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Report to the Chairman, Environment, Energy, and Natural Resources Subcommittee, Committee on Government Operations, House of Representatives

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NATURAL GAS REGULATION

Little Opposition to FERC's Recent Policies on Transportation-Related Services

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Resources, Community, and
Economic Development Division

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December 21, 1994

The Honorable Mike Synar
Chairman, Environment, Energy, and
Natural Resources Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

Over the past decade, the Congress and the Federal Energy Regulatory Commission (FERC) have taken a number of steps to lessen federal regulation of the production and interstate transportation of natural gas and to promote competition. Attention in the industry has now turned toward regulatory changes in the services related to transportation. You asked us to review recent regulatory changes affecting three aspects of the industry—gathering (the collection of gas from wells for delivery to a processing plant or pipeline); storage (the holding of gas, normally in underground reservoirs, for later use); and market hubs (interconnection points among several pipelines where gas and transportation services can be obtained easily). Specifically, you requested that we ascertain how producers, pipeline companies, and end-users view these changes. In addition, you asked that we review the Department of Energy's (DOE) plans to intervene in energy-related regulatory proceedings in the states and the extent to which DOE plans to interact with FERC in such interventions.

Results in Brief

While FERC regulates rates for the gathering services performed by interstate pipeline companies, in May 1994 the Commission concluded that it does not have jurisdiction over the rates charged for gathering by the affiliates of these companies. As a result, gathering affiliates are now able to charge rates that are competitive with those charged by other unregulated gatherers, such as producers. However, FERC said that it would use its authority over the pipeline companies to regulate an affiliate of a pipeline company if the affiliate and its parent company act together in a collusive and anticompetitive manner. Many segments of the industry, including interstate pipeline companies, local distribution companies, and end-users, find FERC's new policy acceptable. Producers generally believe that it is too early to determine the effects of FERC's new policy. However, several producers are concerned that, under the new policy, they may not be able to obtain fair rates, terms, and conditions of service for their existing wells from gathering affiliates.

FERC has historically set the rates for interstate storage service on the basis of the storage operator's cost of providing this service. However, in several cases since 1992, FERC has determined that competition is sufficient to allow storage operators to charge rates that are set by the market. No segment of the industry has objected to the use of market-based rates in locations where the storage market is competitive.

While FERC does not currently regulate market hubs, it sets the rates for the services an interstate pipeline company provides throughout its system, including the services performed at hubs. In order to compete better at market hubs, a few pipeline companies have asked permission to vary their rates from those set by FERC. FERC has agreed and is allowing these pipeline companies to charge rates that are generally lower than the existing cost-of-service rates. According to FERC officials and industry analysts, market hubs are still in the early stages of development. As a result, it is too early to determine what FERC's regulatory role should be, if any.

DOE plans to intervene or participate in energy-related regulatory proceedings in the states, or collaborate in less formal ways, when it believes its participation can result in a more comprehensive assessment of policy options for energy. DOE officials have stated that the Department will be sensitive to the states' authority and that its participation in state regulatory proceedings will be limited primarily to submitting expert written or oral testimony. Although FERC's role in regulating utilities precludes close coordination with DOE, the two agencies have established a working group to ensure that their staffs interact and are aware of the goals and objectives of each other's programs and policies.

Background

Natural gas gathering is the collection of gas from the wellhead for delivery to the processing plant or transportation pipeline. Compared with transportation pipelines, gathering lines are generally smaller in diameter and shorter in length, and require relatively lower pressure to push the gas through the line. According to a recent report, over 2,100 companies perform gathering services in the states that produce natural gas.[1]

Natural gas storage involves the transfer of natural gas from the production field to a depleted underground reservoir or other holding facility for later use. Gas is generally injected into storage facilities during warmer months, when demand is lower, and withdrawn during winter

[1] Profile of Natural Gas Gathering in the U.S., Foster Associates, Inc., 1994, p. 17.

months. Traditionally, pipeline companies use storage to manage and balance the movement of gas throughout their systems. Local distribution companies—the companies that deliver gas from the interstate pipeline to the ultimate end-user—have a critical need for storage because they must provide gas on demand to residential end-users and other customers who lack the ability to switch to another fuel when gas is not available. According to the Energy Information Administration, as of December 31, 1993, a total of 103 operators were providing storage service in the United States. These operators included pipeline companies, local distribution companies, and independent marketers.

