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BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :

FORM NO. 522 TECHNICAL : Docket RM07-10

CONFERENCE :

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Hearing Room 2C

Federal Energy Regulatory Commission

888 First Street, N.E.

Washington, D. C. 20426

Thursday, March 25, 2010

The above-entitled matter came on for technical
conference, pursuant to notice, at 9:00 a.m.

BEFORE:

JERRY PEDERSON, Director, Division of Energy
Market Oversight, Office of Enforcement.

STEVE REICH, Deputy Director, Division of Energy
Market Oversight, Office of Enforcement.

CHRIS PETERSON, Chief, Fuels Market
Analysis Branch, Office of Enforcement

1 BEFORE (Continued):

2 GABRIEL STERLING, Division of Investigations,
3 Office of Enforcement.

4 THOMAS RUSSO, Forms Administration & Data Branch,
5 Office of Enforcement

6 DAVID LENGENFELDER, Chief, Forms Administration
7 and Data Branch, Office of Enforcement

8 PANELISTS:

9 PANEL I:

10 JOHN POE, Manager, Regulatory Affairs,
11 ExxonMobil Gas & Power Marketing Company
12 (Natural Gas Supply Association)

13 WILLIAM E. SHANAHAN, Marketing Manager,
14 Chaparral LLC (Natural Gas & Energy
15 Association of Oklahoma)

16 MARY NELSON, Manager, Regulatory Affairs,
17 Devon Energy Corp. (Natural Gas Supply
18 Association)

19 KATIE RICE, Director, Regulatory Affairs,
20 DCP Midstream LLC

21 RICHARD SMITH, Regulatory and Compliance
22 Manager, Noble Energy, Inc. (Independent
23 Petroleum Association of America)

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1 PANELISTS (Continued):

2 PANEL II:

3 KATIE RICE, Director, Regulatory Affairs,
4 DCP Midstream LLC

5 MATT KEREC, Assistant Commodity Manager,
6 Alcoa, Inc. (Process Gas Consumers)

7 MICHAEL E. NOVAK, Assistant General Manager,
8 Federal Regulatory Affairs, National Fuel
9 Gas Distribution Corp. (on behalf of the
10 American Gas Association)

11 JOHN POE, Manager, Regulatory Affairs,
12 ExxonMobil Gas & Power Marketing Company
13 (Natural Gas Supply Association)

14 DENA WIGGINS, Partner, Ballard Spahr LLP
15 (Process Gas Consumers Group)

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1 PROCEEDINGS

2 (9:00 a.m.)

3 MR. JERRY PEDERSON: Good morning. Let's go
4 ahead and get started. First I would like to just invite
5 the panel to come up and take your seats, please.

6 We are here in the matter of Docket No. RM07-10.
7 This technical conference is to consider certain issues
8 concerning Form No. 552 related to Order 704, 704A, and
9 704B. The technical conference will address only the issues
10 identified by Staff. The topics for discussion at the
11 conference are:

12 (1) Inconsistencies in reporting upstream
13 transactions in natural gas supply chain on Form 552, and
14 whether these transactions contribute to wholesale price
15 formation;

16 (2) Whether transactions involving balancing
17 cashout operation and in-kind transactions should be
18 reported on Form 552; and

19 (3) Whether the units of measurement, TBtus,
20 currently used for reporting volumes in the form are
21 appropriate.

22 I thank you all for coming. We want to have
23 this--even though this is kind of a formal room, we do want
24 to have just a roll-up-your-sleeves kind of talk here
25 today. We are here from staff, our primary focus is to hear

1 from the industry, to hear from you; we're here to learn
2 much about your operations and how you do your contracting.

3 We have--I am aware there are some filings asking
4 for clarification. I know that there are some other
5 outstanding issues and questions that come up from time to
6 time, and I just want to say that we are open to talk to you
7 offline to set up conversations for that, as we have in the
8 past.

9 Today we want to primarily stay focused in on the
10 questions that we have raised, because these are the
11 questions we have and these are the questions we need some
12 information on in order to move forward.

13 A couple of other preliminary items here. For
14 those of you that are new to the Commission, or new to
15 coming into this building, there is a cafeteria on this
16 floor over in that end over there (indicating). The
17 bathrooms are around the corner here past the elevators on
18 your left. In this room, no food or drink other than water.
19 So if you have any of that, please dispose of them.

20 At end of the session--we have two sessions
21 today. This morning's session is going to be on upstream
22 transactions in the natural gas supply chain. At the end of
23 the sessions I am going to allow the audience, if you have
24 particular comments on this topic, to come up to the
25 speakers we have set up. When you do, you'll need--I'll

1 remind you--you'll need to turn the speaker on, identify
2 yourself, name, and affiliation.

3 With that, first let me introduce the staff at
4 the table. My name is Jerry Pederson. I am the Director of
5 the Division of Energy Market Oversight in the Office of
6 Enforcement.

7 MR. REICH: I'm Steve Reich. I'm Deputy Director
8 of the Division of Energy Market Oversight.

9 MR. RUSSO: I'm Tom Russo. I'm the Form 552
10 contact.

11 MR. LENGENFELDER: I'm Dave Lengenfelder. I'm
12 with the Forms Administration Data Branch. I'm the Chief of
13 that Branch.

14 MR. CHRIS PETERSON: I'm Chris Peterson. I'm the
15 Branch Chief for the Fuels Market Analysis Group here.

16 MR. STERLING: I'm Gabe Sterling. I'm an
17 attorney in the Division of Investigations, and one of the
18 drafters of Order 704A and B.

19 MR. JERRY PEDERSON: Thank you. And we have a
20 distinguished panel here today.

21 We have John Poe, Manager, Regulatory Affairs of
22 ExxonMobil Gas & Power Marketing Company. We have Mr.
23 William E. Shanahan, Marketing Manager, Chaparral LLC. We
24 have Mary Nelson, Manager, REgulatory Affairs, Devon Energy
25 Corp. We have Katie Rice, Director, Regulatory Affairs, DCP

1 Midstream LLC. And we have Richard Smith, Regulatory and
2 Compliance Manager, Noble Energy, Inc.

3 I thank you all for coming today. First, what I
4 would like to do is, if anyone has prepared remarks, I will
5 give you the opportunity--I don't know that we have prepared
6 remarks? Does anyone want to say any upfront comments, or
7 do we want to just dig in?

8 (No response.)

9 MR. JERRY PEDERSON: Okay, so let's go ahead and
10 start. One of the first questions that we would like to
11 start with--and this is on the upstream transactions. As
12 you're aware, on 704 there wasn't a lot of ink spilled on
13 this particular issue. There was the concept that was put
14 out that said that if you're upstream of a processing plant
15 you didn't need to report under 552, under the belief that
16 those volumes did not contribute to--use, contribute to, or
17 could contribute to a price index.

18 What we want to do is drill down on that issue
19 today. I guess one of the first questions we would throw
20 out is we would just start at the top. If each of the
21 panelists can tell me how your company has addressed
22 reporting unprocessed gas in the 552, if you're one of the
23 reporters.

24 John?

25 MR. POE: Yes, thank you. I would say that I'm

1 John Poe with ExxonMobil, and I would say that I appreciate
2 you guys holding this forum and this opportunity to talk
3 about compliance. All of our companies are very interested
4 in getting it right and doing the right thing. So this
5 provides an opportunity to get some clarity and work through
6 some issues.

7 Concerning the unprocessed gas issue, our
8 approach was we looked--and I have to admit, we had a little
9 conflict as we tried to see how do we address this--we
10 looked at the plain language, and it indicated unprocessed
11 gas should always be excluded.

12 We looked at our situation and we saw some places
13 where, where title transferred we had unprocessed gas, but
14 we sold the gas subject to processing at a downstream plant.
15 And we typically would sell the net volume, not the gross
16 volume, net of the PTR of the shrinkage that would occur
17 when the natural gas liquifiabiles were removed.

18 The example we talked about internally was on
19 like Tennessee's 500 leg where it would have gas that comes
20 into Tennessee offshore, and where--they are a firm-to-the-
21 wellhead pipeline, so the LDCs that hold capacity, hold
22 capacity all the way to the offshore wellhead or platform
23 where the gas comes into their system.

24 And when we would sell the gas, we would sell it
25 subject to the processing that would occur at the Wycloskey

1 Plant once it got to shore. So, for example, if the plant
2 thermal reduction shrink was going to be 10 percent at the
3 plant and we produced 100 units, we would sell 90 to the
4 market. And if we did that transaction at a fixed price
5 during bid week or next day, we would report that to the
6 index developers.

7 So as a result, we took the position that we're
8 not selling unprocessed gas there, although technically at
9 the title transfer point it was unprocessed. We retained
10 the processing rights, and we would then transport the plant
11 thermal reduction volume under our own transportation
12 agreement to the plant, and from the plant that volume
13 would leave as butane, or propane, or some of the NGLs that
14 would be extracted, or be consumed at the plant.

15 So we took the position: If the unprocessed gas
16 could contribute to an index, we would report that quantity
17 on Form 552.

18 Realize, there are many, many companies who have
19 many different models in their way they sell their gas, and
20 I fully understand if you're selling unprocessed gas at or
21 near the wellhead the commodity you're selling is rich in
22 the NGLs and, while it may or may not refer to an index, I
23 could understand the logic in excluding those transactions
24 from the reporting for people that fit that situation.

25 So that was the approach we took.

1 MR. JERRY PEDERSON: Thank you.

2 MR. SHANAHAN: As a producer, we actually sell
3 basically all of our equity gas. We do not have a marketing
4 company, so we sell it as a producer.

5 The way we approach this is that if we were
6 selling at the wellhead to a processor who had a gathering
7 system, those volumes were not reported. They were titled-
8 transferred at the wellhead, and we did not pick up anything
9 else from there.

10 If we had a processing agreement where we took
11 the residue gas at the tailgate of the plant, we reported
12 the residue gas because it usually as sold on either index
13 or it was sold on a fixed-price.

14 So for us, if we do not have title to the--if we
15 change title to the unprocessed gas to the actual processor,
16 we didn't report those volumes. But if they were sold the
17 gas at the tailgate of the plant, we felt like that was our
18 interpretation of how the rule should have been interpreted.
19 And whether that was at the tailgate of the plant or whether
20 it was on a transportation agreement that had a processing
21 plant involved in it on its way to a pool.

22 MR. JERRY PEDERSON: Just one quick question on
23 that. Did you have any transactions where the title
24 transferred at the wellhead but it was a net, either a net
25 transaction as Mr. Poe just described, or where it was

1 pipeline quality already?

2 MR. SHANAHAN: Anything that we did at the
3 wellhead that was pipeline quality typically we would move
4 that to an aggregation point and we did report those--if the
5 gas was not processable, or if it was lean gas or pipeline
6 quality gas, and it was sold on an index or a fixed price.

7 MR. JERRY PEDERSON: Okay.

8 MS. NELSON: Good morning. I apologize for my
9 voice.

10 We approached it much the same as Bill Shanahan
11 has described. We looked at our contracts, our wellhead
12 contracts, and determined where the title transferred. And
13 if we knew that--if the title transferred at the wellhead
14 and we knew the gas was behind a processing plant and was
15 going to be processed, we excluded those contracts from
16 further consideration on whether or not their volumes should
17 be reported on Form 552.

18 On our lean systems, the gas is never going to be
19 processed. We did report those wellhead transactions. If
20 the title transferred at the wellhead and it was a fixed
21 price for next day or next month, or used in index, we did
22 report those.

23 I think part of the issue is what does
24 "unprocessed" mean? We interpreted "unprocessed" to mean
25 gas that was literally behind a processing plant and we knew

1 was going to through that plant. We did not consider
2 unprocessed gas to be gas on our lean systems that was never
3 going to be processed, because both of them at some point in
4 their lifecycle are, quote, "unprocessed."

