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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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Docket Nos. PL04-3 & RM06-17

### COMMISSION ADOPTS POLICY STATEMENT ON NATURAL GAS QUALITY AND INTERCHANGEABILITY

The Federal Energy Regulatory Commission today adopted a generic policy statement on natural gas quality and interchangeability that delineates five principles the Commission will use as it continues to address disputes over gas quality and interchangeability on a case-by-case basis. At the same, the Commission denied a petition for a rulemaking on the issue.

“This policy statement should limit disputes over gas quality and interchangeability, which have been on the increase due to economic decisions about processing gas and the nation’s increasing need to develop liquefied natural gas import capacity,” said Commission Chairman Joseph T. Kelliher. “The good level of consensus reached by industry on these issues helped put the Commission in the position where it could act today.”

Natural gas is principally methane, but its exact composition will differ depending on its geological point of origin. In addition to methane, natural gas can contain liquid hydrocarbons and non-hydrocarbon compounds affecting the quality of the gas, which can have an impact on pipeline operations and the gas-burning equipment of end-use customers. Given these variations in gas quality, interchangeability becomes an issue when a substitute gas replaces the gas normally burned by an end-use customer.

“The Commission has seen interest in natural gas quality and interchangeability issues escalate for several years, and these issues have come before the Commission in complaints, proposed tariff provisions and certificate proceedings,” the Commission noted in the policy statement.

“Although each case involves unique circumstances, collectively these cases reveal a growing tension between the desire of natural gas pipelines and distributors to ensure the quality of gas entering their facilities, and the desire of producers and shippers to have their product transported without onerous or unduly discriminatory processing requirements,” the Commission said in the policy statement.

“Another recurring theme is the desire of end-use customers to receive gas that will not harm their gas-fueled equipment nor cause inefficient operations,” the Commission noted in the policy statement.

Chairman Kelliher observed: “Our policy statement reflects two clear goals. First, we must meet the essential needs of consumers by accommodating the greatest economic mix of gas supply with minimum barriers to new supply sources. Second, we must assure the safe and reliable operation of interstate natural gas pipelines. Our approach must be consistent with both of these policy goals.”

The policy statement relies on extensive input from the Natural Gas Council, representatives of end-users, appliance manufacturers, turbine manufacturers, local distribution companies, process gas users, gas processors, natural gas producers and pipelines, Commission technical conferences, various industry reports and comments filed for Commission consideration.

The following five principles are delineated in the policy statement:

- (1) Only natural gas quality and interchangeability specifications contained in a Commission-approved gas tariff can be enforced;
- (2) Pipeline tariff provisions on gas quality and interchangeability need to be flexible to allow pipelines to balance safety and reliability concerns with the importance of maximizing supply, as well as recognizing the evolving nature of the science of underlying gas quality and interchangeability specifications;
- (3) Pipelines and their customers should develop gas quality and interchangeability specifications based on technical requirements;
- (4) In negotiating technically based solutions, pipelines and their customers are strongly encouraged to use the Natural Gas Council Plus (NGC+) interim guidelines filed with the Commission February 28, 2005, as a common reference point for resolving gas quality and interchangeability issues; and
- (5) To the extent pipelines and their customers cannot resolve disputes over gas quality and interchangeability, those disputes can be brought before the Commission on a case-by-case basis to be resolved based on a record of fact and technical review.

The Commission noted that several different indices have been developed to characterize the quality and interchangeability of different natural gases, with each having limits to the predictive value of its application. “The importance of measuring interchangeability, regardless of the index used, is that it provides a predictive correlation between the specific measurable physical characteristics of natural gas and burner tip performance,” the Commission said.

In a separate order today, the Commission denied a petition for a rulemaking addressing natural gas quality and interchangeability, filed by the Natural Gas Supply Association (NGSA) on May 16, 2005. Comments received in response to NGSA's filing "provided little support" for the rulemaking petition, the Commission noted.

"The Commission has evaluated the substantial comments received in this docket, including comments on the technical conferences, the reports and the NGSA Petition," the Commission said. "On balance, the Commission finds that adoption of a prescriptive rule is not appropriate at this time. Rather, the Commission has decided that the best approach at the present time is to proceed case-by-case, with the Commission's action in dealing with gas quality and interchangeability issues informed by a statement of policy on these issues."

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