Market hubs are areas where several pipelines connect, generally near a production area, storage field, or major market area. A relatively new phenomenon in the industry, hubs create central points where many buyers and sellers can come together to obtain natural gas and a variety of services. These services can be physical, such as transportation, storage, or the transfer of gas from one pipeline to another, or they can be contractual, such as the trading of titles to gas supplies. In theory, market hubs can improve the efficiency and flexibility of the interstate gas market by increasing producers' and end-users' access to each other and by reducing transaction costs when they make deals. According to FERC, as of July 1994, there were 19 market centers operating in the United States, and another 11 are scheduled to be opened by the end of 1995. Each of these hubs has an administrator who oversees its operation and performs a variety of functions, such as tracking the exchange of titles to gas supplies, invoicing customers for services, and allocating pipeline capacity and services at the hub when they are in short supply.

Industry's Reaction Is Mixed to FERC's New Policy on Gathering

In May 1994, FERC announced its policy on interstate pipeline companies' gathering affiliates. In a series of seven orders, the Commission concluded that it does not have the authority to regulate the rates charged by affiliates. However, FERC added that it could use its authority to regulate the rates charged by interstate pipeline companies for gathering, transportation, and other services to regulate a gathering affiliate if the affiliate and its parent pipeline company act together in a collusive and anticompetitive manner. This policy has generally been accepted by pipeline companies, local distribution companies, and end-users. While producers are generally reserving judgment on the new policy, several are concerned about its effect on their ability to negotiate fair agreements with gathering affiliates.[2]

[2]App. I provides a more detailed discussion of FERC's previous policies on gathering services.

FERC's Regulation of Gathering Services

FERC has traditionally included the costs of gathering services provided by interstate pipeline companies in the rates it approves for such companies. FERC does not regulate the rates for gathering services provided by other entities, such as producers. Most of these unregulated gatherers, who provide almost 70 percent of the gathering services in the United States, are free to negotiate with their customers on the rates, terms, and conditions of service.

Since the early 1990s, several interstate pipeline companies have created affiliates to provide their gathering services. These pipeline companies asked FERC for permission to sell their gathering facilities to the new affiliates. The requests created a need for FERC to clarify its policy on gathering affiliates.

1994 Orders Clarify FERC's Policy on Gathering

On May 27, 1994, FERC issued a series of seven orders that, taken together, define its new policy on gathering.[3] In these orders, FERC elaborating that it does not have the authority to regulate the rates, terms, and conditions of the gathering services provided by interstate pipeline companies' affiliates. As a result, when pipeline companies sell their gathering facilities to their affiliates, the rates these affiliates charge will no longer be under FERC's regulation.

However, FERC also said it would do the following:

- Require pipeline companies, before they sell their gathering facilities to an affiliate or unregulated third party, to negotiate new contracts with existing customers. If the pipeline company is unable to reach agreement with a customer, it must offer a "default contract" that reflects the rates, terms, and conditions of service offered by the independent gatherers in the region. If the customer refuses the default contract, it loses its guarantee of continued service. FERC imposed this condition to protect existing customers that had entered into arrangements with pipeline companies for gathering services expecting that these services would be regulated by FERC.
- Assert jurisdiction over gathering affiliates if it finds, upon a customer's complaint, that the affiliate and its parent pipeline company have acted together in a collusive and anticompetitive manner. For example, FERC could assert its jurisdiction, as part of its regulation of the pipeline company, if a gathering affiliate requires a customer to transport gas on the parent company's pipeline. Under the new policy, FERC will regulate a

[3]These orders are listed in app. II.

gathering affiliate only if the affiliate acts with its parent company in an anticompetitive manner.

In analyzing its jurisdiction, FERC asserted that sections 4 and 5 of the Natural Gas Act give it the authority to regulate gathering performed by natural gas companies (i.e., interstate pipeline companies) "in connection with" interstate transportation. Gathering affiliates, because they perform only a gathering function, are not natural gas companies as defined by the act. Thus, FERC reasoned that gathering affiliates are not under its jurisdiction. FERC determined, however, that it may assert jurisdiction when the pipeline company and its gathering affiliate act together to discriminate because they are then effectively acting as a single natural gas company involved in the interstate transportation of natural gas.

Reaction to FERC's Gathering Policy Is Mixed

The Interstate Natural Gas Association of America, the trade association that represents interstate pipeline companies, has stated that it is pleased with FERC's new policy and believes the policy will promote competition and regulatory certainty. As a result of this policy, pipeline companies will be able to sell their gathering facilities to affiliates, which, in turn, can set rates that are competitive with those set by unregulated gatherers. According to an association official responsible for policy issues, many pipeline companies plan to sell their gathering facilities to either affiliates or independent third parties in response to the new policy.