5 So we did distinguish between gas that was going
6 to be processed versus gas that was never going to be
7 processed. And so we did report wellhead transactions when
8 there wasn't going to be processing.

9 We also tried to limit our exclusion to that gas
10 that we knew was going to be processed, either it was behind
11 plants we owned and that we knew we were going to process
12 that gas behind third-party plants not some plant that might
13 exist, some pipeline way down the path of things.

14 So we tried to limit our exclusion just to those
15 wellhead contracts that we absolutely knew were going to be
16 processed.

17 If we didn't know, we just made the decision to
18 treat it as though it was not going to be processed, and to
19 include it. We erred on the side of including gas if we
20 didn't know for sure whether it would be processed. Either
21 it could go different paths and therefore we didn't know, or
22 we just didn't know if there was some plant downstream at
23 some point that it might flow through.

24 So that's basically how we approached trying to
25 apply the exclusion. We did, from our reading of the order,

1 believe that you guys were trying to exclude something. So
2 we tried to interpret it in a way that, you know, would
3 exclude some transactions, even though they may have, you
4 know, utilized an index price.

5 MR. JERRY PEDERSON: Thank you.

6 MS. RICE: We at DCP Midstream have a similar
7 model to Mr. Poe at ExxonMobil where we looked at everything
8 at the tailgate, because that's where we--title basically
9 transfers, and that net amount is what we then went and sold
10 into the marketplace.

11 We also do reports, so we use that same gathering
12 mechanism for our data to determine what was our sort of
13 pool of data of gas that we sold, and then we looked at
14 whether it fit the index reporting requirements, or relied
15 on an index.

16 So we did not report anything upstream of the
17 plant.

18 MR. JERRY PEDERSON: Did you have any lean gas
19 upstream?

20 MS. RICE: No. The majority--everything goes
21 through processing plants.

22 MR. JERRY PEDERSON: Everything gets processed?
23 Okay.

24 MR. SMITH: Good morning. My name is Richard
25 Smith with Noble Energy. Thanks for having this technical

1 conference to try to clarify some of the things that seem to
2 be the obstacles here.

3 Jerry, a couple of things you said, it seems like
4 some of the terminology that we use has evolved since the
5 first filing of Form 552. I noticed you used the word
6 "upstream" of a plant, and that's in the notice, and
7 that--it's not a concept, I mean everybody has gas upstream
8 of a plant, but only three times in 704 was the word
9 "unprocessed" used, and that's in paragraph 77 and 78, and
10 that goes to what you said of very little ink being on this.

11 And now the whole industry seems to be wrapped
12 around the axle because of whether we report or don't report
13 unprocessed gas. Noble Energy is not unique from any of the
14 other companies here at the table. We transact--do our
15 transactions in various ways.

16 For the most part I would say unprocessed gas
17 wasn't reported. But that doesn't mean that all unprocessed
18 gas couldn't be sold into the next day, or next month
19 buckets that you have here. Some gas is--I'm not going to
20 use the word "pipeline quality" because that means a lot of
21 words to a lot of different people, but it's something that
22 could go to the ultimate consumer without any processing.
23 It's probably predominantly methane with very little liquid
24 hydrocarbons left in it, and none of the other things such
25 as CO2 and H2; that's probably all been treated out of it.

1 So here we are as a group trying to explain to
2 ya'all what our different situations are, but I think we're
3 all in the same boat. It's just trying to get the right
4 words on the form so that we can comply--because we want to
5 report. We want to give you good information. And we're
6 just hoping we can get all this thing rectified before we
7 have to make our next filing.

8 MR. JERRY PEDERSON: Thank you. Questions?

9 MR. RUSSO: Yes. I have one.

10 This is directed to all of you. When we first
11 started to collect the 2008 Form 552 data, we started out
12 with Order 704A, which was very clear to us. Unprocessed
13 gas should not be reported.

14 During that process we learned about pipeline-
15 quality gas out there. I'm just sort of curious. I heard
16 everything that you all have said. What made you depart
17 from Order 704A? Was it the guidance that we put out on
18 March 6th in FAQ No. 27, which sort of discussed the notion
19 of reporting unprocessed gas? What was it?

20 And do you think the vast majority of the
21 industry did as you did? John? Anybody?

22 MR. POE: I'll jump in first. I think it was the
23 guidance that you guys had put out. And in our particular
24 situation, particularly with my Tennessee example, there was
25 a question of whether that was actually--the product we were

1 selling was unprocessed gas.

2 So we were trying to dig into what you were
3 really looking for, and what you meant when you said
4 "unprocessed." Is that literal at that point, or if it was
5 "subject to processing," how would that be handled? And
6 then I think the guidance. There was some influence from
7 the guidance that you were interested in if it could
8 contribute to an index or not

9 MR. SHANAHAN: Really the approach we took of
10 that--took to some of that, and in discussions with other
11 producers, which by the way came up with for every six
12 producers we came up with about eight different opinions,
13 what we looked at, if the title changed at the wellhead and
14 it was behind a processing plant, we do not control whether
15 or not the processing plant processes that gas, but it has
16 the ability to be processed, and those contracts were
17 not--that gas for the most part was not sold on an index or
18 a fixed-price basis. So that's what we did not report.

19 If we felt like that it had an opportunity to be
20 sold--if we were selling it on an index, that was our big
21 deal, because now we have unprocessed gas but yet it has to
22 be sold on an index, do we report that, and we also erred on
23 the side of reporting.

24 MS. NELSON: I don't want to burden the record,
25 and if that was good enough answers for you, but I do think

1 there's kind of, the logic that went on is you had to
2 understand what "unprocessed gas" meant. Because there were
3 a lot of people who thought every wellhead was, quote,
4 "unprocessed"; some of it never to be processed, and so the
5 exclusion might reach every wellhead contract. I don't
6 know. I'm confused now because I don't know what was the
7 right answer.

8 (Laughter.)

9 MS. NELSON: And then there's the question of
10 what "could contribute" to an index. We've had some
11 discussions here very lately amongst ourselves, the people
12 on the panel, and there are some differing opinions about
13 what you guys meant by "could contribute to."

14 I personally, and my company, in reviewing this
15 order we felt like "could contribute to" meant it was a
16 bilateral fixed-price deal done during the relevant time
17 periods, but it wasn't reported to an index publisher
18 because you didn't report.

19 Those are ones that could contribute to the
20 formation of an index but didn't because they weren't
21 reported. That's how I interpreted it. Some other people,
22 I've learned, have interpreted it differently. And so there
23 is a whole series of concepts that you had to work through.

24 And then there was the tension between you want
25 very clearly in 704A, telling us that you wanted

1 "contribute," "could contribute" and "utilize" in an index,
2 and then the exemption that when you read the form the
3 definition of "physical natural gas" says we want
4 "contribute," "could contribute" and "utilize." And then it
5 says--I can't remember the exact words--but basically,
6 "however, in all circumstances exclude," and unprocessed gas
7 was one of those lists. And it's trying to put all those
8 concepts together and get to make sure we understand what
9 you want and what you wanted to exclude.

10 As I said before, I felt like that there was an
11 exclusion there that covered something, and it was, you
12 know, what was it that it covered? I didn't err to the side
13 that I just went ahead and reported everything that was
14 behind a processing plant because I felt like that exclusion
15 meant something.

16 MR. SMITH: Let me jump in or I'll forget this
17 just sure as the world.

18 Tom, you said that we rely on 704A to fill out
19 the form. We relied on the form because those were the
20 questions we were trying to answer.

21 I would go back to the Order. And I thought I
22 knew what you were saying, and then somebody would tell me I
23 didn't know what I--I was wrong. And so that's where we
24 stood.

25 When the Frequently Asked Questions came out, I

1 thought it was good reading. But beyond that, we didn't
2 rely on that for guidance. I mean, I understand what you're
3 trying to do, but it's Form 552. That's what we keyed off
4 of.

5 MR. JERRY PEDERSON: I think that's fair enough.
6 Katie?

7 MS. RICE: I would just say, we looked at 704A
8 but we also relied on the Request for Rehearing that that
9 addressed regarding percent of proceeds contracts, which is
10 our model as well, and specifically the question in Request
11 For Rehearing was whether those should be included? They
12 didn't think they should.

13 The Commission agreed with that, that they
14 shouldn't be included. So that very clearly said, okay,
15 it's downstream of the plant. Because, you know, you buy
16 it, you process it, and then we sell it, and that's the part
17 that we reported.

18 MR. JERRY PEDERSON: Thank you.

19 MS. NELSON: Let me jump in this real quick. We
20 relied, too, we went RAD HAS and OIPA's Rehearing Request,
21 and then the Order, so we got that whole chain. And to me
22 the exclusion on the form, the language on the form could be
23 interpreted broader than simply excluding POP contracts.
24 Because you went from POPs, and even the language in the
25 Order didn't say we agree that percentage of proceeds

1 contracts should be excluded. It's a "we agree that
2 transactions in unprocessed gas should be excluded."

3 MR. JERRY PEDERSON: Thanks. Steve.

4 MR. REICH: Richard earlier raised the issue of
5 terminology, and I agree. I think that's one of the most
6 important things we're doing here is trying to get the
7 terminology clear enough so that everyone is working with
8 the same definition.

9 I got William's terminology that you identified
10 as how you figured things out in terms of the title change
11 at the wellhead and it's going to a processing plant.

12 For the rest of you, and particularly because
13 John and Mary kind of went into detail about the kinds of
14 processes you went through culling which contracts would be
15 reported and which wouldn't, was there some kind of internal
16 perhaps concise terminology that you ultimately settled on
17 that said this is how we're defining which gas we're going
18 to include and which we're not? And if so, please share
19 it.

20 MS. NELSON: I'll go first. We also use "where
21 the title transferred." We looked at the contracts and
22 determined where the title transferred, and then we looked
23 at where that gas was. Was it physically behind the plant?

24 If it was physically behind a plant, then we
25 excluded it because it was, quote, "unprocessed gas." If it

1 was not behind a plant, we included it. So we have wellhead
2 contracts with title transfers at the wellhead behind a
3 plant excluded.

4 We have wellhead contracts, title transfer at the
5 wellhead not behind a plant included.

6 This is lean gas. It may or may not be pipeline
7 quality because it may need to be dehydrated or treated, but
8 it's not going through a processing plant. It's not got
9 NGLs to be taken out. We included those because we felt
10 like that exclusion applied only to gas that was physically
11 going to flow through a processing plant.

12 MR. REICH: So in terms of the definition, if the
13 title changes at the wellhead and going into the processing
14 plant, is there any other caveats or nuances?

15 MS. NELSON: Not really. We called it the
16 "behind-the-plant exemption," basically, when we were
17 talking about it. Because we, in putting our system
18 together to try to do this more automatically because we had
19 to do it completely manually the first time, we added an
20 attribute to our contract briefing, computer contract
21 briefing, for our administrators that enter into these
22 contracts to tell us, does this gas flow to a processing
23 plant or not.

24 So we look at title transfer and whether or not
25 the gas is committed, for lack of a better word--don't use

1 that one--

2 (Laughter.)

3 MS. NELSON: --to a processing plant.

4 MR. JERRY PEDERSON: John.

5 MR. POE: (Inaudible).

6 MR. JERRY PEDERSON: John, can you turn your mike
7 on, please.

8 MR. POE: Yes. We looked at the individual
9 transactions, and most of our situation is such that we
10 don't--for us, particularly, we don't sell upstream of the
11 processing plants. So we tend to sell the gas to retain
12 processing rights and take the NGLs--realizing, again,
13 everybody's business model is different.

