaction and that the requirement for contracting must not inhibit the ability to submit a nomination at the time the transaction is complete.

3) Capacity Auctions: Proposed Auction Requirement

- a) The Commission is proposing that a pipeline's available short-term capacity must be sold through an Auction.
- b) The requirement of an auction for short-term capacity still leaves the question of whether to retain the current bidding procedure for long-term capacity release transactions.
- c) To ensure comparability, the Commission, therefore, proposes to permit shippers to release capacity on a long-term basis without going through a bidding process. As is the case for the pipelines, no sales of long-term capacity can exceed the pipeline's maximum rate.
- d) The Commission is proposing that all short-term releases of capacity by firm shippers take place through the auction to ensure that capacity is allocated on a non-discriminatory basis to the purchaser placing the greatest value on the capacity.

4) Information Reporting and Remedies for the Exercise of Market Power: Reporting Requirements

The information needed by the market, both for decision-making and monitoring purposes, falls into three general categories: information on capacity availability, information on the structure of the market, and information on capacity transactions, such as rates, contract duration, and contract terms.

- a) Information on the amount of capacity available at receipt and delivery points and on mainline segments as well as on the daily amount of capacity that pipelines schedule at these points will help shippers structure gas transactions and cast light on whether shippers or the pipeline may be withholding capacity.
- b) But, in order to effectively determine whether capacity is being withheld, information also is needed to show the total design capacity of the point or segment and the amount scheduled on a daily basis.
- c) The Commission also proposes to require pipelines to post information on planned and actual maintenance or system outages that would reduce the amount of capacity available.

5) Information on Market Structure.

- a) The Commission proposes to add a requirement to include in the Index of Customers the receipt and delivery points held under the contract, the zones or segments in which the capacity is held, and the shipper's contract number.
- b) To assure parity of transactional information, the Commission proposes, as described, to require the pipelines to provide the same information about their transactions as is currently provided about capacity release transactions.

6) Penalties and Operational Flow Orders

- a) Pipelines Should Provide, on a Timely Basis, as Much Imbalance and Overrun Information as Possible
- b) The pipeline would not be required to install real time meters. The burden on the pipeline would be limited to distributing on a timely basis--i.e., so that the shipper has a reasonable opportunity to avoid penalties--the information the pipeline currently has on deliveries and imbalances at each shipper's delivery point as well as system imbalances. The pipeline would be required to establish a system that notifies each shipper individually of the imbalance/delivery information that the pipeline possesses or to give shippers access to such information via the Internet.
- c) A related option is for the Commission to establish procedures that would allow all segments of the natural gas industry to form a consensus, to the extent practicable, on penalty tariff provisions that could be uniform either on a national or regional basis. Such provisions could:
 - i) define the particular penalties and to whom they would apply;
 - ii) implement cash-out provisions on all pipelines;
 - iii) set tolerance levels;
 - iv) determine the time periods when the penalties would be applicable;
 - v) define the time periods to notify shippers of penalties; and
 - vi) allow make-up and/or trading of imbalances.

The Commission has successfully prompted, by adopting recommendations of **GISB**, the standardization of many of the operating rules of interstate pipelines to enhance competition. In that regard, the Commission stresses that the intent of this option is not to determine standardized penalty provisions as part of the rulemaking, but rather to initiate a process in which a consensus may be achieved. The Commission solicits comment on whether the industry could develop such standards through **GISB** or whether the Commission would need to establish its own process for developing the standards.

7) Negotiated Rates and Services

Two of the objectives of the regulatory changes proposed in this NOPR are to promote greater innovation in service offerings, and to increase the value of long-term capacity as protection against price swings in the short-term market. As explained below, allowing the negotiation of rates and services can provide the flexibility necessary to foster service innovation.

- a) Implementation of the Negotiated Rates and Services Policy
- b) Recourse Service
 - i) The recourse service, which would be available to all shippers, serves as an alternative to negotiating with the pipeline, and an important check on the pipeline's potential exercise of market power. Therefore, the Commission must ensure that the recourse service is initially, and remains over time, a high quality service, so that it stays a viable alternative to negotiated rates and services. Below, the Commission presents proposals for initially establishing a good quality recourse service, and for maintaining the vitality of that recourse service in the future.
- c) Establishment of Initial Recourse Service. The Commission proposes to

require that each pipeline's initial voluntary filing to implement negotiated terms and conditions of service define the components of that pipeline's recourse service.

Another option for establishing initial recourse service would be to have **GISB** generically identify basic elements of service that could not be subject to negotiation. Designating particular terms or conditions as non-negotiable would have the effect of defining some of the basic terms and conditions of service that comprise recourse service. Some commenters have requested that the Commission generically specify particular terms or conditions as non-negotiable. However, **GISB** is the one forum where all segments of the industry are brought together, making across-the-board consensus on this issue a possibility. The Commission requests comments on the feasibility and value of having **GISB** define initial recourse service.