



To: NAESB@naesb.org, NAESB Triage Subcommittee, and NAESB Executive Committee (“EC”) Members

From: The American Gas Association (“AGA”) and the American Public Gas Association (“APGA”)

Date: September 6, 2016

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Re: NAESB Triage Action Pending for Request No. R-16009 and related attachments 1-4

Request No. R-16009 seeks a uniform and transparent industry-wide standard for calculating lost and unaccounted for gas (“LAUF”) for use by any entity providing natural gas delivery service that is required to report LAUF (“LAUF reporting entity” or “LRE”), including, without limitation, (1) interstate pipelines, (2) storage operators, (3) intrastate pipelines, and (4) local distribution companies (“LDCs”) (the “LAUF Request”). NAESB has asked the Triage Subcommittee and EC members to find the LAUF Request in scope, and to assign it to the Wholesale Gas Quadrant (WGQ) Executive Committee for subcommittee assignment. AGA and APGA (the “Associations”) have serious concerns regarding NAESB taking action on the proposed standardization of the LAUF determination, as follows:

The Request is Not within NAESB’s Purview. NAESB action on the LAUF request would involve undetermined policy issues involving multiple jurisdictions, and thus goes far beyond standardization protocol. As a standards development organization, it is not in NAESB’s best interest to embark upon the exercise set forth in the LAUF Request. As discussed further below, LAUF is not a one-size-fits-all determination and is system-specific. LAUF results from many factors, is impacted by many factors, and is dealt with in different ways among the various jurisdictions. By attempting to standardize the methodology to determine LAUF, NAESB would be determining unsettled policy pertaining to ratemaking concepts. The Associations believe this is not appropriate.

- As provided for in NAESB’s Amended and Restated Certificate of Incorporation, NAESB’s Bylaws, and summarized in NAESB’s own descriptive materials, NAESB works through public-private partnerships with FERC, the Department of Energy, the state commissions, and others to develop standards, not policy. The standards NAESB develops may be requested by the government agencies as well as any interested party and are built by the industry participants through NAESB and its processes, and then forwarded to the regulatory agencies for further review and action. Like its predecessor GISB, NAESB is not in a position to advocate or set policy, but its role is simply to provide standards for subject matter areas where standardization is possible, and to provide those standards to regulators and industry participants – thus keeping both politics and policy out of NAESB and providing a critical separation of responsibilities. NAESB-built standards are not monitored or enforced by NAESB or the participants who work to develop them. Importantly,

regarding standardization, NAESB works in areas that can be streamlined and standardized, to the gas industry's benefit. In this case, the Associations believe the LAUF Request addresses multi-jurisdictional policy matters that are beyond NAESB's charge and for which it would be virtually impossible for the organization to achieve industry consensus. In the Associations' view, the issue is simply too unique and contentious. Given this, the LAUF Request should not be found in scope by the Triage Subcommittee and the EC for further assignment to the WGQ.

- Interstate Pipelines/Storage Facilities. The request to standardize the determination of LAUF for interstate pipelines and interstate storage operators improperly encroaches on FERC policy matters that are not within the current charge of the GEH Forum discussion, nor within NAESB's ability to address by standards. LAUF is a component of fuel retention, and FERC has addressed this issue previously.
 - On November 20, 2008, FERC issued an Order Terminating a Notice of Inquiry proceeding in Docket No. RM07-20-000 regarding Fuel Retention Practices of Natural Gas Companies wherein FERC sought to review its policy on the in-kind recovery of fuel and lost and unaccounted-for gas by natural gas pipeline companies. In this order, FERC concluded that case-by-case consideration of proposals will assist in the development of FERC's policies concerning pipelines' recovery of fuel costs, and encouraged pipelines to work with their customers to develop these mechanisms. In short, determining LAUF levels is a ratemaking matter, not subject to standardization.
- LDC Facilities. AGA member natural gas local distribution companies are regulated locally by state regulatory commissions with different systems. APGA's members consist of publicly-owned gas distribution systems that are owned by, and accountable to, the citizens they serve, including, municipal gas distribution systems, public utility districts, county districts, and other public agencies. LAUF determinations therefore are reflective of their applicable regulatory and ownership environment. The cost of LAUF is recovered through accounting and ratemaking measures, and these measures differ from state to state. There are scores of regulatory compact agreements in place across the systems in the states in which they operate and LAUF is but one intricate part. Any attempt by NAESB to standardize this one rate element could create winners and losers and potentially undo those agreements.

The Determination of LAUF is Not "One-Size-Fits-All." LAUF is an accounting mechanism used to reconcile the difference between the volume of measured gas coming into a system and the measured gas going out of the same system, taking into account the line pack (the change in volume of gas contained by the system through pressure changes) and any system consumption. The treatment of LAUF in cost recovery can vary from jurisdiction to jurisdiction. From a technical, methodological perspective for any jurisdiction, setting a standard for determining LAUF would be extremely problematic because these determinations are simply not conducive to a one-size-fits-all determination.

- There is a lot of variability in the way LAUF is determined among entities. Over the years, each of the various jurisdictions has carefully developed its own unique and situation-specific protocols for determining LAUF, which may have little or no applicability to other jurisdictions and sets of facts. As a result of each situation's specific circumstances, the terms LAUF, "lost gas" and "methane

emissions” have different definitions. Additionally, there is inconsistency among various states and federal agencies as to the characterization of the components of LAUF.

- For natural gas utilities, LAUF is primarily an accounting and a ratemaking issue, and is not an operational issue. Operational issues are handled independently of LAUF, but can contribute to a utility’s overall LAUF. Each utility has an integrity management plan in place which identifies and carries out needed system upgrades or other monitoring activities to eliminate or reduce the risk of leakage.
- LAUF can be caused by many variables that do not act or are not necessarily consistent from one accounting period to the next. Factors contributing to LAUF include measurement uncertainty, variations in temperature and its measurement, variations in pressure and its measurement, and variations in heat content of the gas from different sources. Some specific examples include: whether meters are inside or outside; whether entities have temperature compensating meters and to what degree; meter accuracy, depending on type; leakage, either chronic or due to maintenance activities; malfunctioning measurement devices; pressure differentials; variant pipeline configurations within a system and among inter connected systems; and timing of the measurement meters.
- Other factors unrelated to leakage that contribute to LAUF include unresponsive customer meters or automated meter reading devices, theft of gas, pipeline replacement, gas vented from on-system liquefied natural gas (“LNG”) facilities, third party damages of company pipes, the impact of pressure or temperature reduction/compensation techniques used to ensure that gas is safely delivered to customers, utility use of unmetered gas, and the constraints of utility accounting.

The Pipes Act of 2016 Requires a PHMSA Report on LAUF. The Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2016¹ was signed into law by the President in June. One of the requirements of this new law is for the Administrator of the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) to submit to Congress within one year a report on the metrics provided to PHMSA related to LAUF from distribution pipelines and systems, including an examination of different reporting requirements or standards, analysis of alternative requirements, and other safety-related assessments. If the report determines it necessary, PHMSA may promulgate additional regulations. Given that this report has yet to take place further reinforces that LAUF standardization is premature and not appropriate at this time.

In summary, and for all the above reasons, Request No. R-16009 has not been demonstrated to be a proposal suitable for further study by NAESB at this time. However, if the requesting parties withdraw R-16009 and submit a new request that removes the issues outlined above, then the Associations would be willing to consider the revised request.

¹ Protecting our Infrastructure of Pipelines and Enhancing Safety (PIPES) Act of 2016, Pub. L. No. 114-183 (June 22, 2016) (codified as U.S.C. § 60141).