14 So we looked at it more from could the gas, when
15 we sell it could it contribute to the development of an
16 index? Would we report it or not if it were a fixed price?

17 We really didn't have a lot of sales of,
18 quote/quote, "unprocessed gas" other than where they're
19 upstream of a straddle plant on one of the long-haul
20 interstate pipelines. So that was sort of our thought
21 process that we looked at.

22 MR. REICH: And from your description, though,
23 the sense I get is that you identified contracts that
24 effectively you were selling processed gas because--

25 MR. POE: Yes, that's right.

1 MR. REICH: --because you were retaining title to
2 it.

3 MR. POE: We were--the volume of gas we sold was
4 the net of processing amount.

5 MR. REICH: A follow-up question I guess for both
6 John and Mary, and I guess William, and the other two, is in
7 terms of kind of going through the contracts and identifying
8 which one goes into which bucket, can you kind of describe
9 what that entailed?

10 MR. POE: Well, I mean a lot of it we pulled out
11 of our Allegro, out of our system that records all of our
12 transactions and looked at what the transaction was. So it
13 was--again, we first looked at kind of how we sell our gas.
14 And then from our system then we would pull down and look at
15 where the title transfer was.

16 So I don't know there was a lot beyond that.

17 MR. REICH: So the information was, the kind of
18 information you needed to take the distinction was already
19 in your system and you were able to kind of filter and sort?

20 MR. POE: Yes, that's right.

21 MS. NELSON: Our system was--we did not have the
22 level of detail in our system that we needed in order to
23 fill out Form 552. The level of detail was there for our
24 business processes that we needed, but it was not there for
25 552. And so the way we approached filling out the form the

1 first year was to do some--we use Allegro, as well, as our
2 contract system, and we were able to do some kind of broad
3 searches, or run some scripts in order to kind of divide
4 them into very large categories. Like we got rid of our
5 affiliate contracts. We could identify those and take them
6 out of the pool. But the remainder of the contracts, we
7 manually reviewed each contract.

8 Because to the extent--I'm going to wander over
9 into the next panel a little bit--but to the extent you guys
10 wanted operational volumes, some of our wellhead contracts
11 contain operational volumes like gas lift, and fuel, and
12 those sorts of things, and that level of detail simply
13 wasn't available in our system. And so our Gas Marketing
14 Group went back and reviewed every contract, and we
15 developed some business processes and added to our computer
16 system some categories--they call them "attributes," but
17 basically some fields so that we could capture the
18 information and the detail that we needed so that we could
19 run a program to pull the contracts that would be
20 reportable. And that included drilling down into these
21 operational volumes and capturing their price term--you
22 know, were they sold on index price or not.

23 So our process was pretty laborious, and required
24 a review of every contract.

25 MR. JERRY PEDERSON: Gabe.

1 MR. STERLING: One very quick follow-up, Mary.
2 If we had categorically excluded operational volumes from
3 reporting, would you have had to go through the contract-by-
4 contract review?

5 MS. NELSON: We probably would have because we
6 needed to also capture our pricing terms for just the
7 general reporting in a different way because it just wasn't
8 set up in the way we needed it for this.

9 But definitely the added burden of trying to find
10 those operational volumes certainly made it more--required
11 more to do that.

12 MR. STERLING: Thanks.

13 MR. SHANAHAN: Since our system is pretty much
14 labor-intensive, we do not have an automated system for our
15 gas contracts, it took us roughly about four months, three
16 people working pretty long hours. I always like to turn
17 this over to my Gas Marketing Group, which of course is me
18 and two other very busy ladies.

19 We went through every contract. We had to review
20 every contract. And we spent this time going through and
21 making sure that--and making a determination on every
22 contract of our 2500 operated wells, whether or not they
23 applied to this. And so we spent a lot of time to fill out
24 a one-page form, and so it was a very laborious task for us
25 and it required--the process was sometimes often

1 enlightening, but once again it did take quite a bit of
2 time, especially the first time, and obviously we are
3 putting in systems to make it a little bit easier each time.
4 And so any time we see changes coming in, then we're going
5 to say, okay, do we have to go through this again to do
6 that?

7 MR. JERRY PEDERSON: Thank you. Others? Chris?

8 MR. CHRIS PETERSON: So I think one of our
9 overarching goals today is, this form is relatively new and
10 one thing we are learning is we want to establish a greater
11 harmonization amongst everyone filling it out in terms of
12 what the requirements are. And so your guidance is helpful
13 to share individually what your experiences are.

14 I am hearing two things from everyone so far.
15 One is that some perceived a conflict between information on
16 the form itself, perhaps, versus information disclosed in
17 the Frequently Asked Questions page. Different people
18 interpreted I guess that guidance differently. That's one.

19 And then the other issue, as you all have been
20 highlighting, is the clarity on what is "unprocessed gas."
21 It wasn't explicitly defined, I don't think, in the form
22 itself and each of you have shared different nuances of how
23 you can think about that.

24 I believe there will be an opportunity to include
25 remarks on the record, if that's correct, and so one thing

1 that would be helpful to us--I know we've spoken with some
2 of you about your interpretations of what is "unprocessed
3 gas," and gained clarity from you all--you know, Katie,
4 that's your business and, John, you've shared with us I
5 think your thoughts on how we can think about that. But
6 whether you would like to do that now, or take the
7 opportunity in writing to share that with us, that will be
8 helpful to us perhaps to consider when we review the
9 process.

10 MR. JERRY PEDERSON: Actually, now I think would
11 be a good time. I want to drill down on that in particular,
12 because there are a lot of terms that have been going around
13 like "pipeline quality" that means different things to
14 different people, like the "liquid extraction treatment" and
15 "dewatering." And I was wondering if the panelists could
16 just kind of walk us through kind of what your views are on
17 these type of treatments, and kind of your perspective on
18 what is "pipeline quality gas."

19 What is the terminology we should be using?

20 What should we be focusing on?

21 MR. SHANAHAN: I think one of the things--I keep
22 hearing the words being used together that in the production
23 community we don't use together, and that is "treating"
24 versus "processing."

25 "Treating" is dealing with the quality of gas;

1 whereas "processing" is actually extracting the natural gas
2 liquids out of the gas stream.

3 "Treating" would be anything that you would take,
4 the H₂S, CO₂, anything that had to do with the gas quality,
5 especially water. A lot of stuff can be done on the
6 wellhead or it can be done in aggregation at a plant site.

7 When you recover the NGLs, then that to us is the
8 "processing." When you talked about "unprocessed gas," this
9 is gas that, for our strict definition that we use, was gas
10 that had the ability to be processed. In other words, there
11 were NGLs present, or enough NGLs present to commercially
12 remove, and also behind the plant that had the ability to
13 remove them.

14 If the gas may have some sort of liquids' content
15 but they were not being processed, and in some cases
16 actually being blended by the pipeline to where the quality
17 issues were not a problem, we did not report--we reported
18 those. Anything that actually went through a processing
19 plant are the parts that we did not report when we sold,
20 when the title changed place at the wellhead.

21 MR. POE: Yes, I would agree with that. I mean,
22 that's clearly a distinction that people get confused on, is
23 "treating" versus "processing." I mean, the treating is
24 removing the contaminants, getting some of the
25 nonhydrocarbons out of the gas.

1 When we talk about NGL processing, to me that's
2 processing. You're talking about processing the gas to
3 remove some of the--I usually think of it as "liquefiable"
4 because they're not liquids, they're gas; and when you
5 remove them by chilling them, or by lean oil, or whatever
6 process you use, then you end up with those separate
7 products which typically normally have a higher value than
8 if you left them in the gas stream. Not always, but a lot
9 of times. So that's the processing.

10 Pipeline-quality gas? I don't know. I mean,
11 that means different things to--you could probably talk to
12 all of us and we would have a different opinion on exactly
13 what that is.

14 If you look at the pipeline tariffs, which a lot
15 of those are through these collaboratives and things are
16 being updated now, you'll see a wide range in the Btu
17 content. And now we're going to this WABI Index that people
18 are using as a different measure.

19 Those are typically measures of what of those
20 liquifiabiles, how much are left in the stream and how much
21 are out. So, you know, I agree fully, though, when I hear
22 the word "processing" I'm thinking about somehow you're
23 dealing with the NGLs, with the natural gas liquifiabiles.

24 MR. STERLING: One of the concepts, along with
25 "pipeline-quality gas" that is perhaps used a little

1 loosely is an economics' concept that the Commission I
2 think might have had in mind in this exclusion processed
3 natural gas, which is fungibility. The idea being that the
4 product, or the commodity is indistinguishable from the
5 commodity that's in interstate commerce, which is pipeline-
6 quality gas, if you want to come at it that way, or as some
7 other term.

8 At what point does gas coming out of the wellhead
9 become a fungible commodity with gas that's being
10 transported in interstate commerce, in your opinion?

11 (No response.)

12 MR. STERLING: And if that seems like a tough
13 question, I think it is.

14 MR. POE: I'll jump in first, and others, please
15 do the same. But it is a tough question. You know, I mean
16 I've heard people say that's not pipeline-quality gas, and
17 then someone else say, well, someone bought it, so it is.

18 So, you know, how do you define that
19 differential? A lot of the pipelines have the capability of
20 blending. So when it's produced it may not be something
21 that someone would want to consume in their burner tips, but
22 by blending it with our gas in the pipeline system it
23 becomes okay, it becomes acceptable.

24 So there are numerous ways to approach that
25 question I guess in terms of what's okay and what's not. I

1 don't know, you guys jump in. That's my thoughts.

2 MR. SHANAHAN: The easiest definition is
3 "pipeline-quality gas" is what the pipeline will take.

4 (Laughter.)

5 MR. SHANAHAN: Okay? Speaking on behalf of a
6 producer, if they'll take it we consider it pipeline-quality
7 gas. And it also depends on what pipeline. You know, if
8 it's a pipeline that's got a processing plant on it, they're
9 going to take higher liquid gas. If it's a pipeline that's
10 a dry line, they're going to keep it somewhere between 950
11 to 1000 Btu because that's what they need to function their
12 pipeline appropriately.

13 So the answer of what is pipeline-quality really
14 depends, given the pipeline and we all look at those
15 different tariffs to see what we can actually get into that
16 pipeline.

17 Also, in some cases on the pipeline it depends on
18 whether that pipeline happens to be empty at the time, or
19 needs additional gas. They tend to be able to bring in a
20 little bit more gas that way.

21 The question we have as a producer goes back to
22 talking about fungibility. What is the value of the gas?
23 And if we can get a value for extracting the liquids, then
24 we want to process those liquids.

25 If we're at a point to where we cannot get a

1 value for those liquids, it comes really a moot point as to
2 whether or not it goes to the processing plant just so long
3 as the pipeline will take it in its current condition.

4 MR. SMITH: EIA has a pretty good definition for
5 gas at the tailgate of the plant. They call it "consumer
6 grade." That's one that's, from all I've read, it's all the
7 NGLs and all the other nonhydrocarbons extracted from it,
8 probably predominantly methane. But I agree with what
9 everyone has said here.

10 Some pipelines will take anything, but some gas
11 produced by producers, like I said earlier, is dry gas, for
12 whatever reason, and it can go straight into the pipeline.
13 It's fungible then, because it's similar to probably the
14 consumer grade definition.

15 The other thing when we talk about processing and
16 removing liquid hydrocarbons, sometimes those liquid
17 hydrocarbons are extracted at the lease through a Jewels
18 Thompson valve to meet a pipeline's standards for HDP, and I
19 suppose those liquids go out in the form of condensate or
20 whatever, but that's not processing. That's treating it to
21 get it into a pipeline.

