

EVOLUTION OF FERC REGULATION

IN THE

NATURAL GAS MARKETPLACE

Questar Pipeline Company may not discriminate in favor of any customer, including Questar Gas.

- The integrated nature of Questar Gas and Questar Pipeline has allowed the companies to take legally permissible actions that have benefited Questar Gas.
- Such permissible actions are becoming increasingly difficult over time.

History Lesson

- Pre-1985
- Order Nos. 436 and 500
- Order 497
- Order 636
- Order 2004

Pipeline Regulation Pre-1985

- 1970's – shortage of supply.
- Pipelines typically bundled transportation and sales service.
- Pipelines arranged for gas purchases and processing.
- Pipelines were not “common carriers.”

Order Nos. 436 and 500

- FERC issued Order 436 in 1985.
- It was designed to unbundle pipeline transportation services from sales services.
- Opened natural gas markets to provide nondiscriminatory transportation of gas and to prohibit pipelines from discriminating in connection with transportation services based on the source of gas, identity of shipper and the identity of buyer.
- Pipelines were clearly prohibited from favoring their own sales or affiliate sales.
- All similarly situated firm customers have to be treated equally.
- Pipelines were required to permit LDCs to convert from firm sales to firm transportation, although few did.
- These orders really began building the modern interstate pipeline grid.
- These orders have the force of federal law.

Pipeline world post Order Nos. 436 and 500

- Pipelines were required to offer transportation service separate from bundled sales.
- Pipelines begin to look more like common carriers.

Order No. 497

- FERC issued Order 497 in 1988.
- This Order and its progeny prohibited pipeline discrimination in favor of its own sales or sales by its marketing affiliates.
- Affiliated LDCs that did not perform off-system sales were exempt from the definition of marketing affiliate.
- There was a continuing prohibition against discrimination in favor of any affiliate.

Order 636

- FERC issued Order 636 in 1992.
- Order 636 compelled all interstate pipelines to unbundle their transportation services from their sales services.
- This was intended to create equal, non-discriminatory access to pipeline transportation service.
- It was also intended to integrate the pipeline interstate grid to facilitate the movement of competitive natural gas supplies in interstate markets.
- Highlights of Order 636 also include:
 - Capacity release.
 - Electronic bulletin boards.
 - Greater transportation flexibility.

Pipeline world post Order No. 636

- Pipeline services are completely unbundled.
- Pipelines are now open on a non-discriminatory basis to all shippers.
- Marketers and producers become shippers.
- End users must make their own gas purchase decisions.

Order 2004

- Order 2004 was promulgated in 2004.
- FERC found that despite earlier rules on discrimination pipelines continued to wield market power over gas markets.
- The NGA prohibited a natural gas pipeline company from giving any entity any undue preference.
- Certain LDCs were granted exemptions from being specified as energy affiliates, however, pipelines could still not discriminate in favor of an affiliate LDC.
- Questar Gas is not an energy or marketing affiliate of Questar Pipeline at this time, but the anti-discrimination rules still apply.

2004 Training

- Questar Gas will make available.
- Takes 1 – 1 ½ hours.
- Can be taken at work or at home on the computer.

The goal of the Commission in Order Nos. 436 and 636 was to create a seamless and integrated pipeline grid that promotes competition by enabling shippers to move gas from the most competitive supply areas, across multiple pipelines, to the burner tip.

**Creditworthiness Standards for
Interstate Natural Gas Pipelines
Docket No. RM04-4-000
Notice of Proposed Rulemaking**

Natural Gas Act § 717c (b)

No natural-gas company shall, with respect to any transportation or sale of natural gas subject to the jurisdiction of the Commission, (1) make or grant any undue preference or advantage to any person or subject any person to any undue prejudice or disadvantage . . .