



March 19, 2003

VIA ELECTRONIC MAIL & U.S. MAIL

Ms. Rae McQuade
Executive Director
North American Energy Standards Board
1100 Louisiana, Suite 3625
Houston, TX 77002

Re: February 28, 2003 Memo: "Guidance to Executive Committee on Further Consideration of Creditworthiness Standards"

Dear Ms. McQuade:

This letter is to express Northern Natural Gas Company's (Northern) concern regarding the above-referenced memo of the NAESB General Counsel to you and Bill Boswell of the NAESB Managing Committee, which sets forth a proposal for the NAESB Board to instruct the Executive Committee (EC) regarding the development of creditworthiness standards.

Northern understands the purpose of the NAESB Board is to advise the EC on how it conducts its business and also understands that in discussing appropriate business standards the EC discusses Commission policy in order to ensure that it does not make policy determinations in developing standards. However, the February 28, 2003 memo appears to be interpreting recent Commission orders¹ regarding specific pipeline creditworthiness provisions in a way which, in our opinion, goes beyond the scope of NAESB, which is a voluntary, consensus-based, standards-setting organization that does not have the authority to create or interpret policy standards. Such action is contrary to the objectives and by-laws of NAESB, which provide that "NAESB should endeavor not to create policy."² In a resolution dated September 23, 2002, the NAESB Board itself acknowledged that the development of creditworthiness standards by the Wholesale Gas Quadrant should be restricted to:

¹ Northern Natural Gas Company, 102 FERC ¶61,076 (2003); Tennessee Gas Pipeline Company, 102 FERC ¶61,075 (2003).

² Article 2, Section 2.2 (b) of NAESB's Bylaws.

implementation of existing Commission policy, new Commission policy after it has been ordered and non-policy oriented aspects of creditworthiness.

Further, the Commission has neither required nor requested NAESB to delve into policy matters in developing creditworthiness standards. In fact, the Commission made reference to NAESB's stated restriction against developing policy in both the Northern and Tennessee orders.³

As a pipeline subject to one of the Commission orders being interpreted in the February 28 memo, Northern is troubled that its order is being treated by NAESB as if it represents final Commission policy. As you may know, Northern's order remains subject to several rehearing requests, including Northern's own rehearing request. It is not a final order. The Tennessee order is also pending rehearing. Until clear and final Commission policy is established, it is fundamentally unfair to Northern and any other party seeking rehearing to be required to comply with a standard interpreted, recommended or otherwise proffered by NAESB based on either Tennessee's or Northern's initial order. Such action would result in bad policy and confusion in the industry.

Northern is not opposed to NAESB, consistent with the Board's September 23, 2002 resolution, setting standards that will improve the process of determining a shipper's creditworthiness, e.g., standardization of documents that pipelines and their customers use to exchange credit information. However, with respect to creditworthiness provisions in a pipeline's tariff, it is inappropriate for NAESB to step into the Commission's shoes and perform the Commission's statutory obligation, which is to set policy and to determine the reasonableness of pipelines' tariffs. The Commission cannot delegate this role to NAESB, nor can NAESB assume it.

Given the current business environment, where sudden changes occur in shipper creditworthiness and pipelines face increased financial risk, it is critical that pipelines retain the ability to tailor the creditworthiness provisions in their tariffs to meet their particular business risk profile and the needs of their creditworthy shippers, consistent with established Commission policy. Pipeline companies vary dramatically in terms of the level of risk they can assume, their anticipated future risk and their ability to assume more risk. This is illustrated by certain (but not all) pipelines having recently filed to modify their creditworthiness provisions, given changes on their individual systems. The purpose of these filings is to ensure that the pipeline is able to make sound business decisions. Unfortunately, this has opened discussion on possible changes for pipelines whose existing creditworthiness terms are working for them. Why attempt to fix something that is not broken on such pipelines? For example, the type of security

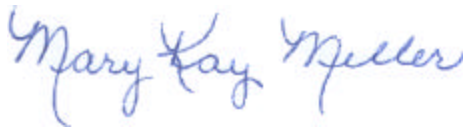
³ Northern, 102 FERC ¶61,076 at par. 15; Tennessee, 101 FERC ¶61,311 at par. 11.

Ms. Rae McQuade
March 19, 2003
Page 3

Northern, as a pipeline designed to meet LDC winter heating needs, may require from shippers may not be applicable to pipelines that serve end-users and non-heating season markets. This illustrates one reason why commercial creditworthiness terms are not conducive to a single cookie-cutter standard. For NAESB to propose such a standard, as directed in the February 28 memo, contradicts NAESB's role of developing a consensus on business standards that facilitate transactions across the pipeline grid and may likely result in NAESB developing policies that have adverse financial implications on the way pipelines conduct business. Such attempted policy-making is contrary to the intent and purpose of NAESB.

In conclusion, NAESB should stay the course that has been set for it and for which it has been successful—that is, as a voluntary industry organization acting through consensus to establish business standards that facilitate transactions across the pipeline grid.

Sincerely,



Mary Kay Miller,
Vice President, Regulatory and Customer Service

cc: Bill Boswell
Jay Costan