Standards for Business Practices of Interstate Natural Gas Pipelines

(September 18, 2008)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Notice of Proposed Rulemaking.

SUMMARY: The Federal Energy Regulatory Commission is proposing to amend its regulations governing standards for business practices of interstate natural gas pipelines to incorporate by reference the most recent version of the standards, Version 1.8, adopted by the Wholesale Gas Quadrant of the North American Energy Standards Board (NAESB) and to make other minor corrections. These standards can be obtained from NAESB at 1301 Fannin, Suite 2350, Houston, TX 77002, 713-356-0060, http://www.naesb.org.

DATES: Comments are due [insert date 45 days after publication in the FEDERAL REGISTER].

ADDRESSES: You may submit comments, identified by docket number by any of the following methods:
Docket No. RM96-1-029

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• Agency Web Site: http://www.ferc.gov. Documents created electronically using word processing software should be filed in native applications or print-to-PDF format and not in a scanned format.

• Mail/Hand Delivery: Commenters unable to file comments electronically must mail or hand deliver an original and 14 copies of their comments to: Federal Energy Regulatory Commission, Secretary of the Commission, 888 First Street, N.E., Washington, DC 20426.

FOR FURTHER INFORMATION CONTACT:
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SUPPLEMENTARY INFORMATION:
I. **Background**

2. Since 1996, in the Order No. 587 series, the Commission has adopted regulations to standardize the business practices and communication methodologies of interstate pipelines in order to create a more integrated and efficient pipeline grid. In this series of orders, the Commission incorporated by reference consensus standards developed by the WGQ (formerly the Gas Industry Standards Board or GISB), a private consensus

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1 18 CFR 284.12.

standards developer composed of members from all segments of the natural gas industry. The WGQ is an accredited standards organization under the auspices of the American National Standards Institute (ANSI). NAESB’s stated mission is to “take the lead in developing and implementing standards across the industry to simplify and expand electronic communication, and to streamline business practices. The vision of NAESB is a seamless North American marketplace for energy, as recognized by its customers, the business community, industry participants and regulatory bodies.”

3. On September 14, 2007, NAESB submitted a report to the Commission stating that it had adopted a new version of its standards, Version 1.8, dated September 30, 2006. NAESB reports that the Version 1.8 Standards include a new set of standards for “Internet Electronic Transport” that is applicable to the retail gas and electric markets as well as the wholesale gas market, changes to the Electronic Delivery Mechanism (EDM) Related Standards, an additional standard related to reporting on gas quality, and maintenance changes to the Nomination Related Standards and Flowing Gas Related

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4 Some of the standards subsequently were corrected and these minor corrections were applied to the Version 1.8 Capacity Release Related Standards on Dec. 13, 2006.
Standards.\textsuperscript{5} NAESB also reports that the Version 1.8 standards include several standards already adopted by the Commission, including gas-electric coordination standards to support communications between pipelines and gas-fired generators, \textsuperscript{6} gas quality reporting standards to support reporting of gas quality specifications and reporting of the underlying assumptions and methodologies, and business practice standards to support implementation of Order No. 2004 on Standards of Conduct. \textsuperscript{7}

\textsuperscript{5} The NAESB WGQ adopted Internet Electronic Transport Related Standards, Version 1.8, on Sep. 30, 2006. The EDM Standards require pipelines to conduct certain standardized business transactions across the Internet according to certain prescribed protocols. In this NOPR, the Commission proposes to make these standards mandatory for interstate natural gas pipelines. We are not proposing to make these standards mandatory for retail transactions.

\textsuperscript{6} Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities, Order No. 698, 72 FR 38,757 (July 16, 2007), FERC Stats. & Regs., Regulations Preambles \textsuperscript{¶} 31,251 (June 25, 2007); Order No. 698-A, order granting clarification and denying reh’g, 121 FERC \textsuperscript{¶} 61,264 (2007).

II. Discussion

4. The Commission proposes to incorporate by reference in its regulations Version 1.8 of the NAESB WGQ's consensus standards,\(^8\) with two exceptions.\(^9\) Adoption of Version 1.8 will continue the process of updating and improving NAESB’s business practice standards for the wholesale gas market. The new Internet Electronic Transport Related Standards will help create a more seamless electronic marketplace by providing consistent electronic protocols across the wholesale gas, as well as the retail gas and retail electric markets. The standards also include a new standard for gas quality reporting.