22 MS. NELSON: Just to add a concept I think about
23 in terms of pipeline quality. You know that's not something
24 that's in a contract. If you're looking for volumes that
25 are reportable and you're looking a contract terms, the

1 quality of the gas at any particular point is not on that
2 piece of paper; it's in another system somewhere where your
3 gas measurement people have. And I would really not like to
4 have to go get my measurement people and coordinate with my
5 contracts and somehow get those systems to talk to each
6 other, and then at what point are you at the wellhead?
7 What's the quality of the gas at the wellhead? And I'm
8 going to have to go find that, and that's a whole different
9 world than looking at contracts and contract terms and
10 pricing provisions.

11 MR. POE: Just one comment I would make.
12 Typically at the wellhead--and Richard talked about the
13 liquids, natural gas liquids--you're typically talking about
14 condensate and the heavier hydrocarbons. You see five
15 pluses maybe that may be taken out earlier. Your lighter,
16 your C2, C3, C4s, those are usually after an aggregation at
17 a more downstream processing plant.

18 I mean, there's exceptions to every rule. That's
19 where it's hard to say specifically that one thing is always
20 right. But when you're talking about natural gas, it is
21 predominantly methane, but it's almost always going to have
22 some methane and some propane in it. So it's going to be
23 somewhat of a mixture even after it's processed. You don't
24 strip everything out of it to where it's clean, usually,
25 typically. But a lot of it depends on what the value of

1 those separate products are. You know, the more the value
2 is, the natural gas liquids tend to be priced more on the
3 value of more like a liquid than a gas, and typically
4 particularly in the last few years that's been a little
5 better deal. So you tend to process more.

6 But in other scenarios, then as Bill mentioned
7 you're really looking to how do I minimize my processing yet
8 meet what the pipeline needs to have in their system?
9 Because you're losing money on the processing if you're
10 better off leaving those in the gas stream.

11 So processing is a world of its own. I mean,
12 Katie can probably talk more to it than I can, but it
13 depends a lot on what the market conditions are, and what
14 the situation is, how much you do and how you do that.

15 MR. STERLING: Thank you for those responses.

16 MR. RUSSO: I wanted to go back to Richard and
17 Bill. Richard, you indicated that most people, most of your
18 companies that you deal with, they relied on the form. And
19 I'm inclined to agree with you because I talk to many of
20 them.

21 So if we had to basically redo this form, if we
22 had to basically define exactly what we mean by
23 "unprocessed," --and remember, the thrust of the rule was to
24 capture index use, and what contributes to index. And if
25 we're focusing on that upstream gas, doesn't pipeline

1 quality help you?

2 Because in my conversations with many small
3 producers, when we discussed this and I mentioned pipeline
4 quality, the clouds sort of parted, if you will, and they
5 said, oh, now we understand what you mean.

6 But, Mary, you're saying that that's not always
7 helpful. So I'd like Richard and Bill to respond, whether
8 that is helpful in terms of filling out this form and
9 reporting it to us.

10 MR. SMITH: I would be helpful to clarify the
11 form. There's no doubt about that. I think that's one of
12 the things that I've commented on for the last year and a
13 half. "Processed," "unprocessed," --one thing that's
14 interesting to me, and it didn't happen, you all may know, I
15 never saw a program-type company step up like Allegro to
16 help fill in the blanks here. ExxonMobil uses it, Devon
17 uses it, and Noble Energy uses it. And we modified our
18 system, our parts of Allegro, to satisfy those reporting
19 requirements.

20 We went through a long process, and unprocessed
21 gas got carved out real early and filtered out of our
22 process, and our transactions to any affiliate types of the
23 deals, and we moved right on to next-day and next-month
24 based on the definition in Form 552. That's pretty much how
25 we did it, Tom.

1 MR. SHANAHAN: Tom, on the issues that I've had,
2 as far as processed and unprocessed gas, any clarification
3 of that is going to help us quite a bit.

4 However, when you start moving upstream, finding
5 a single wellpoint that's going to have an impact on the
6 market, that's going to be a tough one. I mean, I wish we
7 had a whole portfolio of wells that were big enough to have
8 an impact on the market, but when you start looking at what
9 any individual well site could actually contribute to a
10 market index, it's going to be pretty minimal unless you're
11 talking about some pretty deep wells, or some pretty
12 significant wells.

13 So anything moving up to that and saying--and
14 then to actually find out that then is sold on an index, or
15 sold on a fixed price, once again now you've sort of even
16 lowered that option there.

17 So moving upstream to the wellhead I'm not sure
18 is gaining everything that you really want to find out; but
19 actually increasing the burdens on producers to actually
20 come up with the information. And so that was probably one
21 of my biggest concerns, is that there's probably better
22 areas in the market to aggregate that information other than
23 actually at the wellhead.

24 Obviously we will have to do that just to get our
25 contracts to that point, but the further upstream you go the

1 bigger burden, and I really think the less bang for your
2 buck you get.

3 MR. LENGENFELDER: On that point, I was wondering
4 if there's some way that the panel could give us an idea of
5 the magnitude on all of those unprocessed volumes? How much
6 do you see they represent?

7 MR. POE: And again, each company is going to be
8 different. It sort of depends on their marketing model and
9 what their approach is to the process, and where they sell
10 the gas.

11 Some companies may sell quite often right at the
12 wellhead to someone. Others typically would take their gas
13 and go downstream and not even sell it at all until you get
14 through processing. So you have variation.

15 For us, we had the issue with my Tennessee 500
16 leg where you have the straddle plans from the offshore,
17 which is a little unique I think, and I think that could be
18 addressed on its own.

19 For us, the unprocessed gas were not significant
20 volumes. Because of our business model, we tend to hold
21 title to the--produce it, and gather it, and go downstream,
22 and don't sell it until it is processed. So I mean that
23 depends.

24 What I'm hearing is a lot of people have
25 different approaches on that.

1 MR. SHANAHAN: For us it actually goes down a
2 magnitude, and in fact we actually do have a lot of stuff
3 behind gathering systems. So what we basically do is
4 identify those and report what we tell you. The plant, the
5 ones, the unprocessed gas that we don't report is not that
6 significant, but we just count on Katie to report it for us.

7 (Laughter.)

8 MS. NELSON: For Devon, we do purchase some gas
9 behind processing plants at the wellhead. We don't--because
10 of the way we did our system, we take those out. And our
11 accounting system for these wellhead contracts does not talk
12 to Allegro. And so to get the volumes, we would have to go
13 look at individual invoices. So I cannot quantify that for
14 you.

15 I did talk to our Vice President of Marketing,
16 and his kind of--we just looked at our Bridgeport System,
17 Bridgeport/Rich, which is our biggest system in the Barnett
18 Shale, and talked about it, and we felt like the third-party
19 gas behind that would probably not move the decimal point in
20 our report, because most of that gas is equity gas. But we
21 do have other systems in other places. We did, just to kind
22 of get a feel for it, talked about the third-party gas
23 purchased at the wellhead behind our Bridgeport Plant in the
24 Barnett Shale.

25 MS. RICE: From our perspective, we look at it

1 where all the gas we purchase through our gathering and
2 processing is in a big pot, and we call it our "equity gas."
3 Then we go and sell that.

4 All those sales are, if they fit into your
5 categories, would be represented on this form. So it's any
6 of the unprocessed that's lost would be lost through the
7 processing. We don't just exclude anything because we go
8 back and figure out where it came from. We couldn't do
9 that. We're way too big, and we already had a system set up
10 for reporting that captures all of these deals. And that's
11 what we used basically for filing out the form.

12 There was no way to go back--and we wouldn't be
13 able to. If we had to look at purchases, it would be an
14 impossible task. We have 25,000 purchase agreements. So we
15 would never be able to go look and see how they're priced
16 individually. It would be an impossible task.

17 So I felt like the unprocessed exemption
18 validated that our data capture was in compliance with what
19 you were expecting. We didn't go back and try to recreate
20 the wheel. We just said, okay, this is all of our gas that
21 we sell, and how does it match up to the categories that you
22 have.

23 MR. SMITH: I don't have an answer for you,
24 David.

25 MR. JERRY PEDERSON: Let me--in terms of clarity,

1 obviously using the terminology that we did in 704, or
2 didn't, didn't help, but let me just step back.

3 What I want to do is just step back for a minute
4 and think about this. What 704 was trying to do was get
5 volumes that use, contribute to, or could contribute to an
6 index. And I think early on one of my notes is: we're
7 going to need to be a little more clear on what we meant by
8 "could contribute to an index." So if we can just set that
9 aside for a moment. But it sounds like some--there were
10 decisions made based on the form, or the Order, or the FAQs,
11 and some of you did come out and make a determination that,
12 well, while this volume may have been upstream from a
13 processing plant, I think it's the type of thing that FERC
14 is trying to get at and trying to get some information on,
15 and so I'm going to report that.

16 And I'm wondering at this point whether getting
17 into the processing and treatment issues is--maybe there's a
18 better way to do it. For example, I think, Richard, you
19 threw out something, "consumer grade," something that was
20 going through my mind is "marketable gas."

21 I want to explore how we can clear up this area
22 of confusion. And part of where I want to start--maybe I
23 can start with you, John, and others please jump in--you had
24 made a statement earlier about you looked at it and said
25 could this contribute to an index? Yes, it could. I'm

1 going to report it, even though I'm upstream of that plant.

2 There was some way you made that determination.
3 There was some way that you sat back and said, well, wait a
4 minute. I know what they're looking for. I'm going to go
5 try to answer that.

6 Can you talk about that a little bit and help us
7 out?

8 MR. POE: Yes. I mean, our--and again, our
9 example was the gas coming in from offshore, where the gas
10 is processed. And back to my example where the quantity of
11 gas we were selling was net of processing.

12 So it was subject to. We knew the gas was going
13 to be processed at this downstream processing plant. And
14 the portion of the sale that was applicable to the gas that
15 was going to be--or the Btus that were going to be removed
16 at the processing plant, we didn't sell that gas. We kept
17 that gas.

18 And we would have moved that gas under our own
19 PTR, Plant Thermal Reduction, contract to the plant. So we
20 took the view that the gas we sold was processed, because it
21 was the net volume. And if you--and that gas, if we
22 produced it, it would have gone into the 500-leg pool on
23 Tennessee and we would have sold it out of the pool. If
24 there was some other gas that came into that same pool from
25 downstream of the processing plant, maybe one of the

1 interconnects or something, or another production, it would
2 have been sold out of the same pool.

3 So we didn't--and if those were done at fixed
4 prices, we would have reported that to Platt's, or to the
5 index developers. And so therefore we didn't make a
6 distinction between--we thought, do you try to exclude
7 those, because technically as a firm-to-the-wellhead
8 pipeline where the transaction occurred, it was
9 unprocessed gas at that point, but we knew it was going
10 to be processed.

11 MR. JERRY PEDERSON: So your decision point
12 really was on the fact that this is really processed gas,
13 the way I'm selling it--

14 MR. POE: Yes.

15 MR. JERRY PEDERSON: --rather than I know this is
16 going to be marketable--

17 MR. POE: Yes.

18 MR. JERRY PEDERSON: --and contribute to an
19 index.

20 MR. POE: Yes. Because, you know, typically the
21 gas that's produced with oil, with rich gas, that's going to
22 tend to be richer production, more NGLs, going to require
23 processing.

24 Where you see the leaner gas is going to be where
25 it's not associated with gas well gas, some of the onshore

1 type stuff. Typically a lot of the Gulf of Mexico is
2 associated with oil and tends to be richer, but you don't
3 put processing plants offshore. It's not economical. So
4 the processing plants are located after you hit the beach at
5 some point.

6 MR. JERRY PEDERSON: Others?

7 (No response.)

