

**Comments on NAESB WGQ Proposed Creditworthiness Standards
National Fuel Gas Distribution Corporation (“Distribution”)**

General Comments

Distribution supports *the concepts* contained within the package of proposed standards presented to the Executive Committee for consideration at its May 19, 2003 meeting. The proposed standards were developed as a Strawman within the Wholesale Gas Quadrant’s Business Practices Subcommittee (BPS) in which Distribution was an active participant. Distribution, from the beginning, was reluctant to have the creditworthiness issue addressed at NAESB. Never the less, there was considerable give and take throughout the BPS discussions and the premise of the end product, much like a negotiated settlement of a rate case, only make sense as a cohesive package. The end product was a compromise and as such, will most likely unravel if any of the proposed standards are conceptually altered or removed.

The standards are interrelated and Distribution would likely oppose piecemeal consideration the standards by the Executive Committee. While Distribution clearly prefers some over others, the BPS voting record indicates that nearly all of the proposed standards had opposition within at least one segment. This opposition will probably resurface within the Executive Committee.

If the proposed standards cannot be passed as an entire package, the compromises leading to development of the Strawman will be lost. Given this possibility, the Executive Committee should consider forwarding the entire record without recommendation to FERC in the June 1 Report.

This is not to say that the Executive Committee should wholesale adopt the proposed standards as written. They should be clarified to improve readability and remove unintentional ambiguity. The policy considerations surrounding development of the proposed standards presented unique circumstances for the BPS. Orders providing creditworthiness policy guidance were issued concurrently with standards development instead of the more usual case of being available prior to standards development. These factors lead to some confusion and unintentional ambiguity.

Distribution supports the comments provided to NAESB by the American Gas Association (“AGA”), which raise many of the above mentioned issues. Distribution’s specific comments, which include suggested changes to the proposed standards addressing some of the questions posed in AGA’s comments, are attached.

Respectfully Submitted,
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Specific Comments

Proposed Standard 0.3.zA: Distribution requests that Copies of Tax Returns be added to the list of items used for credit evaluation. While this item could reasonably be procured through mutual agreement or a tariff provision, tax returns are frequently used to evaluate smaller shippers that do not have most of the other items specified within 0.3.zA.

Proposed Standard 0.3.zA

For credit evaluation purposes, the Service Requester (SR) should supply any of the following information as specified by the Transportation Service Provider (TSP):

Audited Financial Statements;

Annual Report;

Most recent filed statements with the Securities and Exchange Commission (or an equivalent authority) or such other publicly available information;

For public entities, the most recent publicly available interim financial statements, with an attestation by its Chief Financial Officer, Controller, or equivalent (CFO) that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with Generally Accepted Accounting Principles (GAAP) or equivalent;

For non-public entities, including those that are state-regulated utilities, the most recent available interim financial statements, with an attestation by its CFO that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with GAAP or equivalent;

For non-public entities, including those that are state-regulated utilities, an existing sworn filing, including the most recent available interim financial statements and annual financial reports filed with the respective regulatory authority, showing the SR's current financial condition;

For state-regulated utility local distribution companies, documentation from their respective state regulatory commission (or an equivalent authority) of an authorized gas supply cost recovery mechanism which fully recovers both gas commodity and transportation capacity costs and is afforded regulatory asset accounting treatment in accordance with GAAP or equivalent;

List of Affiliates, Parent Companies, and Subsidiaries;

Publicly Available Credit Reports from Credit and Bond Rating Agencies;

Private Credit Ratings, if obtained by the SR;

Bank References;

Trade References;

Statement of Legal Composition;

Statement of Length of Time Business has been in Operation;

Copies of Tax Returns:

Such other information as may be mutually agreed to by the parties; and

Such other information as the TSP may receive approval to include in its tariff or general terms and conditions.

Non-public information supplied by the SR should be treated by the TSP as confidential.

Proposed Standards 0.3.zD and 0.3.zI: These two proposed standards said essentially the same thing with 0.3.zI adding some specificity concerning response time. The differences are not apparent and the presence of two similar standards creates the potential for confusion. Distribution proposed modifying 0.3.zD to include components of 0.3.zI and deleting 0.3.zI

Proposed Standard 0.3.zD

The Service Requester's (SR) authorized representative(s) should respond to the Transportation Service Provider's (TSP) request for credit information pursuant to NAESB WGQ Standards [0.3.zA] and [0.3.zH], by furnishing the applicable information requested within three (3) business days or such later date acceptable to the TSP. For any other credit information requests, as allowed by the TSP's tariff, the SR should respond on or before the due date specified in the request. The SR should provide all the credit information requested by the TSP or provide the reason(s) why any of the requested information was not provided.