The representatives of local distribution companies and end-users we interviewed expressed little concern about FERC's new policy on gathering. An official of the American Gas Association, which represents, among others, larger distribution companies, stated that the association has received no complaints from the local distribution companies among its members about the new policy. According to a representative of municipal distributors, smaller distribution companies have little interest in the issue of gathering. Distribution companies and the residential, commercial, and industrial end-users to whom they deliver gas are more concerned about the price of gas supplies, which is determined by the market. Because gathering rates affect the division of proceeds from gas sales, they concern only producers and gatherers.

In contrast to other segments of the industry, producers generally believe that it is too early to determine the effects of FERC's new policy. According to a representative of the Natural Gas Supply Association, the trade association representing major producers, several producers are concerned that they will not be able to get fair rates, terms, and conditions of service in their negotiations with pipeline companies or in default contracts. Although producers are generally pleased that FERC will review the sale of gathering facilities to affiliates on a case-by-case basis, several believe that unless FERC establishes clearer guidelines on the terms of the default contracts, the affiliates that have market power could impose significantly higher rates for gathering services for existing wells. In cases in which a producer and a gathering affiliate cannot reach a new agreement, producers would like to continue the rates, terms, and conditions of service that existed when they originally drilled the well.

Some producers have asked FERC to reconsider its new gathering policy. A group of six major producers, known as the "Indicated Parties," and the Independent Petroleum Association of America have filed motions with FERC objecting to the new policy and requesting a new hearing. In the grounds for rehearing, the Indicated Parties and the association contend, among other things, that (1) FERC should regulate gathering affiliates, (2) FERC erred in approving pipeline companies' sale of gathering facilities to their affiliates without showing that the relevant gathering markets were competitive, and (3) the provision requiring default contracts needs reconsideration or clarification. In addition, the Indicated Parties provided FERC with an offer of settlement in one of the seven cases. In this offer, the Indicated Parties agree to accept the sale of gathering facilities by the pipeline company to its affiliates if, among other things, FERC retracts its determination that it lacks jurisdiction over gathering affiliates. On November 30, 1994, FERC denied the requests for rehearing, but it also amended the requirements of default contracts. According to the new guidelines, when a pipeline company sells its gathering facilities to an affiliate or independent gatherer, existing customers will be able to purchase gathering services from the new provider at the current cost-of-service rates for a period of up to 2 years.

FERC Has Approved Market-Based Rates for Storage

FERC's jurisdiction over storage is limited to the storage of gas transported in the interstate market. As a result, FERC has regulatory authority primarily over storage facilities owned by interstate pipeline companies. According to the Energy Information Administration, these facilities hold about 61 percent of the total gas stored in the United States. As in the case of gathering and transportation, FERC has traditionally set the rates for storage according to a storage operator's cost of providing service.

Since 1992, however, FERC has approved the use of market-based rates for storage services in six orders.[4] In each case, FERC has required the storage provider to show that it lacks the power to set rates above competitive levels in the local storage market. To do so, the storage provider must demonstrate that there are good alternatives to its service. FERC has defined a "good alternative" as one that "is available soon enough, has a price that is low enough, and has a quality high enough to permit customers to substitute the alternative" for the storage provider's service.[5]

None of the industry representatives we interviewed expressed concern over FERC's use of market-based rates in areas where the storage market is competitive. According to a FERC official, storage customers expressed no objections in the six cases in which FERC has approved market-based rates.

FERC Has Issued No Policies on Market Hubs

FERC currently has no regulations specifically aimed at market hubs. FERC regulates the rates charged by an interstate pipeline company for the services, such as transportation and storage, that it provides at a hub. However, the rates for these services are set in the same way—on the basis of a company's cost of providing the service—as the rates for the services the pipeline company provides outside the market hub. According to an official with FERC's Office of Pipeline Regulation, as of October 1994, a few pipeline companies have asked FERC to let them vary from these rates so that they can compete more effectively at market hubs. However, the rates they seek to use are not market-based. Instead, these rates, known as "market center rates," are still derived from the existing cost-of-service rates. However, they are generally lower than the full cost-of-service rates.

FERC officials believe that it is too early in the development of hubs to determine what, if any, regulatory role the Commission should play or what rates it should approve. The structure and workings of market hubs are still evolving. As a result, according to FERC's Director of the Office of Pipeline Regulation, FERC has not dealt with the issue.