\(^8\) In its Version 1.8 Standards, the WEQ made the following changes to its Version 1.7 standards:

- It revised Principles 1.1.9, 4.1.2, 4.1.6, and 4.1.7, Definitions 2.2.4, 4.2.1, 4.2.11, 4.2.12, 4.2.13, and 4.2.20, Standards 1.3.54, 1.3.60, 1.3.61, 1.3.63, 2.3.21, 2.3.35, 2.3.51, 4.3.1, 4.3.2, 4.3.5, 4.3.16, 4.3.18, 4.3.22, 4.3.23, and 4.3.25, and Datasets 1.4.1 through 1.4.7, 2.4.1 through 2.4.4, 2.4.7, 2.4.8, 3.4.1, 5.4.1 through 5.4.7 through 5.4.11, 5.4.13, 5.4.14, 5.4.15, and 5.4.18 through 5.4.22.

- It added Principles 0.1.3, 4.1.40, and 10.1.1 through 10.1.9, Definitions 0.2.1, 0.2.2, 0.2.3, and 10.2.1 through 10.2.38, Standards 0.3.11 through 0.3.15, 2.3.65, 4.3.89 through 4.3.93, and 10.3.1 through 10.3.25, and Data Sets 0.4.1, 2.4.17, 2.4.18, and 5.4.23.

- It deleted Principles 4.1.9 and 4.1.25, and Standards 4.3.6, 4.3.19, 4.3.21, and 4.3.63.

- It deleted the following standards from the EDM Related Standards and moved them to the Internet Electronic Transport Related Standards: Standards 4.3.7 through 4.3.15, 4.3.37, 4.3.64, 4.3.70, 4.3.71, and 4.3.88.

\(^9\) The Commission is continuing its past practice and is not proposing to incorporate by reference Standards 4.3.4 and 10.3.2, because they are inconsistent with the Commission’s record retention requirement in 18 CFR 284.12(b)(3)(v).
(Standard 4.3.93) that will provide the industry with important information about how pipelines determine gas quality. Standard 4.3.93 requires that the pipelines post on their web sites specific information on how the pipelines determine gas quality, including the industry standard (or other methodology, as applicable) that the pipeline uses for the following: procedures used for obtaining natural gas samples, analytical test method(s), and calculation method(s), in conjunction with any physical constant(s) and underlying assumption(s). The revisions to the Nomination Related Standards and Flowing Gas Related Standards are designed to ensure that these standards reflect current market practices.\(^{10}\)

5. The NAESB WGQ approved the Version 1.8 Standards under NAESB's consensus procedures.\(^{11}\) As the Commission found in Order No. 587, adoption of consensus standards is appropriate because the consensus process helps ensure the reasonableness of the standards by requiring that the standards draw support from a broad spectrum of industry participants representing all segments of the industry. Moreover, since the industry itself has to conduct business under these standards, the Commission's

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\(^{10}\) In addition, the Commission proposes to amend § 284.12(b) to make two minor corrections. First, we propose to correct the reference to the “Gas Industry Standards Board” to refer to the “North American Energy Standards Board Wholesale Gas Quadrant.” Second, we propose to correct the reference to the paragraph incorporating the NAESB standards by reference from paragraph (b)(1) to paragraph (a)(1).

\(^{11}\) This process first requires a super-majority vote of 17 out of 25 members of the WGQ's Executive Committee with support from at least two members from each of the five industry segments – Distributors, End Users, Pipelines, Producers, and Services (including marketers and computer service providers). For final approval, 67 percent of the WGQ's general membership voting must ratify the standards.
regulations should reflect those standards that have the widest possible support. In section 12(d) of the National Technology Transfer and Advancement Act of 1995 (NTT&AA), Congress affirmatively requires federal agencies to use technical standards developed by voluntary consensus standards organizations, like NAESB, as means to carry out policy objectives or activities.\(^{12}\)

6. The Commission proposes that natural gas pipelines be required to implement the Version 1.8 Standards on the first day of the month three months after a final rule is issued. Based on past practice, we are proposing this implementation schedule in order to give the natural gas pipelines subject to these standards adequate time to prepare for these changes. In addition, the Commission proposes that pipelines be required to file tariff sheets to reflect the changed standards two months before the implementation date.

