

TO: NAESB WGQ Executive Committee
FROM: KeySpan Distribution Companies
RE: Request For Comments On Proposed Creditworthiness Standards
DATE: MAY 15, 2003

The KeySpan Distribution Companies (KeySpan) submit the following comments on the proposed NAESB WGQ creditworthiness standards. While we recognize the considerable work that has been done developing the proposed standards, KeySpan believes that the WGQ Executive Committee (EC) should not adopt these standards. We say this notwithstanding the fact that we actively participated in the development of the standards and proposed some of the standards included in the package. KeySpan also believes that the standards should be voted on by the EC as a package, and not in sub-groups, or on an individual basis. At the same time, KeySpan strongly supports sending to FERC on June 1, 2003 the proposed standards as well as the complete record of NAESB's consideration of the issue. There is no reason to delay this report. In addition, KeySpan has comments on some of the individual standards.

The proposed standards should not be adopted as NAESB WGQ standards at this time for the following reasons:

- The proposed standards involve issues that have not been addressed generically by FERC and may be best left to individual pipeline proceedings. The policy direction from FERC to date does not provide a basis on which to make certain of the determinations reflected in the proposed standards, since each of the orders issued by FERC addressed for the most part changes proposed by individual pipelines. Before standards are adopted by NAESB, FERC should initiate a rulemaking proceeding and make generic findings in areas in which it determines that there should be uniformity across pipeline tariffs on these issues. NASEB should not pass standards in instances where there is no clear direction from FERC.
- Some of the standards as drafted may be misinterpreted by parties who did not attend the BPS meetings. Some of the standards raise questions that were not addressed by the BPS. There are also concerns that there

may be some internal inconsistencies among some of the standards. (For example, see comments filed by AGA). Drafting and inconsistency concerns are the result of both the time limitations and the complexity of the issue, and perhaps the lack of generic findings by FERC on these issues. As such, these standards should not be passed by the EC. Each of the proposed standards could be revisited and modified if necessary, if and when FERC were to act generically and provide direction to NAESB, or in the event that individual requests for standards were received by NAESB.

- As it has in the past on other issues KeySpan actively participated in the BPS process on these issues. We believe that the issues related to creditworthiness present unique problems when trying to develop standards since they are so closely linked to specific business decisions. It is not clear that the industry would be best served by requiring uniformity across the pipelines on issues related to credit decisions. FERC should initiate a rulemaking proceeding to address this and other issues.

While KeySpan does not believe the standards should be approved by the EC, it does support prompt filing of the June 1 report to FERC. The NAESB Report, along with any comments filed on it, should provide FERC with insight into the complexity of the issue and the diverse opinions of industry members. This should help FERC to decide whether initiate a rulemaking proceeding and to provide directions (if it chooses to do so) to NAESB to develop standards based on clearly defined FERC policies.

KeySpan comments on the specific standards:

Proposed Standard 0.3.zG—We suggest that item (3) in this standard be modified to read: “(3) ~~that he SR’s credit rating has been downgraded by a~~ a credit rating agency within the last six months has publicly stated that it is reviewing the SR’s credit rating for a possible downgrade.”

Proposed Standard 5.3.zA—As drafted this standard does not address re-releases. This is an important exception that must not be eliminated by the EC. If credit issues arise in subsequent releases, the capacity must revert back to the original capacity holder.

Proposed Standard 5.3.zB -- There is no legitimate reason to limit this standard to non-permanent releases. Pipelines should not be allowed to apply different credit evaluation criteria to a permanent release. The standard as drafted implies that a pipeline could evaluate a permanent release using different credit standards.

KeySpan suggests the following changes to this standard: “ With respect to ~~non-permanent~~ releases, the Transportation Service Provider (TSP) should evaluate and determine the creditworthiness status of the replacement shipper(s) as if that replacement shipper(s) was applying for comparable capacity with the TSP outside of the capacity release process.”

Proposed Standards 5.3.zC—All prospective replacement shippers should have to pre-qualify their status before being allowed to bid on capacity releases. As FERC indicated in Order 636, pre-qualifying will streamline the capacity release process. Many pipelines now include in their tariffs the requirement that shippers must pre-qualify in order to bid on capacity release. This standard as drafted implies that pre-qualification is optional. The current capacity release timeline provides limited time for the pipeline to do a full credit evaluation of the winning replacement shipper and time to contract with the next bidder if the winning bidder fails to meet the pipeline’s credit criteria. In that situation the releasing shipper would have to re-post its capacity. This is unfair to both the releasing shipper and other qualified replacement shippers, who having been denied the release may be forced to enter into agreements for less desirable or higher priced capacity. Any adjustment to the timeline would be contrary to Order 637 which sought to provide (to the extent possible) comparability between offers to release capacity and capacity offerings by the pipeline. If this standard is passed by the EC (and before it is adopted by FERC) it must be clear that this standard does not require pipelines that currently require shippers to pre-qualify to make changes to their tariff. Otherwise this standard would result in a diminution of service to releasing shippers on those pipelines who now require replacement shippers to pre-qualify in order to bid on released capacity postings.

KeySpan requests that the word “**seek**” be deleted from this standard and the EC confirm that pre-qualification is not optional.

Proposed Standard 5.3.zD— This standard when read together with the proposed 5.3.zC will create inefficiencies in the capacity release process.

Only potential replacement shippers who have pre-qualified should be allowed to bid on capacity releases. There is insufficient time in the existing capacity release timeline to do a full credit check of the winning bidder and contract with the next bidder, if necessary. As indicated in the comments on 5.3.zC, allowing shippers who have not pre-qualified to bid on releases is unfair to both releasing and potential replacement shippers and any change in the timeline would be contrary to Order 637. This standard if adopted without the suggested modifications to 5.3.zC would also result in a diminution of service to releasing shippers on those pipelines who now only allow pre-qualified shippers to bid on capacity releases. This standard should only be approved if the suggested modifications are made to 5.3.zC.

Proposed Standard 5.3.zE—Permanent release in this standard refers to a release for the remaining term of the contract in which the original capacity holder no longer has any liability to pay for the capacity. As long as the replacement shipper meets the same creditworthiness and other tariff provisions applicable to any shipper who qualifies to receive service directly from the pipeline and the replacement shipper agrees to pay the same rates (including any conditions) that the original capacity holders pays, the permanent release should be allowed by the pipeline. At a minimum, the pipeline should be required to spell out in its tariff what criteria need to be met to effectuate a permanent release. Approval of a permanent release should not be left to the discretion of the pipeline.