Most of the industry representatives with whom we spoke agreed that it is too early to determine how market hubs should be regulated, if at all. According to an official with the American Gas Association, none of its members have voiced complaints about operations at the hubs. Moreover,

[4]These orders are listed in app. II.

[5]Koch Gateway Pipeline Company, 66 FERC ¶ 61,385, 62,302 (1994).

the association maintains that FERC should generally rely on market forces unless it finds compelling evidence of market failures.

However, some marketers have expressed concern that some hubs are being administered by competing marketers. According to those concerned, these hub administrators may have an incentive to use their access to information about competitors' deals at hubs to their competitive advantage. Others in the industry believe that conflicts of interest may not be a problem. They contend that the hub administrators will be reluctant to exploit their access to information because, if they do, no one will be willing to use their hub.

DOE's Participation in Regulatory Proceedings Is Part of a Larger Effort

As part of an overall strategy to work in a more collaborative manner in developing energy policy, DOE plans to participate in FERC and state regulatory proceedings.[6] DOE officials say they will be sensitive to the states' authority when interacting with state governments. Although DOE has not participated in a proceeding involving natural gas issues, it has participated in several FERC and state proceedings involving electric utility issues. DOE has other ongoing efforts, including sponsorship of conferences and workshops, intended to contribute to its overall strategy. DOE and FERC have also established a working group to increase mutual understanding on natural gas and oil issues.

DOE's Participation Strategy Incorporates Numerous Goals

In October 1993, DOE established the Utility Commission Proceedings Participation Program as a mechanism through which it can participate in FERC and state regulatory proceedings on energy. This program provides for DOE's participation when DOE's technical and policy expertise could lead to a greater understanding of the available policy options. DOE's participation in regulatory proceedings will consist primarily of submitting written comments and testimony and, in some cases, having DOE officials testify as expert witnesses.

DOE announced in February 1994 that it would use its participation program as a means to implement its Domestic Natural Gas and Oil Initiative. This initiative, announced in December 1993, includes proposals for, among other things, reforming regulatory structures at both the federal and state level that may be inhibiting a more efficient use of natural gas and electric power. At the federal level, the initiative targets

[6]According to DOE officials, their strategy for participation may extend to other federal agencies that could affect energy policy, such as the Environmental Protection Agency.

improving the use of gas pipeline capacity and encouraging the full use of the electric power transmission system. At the state level, the initiative focuses on potential regulatory reforms, such as revising pricing strategies for natural gas and electric power and ending subsidies for specific fuels.

DOE Says It Will Not Be Prescriptive

DOE officials responsible for the Department's participation in regulatory proceedings say that they do not intend to be prescriptive or adversarial in their interactions with federal or state agencies. Rather, they stated that they want to draw on their technical expertise and act as advocates of particular policies on energy. DOE officials also pointed out that several of the Department's key executive-level staff involved in this effort have extensive experience in federal and state energy regulation and thus have an appreciation of the issues of federal and state authority that frequently arise in the energy arena.

DOE Has Participated in Regulatory Proceedings

Although DOE has yet to participate in a regulatory proceeding involving natural gas issues, it has participated in several FERC and state regulatory proceedings involving electric utilities. DOE officials explained that they have not yet decided on a strategy for participating in proceedings involving natural gas.

DOE has participated in several FERC proceedings within the past year. For example, it submitted comments in two electric utility cases before FERC involving cost recovery issues resulting from the decommissioning of nuclear power plants.

The state proceedings in which DOE has participated primarily involved states' efforts to examine proposed changes to the regulation of electric utility companies. In some cases, DOE submitted written comments; in other cases, DOE officials appeared as expert witnesses before state utility commissions.

Other Efforts Are Intended to Contribute to Collaborative Approach

In addition to its strategy for participating in regulatory proceedings, DOE's other ongoing efforts may also help the Department work in a more collaborative manner with federal and state regulators in developing energy policy. These efforts include sponsoring annual conferences and participating in industry meetings and workshops. For example, since 1992 DOE has cosponsored an annual conference with the National Association of Regulatory Utility Commissioners to discuss issues facing the natural gas industry.[7]

DOE and FERC Have Established a Working Group

To carry out the goals of its Domestic Natural Gas and Oil Initiative, DOE established a working group with FERC intended to facilitate discussions between the two agencies and allow a better understanding of the goals and objectives of each other's programs and policies. However, because FERC is responsible for regulating electric and gas utilities, the working group will be restricted from discussing any proceedings ongoing before FERC. The working group has had one meeting at which the two agencies mainly provided status reports on their current and planned efforts involving electric, gas, and hydropower issues. Officials from both agencies who participated in the meeting expressed satisfaction with the working group and agreed that it should continue to meet.

