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# FEDERAL ENERGY REGULATORY COMMISSION



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## NEWS RELEASE

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**FOR IMMEDIATE RELEASE**  
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### **COMMISSION POLICY STATEMENT TO PROVIDE GUIDANCE IN THE EVALUATION OF PIPELINE SHIPPERS' CREDITWORTHINESS**

The Federal Energy Regulatory Commission today approved a policy statement detailing its approach to credit issues for interstate natural gas pipelines and providing guidance on how it will evaluate creditworthiness provisions in future tariff proceedings.

Creditworthiness issues arose in 2002 as pipeline companies in tariff filings said they were forced to address their risk profile and credit exposure due to credit rating downgrades for many of their customers. The pipeline companies argued that tariff revisions were necessary to strengthen creditworthiness provisions and minimize risk to the pipeline and its shippers in the event a shipper defaults on its obligations.

After issuing a number of orders on these tariff proposals, the Commission explored whether a generic approach to these issues would be appropriate. On May 9, 2005, the Commission issued a final rule that adopted, by reference, 10 standards developed voluntarily, at the Commission's request, by the Wholesale Gas Quadrant of the North American Energy Standards Boards (NAESB) (Docket No. RM96-1-026). The standards establish, among other things, procedures for requesting additional information for credit evaluation, acknowledgement and responses to requests and receipt of information, notice regarding creditworthiness, and notice regarding contract termination due to credit-related issues.

Today's policy statement addresses other issues for which NAESB consensus was unavailable. The Commission decided to issue a policy statement upon finding that with the decline in pipeline creditworthiness filings, changed economic circumstances, and the adoption of the NAESB standards, a rulemaking was not necessary at this time. The policy statement brings together the policies articulated in recent creditworthiness cases decided by the Commission.

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The Commission's policy states that pipelines must establish and use objective criteria for determining a shipper's creditworthiness and endorsed the establishment of a uniform set of 15 documents that shippers would be required to provide pipelines to help them make these assessments. These documents include audited financial statements; annual reports; list of affiliates, parent companies and subsidiaries; private credit ratings, if obtained by the shipper; bank references; and trade references.

The policy would allow pipelines to require more information from shippers if the pipelines justify why the additional data is needed. The policy statement encourages pipelines to take into account a shipper's individual circumstances and business relationships in making decisions on a shipper's creditworthiness. The policy statement urges pipelines to provide prompt notification of their determinations that the shipper is not creditworthy so that the shipper can evaluate and challenge the determination.

The Commission also outlined its policies on collateral relating to shippers on existing facilities, new mainline construction, and construction of lateral facilities. For current shippers on existing facilities, the Commission reiterated its traditional policy of permitting no more than the equivalent of three months of reservation charges as collateral. This amount reasonably balances the shippers' right to continued service with a pipeline and the pipeline's default risk.

The Commission stated it will consider on a case-by-case basis any pipeline proposal that would take into account a shipper's credit status in determining whether more than three months collateral can be required when shippers are bidding for available capacity on the pipeline's existing system.

For new mainline construction, the Commission will continue its policy of permitting larger collateral requirements that reasonably reflect the risk of the project, particularly the risk to the pipeline of remarketing the capacity should the initial shipper default for construction projects. For lateral line construction, the Commission's policy will allow pipelines to require collateral up to the full cost of the project.