8 MR. JERRY PEDERSON: And what I'm looking for is
9 ideas on how we can clarify this whole concept without
10 trying to get into all the nuances on the production and
11 treatment. Is there any way that you guys can think of that
12 would help make the standard more understandable?

13 Mary? Richard?

14 MR. SMITH: Drop the word "use".

15 MR. JERRY PEDERSON: "Use" from?

16 MR. SMITH: From that string of words in the
17 sentence.

18 MR. JERRY PEDERSON: In terms of "use the index"?

19 MR. SMITH: Um-hmm.

20 MR. JERRY PEDERSON: How does that help in terms
21 of the gas?

22 MR. SMITH: If you're trying to--if you want the
23 fixed price, if you want the volume to contribute to an
24 index that goes to a publisher, your fixed prices--now you
25 can leave the word "use" in there if what you're trying to

1 do is to capture your next day and next month, but where
2 you're trying to capture all the other types of transactions
3 is where we run into the issues around the definitions,
4 around the words.

5 MR. JERRY PEDERSON: Yes. I think what we're
6 trying to get at there is we're trying to see what volumes
7 are contributing to the index versus what are used. And the
8 greater that disparity, the less reliable that index I think
9 becomes.

10 MR. POE: I guess I would make one comment on
11 that; that while the gas may use some reference to an index
12 for these upstream unprocessed gas type sales, the product
13 that they're selling is not this consumer grade, if that's
14 the way you want to define it.

15 So while it may be loosely tied to the index,
16 it's just basically a reference point. I mean, you know,
17 you could tie it to the price of tea in China maybe if that
18 would make more sense, but that's what a lot of times I
19 think is the use. Well, is that a true use of the index?
20 If you were doing the next-day or next-month type delivery
21 where you would be--the deal was done at fixed price, it
22 would be reported. And I think that's what Richard is
23 saying, is that may be a better way to link it to those
24 transactions done during those applicable periods where they
25 could be--you either use the index to sell it during those

1 periods, or you do it at fixed price. And then that would
2 be a good distinction.

3 Where it's a very loose reference, to me it loses
4 some of the validity of it.

5 MR. STERLING: One very quick follow-up.
6 Obviously we don't know what the Commission may or may not
7 do. One possibility, though--and I'm wondering if this
8 would actually make your job easier--would be to drop the
9 exclusion for unprocessed gas completely and utilize the
10 same definition that's used for other transactions in the
11 form.

12 So in other words, all transactions that use,
13 contribute to, or could contribute to an index would be
14 reportable. Which is the same standard that nonprocessors
15 deal with on the form.

16 In other words, instead of getting ride of the
17 exclusion so you don't have to deal with it, would that make
18 your lives simpler?

19 MS. RICE: Not me.

20 (Laughter.)

21 MR. STERLING: I didn't think so.

22 MS. RICE: Because then you're looking at
23 purchases, and that's I think the issue here. If you really
24 just want sales, which you don't, but we cannot tell you
25 wellhead purchases. There may be one or two that rely on an

1 index only, but we would have to go manually through our
2 25,000 contracts to figure that out, and I really don't
3 think that's the purpose here. We're already reporting this
4 huge amount of volume that we're selling and the manner that
5 it's sold, and that seems to be what you want. So by taking
6 that out, that just to me blows open the whole thing.

7 MR. JERRY PEDERSON: How about others?

8 (Laughter.)

9 MR. POE: I would agree with that analysis, as
10 well. I don't think it makes sense to eliminate it all
11 together. I think there's a good legitimate reason why you
12 made the exclusion, is the value of them--how much value
13 does it add for the work? So that's my opinion.

14 MS. NELSON: I would say that if you did that we
15 would have to go back and look at all of our contracts that
16 we excluded and do the same process to identify their price
17 terms and whatever else we needed, depending on what you did
18 with operational volumes from that.

19 And so there is burden even for some of us that,
20 you know, don't have the volumes that Katie has in order to
21 ferret that out. There is a fair amount of work that would
22 have to be done. And I raise that only because if you--I
23 don't know the timing of all of this, but if that were what
24 the Commission were going to do, I don't think my company
25 can get that done by July 1, because we would have to go

1 review the contracts and then we'd have to do lots of
2 accounting legwork to tie properties to contracts and
3 invoices, and aggregate those volumes.

4 MR. SHANAHAN: Gabe, I want to be really clear on
5 this--

6 MR. STERLING: Please.

7 MR. SHANAHAN: "No."

8 (Laughter.)

9 MR. STERLING: I thought those would be the
10 answerers I got, and I appreciate it, but I wanted to make
11 sure.

12 MR. RUSSO: I've got a question, and I keep on
13 coming back to this because we really do need some input
14 from you all. All right, so the idea of not making
15 distinctions between processed and unprocessed gas, that dog
16 won't hunt. Fine.

17 So what do we do? What's our concern? Our
18 concern specifically may be that we're having a lot of shale
19 gas coming on line and there is pipeline quality gas out
20 there, and we want to capture that. We want to capture that
21 in terms of index use and what contributes.

22 So help us out here. Or at least give us some
23 feedback on what you think the materiality of those volumes
24 are. Are they really material? Or are we just sort of
25 like--should we not be concerned?

1 MR. SMITH: Are you asking for only those
2 transactions for next-day and next-month?

3 MR. RUSSO: We would like those, and those that
4 utilize--use an index.

5 MR. STERLING: It's the standard formulation.

6 MR. RUSSO: It's the standard formulation.
7 Actually, Richard, to be honest with you, my experience in
8 talking to many people is that they struggle mightily trying
9 to determine what contributes to, or might contribute to an
10 index. They really struggle mightily.

11 When it comes to index use, that's usually pretty
12 easy for them to determine. That has been my experience in
13 talking to people.

14 MS. NELSON: Devon is active in three shale
15 plays, the Barnett Shale, the Woodford Shale, and the--
16 Barnett Shale in Texas, Woodford Shale in Oklahoma, and the
17 Haynesville Shale in Texas. And it's our experience that
18 from a shale gas perspective, some of it needs to be
19 processed, some of it doesn't.

20 It's like every other formation. It depends
21 where you are in the formation and other factors to
22 determine whether it's going to be processed. So just
23 because shale gas is becoming a bigger portion of the gas
24 that's in the market, it's no different than any other gas.
25 Some of it's going to be lean and not be processed, and

1 under my application of your unprocessed gas I reported a
2 lot of Barnett Shale gas and a lot of Woodford gas, and a
3 lot of Haynesville gas because it doesn't go through a
4 processing plant.

5 Now I didn't report some because it does, but
6 it's like all gas. Sometimes it needs to be processed and
7 sometimes it doesn't.

8 MR. POE: Yeah. It sort of sounds like maybe the
9 better definition is not to use the literal term
10 "unprocessed gas" such that if you have pipeline quality, or
11 something close to whatever pipeline quality is, or what did
12 Richard use, consumer grade, if that's the better word, or
13 whatever the right term is, but such that it can go into the
14 pipeline without processing. The way Mary interpreted it,
15 it seems like that makes sense to me.

16 MR. REICH: It sounds to me, from what I got
17 earlier, that at least what John and Mary and William used
18 was something to the effect of, if the title changed at the
19 wellhead, it's going to the processing plant, and it was
20 sold on an unprocessed basis, that would be excluded.

21 If one of those things changed, if those three
22 criteria--if all three of those criteria were not covered,
23 then it would be reported, or at least then you reported
24 them? Is that an accurate reflection of what you were
25 saying earlier?

1 MR. SHANAHAN: I'm going to say yes, as long as
2 the contract didn't refer--the contract pricing didn't refer
3 to an index price. Most of those contracts are sold on a
4 percent-of-proceeds.

5 MR. REICH: And so the contract, even for the
6 unprocessed gas that you were selling on an unprocessed
7 basis, if they refer to an index price you reported them?

8 MR. SHANAHAN: Right. And I think we may have
9 had one contract out of 50 or 60..

10 MR. REICH: And that addresses I think Richard's
11 issue.

12 MR. SMITH: Tom, are you--when you talk about the
13 shale gas and you're thinking that some gas won't be
14 captured here, are you talking about actual flowing gas? Or
15 are you talking about contracts?

16 In other words, is what you're referring to just
17 gas flowing through the meter? Or are we talking about--
18 that's sold at the meter--or are we talking about deals that
19 are contracted at next month and next day for fixed and
20 index-priced gas?

21 MR. RUSSO: Certainly talking about gas at fixed-
22 price, next-day, next-month delivery. Also talking about
23 gas that uses an index, sold at index.

24 MR. CHRIS PETERSON: What we're getting at is
25 price formation. Nothing in the form limits the information

1 we want to just flowing gas. It's how prices are
2 established in the market at different locations and
3 including changing hands when you go all the way from the
4 most upstream in some cases all the way to the end user.

5 MR. STERLING: I'll put it another way, which is
6 sales and purchases of natural gas that use--which you could
7 say it's use--refer to an index that contribute--which means
8 they're reported to an index developer--contribute to an
9 index, or that could contribute to an index.

10 In other words, if you reported them to an index
11 developer that would utilize it to create an index.

12 That's the three criteria for the transactions.
13 Not gas flowing, but the transactions involving natural gas
14 that are in 704.

15 MR. SHANAHAN: The biggest issue that I've had,
16 and especially in talking to other producers about this,
17 we're good with you right up there to that "could be used."
18 And that's starts to begin to be interpreted.

19 You know, we know what our contracts say. But
20 when you start saying it could be used in an index, well,
21 that opens up--you know, that's a pretty broad term.

22 MR. STERLING: And I think we're jumping now to
23 the second question pretty much. I think Mary had the
24 definition before that was stated in 704A. I was wondering
25 whether you found that to be sufficient to determine what

1 could be used for index?

2 MS. NELSON: Well, I did, but I'm not certain of
3 anything that I used to think I knew.

4 (Laughter.)

5 MS. NELSON: I do want to--before I address
6 that--I do want to say that we did exclude, rightly or
7 wrongly, contracts upstream of processing plants that
8 referred to index price. So we differed from how Bill
9 interpreted it, because it was an exclusion of unprocessed
10 gas, and the form said here's all we want, "use, contribute,
11 or could contribute, but in all circumstances don't include
12 this," and our percentage of proceeds contracts don't
13 always, but sometimes do refer to an index, and percentage
14 of proceeds contracts can refer to an index just to make
15 sure you all understand those facts.

16 But back to your question. I thought--I mean,
17 there are a lot of words in those Orders, but it seemed
18 clear to me that "could contribute" meant a deal that, if
19 you were reporting to a price index publisher would have
20 been acceptable to them: fixed-price, next-day, before-
21 11:30, fixed-price next-month, during bid week. That's how
22 I interpreted it. But clearly, you know, other people saw
23 other things in those Orders.

24 MR. JERRY PEDERSON: I'm going to step in here.
25 I think clearly we need to at some point be a little more

1 clear with regard to what the Commission meant by "could
2 contribute to," but I think we're steering off a little bit
3 here.

4 Where I would like to move--and I just want to
5 make sure that I got this right. Mary, I thought I heard
6 you say one of the things we had raised on these issues was
7 non-traditional gas sources and the shale. But I think what
8 I'm hearing is that we should think of shale gas as just any
9 other type of gas. There's nothing--no special
10 characteristics that we should be aware of, or obstacles
11 that would be unique to that type of source? Is that fair?

12 MR. SMITH: Agree.

13 MR. JERRY PEDERSON: Good. Any other questions
14 along these lines on the upstream transactions before I move
15 to the measurement amount?

16 (No response.)

17 MR. JERRY PEDERSON: Or anything that the panel
18 would like to throw in at this point?

19 (No response.)