7. In Order No. 712,\(^{13}\) the Commission recently revised various aspects of the Commission’s capacity release standards, revisions which bear upon the current NAESB standards in Version 1.8. We appreciate NAESB’s quick action in already starting the process of revising its standards.\(^{14}\) Creating standardized procedures applicable to asset manager agreements (AMAs), releases related to state retail unbundling initiatives, and

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\(^{13}\) Promotion of a More Efficient Capacity Release Market, Order No. 712, 73 FR 37058 (June 30, 2008), FERC Stats. & Regs., Regulations Preambles ¶ 31,271 (June 19, 2008).

the other changes adopted in that rule will help to make conducting and reporting these processes more efficient. Order No. 712 requires that the pipelines add additional information to their Internet websites. As part of NAESB’s reexamination of its posting standard (Standard 5.4.20), NAESB should seek to make sure that its revisions result in a consistent system of reporting capacity release information relative to capacity recall conditions, AMAs, state unbundling releases, storage, and other categories of releases, so that the Commission and the public easily will be able to identify the releases in each category and any terms and conditions applicable to those releases.\(^\text{15}\)

### III. Notice of Use of Voluntary Consensus Standards

8. Office of Management and Budget Circular A-119 (section 11) (February 10, 1998) provides that federal agencies should publish a request for comment in a NOPR when the agency is seeking to issue or revise a regulation proposing to adopt a voluntary consensus standard or a government-unique standard. In this NOPR, the Commission is proposing to incorporate by reference voluntary consensus standards developed by the WGQ.

### IV. Information Collection Statement

9. The following collections of information contained in this proposed rule have been submitted to the Office of Management and Budget (OMB) for review under section

\(^{15}\) The current standard, for example, does not separately require a specific posting of whether capacity is subject to recall, apparently leaving this information to be included in Special Terms and Miscellaneous Notes. Given the additional types of information that must now be posted, NAESB needs to consider whether including all this information in Special Terms and Miscellaneous Notes is still appropriate.
3507(d) of the Paperwork Reduction Act of 1995, 44 U.S.C. 3507(d). The Commission solicits comments on the Commission's need for this information, whether the information will have practical utility, the accuracy of the provided burden estimates, ways to enhance the quality, utility, and clarity of the information to be collected, and any suggested methods for minimizing respondents' burden, including the use of automated information techniques. The “public protection” provisions of the Paperwork Reduction Act of 1995 require each agency to display a currently valid control number and inform respondents that a response is not required unless the information collection displays a valid OMB control number on each information collection or provides a justification as to why the information collection number cannot be displayed. In the case of information collections published in regulations, the control number is to be published in the Federal Register. The following burden estimate includes the costs to implement the Version 1.8 Standards, which incorporate the most recent and up-to-date standards governing business practices of and electronic communication with interstate natural gas pipelines. The burden estimates are primarily related to start-up to implement the latest version of the standards and will not result in on-going costs.

<table>
<thead>
<tr>
<th>Data Collection</th>
<th>No. of Respondents</th>
<th>No. of Responses Per Respondent</th>
<th>Hours Per Response</th>
<th>Total No. of Hours</th>
</tr>
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<tbody>
<tr>
<td>FERC-545&lt;sup&gt;16&lt;/sup&gt;</td>
<td>168</td>
<td>1</td>
<td>10</td>
<td>1,680</td>
</tr>
<tr>
<td>FERC-549C&lt;sup&gt;17&lt;/sup&gt;</td>
<td>126</td>
<td>1</td>
<td>1,181</td>
<td>148,806</td>
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<sup>16</sup> Data collection FERC-545 covers rate change filings made by natural gas pipelines, including tariff changes. (OMB Control No. 1902-0154)

<sup>17</sup> Data collection FERC-549C covers Standards for Business Practices of Interstate Natural Gas Pipelines. (OMB Control No. 1902-0174)
Total Annual Hours for Collection  
(Reporting and Recordkeeping, (if appropriate)) = 150,486

10. Information Collection Costs: The Commission seeks comments on the costs to comply with these requirements. It has projected the average annualized cost for all respondents to be the following:

<table>
<thead>
<tr>
<th></th>
<th>FERC-545</th>
<th>FERC-549C</th>
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<tbody>
<tr>
<td>Annualized Capital/Startup Costs</td>
<td>$211,680</td>
<td>$12,743,010</td>
</tr>
<tr>
<td>Annualized Costs (Operations &amp; Maintenance)</td>
<td>$0</td>
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<tr>
<td>Total Annualized Costs</td>
<td>$211,680</td>
<td>$12,743,010</td>
</tr>
<tr>
<td>Total Cost for all Respondents</td>
<td>$12,954,690</td>
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11. OMB regulations\(^{18}\) require OMB to approve certain information collection requirements imposed by agency rule. The Commission is submitting notification of this proposed rule to OMB.

**Title:** FERC-545, Gas Pipeline Rates: Rates Change (Non-Formal); FERC-549C, Standards for Business Practices of Interstate Natural Gas Pipelines.

