March 17, 2004

North American energy Standards Board
1301 Fannin, Suite 2350
Houston, TX 77002

Standards Development Request Concerning Gas Quality
Statement of Position Regarding WGQ Annual Plan Disposition

The undersigned NAESB Board of Directors hereby express their position concerning the addition of the Florida Power and Light standards request pertaining to gas quality (R03035) to the WGQ Annual Plan.

Natural gas quality and interchangeability issues are of paramount importance to local distribution companies and many others within the industry. It is a critical safety issue that reaches to the core of the natural gas industry's primary responsibility to consumers, not withstanding the myriad of complex, financial implications that the gas quality and interchangeability issues bring to the forefront.

There is no doubt that natural gas quality and interchangeability must be addressed by the industry as new supplies enter the United States natural gas market. However, the appropriate place to address natural gas quality and interchangeability is in front of the Federal Energy Regulatory Commission ("FERC") where all parties and interests have the benefit of due process. This should not be interpreted to say that NAESB should not have any role in the development of standards pertaining to gas quality and interchangeability standardization. Rather, NAESB should follow the lead of the regulatory process and other industry stakeholders such as the Natural Gas Council.

At this point, R03035 has been found within scope as a result of the Board Managing Committee's actions, affirmed by a notational vote of the Board of Directors. The affirmative scope determination, however, does not predispose the addition of this request to the WGQ's Annual Plan.

The request, itself, is broken into three parts, each presenting different standards development challenges:

> **A. Establish web-based reports for tracking all physical and chemical properties of natural gas defined in pipeline tariffs, including timelines for reporting.**

Of the three parts, this is the one most suited to standards development. A look at various methods used to measure natural gas quality throughout the industry shows that there is very little standardization today. This lack of standardization exists because markets developed regionally based on the quality of natural gas available to those markets. The introduction of new supplies coupled with a more interconnected natural gas grid has brought the issue of natural gas quality and interchangeability to the forefront. Instead of tackling the broader issue of natural gas quality and interchangeability at the national level, NAESB could develop reports reflecting the status quo. However, such reports will likely need to be modified if the regulatory process and/or an industry consensus is reached to reflect generally applicable measures and methodologies.

B. Develop a uniform process, including the underlying assumptions and methodologies, for determining gas quality specifications from measured data.

This part boils down to determining the best measure or methodology to use when competing measures or methodologies are used in differing situations today. The resolution to this issue is technical, at best, and more likely, regulatory in nature. To process this part, NAESB would have to gather all relevant technical expertise/information and somehow produce a super-majority vote that would transcend all the economic/cost allocation issues.

C. Examine the need to establish gas quality specification standards taking into consideration, (i) the specification needs of end users and providers of service to end users, and (ii) sources of supply (e.g. land-based, the Gulf, LNG). Draft such standards as appropriate.

If the last sentence "Draft such standards as appropriate" were excised from the request, this part would be comparable to the report drafting exercise currently underway in NAESB's Gas Electric Coordination Task Force. So while this part could be processed, it would not likely add any value given that 1) similar discussions are underway throughout the industry and 2) should the FERC issue a Notice of Proposed Rulemaking ("NOPR") under Docket No. PL04-3, industry discussions would have more impact within the FERC environment. Presuming a NOPR would lead to an Order, it might then be appropriate for NAESB to draft standards.

As such, only Part A merits addition to the 2004 WGQ Annual Plan as a provisional item. If it is added to the WGQ Annual Plan prior to completion of the appropriate technical and regulatory guidance, then it should probably only be with the understanding that it is a two phase process and therefore likely to be a carry-over for the 2005 WGQ Annual Plan. Part B is not feasible for

NAESB and should never be added to an Annual Plan. Part C, could be provisionally considered for a future WGQ Annual Plan item, with elevation to full WGQ Annual Plan status conditioned upon a FERC Order regarding natural gas quality and interchangeability.

Sincerely,

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