20 MR. JERRY PEDERSON: Richard, are you all right?

21 MR. SMITH: Yes. And I was going to say, again
22 we can address those in comments. People can follow up,
23 right?

24 MR. JERRY PEDERSON: Yes. And I should have
25 mentioned that in my opening comments, that we're going to

1 ask for--we're going to give you an opportunity to come in
2 with comments, including the audience, after this
3 conference. We would ask that you get them in by April
4 16th, if you're going to put in written comments.

5 On the other issue that we've raised here, and
6 we'll go through this issue and then I'll give an
7 opportunity for the audience to come up if they have
8 anything to say relevant to these topics.

9 The current reporting measurements are TBtus.
10 And it's just a simple question of whether we have the right
11 measurement there. Do you know what it is? Should we be
12 using something better? And if so, how much of a burden is
13 that going to be to you in terms of fixing what you're
14 reporting that you've already put together?

15 So I'll throw that out to the panel.

16 MR. POE: I'll jump in first. I think it's fine.
17 I think trillion Btus makes sense. If you move to
18 decatherms, or something lower, it's just kind of where you
19 put the decimal point. So TBtus is not very commonly used,
20 because we're generally selling a lot of our gas in the
21 daily market where you're talking about a smaller unit of
22 measure. But here you're going back and accumulating the
23 whole year, so you're looking at what it is, which is
24 roughly equivalent of a bcf of gas, if you were doing it in
25 volume versus quantity.

1 But of course gas is sold on a quantity basis, or
2 a heat content, so I think that is the appropriate measure,
3 and you're putting it on roughly a bcf-type equivalent if
4 the conversion factor was 1. So we're fine with it, is I
5 guess what I would say.

6 MR. JERRY PEDERSON: If we were to use the term
7 "million decatherms," which I think is essentially the
8 equivalent of TBtus?

9 MR. SHANAHAN: We deal with these conversions all
10 the time. I think it's probably easier for us to deal with
11 them than it is for you. And so I don't see any reason to
12 change it.

13 MS. NELSON: I'm a liberal arts major. I'm not
14 capable of moving a decimal point.

15 (Laughter.)

16 MS. NELSON: But my accounting people have no
17 problem with it, and they assure me that whatever unit you
18 guys want we can do.

19 MS. RICE: We did have a little issue the first
20 time, but now we've got it and I think it makes sense. I
21 don't think putting an extra six zeroes on there is a good
22 idea.

23 MR. SMITH: When I looked at the Order, as I was
24 reading down through it, my eyes just jumped to the words
25 "TBtu." I had no idea what you were talking about. But

1 once you read the definition, it's pretty plain on its face.
2 The industry uses mmdth, mmBtu, you know, like they said,
3 it's moving the decimal point. I thought you might have put
4 this on the agenda because you were trying to either make
5 the columns in your Excel spreadsheet wider or narrower.

6 (Laughter.)

7 MR. SMITH: I didn't know. So it's fine. But if
8 you want to change it, that's fine, too.

9 MR. JERRY PEDERSON: I'm hearing leave it alone.
10 You've created something, let's leave it alone. So--and
11 that question was I think more for the industry than us.

12 Any other comments you'd like to make before I
13 open it up to the audience? Any questions that we might
14 have?

15 MR. STERLING: One very quick suggestion, not
16 only for our panelists but for anyone else who decides to
17 submit comments.

18 As one of the individuals that's going to be
19 drafting the next Order, any suggestions that you make in
20 your comments, the greater the level of specificity,
21 including for example if you have regulatory language that
22 you think would implement the proposal that you're putting
23 forward, all of those things would be very helpful. We
24 talked a lot about definitions. If you have definitions
25 that you think would be useful to include, either in the

1 form or for the Commission to acknowledge in an Order, those
2 would also be useful to have in your comments.

3 Thanks.

4 MR. JERRY PEDERSON: Okay, I am going to open it
5 up. If anyone in the audience has questions or comments
6 either for staff or for the panel, if you could please come
7 up to the microphones we have on either side. When you get
8 there, turn it on. It takes about five seconds.

9 MR. REICH: And please introduce yourself and
10 tell us where you're from so we can get your name accurately
11 reflected in the transcripts.

12 MR. BOWDEN: My name is Jim Bowden. I'm with
13 Marathon Oil Company. I'm also here as a representative of
14 the Natural Gas Supply Association.

15 So I had the privilege of having dinner with
16 three of your panelists last night to discuss some of these
17 issues, and one thing that would be very helpful for my
18 company is to get an answer to the question of whether Mary
19 is right, or Bill is right. Because when it comes to
20 unprocessed gas, what we focus on are wellhead sales. And
21 we have two different types, as they implied.

22 One is a strictly percentage-of-proceeds,
23 whatever the purchaser ends up selling the gas for, we get a
24 percentage of those revenues as our payment.

25 Now some of those, as Mary implied and Bill

1 implied, do reference index prices. That's how the price
2 for the residue gas is determined. Now Mary's company
3 didn't report those. Bill's company did. And I just need
4 to know which one is right.

5 MR. JERRY PEDERSON: Thanks. That is sort of why
6 we're here.

7 Other questions, comments?

8 (No response.)

9 MR. JERRY PEDERSON: Okay, I want to thank our
10 panel. Thank you. You did a great job. We appreciate the
11 feedback you've given us. We will take it back and think
12 about it. There are a lot of tough issues here. I
13 encourage you to put in written comments. That's always
14 helpful.

15 We are running a few minutes early, so let us
16 take about a 15-minute break.

17 MR. REICH: Can I make a quick comment?

18 MR. JERRY PEDERSON: Sure.

19 MR. REICH: Regarding that specific contract
20 language for the processing, for the processed gas and the
21 percent-of-proceeds, if you could give us, in your comments,
22 if you could give us an example of kind of how that language
23 works. You know, you don't have to be specific on specific
24 contracts or something like that, but just kind of give us a
25 sense of that contract language I think that would be

1 helpful.

2 MR. JERRY PEDERSON: A very good idea. Thanks,
3 Steve.

4 Well let's take about a 15-minute break and come
5 back at 10:40. Thanks.

6 (Whereupon, a recess was taken.)

7 MR. JERRY PEDERSON: Let's get started with the
8 second panel. Again, my name is Jerry Pederson, for those
9 who are new to this second panel here.

10 The second panel is going to be discussing
11 cashouts, imbalances, and operational volumes.

12 Let me first say up front that at the end of this
13 conference we are going to allow folks to come in and submit
14 written comments. So if you don't get everything you want
15 on the record, you will have that opportunity. We are
16 asking for those to come in by April 16th.

17 Again we have a very distinguished panel here for
18 the second panel. Katie Rice, Director of Regulatory
19 Affairs, DCP Midstream LLC; Matt Kerec, Assistant
20 Commodities Manager, Alcoa, Inc.; Michael Novak, Assistant
21 General Manager, Federal Regulatory Affairs, National Fuel
22 Gas Distribution Corp.; John Poe, Manager, Regulatory
23 Affairs, ExxonMobil Gas and Power Marketing Company; and
24 Dana Wiggins, Partner, Ballard Spahr LLP.

25 Before we get started, I would give the

1 panelists, if any of the panelists have opening comments
2 you're welcome to make them. On the first panel we didn't
3 have any. Does anyone want to have an opening remark, or do
4 we want to get right into the meat of it?

5 (No response.)

6 MR. JERRY PEDERSON: So let's go ahead and do
7 that. What we are here to talk about are these cashouts.
8 What have been your experiences? We've got a year under our
9 belt. What's your experiences? In particular we're
10 focusing in on two main issues, which is:

11 Whether they resulted in significant volumes,
12 statistically significant volumes; and what was the burden
13 of putting these things together?

14 I will open that up with, Katie, do you want to
15 start?

16 MS. RICE: Sure. What we looked at for cashouts
17 was we have some small intrastate and interstate pipelines,
18 and went through and looked at what kind of index those were
19 cashed out at, if they were cashed out.

20 Then we also looked at OVAs. And that required a
21 contract-by-contract--on those same pipelines--a contract-
22 by-contract review to figure out if they were index-based,
23 makeup, or what have you. So those volumes that were
24 actually cashed out at the index were reported on the Form
25 552, and either the monthly or the daily index line.

1 From a volume standpoint, it was about 1 percent
2 of what we reported.

3 MR. KEREC: For us, we went back and we looked at
4 all of our interstate pipeline contracts that we had, and
5 where we had cashouts on a, you know, monthly--you know,
6 depending on the tariff, monthly or daily. And overall, the
7 cashouts rounded down to zero. They were about .04 percent
8 of our total gas usage.

9 MR. JERRY PEDERSON: And what was the effort that
10 was put into getting that?

11 MR. KEREC: We spent about 83 hours compiling all
12 the data, and about 3 to 4 hours on the cashouts alone.

13 MR. RUSSO: Matt, just a follow-up. So the .04
14 percent, was that correct?

15 MR. KEREC: Yes.

16 MR. RUSSO: Is that based on your 2008 Form 552
17 total reportable volumes?

18 MR. KEREC: Yes.

19 MR. RUSSO: Okay. Fine. Thanks.

20 MR. JERRY PEDERSON: Michael?

21 MR. NOVAK: Well I'm speaking on behalf of the
22 American Gas Association, so I can't give you a specific
23 hour or anything like that. I first wanted to start by
24 thanking you for the opportunity to speak today.

25 I took a look at the Form 552s that were filed

1 for LDCs that were flowing larger than, more than 50 bcf per
2 year, and I took box 3(c) and divided it by 1(b), sort of as
3 a measure. Because if there was anything to be reported, it
4 would of been in 3(c). Anything that would of been in 3(b)
5 is kind of buried in with all the other regular purchases.
6 And we came up with less than 3 percent. And since many of
7 the transactions that we might find in 3(c) are not
8 necessarily related to cashouts or imbalance resolution, we
9 think it's a very, very small, immaterial number.

10 MR. JERRY PEDERSON: Thank you.

11 MR. POE: Again, I am John Poe with ExxonMobil,
12 but I'm also speaking, or representing Natural Gas Supply
13 Association, as well. NGSA polled several of the members
14 and got feedback on three or four of the companies, and all
15 were less than 1 percent. Some were as small as .01 percent
16 of the companies that responded. And that's looking at the
17 percentage of the imbalance cashout transactions to their
18 total transactions.

19 We think they are not a significant portion of
20 the total. If you look at how we incur imbalances,
21 generally it's where you are shipping gas on a pipeline and
22 your target is to zero. I mean, that's what we try to hit
23 is zero, realizing operationally you're going to have some
24 ups and downs. So the cashout is the mechanism for doing
25 that. And of course it's an after-the-fact type settle-up

1 when you do that.

2 So you never do those transactions during the bid
3 week, or during the next-day for next-month. It's sort of
4 after things have occurred you're coming back and settling
5 those up.

6 Now I suppose someone could use cashouts as a
7 mechanism to run out-of-balance as a marketing strategy, and
8 I'm not saying that doesn't exist somewhere in the industry.
9 I'm not aware of it. But the ones we're involved in are
10 transactions such that would never contribute to the
11 development of an index because of the nature of them being
12 after-the-fact.

13 As far as the collection, I mean it's not a huge
14 burden but it does take some time to go through in each one,
15 because we do not treat the imbalance settleups as part of
16 our normal sales and marketing activity. It's something
17 that occurs and it's a mechanism for cleaning up the
18 transactions, as opposed to being a marketing tool or a
19 marketing strategy.

20 MR. JERRY PEDERSON: Thank you. Dena.

21 MS. WIGGINS: And like John, we also polled a
22 number of our industrial consumer clients, and the chart
23 over there on the easel sort of represents the summary of
24 what we came up with.