**Action:** Proposed collections.

**OMB Control Nos.:** 1902-0154, 1902-0174.

**Respondents:** Business or other for profit, (Interstate natural gas pipelines (Not applicable to small business)).

**Frequency of Responses:** One-time implementation (business procedures, capital/start-up).

\(^{18}\)5 CFR 1320.11.
Necessity of Information: This proposed rule, if implemented, would upgrade the Commission's current business practice and communication standards to the latest edition approved by the NAESB WGQ (i.e., the Version 1.8 Standards). The implementation of these standards is necessary to increase the efficiency of the pipeline grid, make pipelines’ electronic communications more secure, and is consistent with the mandate that agencies provide for electronic disclosure of information. Requiring such information ensures both a common means of communication and common business practices that provide participants engaged in transactions with interstate pipelines with timely information and uniform business procedures across multiple pipelines.

12. The information collection requirements of this proposed rule will be reported directly to the industry users. The implementation of these data requirements will help the Commission carry out its responsibilities under the Natural Gas Act to monitor activities of the natural gas industry to ensure its competitiveness and to assure the improved efficiency of the industry's operations. The Commission's Office of Energy Market Regulation will use the data in rate proceedings to review rate and tariff changes by natural gas companies for the transportation of gas, for general industry oversight, and to supplement the documentation used during the Commission's audit process.

13. Internal Review: The Commission has reviewed the requirements pertaining to business practices and electronic communication with interstate natural gas pipelines and made a determination that the proposed revisions are necessary to establish a more

efficient and integrated pipeline grid. These requirements conform to the Commission's plan for efficient information collection, communication, and management within the natural gas industry. The Commission has assured itself, by means of its internal review, that there is specific, objective support for the burden estimates associated with the information requirements.

14. Interested persons may obtain information on the reporting requirements by contacting the following:

Federal Energy Regulatory Commission,
888 First Street, N.E.
Washington, DC 20426
[Attention: Michael Miller, Office of the Executive Director,
Phone: (202)502-8415, fax: (202)273-0873
e-mail: michael.miller@ferc.gov]

15. Comments concerning the collection of information(s) and the associated burden estimate(s), should be sent to the contact listed above and to the Office of Management and Budget, Office of Information and Regulatory Affairs, Washington, DC 20503 [Attention: Desk Officer for the Federal Energy Regulatory Commission, phone: (202)395-7345, fax: (202)395-7285].

V. **Environmental Analysis**

16. The Commission is required to prepare an Environmental Assessment or an Environmental Impact Statement for any action that may have a significant adverse effect on the human environment.\(^{20}\) The Commission has categorically excluded certain

\(^{20}\)Order No. 486, Regulations Implementing the National Environmental Policy Act of 1969, 52 FR 47,897 (Dec. 17, 1987), FERC Stats. & Regs., Regulations Preambles (continued)
actions from these requirements as not having a significant effect on the human environment. \(^{21}\) The actions proposed here fall within categorical exclusions in the Commission's regulations for rules that are clarifying, corrective, or procedural, for information gathering, analysis, and dissemination, and for sales, exchange, and transportation of natural gas that requires no construction of facilities. \(^{22}\) Therefore, an environmental assessment is unnecessary and has not been prepared as part of this NOPR.

VI. **Regulatory Flexibility Act Certification**

17. The Regulatory Flexibility Act of 1980 (RFA) \(^{23}\) generally requires a description and analysis of final rules that will have significant economic impact on a substantial number of small entities. In drafting a rule an agency is required to: (1) assess the effect that its regulation will have on small entities; (2) analyze effective alternatives that may minimize a regulation’s impact; and (3) make the analysis available for public comment. \(^{24}\) In its NOPR, the agency must either include an initial regulatory flexibility

\(^{21}\) 18 CFR 380.4.


analysis (Initial RFA)\textsuperscript{25} or certify that the proposed rule will not have a “significant impact on a substantial number of small entities.”\textsuperscript{26}

18. The regulations proposed here impose requirements only on interstate pipelines, the majority of which are not small businesses. In this regard, we note that, under the industry standards used for the RFA, a natural gas pipeline company qualifies as a “small entity” if it had annual receipts of $6.5 million or less.\textsuperscript{27} Most companies regulated by the Commission do not fall within the RFA’s definition of a small entity. Approximately 168 entities would be potential respondents subject to data collection FERC-545 reporting requirements; of those, about 126 natural gas companies (including storage) would also be subject to data collection FERC 549-C reporting requirements. Nearly all of these entities are large entities. For the year 2007 (the most recent year for which information is available), only four companies not affiliated with larger companies had annual revenues of less than $6.5 million, which is about three percent of the total universe of potential respondents. Moreover, these requirements are designed to benefit all customers, including small businesses. As noted above, adoption of consensus

\textsuperscript{25} 5 U.S.C. 603(a).

