



DEPARTMENT OF ENERGY
Federal Energy Regulatory Commission
18 CFR Part 284

[Docket No. RM22-17-000]

Petition for Rulemaking to Update Commission Regulations Regarding Allocation of Interstate Pipeline Capacity

AGENCY: Federal Energy Regulatory Commission.

ACTION: Petition for rulemaking.

SUMMARY: In this Petition for rulemaking, the Federal Energy Regulatory Commission (Commission) seeks additional information concerning the practices of interstate natural gas pipelines related to the packaging of non-contiguous and/or operationally unrelated segments of capacity in a single auction or open season and the aggregation of bids across those segments to determine the highest value bid for the purpose of allocating capacity, as well as comment on whether the Commission should continue to allow such practices.

DATES: Comments are due **[INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**, and reply comments are due **[INSERT DATE 120 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

ADDRESSES: Comments, identified by docket number, may be filed in the following ways. Electronic filing through <http://www.ferc.gov>, is preferred.

- Electronic Filing: Documents must be filed in acceptable native applications and print-to-PDF, but not in scanned or picture format.
- For those unable to file electronically, comments may be filed by USPS mail or by

hand (including courier) delivery.

- Mail via U.S. Postal Service Only: Addressed to: Federal Energy Regulatory Commission, Secretary of the Commission, 888 First Street, N.E., Washington, DC 20426.
- Hand (including courier) delivery: Deliver to: Federal Energy Regulatory Commission, 12225 Wilkins Avenue, Rockville, MD 20852.

The Comment Procedures Section of this document contains more detailed filing procedures.

FOR FURTHER INFORMATION CONTACT:

Catherine Liow (Technical Information)
Office of Energy Market Regulation
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426
202-502-6459

David Faerberg (Legal Information)
Office of the General Counsel
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426
202-502-8275

SUPPLEMENTARY INFORMATION:

1. In this Petition for rulemaking, the Commission seeks information concerning the practices of interstate natural gas pipelines related to the packaging of non-contiguous and/or operationally unrelated segments of capacity in a single auction or open season and the aggregation of bids across those segments to determine the highest value bid for the purpose of awarding capacity, as well as comment on whether the Commission should continue to allow such practices. Specifically, the Commission seeks comment on: (1) additional information and data on interstate natural gas pipeline posting practices related to the packaging of non-contiguous and/or operationally unrelated segments of capacity in a single auction or open season; (2) relevant information that bears on whether the Commission should reconsider its policy; and (3) what regulatory, economic, or policy goals would or would not be achieved by modifying the current policy.

I. Background

2. Pursuant to the Commission's regulations, a pipeline must post available firm capacity on its website as it becomes available.¹ The pipeline may sell that capacity in several non-discriminatory ways, such as through a first-come, first-served or auction method. Prior to pipelines proposing tariff provisions detailing how they would evaluate bids for capacity, most pipelines simply allocated capacity on a first-come, first-served basis. Pursuant to this approach, "[t]he first shipper to submit a request received the available capacity, even if the shipper requested service for only a few days or weeks while others sought transportation for longer periods."²

¹ 18 CFR 284.13(d)(1).

² *Process Gas Consumers Grp. v. FERC*, 292 F.3d 831, 833 (D.C. Cir. 2002)

3. While some pipelines still use a first-come, first-served method, it is now more common for pipelines to use an auction method to award available capacity. Under this approach, and consistent with the terms of their tariffs, pipelines can conduct an open season announcing available capacity and stating criteria for an acceptable bid, the method for determining the best bid, and the bid closing date.³ Pipelines evaluate capacity bids submitted during the open season timeframe on a net present value (NPV) basis, which is the discounted cash flow of incremental revenues that the pipeline receives that are based upon such factors as the price, term, and quantity of transportation service.

4. The Commission allows pipelines to include multiple segments (including non-contiguous and/or operationally unrelated segments) of capacity together in an open season for the purposes of accepting and aggregating bids to determine NPV and award the capacity to the highest bidder.⁴ Bid values for each capacity segment cannot be greater than the maximum recourse rate for that segment. Moreover, shippers are not required to bid on all segments posted in the open season. However, a competing shipper

(*Process Gas Consumers*).

³ The Commission does not require pipelines to sell capacity solely through open seasons. So long as the pipeline posts all available firm capacity, it may sell that capacity on a first-come, first-served basis depending on the pipeline's tariff. *Tenn. Gas Pipeline Co.*, 119 FERC ¶ 61,126, at P 20 (2007) (citing *N. Nat. Gas Co.*, 110 FERC ¶ 61,361, at P 10 (2005)). The Commission has provided pipelines with some degree of flexibility in how they market their capacity to accomplish the goal of enabling those who value capacity the most to obtain it, because the Commission assumes that the pipeline will generally seek the highest possible rate from those to whom it sells capacity, since that is in the pipeline's economic interest. *See, e.g., ANR Pipeline Co.*, 116 FERC ¶ 61,201, at P 9 (2006).

