

NAESB WGQ LDC SEGMENT ("LDC Segment") STATEMENT

Based upon the outcome of the May 20, 2003 EC Meeting and the 16 sets of comments provided for consideration at that meeting, the LDC Segment does not anticipate any of the proposed creditworthiness standards, voted by package or individually, will achieve the necessary 67% over all - 40% segment minimum. Further, prolonged voting will only take time away from an effort to provide FERC with an identification of the policy issues, clarifications and decisions that need to be made by FERC. The LDC Segment proposes that NAESB's Wholesale Gas Quadrant (WGQ) Executive Committee (EC) adopt the attached Statement to help clarify the record for FERC. Our hope is that the attached Statement is something that could be accepted by all. As an outcome of the EC meeting, it would be sent to FERC as a part of the overall record. It could also be utilized when drafting the June 15th progress report.

The LDC Segment is not opposed to adding additional items to the list within the Statement; indeed, this would be a more productive use of time at the June 5th meeting¹.

¹ Adoption of the attached Statement would not preclude the possibility of consensus improvements to the BPS Strawman language that is sent to FERC.

**NAESB WGQ LDC SEGMENT
MOTION**

The following statement is adopted by NAESB's Wholesale Gas Quadrant's Executive Committee to help inform the Commission regarding NAESB's work in response to the FERC's request that NAESB "consider whether standards relating to creditworthiness can be developed":

In the course of intense deliberations regarding development of possible creditworthiness standards, the Executive Committee (EC) of the NAESB Wholesale Gas Quadrant (WGQ) considered carefully the extensive work of the Business Practices Subcommittee (BPS) as well as the many comments filed with NAESB regarding the proposed package of standards. Based upon that review and the EC's own discussions, the EC has identified the following policy issues that are implicated by the proposals to address creditworthiness topics but for which there is no recognized unambiguous policy guidance. Some of the points address issues embedded among standards included in the BPS package, while others relate to standards proposed during the BPS deliberations that were not included in the strawman proposal as provided to the EC. There is no clear industry consensus to adopt standards at this time, because participants in the gas industry perceive that standardizing credit-related provisions can impact which entities may conduct business on the pipeline grid and at what cost. The list is not exhaustive, nor are the issues listed in any particular rank.

1. Standardizing collateral requirements applicable to any shipper determined not to be creditworthy runs counter to other federal policy goals to promote capital accessibility and infrastructure expansion. Considerations include perceptions of the investment community concerning whether or not a pipeline has enough surety from its shippers to get financing for an otherwise needed project. Alternatively, standards that require too much collateral from shippers or too rigorous a timeframe for responses may jeopardize shippers who are struggling to stay creditworthy or add unnecessary costs to a shipper to transact business thereby affecting their competitive position.
2. Establishing credit requirements in the capacity release context exposes tension concerning releasing shipper liabilities including in particular the policies related to permanent releases. Considerations include the importance in retail customer choice programs of ensuring the availability of capacity to serve customers behind an LDC's city gate even if the party holding the capacity defaults or has its service terminated. Other shippers see any recognition of such a circumstance as creating a possible competitive disadvantage in acquiring pipeline capacity. Credit issues in this context directly confront the Commission's sometimes competing obligation to protect consumers and its goals of allocative efficiencies.

3. Standardizing the criteria and formulae that a pipeline will employ to assess creditworthiness creates an inflexible mechanism for a process that is usually based on cumulative factors unique to a business entity, including a shipper's payment history. It also risks creating a burdensome paper production process for shippers – an exercise in form over function.
4. Standardizing triggers for termination of service, including released capacity, may run afoul of the Commission's responsibilities to ensure that contracts are not terminated without notice and other protections.
5. Standards that create an inflexible uniform creditworthiness policy could unduly affect the credit status of shippers or the ability of consumers to obtain supplies.
6. Standardizing the types of acceptable credit alternatives, especially parent company guarantees, and addressing other corporate structural issues may implicate policies being developed by the Commission and the SEC."
7. In addressing credit related issues, there may be valid reasons for creating different classes of shippers because they are not similarly situated. This type of distinction may not lend itself to standardization and does not require uniformity across pipelines. Alternatively, some shippers see standardization as consistent with FERC's policies on undue discrimination.
8. Standards that deal with determining the creditworthiness status of the replacement shipper or those shippers who wish to bid on capacity release could create a conflict with existing Commission policies on comparability between pipeline capacity offerings and released capacity.
9. Standardizing what business information and business documents must be provided and in what timeframe affects information that is often sensitive and sometimes confidential. Standardization could also be counter to the Commission's and SEC's policies to protect confidential information and control the method or timing of its dissemination.
10. Standards related to creditworthiness do not so much determine how efficiently a pipeline grid will operate, but rather only who will be able to do business on the pipeline grid and under what financial terms. The identified imprecise policies identified herein and policies pending legal challenges preclude a broad industry consensus on creditworthiness standards.