\textsuperscript{26} 5 U.S.C. 605(b).

\textsuperscript{27} 5 U.S.C. §601(3), \textit{citing} section 3 of the Small Business Act, 15 U.S.C. § 623. Section 3 of the SBA defines a “small business concern” as a business which is independently owned and operated and which is not dominant in its field of operation. The Small Business Size Standards component of the North American Industry Classification System (NAICS) defines a small natural gas pipeline company as one that transports natural gas and whose annual receipts (total income plus cost of goods sold) did not exceed $6.5 million for the previous year.
standards helps ensure the reasonable of the standards by requiring that the standards draw support from a broad spectrum of industry participants representing all segments of the industry. Because of that representation and the fact that industry conducts business under these standards, the Commission’s regulations should reflect those standards that have the widest possible support.

19. Accordingly, pursuant to § 605(b) of the RFA, the Commission hereby certifies that the regulations proposed herein will not have a significant adverse impact on a substantial number of small entities.

VII. Comment Procedures

20. The Commission invites interested persons to submit written comments on the matters and issues proposed for incorporation by reference in this NOPR, including any related matters or alternative proposals that commenters may wish to discuss. Comments are due [insert date 45 days from publication in the FEDERAL REGISTER]. Comments must refer to Docket No. RM96-1-029, and must include the commenter’s name, the organization they represent, if applicable, and their address. Comments may be filed either in electronic or paper format.

21. Comments may be filed electronically via the eFiling link on the Commission's web site at http://www.ferc.gov. The Commission accepts most standard word processing formats and commenters may attach additional files with supporting information in certain other file formats. Commenters filing electronically do not need to make a paper filing. Commenters that are not able to file comments electronically must send an original and 14 copies of their comments to: Federal Energy Regulatory
Commission, Secretary of the Commission, 888 First Street, N.E., Washington, DC 20426. For paper filings, the original and 14 copies of such comments should be submitted to the Secretary of the Commission, Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, DC 20426.

22. All comments will be placed in the Commission's public files and may be viewed, printed, or downloaded remotely, as described in the Document Availability section below. Commenters on this proposal are not required to serve copies of their comments on other commenters.

VIII. Document Availability

23. In addition to publishing the full text of this document in the Federal Register, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through FERC's Home Page (http://www.ferc.gov) and in FERC's Public Reference Room during normal business hours (8:30 a.m. to 5:00 p.m. Eastern time) at 888 First Street, N.E., Room 2A, Washington, DC 20426.

24. From FERC's Home Page on the Internet, this information is available in eLibrary. The full text of this document is available in eLibrary both in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in eLibrary, type the docket number, excluding the last three digits of this document in the docket number field.

25. User assistance is available for eLibrary and the FERC’s website during the Commission’s normal business hours. For assistance, contact FERC Online Support by
List of subjects in 18 CFR part 284
Continental shelf, Incorporation by reference, Natural gas, Reporting and recordkeeping requirements.

By direction of the Commission.

Kimberly D. Bose,
Secretary.
In consideration of the foregoing, the Commission proposes to amend part 284, Chapter I, Title 18, Code of Federal Regulations, as follows:

Part 284 -- Certain Sales and Transportation of Natural Gas under the Natural Gas Policy Act of 1978 and Related Authorities

1. The authority citation for part 284 continues to read as follows:


2. Section 284.12 is amended by revising paragraphs (a)(1)(i) through (vi), adding paragraph (a)(1)(vii), and revising the introductory text of paragraph (b) to read as follows:

   (a) * * * *

   (1) * * * *

   (i) Additional Standards (General Standards, Creditworthiness Standards, and Gas/Electric Operational Communications Standards) (Version 1.8, September 30, 2006);

      (ii) Nominations Related Standards (Version 1.8, September 30, 2006);

      (iii) Flowing Gas Related Standards (Version 1.8, September 30, 2006);

      (iv) Invoicing Related Standards (Version 1.8, September 30, 2006);

      (v) Quadrant Electronic Delivery Mechanism Related Standards (Version 1.8, September 30, 2006) with the exception of Standard 4.3.4;

      (vi) Capacity Release Related Standards (Version 1.8, September 30, 2006 (with minor corrections applied December 13, 2006); and

      (vii) Internet Electronic Transport Related Standards (Version 1.8, September 30, 2006) with the exception of Standard 10.3.2.
(b) Business practices and electronic communication requirements. An interstate pipeline that transports gas under subparts B or G of this part must comply with the following requirements. The regulations in this paragraph adopt the abbreviations and definitions contained in the North American Energy Standards Board Wholesale Gas Quadrant standards incorporated by reference in paragraph (a)(1) of this section.