Proposed Standard 0.3.zI

~~Upon request of the Transportation Service Provider (TSP), the Service Requester should furnish the applicable information requested in NAESB WGQ Standards [0.3.zA] and [0.3.zH], including an explanation for any unavailable information, within three (3) business days or such later date acceptable to the TSP.~~

Proposed Standard 0.3.zF: Distribution is concerned about the overhead associated with administering the new creditworthiness standards and wants to ensure that email is available as a means providing acknowledgments, responses and notices. Creditworthiness evaluation workload is not steady and deadlines may present difficulties during peak periods. Particularly in the case of 3 day deadlines, email can be used to maximize the amount of time effectively available. The proposed standards can be read to limit use of email to certain standards (0.3.zE and 5.3.zF) and preclude its use for others (0.3.zC, 0.3.zG, 0.3.zI and 0.3.zL). The email requirement can also be read to only apply to by service requestors. Distribution proposes changes to require the TSP to provide email contact information, remove reference to specific standards where they are limiting and clarify the written response can be provided via email.

Proposed Standard 0.3.zF

The Service Requester (SR) should designate up to two representatives who are authorized to receive notices and communications regarding the SR's creditworthiness pursuant to the NAESB WGQ Standards [0.3.zE] and should provide to the Transportation Service Provider (TSP) the Internet e-mail addresses of such representatives prior to the initiation of service. Likewise, the TSP should provide the SR with the Internet E-mail address of up to two its corresponding authorized representatives. Written requests and responses may be provided via internet E-mail. The obligation of the TSP to provide creditworthiness notifications is waived until the above requirement has been met. The TSP and SR should each manage internal distribution of any creditworthiness notices that are received.

Proposed Standard 0.3.zM: The third condition, to be otherwise in compliance with the TSP's tariff or service agreement, is unnecessary in a creditworthiness standard because it is the case under any circumstance. Distribution proposes its deletion in the interest of brevity.

Proposed Standard 0.3.zM

For the Service Requester (SR) to receive initial service or to continue to receive service from a Transportation Service Provider (TSP), the SR should be

- (1) creditworthy in accordance with the TSP's tariff or provide credit alternative(s) in accordance with NAESB WGQ Standard [0.3.zN],
- (2) current on all undisputed payments to the TSP for service, and
- ~~(3) otherwise in compliance with the TSP's tariff or service agreement.~~

Proposed Standard 5.3.zA: The use of the term Service Requester is confusing as it has a broader definition in other NAESB WGQ Standards. Distribution proposes inserting a parenthetical to clarify to which Service Requester's contract is subject to termination. An alternative may be to create a new defined term, Original Releasing Shipper and formulate a definition along the lines of the parenthetical. The new definition may also have some clarification value in 5.3.zF and 5.3.zG.

Proposed Standard 5.3.zA

A Transportation Service Provider (TSP) can terminate any release if the original releasing shipper Service Requester's (SR) (i.e. the Service Requester's (SR) contracted directly with the TSP that releases capacity to the first replacement shipper) underlying service agreement is terminated due to default or failure to maintain creditworthiness, provided, however, that the release shall not terminate if the replacement shipper agrees to pay, for the remaining term of the replacement shipper's contract, one of the following:

- (1) the original SR's contract rate,
- (2) the maximum tariff rate applicable to the original SR's capacity, or
- (3) some other rate that is acceptable to the TSP.

The TSP should give the replacement shipper notice before terminating service, as specified in the TSP's tariff. This standard does not address re-releases, which should be governed by the TSP's tariff.

Proposed Standard 5.3.zC: Distribution proposes remove the words “seek to” because they are unnecessary. Since pre-qualification is a pre-condition to bid, it’s obvious the a Service Requester will seek to pre-qualify if it wishes to bid. Under similar logic, the phrase “Upon request by the SR,” should be removed. Unless the Service requester makes the request, it won’t be pre-qualified. Further, the main point of the sentence is the level of pre-qualification.

Proposed Standard 5.3.zC

As a pre-condition to bid on posted capacity release offers, the Service Requester (SR) should ~~seek to~~ pre-qualify its status with the Transportation Service Provider (TSP) as a potential replacement shipper. ~~Upon request by the SR,~~ The TSP should determine whether a potential replacement shipper is pre-qualified up to a requested level taking into account all obligations from services that it receives and requests from the TSP, including any service represented by the capacity release. Pre-qualifications are subject to periodic re-evaluation by the TSP.

Proposed Standard 5.3.zH: Distribution proposes changes to generally permit alternatives to Internet E-Mail upon mutual agreement. These alternatives should include voice mail. Finally, as generalized this standard could be renumbered 0.3.zQ

Proposed Standard 5.3.zH

In complying with the creditworthiness related notifications and communications pursuant to the NAESB WGQ Standards [5.3.zF], the ~~releasing shipper~~ Service Requester and the Transportation Service Provider may mutually agree to other forms of communication in lieu of Internet E-mail notification.