25 These companies asked that they not be identified

1 by name, but it represents a major metals company, a
2 consumer products company, a paper company, a fertilizer
3 company, and a large feedstock user that purchases in excess
4 of 55 bcf a year.

5 Collecting all of that data and coming up with
6 the totals, we found that about 32 percent of the time that
7 people spent in total on the Form 552 data, 32 percent of
8 that was spent on the cashout data. And in every instance,
9 it either came up to be zero for cashout, or it rounded to
10 zero. So it was a fair amount of effort for nothing
11 reportable to you all that was helpful.

12 Also in terms of the amount of gas that
13 represents for these companies, it was about 1 percent of
14 their total gas usage, was cashout. So it was a very, very
15 small number in all instances, and rounded off.

16 And as John was saying, our industrial companies
17 are not out there trying to make money off of the cashout,
18 or trying to arbitrage the price of gas through cashout.
19 They are trying to serve their plants, and what they aim to
20 do is to completely balance every day, every month.
21 Sometimes they miss it a little bit, but this is not a
22 significant amount of gas.

23 We would hope that at the end of the day that the
24 Commission would take into account the fact that this is a
25 lot of effort for very little data--in most cases, no data,

1 and would make some adjustments to the reporting
2 requirements on cashout, and hopefully eliminate it.

3 MR. JERRY PEDERSON: Thank you. Questions?

4 MR. STERLING: I have one, which is could you
5 explain maybe in a little bit more detail the additional
6 burden, or in other words the steps, additional steps that
7 had to be undertaken in order to go ahead and determine the
8 cashout volumes that you were reporting, as opposed to the
9 other types of transactions that you reported?

10 MR. NOVAK: I think for LDCs there's two sources
11 of imbalances. There is a role of shippers, and as much as
12 has been explained by the other panelists, very similar.

13 There's also what occurs on our system where we
14 provide transportation services to end users, industrial
15 customers and so forth. And the design of a cashout
16 mechanism on an LDC is very different from what you'll see
17 on a pipeline in some cases. Because we still have, most of
18 us still have significant merchant functions when a customer
19 shorts the system. We look at it more as a standby sale.

20 And so it's something that's generally tariff-
21 based. There may be a market mechanism if the market is
22 higher than what the tariff rate would be, and then that's
23 where the analysis comes in.

24 For our company I went through every single
25 transaction and looked at what the pricing formula was, and

1 there were some that fell into the market realm and some
2 that fell into the tariff realm.

3 One of the interesting things that I saw from
4 2008 when prices were more towards the market realm,
5 probably about the same level of imbalance as this year, I'm
6 going to have less to report because the tariff applied more
7 often.

8 MR. JERRY PEDERSON: Thanks, Mike.

9 MR. RUSSO: I have a question for any one of you.
10 Give us an idea of the number of transactions on average
11 that you're looking at to tease out these cashout volumes.

12 As you well know, on the Form 552 there is no
13 line item where we can report cashouts. The only way we
14 know about them is if they're commented on in the form. And
15 only about 22 companies actually mentioned the word
16 "cashout" on the form. And, yes, the volumes are fairly
17 low.

18 So we're really interested in specifics on the
19 burden. Were you processes automated versus were they
20 unautomated, or paper driven? So please, chime in.

21 MS. WIGGINS: I can tell you that for the people
22 that I've talked to in the industrial community, this was
23 not at all an automated process; that in fact was a large
24 part of the burden of 552 in general, in that there are
25 large industrial companies out there, companies the names of

1 which you would recognize, that do not have a corporate
2 figure for their gas consumption--or they didn't before 552
3 came along--that was rolled up to the corporate level.

4 There is a lot of autonomy among the various
5 plants, and among the various facilities to do their own
6 purchasing strategies and to engage in their own sort of
7 purchasing transactions.

8 So when the requirement for 552 was implemented,
9 then from a corporate level someone had to go out and work
10 with the plants, and work with paper, and go back and look
11 at a lot of individual transactions in order to try to parse
12 through, first of all, what was needed and what was required
13 by Form 552, and then to get their arms around the data in
14 order to complete the form.

15 So that was part of the burden. It's just that
16 there's not a corporate-wide data collection effort underway
17 in many large companies.

18 MR. POE: I would just make one comment, and I
19 think I said this earlier, that the cashout is not in our
20 normal course of business. So it is a manual effort to go
21 do that. We don't treat that as part of what we--we're
22 trying to hit zero. So hopefully we have none.

23 So as you go try to collect those data, there's
24 an effort to go back and look at each pipeline you do
25 business on, where you may have an imbalance, and also an

1 effort to go look at their tariff to see how is their
2 cashout. You say: Does it use an index?

3 Well, most of them do use indices. You go back,
4 and some of them are a blend of, it might be Natural Gas
5 Weekly, Daily, it may not be a pure--it doesn't fit neatly
6 into one of the categories of the lines on the form.

7 So there's an effort to do it. I mean, it
8 depends on how many pipes you're operating on, how many
9 entities you're looking at as well, as Dena said. So that
10 would be my comment.

11 MR. NOVAK: I think much would depend upon
12 whether the LDC has a gas management system, which most
13 larger LDCs do. So that our activity on the pipelines, it's
14 not terribly difficult to pull that information out in terms
15 of the quantities. The pricing I think is exactly as John
16 described, you have to look at that.

17 I think that where there's great effort is on
18 what's happening on system. Again, it's more of the
19 systems' development question, but ultimately it boils down
20 to the pricing analysis: which rate applied? And that is
21 intensive.

22 MR. KEREC: I would just add, we have a further
23 degree of centralization in our company, and it still took
24 us a significant amount of time to go through the Order and
25 make sure that we were recording all of the volumes that you

1 were asking for. So even with some automation up front and
2 with our invoicing, it still took us a significant amount of
3 time to pull the data together to make sure we were
4 reporting it correctly for you.

5 MS. RICE: Our process was manual, as well, but
6 we looked at it just from the pipeline perspective. We
7 didn't look at where we were shippers. We interpreted the
8 guidance that it was the pipeline would be reporting and so
9 we didn't think as a shipper we would need to report. So
10 it was still manual, but we have our own--it's our pipelines
11 that we operate, so it was a finite amount of data that had
12 to be reviewed.

13 MR. POE: And I guess I would have one other
14 comment. I note you don't have any of the interstate
15 pipelines up here that are probably the major players in
16 terms of doing the cashing out on the other side of our
17 shipper transactions. I think they already do some
18 imbalance cashout type reports. It depends on the pipe. So
19 sometimes that information may already be available.

20 The Commission has approved their tariffs, which
21 you know those involve indices. So I guess my question is
22 what additional value are you getting by having each one of
23 us put the data on the forms?

24 MR. RUSSO: Dena, a follow-up for you. Now that
25 many of the companies have automated systems, is the burden

1 easier? Or is it just as onerous, let's say if we retain
2 cashouts for the 2009 collection?

3 MS. WIGGINS: Well I think a lot of them had to
4 put a process in place in order to collect the data. I
5 think it's fair to say that it would not--hopefully it would
6 not take them as long to collect this data and to analyze it
7 going forward as it did the first year.

8 Although, just because they have the process in
9 place, I don't think that necessarily means that all of
10 them--in fact, I know that it means that not all of them put
11 in an automated process. That's just not something that
12 they're going to do. They've got the paper. That's the way
13 they've been doing this forever, and they'll continue to do
14 it that way.

15 MR. RUSSO: Okay, and just a follow-up for
16 everybody. You're all prepared to basically file something
17 in writing on what you've said here, and in maybe even more
18 detail? We're really looking for more detail, because as I
19 said I've only counted 22 companies who mentioned the word
20 cashout on the form. So what we do will be based upon what
21 you have said here. And we are all looking for hours, you
22 know, specifics. We want to drill down to this.

23 MS. WIGGINS: Tom, just so you know, we are
24 attempting to collect additional data. The sample that we
25 presented today was from six companies, and we have gone out

1 to other industrials to try to get additional data. And by
2 the time that we file comments on April 16th, we hope to
3 have that for you.

4 MR. RUSSO: Okay. Good.

5 MR. CHRIS PETERSON: Through discussions with
6 some of you all that filled the form out, I understand that
7 one of the issues involved in cashouts that was somewhat
8 unique is the types of transactions that Katie, and John,
9 and the other panelists mentioned in the first session, a
10 lot of that type of information at least for companies that
11 report to index publishers, and even if they don't they may
12 have been capturing that kind of information for billing
13 purposes and all that, those were part of normal processes
14 that already existed. Sales of natural gas to different
15 customers at different locations.

16 My understanding is that an issue with the
17 cashouts is that the companies were not necessarily
18 previously trying to track or monitor the pricing
19 mechanisms, the use of index explicitly that was tied to
20 cashout transactions. And so that was something that was
21 outside typical I guess price analysis and capture
22 monitoring that you were doing.

23 Therefore, companies had to implement what sounds
24 like principally manual systems initially. Maybe they're
25 still not automated going forward. Am I characterizing the

1 experience of what you all uncovered in trying to fill the
2 form out?

3 MR. POE: Yes. As I mentioned earlier, at least
4 from our perspective I think you've hit it exactly.

5 MS. WIGGINS: That's what I heard, too, Chris,
6 that again because the industrials are trying to buy enough
7 gas to serve a plant, that when there's a cashout it's an
8 "oops." You know, the plant went down. That's not the
9 focus of what they're trying to do. The price of gas
10 overall, when you're buying 55 bcf, or whatever it is these
11 companies are buying, is a very important figure.

12 And that is something that they've probably got
13 their hands around. But this little tiny bit that's the
14 "oops," is not something that they were monitoring. And
15 part of the manual process--as some of the other folks have
16 said--was just going back through and figuring out, well, if
17 it was cashed out, how was it cashed out? What was the
18 pricing mechanism? Was there an LDC involved in the
19 transaction? And if there was an LDC involved in the
20 transaction, was it priced at some mechanism where it didn't
21 trigger any sort of reporting requirement?

22 So there was just a lot of analysis that had to
23 go into it.

24 MR. POE: I guess one other point that I would
25 make is, typically when you're talking about pipelines

1 you're talking about cashout provisions that are in their
2 tariffs. So it's not like you have the election of I want
3 to negotiate that cashout, and I may do it at a fixed price,
4 or I may do it in some other way. You might, in certain
5 situations, but generally you're responding to whatever the
6 Commission has approved in their tariff as the indices that
7 will be used to cash out the imbalances that have occurred
8 over the end of the month.

9 So it felt a little bit--and I don't think the
10 volumes are significant--but it felt a little bit like
11 you're saying you used an index so we want that reported.
12 And as Tom mentioned, it was somewhat a challenge to figure
13 out which line you put it on because it didn't really fit
14 where you may have a index that was used for the cashout
15 that was a blend of the various--it wasn't just a pure end-
16 of-the-month type index.

17 MR. CHRIS PETERSON: John, if I could ask you a
18 quick follow up on that. That would be true on interstates.
19 Is it the experience of--you know, some of you probably also
20 deal with intrastate pipelines based on where your
21 facilities are located, or where you're injecting gas into
22 different parts of the gas grid. Would that be true in
23 dealing with intrastates about the cashouts as well?

24 MR. POE: And again I'll let Katie, I know she
25 operates several intrastates, let her comment, but my

1 thought is, those are a little more on a negotiated type
2 basis. So you could have some different type transactions.
3 A lot of those may be done in in-kind. They may not have
4 involved a sale at all. So my impression is they're a
5 little different animal, I agree, than the interstates.

6 MS. RICE: In our case we have Section 311
7 pipelines. So we have a Statement of Operating Conditions
8 that sets out the cashout. And that's generally when we
9 cashout what is used for all of our shippers. So that's
10 what we looked at, was what was in our Statement of
11 Operating Conditions to determine what type of an index it
12 uses, if they even did that.