Agency Comments

As requested, we did not obtain written agency comments on this report. However, we discussed the information in the report with various FERC officials, including the Director of the Office of Pipeline Regulation, the Director of the Office of Economic Policy, and the General Counsel. We also discussed the information in the report with DOE's Director of Natural Gas Policy and officials responsible for DOE's participation in FERC and state regulatory proceedings. To ensure that we characterized industry's views accurately, we also discussed information in the report with officials from the industry associations mentioned in this letter. FERC, DOE, and industry officials all agreed with the factual material presented; they suggested minor technical changes that we incorporated where appropriate.

We performed our work between March and November 1994 in accordance with generally accepted government auditing standards. Appendix III describes the scope and methodology of our review in detail.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the date of this letter. At that time, we will send copies to congressional energy committees and other interested parties. We will also make copies available to others on request.

[7]The National Association of Regulatory Utility Commissioners represents the interests of the nation's state public utility commissions.

If you or your staff have any questions or need additional information, please call me at (202) 512-3841. Major contributors to this report are listed in appendix IV.

Sincerely yours,

Victor S. Rezendes
Director, Energy and
Science Issues

Contents

Abbreviations

DOE	Department of Energy
FERC	Federal Energy Regulatory Commission
GAO	General Accounting Office

Previous Policies on Gathering

Under sections 4 and 5 of the Natural Gas Act, as amended, the Federal Energy Regulatory Commission (FERC) has traditionally regulated the rates, terms, and conditions of all services provided by interstate pipeline companies in connection with the interstate transportation of natural gas.[1] In Northern Natural Gas Company v. FERC, a federal appeals court interpreted the act so that FERC's authority extends to regulating the gathering services provided by interstate pipeline companies if the gathering is performed in connection with the interstate transportation of natural gas.[2] According to a report sponsored by the Interstate Natural Gas Association of America, interstate pipeline companies and their affiliates provide about 30 percent of all the gathering services in the United States.[3]

FERC sets the rates for transportation and gathering services on the basis of a pipeline company's cost of providing those services, which consists of the cost of facilities, expenses for operation and maintenance, and a reasonable return on investment. This approach is known as cost-of-service regulation. Before FERC's Order 636 (described below), the costs of gathering services were incorporated into the rates that pipeline companies charged for sales and transportation service. In contrast, the rates charged for the gathering services provided by producers and other entities are not under FERC's regulation. Generally, these providers can negotiate contracts with customers that state the rates, terms, and conditions of their gathering services.[4] Unregulated gatherers provide most of the remaining 70 percent of the gathering services performed in the United States.

In a 1992 order, FERC articulated a policy on pipeline companies' gathering affiliates. In Northwest Pipeline Corporation, the Commission relied on an interpretation by the federal appeals court in Northern Natural Gas Company v. FERC to assert that its jurisdiction extended to pipeline companies' gathering affiliates if the affiliates perform the services in connection with the interstate transportation of natural gas.[5] However, the Commission added that it would not exercise its jurisdiction to regulate the rates charged by gathering affiliates except in response to a customer's

[1]15 U.S.C. 717c and 717d.

[2]Northern Natural Gas Company v. FERC, 929 F.2d 1261 (8th Cir. 1991).

[3]Profile of Natural Gas Gathering in the U.S., Foster Associates, Inc., 1994, p. 1.

[4]Section 1(b) of the Natural Gas Act, 15 U.S.C. 717(b), leaves the authority over the physical aspects of gathering lines, such as line specification, to the states.

[5]59 FERC ¶ 61,115 (1992).

complaint that an affiliate was acting in an anticompetitive manner. This approach was referred to in the industry as "light-handed" regulation.

According to an official representing pipeline companies, as a result of this decision, many pipeline companies petitioned FERC to be allowed to sell their gathering operations to affiliates so that they could set their own rates and better compete with unregulated gatherers. However, some pipeline companies were reluctant to sell their gathering facilities because they believed FERC did not clearly define when it would assert jurisdiction under its new policy of light-handed regulation. Pipeline companies and their affiliates could not be sure what rates and practices would be acceptable to FERC. In addition, gas producers that purchased gathering services from pipeline companies were concerned that, under light-handed regulation, pipeline companies would transfer their gathering facilities to affiliates to escape FERC's regulation and then raise their rates substantially. In contrast to pipeline companies, which support the deregulation of gathering, producers wanted FERC to regulate the rates charged by affiliates in the same manner as it regulates pipeline companies' transportation and gathering rates.

