

# FERC Issues Policy Statement on Natural Gas Quality & Interchangeability and Rejects Claim that LNG Caused Leaks

June 19, 2006

At its June 15<sup>th</sup> meeting, the Federal Energy Regulatory Commission (Commission) issued a policy statement on natural gas quality and interchangeability. Rejecting a call to set nationwide standards, the Commission adopted a case-by-case approach in which gas quality and interchangeability issues will be resolved primarily among individual pipelines and their respective customers, which include shippers, local distribution companies, LNG terminal operators, and producers. Citing several of the principles announced in the Policy Statement, the Commission also resolved a contentious gas quality dispute between Washington Gas Light (WGL) and Dominion Cove Point by rejecting WGL's claim that re-vaporized LNG originating from the Cove Point LNG import terminal is responsible for a rash of leaks on WGL's local distribution system.

## Commission Policy

The Commission addressed what it characterized as an escalation of gas quality disputes in two concurrently issued orders. First, the Commission rejected the Natural Gas Supply Association's (NGSA) Petition for Rulemaking to establish nationwide gas quality and interchangeability standards. The Commission cited an absence of support for setting nationwide standards, the lack of consensus on what such standards should be, and the NGSA's failure to support its proposed standards. Second, the Commission adopted a new policy for addressing gas quality and interchangeability issues between pipelines and their customers, which embodies the following five principles:

1. The Commission will only enforce gas quality and interchangeability standards stated in an individual pipeline's Commission-approved tariff.
2. Pipeline tariff provisions addressing gas quality and interchangeability must be flexible. The provisions must not only allow pipelines to balance safety and reliability concerns, but they must also maximize the gas supply available to flow on each system. Moreover, the specifications in the tariff provisions must recognize the evolving nature of the underlying science behind gas quality and interchangeability.
3. Pipelines and their customers should develop gas quality specifications based on sound engineering, scientific, and technical requirements. The Commission stressed its preference that gas quality issues be resolved among pipelines and their customers outside of formal Commission proceedings.
4. In negotiating gas quality and interchangeability specifications, pipelines and their customers are strongly encouraged to use as a common reference point the industry consensus guidelines contained in two white papers prepared by the Natural Gas Council Plus (NGC+). These papers address hydrocarbon liquid dropout and gas interchangeability.
5. To the extent that pipelines and their customers cannot resolve gas quality and interchangeability disputes, the parties may bring the matters before the Commission for resolution on a case-by-case basis, upon a record of fact and technical review. The Commission stated that it will give "significant weight" to the NGC+ guidelines.

## Washington Gas Light Protest

At the same meeting, the Commission also approved three new LNG import terminals and the expansion of two existing terminals, for a total increase in U.S. LNG capacity of 8.2 to 9.7 Bcf/d. In its order approving Dominion Cove Point's application to expand its facility, the Commission rejected WGL's claim

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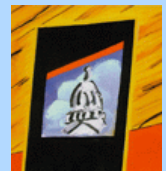
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that the composition of gas originating from the LNG terminal was responsible for the approximately 1,400 leaks on WGL's local distribution system in Prince George's County, Maryland. WGL had requested that the Commission postpone approval of the expansion until its allegations were resolved. Rejecting this claim and citing the Policy Statement, the Commission found, instead, that certain WGL installation and operating practices were the principal cause of the spate of leaks on WGL's system.

### **For Further Information**

Van Ness Feldman regularly represents developers and operators of interstate natural gas pipelines and LNG terminals before the Federal Energy Regulatory Commission, the Department of Transportation, and the U.S. Courts of Appeals. Additionally, the firm has successfully represented clients in gas quality disputes. To learn more about Van Ness Feldman's capabilities, please contact Julie Richardson or any member of the firm's Natural Gas or LNG practice groups at (202) 298-1800, or visit [www.vnf.com](http://www.vnf.com).

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