REGULATION OF TRANSMISSION TARIFFS

NARUC Energy Regulatory Partnership Program
The Public Services Regulatory Commission of Armenia
and The Iowa Utilities Board

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NATURAL GAS TRANSMISSION TARIFFS

- All aspects of natural gas industry were regulated at one point.
- This included:
  - Production
  - Gathering
  - Transmission
  - Storage
  - Distribution

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EARLY REGULATION

- Regulation dates back to the beginning of the natural gas industry, the mid-1800s.
- Natural gas was predominantly manufactured from coal and delivered locally within cities.
- Cities considered the natural gas distribution as a natural monopoly and regulated rates to prevent abuse of market power.
- See continuing effects of the early industry in litigation over who should pay for the environmental cleanup of former manufactured gas plant sites.

NATURAL GAS INDUSTRY DEVELOPMENT

- Early 1900s, natural gas was being transported between cities.
- This began the intrastate pipeline system.
- Cities could no longer regulate all aspects of the industry.
- State governments intervened to regulate the new intrastate market.
- Early public service commissions were legislated to regulate the industry.

FEDERAL REGULATION

- Interstate transmission pipelines were developed.
- U. S. Supreme Court said states could not regulate interstate commerce.
- 1935, U.S. Congress passed public utility holding company act to limit the power of holding companies over the natural gas market.
- Did not cover regulation of interstate sales of natural gas.

Federal Regulation cont …

- 1938, Congress passed the Natural Gas Act (NGA) that brought federal oversight of interstate natural gas.
- NGA gave Federal Power Commission (FPC) jurisdiction over interstate natural gas sales.
- FPC had authority over rates and some certification of pipelines.
- FPC held that new pipelines could not compete in areas served by existing pipelines.
- NGA regulated rates for delivery of natural gas but not wellhead prices.

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Federal Regulation cont …

- 1954, U.S. Supreme Court ruled that natural gas producers that sold gas into interstate pipelines were subject to the NGA.
- This meant that the FPC could regulate wellhead prices.
- FPC used cost-of-service model for ratemaking. Looked at cost of providing service rather than market value.
- This method worked for few interstate pipelines but was unworkable for large number of natural gas producers.
- Wellhead cost-of-service regulation seen by some as cause of 1970s natural gas shortages.

Federal Regulation cont …

- 1978, Congress passed Natural Gas Policy Act (NGPA). Revised regulation of natural gas industry.
- Set maximum lawful prices for natural gas.
- Established the Federal Energy Regulatory Commission (FERC).
- Created national natural gas market, equalized demand, and allowed market to set wellhead prices.

Federal Regulation cont …

- FERC give authority over interstate transportation of natural gas on behalf of intrastate pipelines and local distribution companies.

- NGPA resulted in long term contracts for natural gas, expanded production, average wellhead prices rose based upon market forces, prices for end-users went up, and price increases reduced demand.

FERC ORDER 436

- 1985, FERC established a voluntary regulatory framework so interstate pipelines could operate solely as transporters, eliminating sales requirement.
- Maximum and minimum rates were set by FERC.
- Major pipelines voluntarily chose to offer this service.
- Caused significant litigation when spot market prices were below the long-term contract prices.
- Bundled service no longer primary business of interstate pipelines.
- Customer has choice of transportation and source of supply (open access).

FERC ORDER 636

- Wellhead prices were completely deregulated in 1989.
- FERC issued Order 636 in 1992.
- This completed unbundling of interstate pipeline service, which made unbundling a requirement rather than voluntary.
- Interstate pipelines could no longer engage in merchant sales.
- Required affiliates to operate at arms-length.
- Required institution by interstate pipelines of services that included: no-notice transportation service, access to storage facilities, flexibility in receipt and delivery points, capacity release programs, and required electronic bulletin boards accessible to all customers on an equal basis.

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FERC RATE SETTING

- Regulation of pipeline, storage, and liquefied natural gas facility construction.
- Regulation of natural gas transportation in interstate commerce.
- Issuance of certificates of public convenience and necessity to prospective companies providing energy services or constructing and operating interstate pipelines and storage facilities.
- Regulation of facility abandonment.
- Establishment of rates for services.
- Regulation of the transportation of natural gas as authorized by the NGPA and the OCSLA (Outer Continental Shelf Lands Act).
- Oversight of the construction and operation of pipeline facilities at U.S. points of entry for the import or export of natural gas.

FERC

- Interstate pipeline files a general rate case similar to those filed by LDCs with the Board.
- Tariffs are suspended and set for hearing before an Administrative Law Judge.
- Rate cases usually have multiple intervenors and last over a year, sometimes longer.
- FERC staff is an active participant in rate cases, filing testimony, cross-examining witnesses, and leading settlement discussions.
- Interested parties, customers and state commissions intervene.
- Prefiled testimony and exhibits filed and then hearing is for cross-examination of witnesses.
- FERC allows the rates to go into effect subject to refund.

EXAMPLE TARIFF

- Each interstate pipeline files separate tariff that includes all of the services offered.
- The services are called by different names; however, the service offered is basically the same.
- We will look at the services offered by Northern Natural Gas Company (Northern).

FIRM THROUGHPUT SERVICES

- Firm throughput services (TF) conditions.
- Northern determines if capacity exists.
- Shipper executed TF agreement.
- This is firm service and so is guaranteed to be available.
- Shipper can also purchase no-notice service.

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TFX SERVICE

TFX, firm throughput service conditions same as TF service.

LIMITED FIRM THROUGHPUT SERVICE

LFT, limited firm throughput service conditions:

- Available year round
- Northern determines if unsubscribed capacity available
- Shipper executed agreement

FIRM THROUGHPUT SERVICE

GS-T, firm throughput service conditions executed firm GS-T agreement, must utilize GS-T service to designated TBS (town border station) delivery point(s), must be fully utilitized prior to any TI services of shipper.

INTERRUPTIBLE THROUGHPUT SERVICE

TI, interruptible throughput service conditions: executed an interruptible service agreement, transportation is on an interruptible basis (i.e., Northern has right to interrupt service if there is insufficient capacity, if the available capacity is reduced by a "force majeure," or for operational considerations as determined by Northern).

FIRM DEFERRED DELIVERY SERVICE

FDD, firm deferred delivery service conditions: available subject to availability of deferred delivery, or storage capacity and executed agreement

PREFERRED DEFERRED DELIVERY SERVICE

PDD, preferred deferred delivery service conditions: available on a not unduly discriminatory basis, subject to availability of service, specific receipt and delivery terms and months, as the sole discretion of Northern, PDD service is interruptible.

INTERRUPTIBLE DEFERRED DELIVERY SERVICE

IDD, interruptible deferred delivery service conditions: executed agreement, is available year round, availability posted on Web site, volumes may be held in account by Northern subject to terms of Northern's tariff.

SYSTEM MANAGEMENT SERVICE

SMS, system management service conditions: executed agreement, is a companion to TF service, is delivery point service providing no-notice firm delivery above or below the shipper’s daily scheduled amount under TF agreement.

QUESTIONS?

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