Also in 1992, FERC announced Order 636, which required all pipeline companies to separate, or "unbundle," the rates they charge for various services, including gathering.[6] This separation was designed to increase competition and efficiency in the industry by enabling customers to purchase only the services they desire. As a result of this order, pipeline companies for the first time began to charge rates for gathering services that were independent of the rates they charged for interstate transportation. This heightened the pipeline companies' desire to sell their gathering operations to affiliates that could set their own rates. According to industry officials, because of Order 636 and concerns about FERC's Northwest Pipeline decision, both pipeline companies and producers wanted FERC to review and clarify its regulatory authority over gathering affiliates.

On May 27, 1994, FERC restated its policy on gathering affiliates in a series of seven orders. In these orders, FERC consistently stated that it regulates the rates charged for gathering services only for gathering performed by pipeline companies or when the pipeline company and its affiliate engage in collusive and anticompetitive practices. As stated above, Order 636

[6]Technically, Order 636 required all pipeline companies to separate the rates they charged for transportation services and gas sales. However, the Commission encouraged pipeline companies to unbundle fully their rates for all services. In response, most pipeline companies restructured their rates so that they charge separate rates for transportation, storage, and gathering services.

separated the rates charged by pipeline companies for gathering and interstate transportation services. In this new context, FERC elaborated in the orders that it does not ordinarily have regulatory authority over pipeline companies' gathering affiliates.[7]

[7]FERC's new policy differs from its previous policy of light-handed regulation in that, under the new policy, FERC will assert jurisdiction over gathering affiliates only when they engage in collusive and anticompetitive behavior with their parent pipeline companies. Under light-handed regulation, FERC could assert authority over gathering affiliates for any discriminatory or anticompetitive act.

FERC Orders on Gathering Affiliates and Storage

FERC Orders Explaining Policy on Gathering Affiliates, Issued May 27, 1994

Williams Natural Gas Co., 67 FERC ¶ 61,252 (1994) Superior Offshore Pipeline Co., 67 FERC ¶ 61,253 (1994) Amerada Hess Corp., 67 FERC ¶ 61,254 (1994) Mid-Louisiana Gas Co., 67 FERC ¶ 61,255 (1994) Trunkline Gas Co., 67 FERC ¶ 61,256 (1994) Arkla Gathering Services Co., 67 FERC ¶ 61,257 (1994) Eastern American Energy Co., 67 FERC ¶ 61,258 (1994).

FERC Orders Authorizing Market-Based Rates for Storage

Richfield Gas Storage System, 59 FERC ¶ 61,316 (1992) Petal Gas Storage Company, 64 FERC ¶ 61,190 (1993) Transok, Inc., 64 FERC ¶ 61,095 (1993) Bay Gas Storage Company, Ltd., 66 FERC ¶ 61,354 (1994) Koch Gateway Pipeline Company, 66 FERC ¶ 61, 385 (1994) Avoca Natural Gas Storage, 68 FERC ¶ 61,045 (1994)

Objectives, Scope, and Methodology

The Chairman, Environment, Energy, and Natural Resources Subcommittee, House Committee on Government Operations, requested that we assess recent regulatory changes affecting three aspects of the industry: gathering, storage, and market hubs. In addition, the Chairman asked us to review the Department of Energy's (DOE) plans to intervene in energy-related regulatory proceedings in the states and the extent to which DOE plans to interact with FERC in carrying out such interventions.

To obtain information on FERC's policies on gathering, storage, and market hubs, we reviewed existing industry literature and relevant FERC orders and documents. We also interviewed FERC and industry officials about these policies. To learn the opinions of various industry segments on FERC's regulatory approaches, we reviewed comments filed by industry officials with FERC. We also spoke to various FERC officials and representatives of several natural gas trade associations, including the American Gas Association, the American Public Gas Association, the Independent Petroleum Association of America, the Interstate Natural Gas Association of America, the Natural Gas Supply Association, and the National Association of Utility Consumer Advocates.

To examine how DOE plans to intervene in state regulatory proceedings, we reviewed various DOE documents and spoke to DOE officials and officials from several state utility commissions. We also spoke to DOE and FERC officials about how DOE may interact with FERC in implementing its strategy on participation.

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