13 But as I mentioned, I also looked at OBAs,
14 because those often can have some sort of resolution. And
15 so those are individual and are negotiated, so they did
16 require a contract-by-contract review.

17 MR. POE: And I guess I would comment, too, that
18 the Statement of Operating Conditions under 311 are approved
19 by the Commission and reviewed by the Commission, as well.

20 MR. STERLING: We've been talking a little bit
21 about the cashouts and balancing transactions. This morning
22 we heard a little bit about operational gas, and gas
23 purchased for operational reasons. Do any of you have
24 additional comments regarding the difficulties of reporting
25 transactions involving operational gas?

1 MR. NOVAK: I would say that from the LDC
2 perspective in a lot of cases it's indistinguishable from
3 other purchases. There may be an event, or some sort of
4 activity with your system where you say, okay, we need to
5 purchase a quantity of gas. And it gets thrown into the
6 mix.

7 So it may be fixed price. It may be index-based.
8 But it's not for the purposes of Form 552 as an operational
9 category, it's just one of the transactions.

10 MR. STERLING: So if the Commission were to
11 remove cashouts and balancing transactions, and perhaps in-
12 kind transactions, and leave operational transactions as
13 reportable, from your perspective that wouldn't be
14 burdensome, or more burdensome than the form already is?

15 MR. NOVAK: Probably you could go either way on
16 that. I mean, I don't think it's generally--it would vary
17 by system, but for my company, for example, it's a rate
18 event. So certainly we could report it--it's probably going
19 to be in our gas management system, and report it like other
20 ones.

21 If an LDC has a system where they're buying and
22 selling gas frequently to balance their operations, there
23 may be a different result. I just think in the overall
24 scheme of things it's probably not a material number. So it
25 could go either way on that.

1 MR. STERLING: Actually, as a corollary to that,
2 would it be difficult to cull out transactions that are for
3 operational reasons if we were to exclude them?

4 MR. NOVAK: That might be another way of looking
5 at it, yes.

6 MR. STERLING: Okay. Thank you.

7 MR. JERRY PEDERSON: Do other panelists have a
8 perspective on that issue?

9 MS. RICE: Ours is also all part of the system.
10 Usually it's our gas we purchase we use for operational
11 needs, and then whatever's left after all that happens is
12 what's sold. So it's not a distinguishable volume.

13 MR. JERRY PEDERSON: Questions?

14 MS. WIGGINS: Could I ask one question of you
15 all? Tom, you had mentioned that additional data would be
16 helpful coming forward in the comments. In addition to the
17 types of information that we've presented to you this
18 morning, is there anything else that you would like to have
19 answered when we file follow-up comments?

20 MR. RUSSO: I don't think so. Just if you're
21 making the representation of the--

22 [Microphone turned on.]

23 Sorry. If you're going to be filing information
24 on behalf of the Process Gas Consumers Group, we would
25 prefer that, actually, that we do have a trade association

1 making those types of representations, as opposed to just a
2 few companies, obviously. And the more detail, the better.

3 MR. JERRY PEDERSON: Yes. I think on that, the
4 detail is important. So anything that you can quantify for
5 us, give some support, it will be helpful. I think that's
6 the key there.

7 MR. REICH: And also a description--I mean, where
8 you can describe processes to just kind of give us a flavor
9 of--as opposed to just saying that the burden was this much,
10 saying that to do this we had to do these separate actions.

11 MR. JERRY PEDERSON: And I think some discussion
12 of whether it's a manual process, and if so why that wasn't
13 resolved, or wasn't changed having gone through it the first
14 time. Because, you know, one of the questions would be,
15 well, we've already paid that price. Isn't it now a lot
16 simpler? And if the answer to that is, no, it's not a lot
17 simpler because, for whatever reason, we would want to know
18 that as well. Whether it's cost, or time, or how they do
19 business. I think all of that's important.

20 MS. WIGGINS: Okay. Thank you.

21 MR. JERRY PEDERSON: Any other comments from the
22 panel before we go to our second question, our TBtu
23 question?

24 (No response.)

25 MR. JERRY PEDERSON: Anyone? Staff, questions?

1 (No response.)

2 MR. JERRY PEDERSON: Okay. Thank you. I think
3 that was a very healthy and important discussion on the
4 cashouts and so forth, and we look forward to your comments
5 on that. It is an area that we're looking at very closely.
6 We want to make sure that we get the type of data that we
7 need and that's useful, but at the same time we're not up
8 here asking for data for the sake of getting data. So we're
9 going to look very closely at those issues and at your
10 comments coming in.

11 The other question we have out there is a
12 reporting requirement for TBtus, and the first panel was
13 unanimous on that.

14 MS. WIGGINS: We are, too, right?

15 (Laughter.)

16 MR. JERRY PEDERSON: This could be a quick one.
17 And so do we have the right measurement? And more
18 importantly, is there a sense out there that we should be
19 changing the measurement, or just stay where you're at?

20 MS. RICE: Well since I was on the first panel, I
21 still maintain that it's fine the way it is.

22 MR. JERRY PEDERSON: So you're sticking to your
23 story.

24 MS. RICE: Yes.

25 MR. JERRY PEDERSON: All right.

1 MR. KEREC: From my perspective, the first time I
2 saw the form I was like what's a TBtu, and once I Goggled it
3 I found out that, you know, it was just moving the decimal
4 point over. You know, we work in decatherms or mmBtus all
5 the time, so it's a lot easier for us, from an industrial
6 standpoint, to just use the same unit of measure without
7 having to do a conversion, but it is a simple conversion for
8 us, but we're prefer to keep it in mmBtu if possible.

9 MR. NOVAK: Likewise. I think the main issue is,
10 if this is the level that you're analyzing the market at,
11 then it's the appropriate measure. And if you do make a
12 change, there will probably be a number, another round of
13 conversion errors for some companies, and I would like to
14 think everybody's got the bugs out for this year. So we
15 would likewise not have any problem with keeping things
16 where they are.

17 MR. POE: And, as Katie, you heard my comments
18 earlier, as well. I think we're fine with staying where you
19 are with that.

20 MS. WIGGINS: Well this is a lawyer's
21 perspective, but that probably doesn't count for much in
22 answering this question, but I had never heard of TBtus
23 until I saw this form. I understand it's a matter of moving
24 a decimal point, but from my perspective I'd rather see
25 something that is more commonly used in the industry.

1 MR. REICH: Can I follow up? Just to clarify, if
2 the question isn't TBTus versus mmBTus, but if the question
3 if TBTus versus an equivalent measure such as million
4 decatherms that I think is probably a little more commonly
5 used, does that make--I mean it doesn't make a difference in
6 the numbers; does it make a difference in the understanding
7 of what we're asking?

8 MR. POE: Personally I don't think it makes that
9 much difference. I mean, as the first panel said, it's
10 just what you want to use. I think at this point we've
11 already kind of gotten used to the TBTus, so that'd be all
12 right, too. So I think either way is fine.

13 MR. NOVAK: I agree.

14 MR. JERRY PEDERSON: Other questions, comments?

15 (No response.)

16 MR. JERRY PEDERSON: Okay, just as in the first
17 panel I'm going to open it up and allow the audience to come
18 up and ask questions and make comments, and ask questions of
19 staff or the panel.

20 If there's anyone out there, now would be a good
21 time to come up. You'll need to turn the microphone on.
22 It'll take a few seconds to activate, and be sure to state
23 your name and who you represent.

24 MR. PHELPS: My name is Scott Phelps. I am the
25 Director of Gas Procurement for the Columbia Gas, LDCs, and

1 I'm here representing NISORS, mainly just to talk about,
2 maybe give a little more insight, or feedback, about the on-
3 system LDC cashouts, as well as the cashouts that we
4 experience on our pipeline, on our interstate.

5 I believe the only real cashout on the interstate
6 was related to an OBA with another pipeline, that was very
7 small, related to, by my quick calculations here, about a
8 hundredth of a Tbtu. So it wouldn't have been in the
9 rounding.

10 A little bit different story on the LDCs. We
11 have nine LDCs. At current counting we've got at least 15
12 tariff provisions that relate to indices at some point in
13 those provisions. These are all after-the-fact, month-end
14 type of accounting processes.

15 They're typically related to incentivizing
16 shippers and customers that are on our system to stay inside
17 tariff provisions, or parameters around balancing. Some of
18 these are daily. Some of these are monthly. So a typical
19 tariff would say, you know, we'll sell the gas at 130
20 percent of some index. That's the incentive part of it.
21 Other people might call that a penalty, but that's what it's
22 designed to do.

23 The complicating part of some of this is that not
24 only are there a lot of them, but they're all written
25 differently and they all have sometimes multiple different

1 potential prices such that it might be 130 percent of index,
2 or the higher of the highest price for gas we paid that day,
3 or the WACOG, or the average price of some month, or
4 something like that.

5 So sometimes the people that are actually doing
6 the billing, which is not in the gas trading area of the
7 business, it's over in customer billing, they're looking at
8 which thing fits. It's a different computer system. And
9 then typically what we run into is the system doesn't
10 remember at this time whether it was an index or not. As
11 soon as the index is published and is known, the number is
12 put in.

13 So we have a lot of numbers, but not a label of
14 whether it was an index or not. Those are just some of the,
15 like the manpower issues, the burden of going back into
16 records, we didn't--at the LDC level, last year in the '08
17 report we were tied up in this issue about the retail tariff
18 versus whether it was used in index, and we didn't report
19 those last year. So you asked if we'd developed systems and
20 so forth to handle that. Right now we're looking at how to
21 go back manually and pull out and decide whether it was an
22 index, or a WACOG or what. If it was a WACOG, it would be
23 not reportable. If it was an index that used, the way I
24 understand it now, if it used the index, it would be
25 reportable.

1 So you can kind of use your imagination, and
2 there's a lot of different ways that these are used. We
3 also do things that aren't called cashouts but are similar
4 that we would have to make a decision about, such as in our
5 residential choice programs where we have some storage
6 transfers that take place at the end of years, or at the end
7 of seasons with the marketer on our system. That storage
8 transfer might have 12 index averages, or something like
9 that, to totally pull that marketer out of business for that
10 year and move them into the next year.

11 So there's a number of things, and I just would
12 warn you, or caution that these things are not all called
13 cashouts, and it would lead to another question I think
14 about whether these things that are all in our LDC tariffs,
15 are they reportable or not?

16 So I think--using some rough calculations,
17 looking back at '08, we tried to estimate what this LDC
18 issue was, and compared to our total line one number, it
19 looks like it's in the range of .01 to .02 percent, or .01
20 to .02 tcfs, or TBtus, I'm sorry.

21 (Laughter.)

22 MR. PHELPS: So part of what I'm saying is,
23 there's a lot of manpower coming up to get the July 1 report
24 ready, if that's the decision. In terms of going back into
25 each of these transactions in RCIS or DCIS systems at the

1 LDC billing level, to pull out and decide whether those were
2 indexes, or whether they were some other fixed price outside
3 of the bidding period.

4 MR. JERRY PEDERSON: Thank you, Mr. Phelps.

5 Any questions for him?

6 (No response.)

7 MR. JERRY PEDERSON: Thanks. Anyone else?

8 (No response.)

9 MR. JERRY PEDERSON: Okay, I want to thank the
10 panelists. We got a lot of good information from you. We
11 look forward to your comments. I'm going to close the
12 conference at this point and thank you all for coming. I
13 thank the audience. Have a good day.

14 (Whereupon, at 11:19 a.m., Thursday, March 23,
15 2010, the technical conference was adjourned.)

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