⁴ *N. Border Pipeline*, 164 FERC ¶ 61,150 (2018) (*Northern Border*); *Transcon. Gas Pipe Line Co., LLC*, 172 FERC ¶ 61,258 (2020) (*Transco*).

willing to bid on multiple or all segments of the posting may generate a higher NPV and therefore become the winning bidder. For example, a shipper choosing to bid the maximum recourse rate on a single segment of desired capacity would generate an NPV based on the incremental revenues from the maximum recourse rate on the term of that segment, but a competing shipper willing to bid on multiple or all segments posted by the pipeline may generate a higher NPV.⁵ The Commission has allowed the inclusion of non-contiguous and/or operationally unrelated segments in capacity postings because the practice allows the pipeline to sell more capacity than it otherwise would, potentially benefiting shippers in the long run. Specifically, the Commission has found that maximum revenues and increased use of pipeline capacity will increase billing determinants and thereby lower unit fixed costs in a pipeline's next rate case.⁶

5. The Commission, and subsequently the D.C. Circuit, have addressed issues concerning the competitive effects of the NPV evaluation in a narrower context and have maintained that capacity should be awarded to the bid with the highest valuation. This arose with respect to the length of the contract term in a proposal submitted by Tennessee Gas Pipeline Company (Tennessee). The court upheld the Commission's decision to accept Tennessee's proposed NPV evaluation method for awarding pipeline capacity, which included no cap on the term of the contract in the NPV evaluation. The pipeline argued that, under this approach, it would be able to "award firm capacity to those shippers who value the capacity most—that is, since rates are capped, to those shippers

⁵ *Northern Border*, 164 FERC ¶ 61,150 at P 23, *Transco*, 172 FERC ¶ 61,258 at P 15.

⁶ *Northern Border*, 164 FERC ¶ 61,150 at P 24.

offering the longest contracts.”⁷ The court stated, “... as [the Commission] argues, the fact that shippers may at times bid up contract length likely reflects not an exercise of Tennessee’s market power, but rather competition for scarce capacity.”⁸ The court supported the Commission’s conclusion that “an uncapped bidding process maximizes market efficiency by identifying which shipper is willing to pay the most—in terms of contract length—to obtain such capacity.”⁹

II. Petition

6. On June 22, 2022, in Docket No. RM22-17-000, American Gas Association (AGA), American Public Gas Association (APGA), Process Gas Consumers Group (PGC), and Natural Gas Supply Association (NGSA) (collectively, Petitioners) filed a petition requesting that the Commission initiate a rulemaking to consider precluding interstate natural gas pipelines from aggregating bids on non-contiguous and/or operationally unrelated capacity segments to determine the highest value bid for the purpose of allocating capacity (Petition).

7. Petitioners assert that the interstate natural gas pipeline practice of packaging high market value capacity with non-contiguous and/or operationally unrelated parcels of capacity that Petitioners consider to be unwanted capacity with little or no market value is becoming increasingly commonplace in the market. Petitioners submit that this practice results in unjust and unreasonable rates, distorts market pricing, removes the incentive for

⁷ *Process Gas Consumers*, 292 F.3d at 833.

⁸ *Id.* at 837 (noting that, even under an NPV allocation method, the Commission regulates the rates pipelines may charge and requires them to sell available capacity at those rates, such that there is neither the legal ability to withhold existing capacity nor an incentive to refuse to build new capacity).

⁹ *Id.* at 838.

pipelines to build more capacity where needed, and constitutes illegal tying. Petitioners further contend that this practice effectively denies many shippers access to needed capacity and, as a practical matter, results in undue discrimination against industrial gas consumers, municipal gas systems, and local distribution utilities. They also allege that this practice results in higher prices for the ultimate gas consumers. Petitioners state that the Commission has only previously considered this issue within the narrow context of tariff filings by individual pipelines and not on a generic basis. Petitioners request that the Commission initiate a rulemaking to consider new regulations that would prevent interstate natural gas pipelines from continuing the practice of: (1) packaging non-contiguous and/or operationally unrelated segments of capacity in auctions; and (2) awarding capacity based on an NPV basis that includes the aggregate bids.

8. Notice of the Petition was issued on June 15, 2022. Interventions, protests, and comments were due on or before July 18, 2022. The notice did not provide for reply comments. Supporting comments were filed by seven entities.¹⁰ Comments in opposition or protests were filed by five entities.¹¹

¹⁰ 1.5C, LLC, bp Energy Company, Interstate Power and Light Company, Continental Resources, Inc., and the Indicated Shippers (Ascent Resources-Utica, LLC, Chesapeake Energy Marketing, L.L.C., ConocoPhillips Company, Continental Resources, Inc., and XTO Energy Inc.). Sabine Pass Liquefaction, LLC and the National Association of Regulatory Utility Commissioners also filed late comments in support of the Petition.

¹¹ Interstate Natural Gas Association of America (INGAA), Transcontinental Gas Pipe Line Company, LLC (Transco), Northern Natural Gas Company (Northern Natural), Kinder Morgan, Inc. (Kinder Morgan), and ANR Pipeline Company and Northern Border Pipeline Company (jointly) (ANR and Northern Border).

III. Commission Staff Informal Survey

9. In 2019, in response to outreach from stakeholders concerned about bid aggregation for non-contiguous capacity postings,¹² Commission staff (Staff) surveyed short-term capacity postings publicly available on 50 pipelines' Electronic Bulletin Boards (EBB).¹³ Staff identified a total of 98 firm capacity auction postings.¹⁴ Staff performed a similar informal survey in August 2023, reviewing publicly available capacity postings from most of the same pipelines but with some substitutions. Staff identified a total of 85 firm capacity auction postings.¹⁵ In its review, Staff focused on determining the frequency with which the pipelines offered non-contiguous paths available for bidding because such postings could reflect the practices opposed by the Petitioners. For the surveyed periods in 2019 and 2023, Staff identified 11 examples and 7 examples, respectively, of postings for non-contiguous paths for which the rules of the pipeline's NPV analysis stated that parties could increase the NPV of bids by bidding on

¹² According to comments filed by Indicated Shippers in the RM22-17-000 Petition for Rulemaking, high market value capacity can be considered "jewel" and capacity with little or no market or operational value can be considered "junk." As argued in the Petition, Indicated Shippers assert that interstate natural gas pipelines can use "jewel" capacity to extract additional revenues for the "junk" capacity from those placing bids on the combined packages of "junk" and "jewel" capacity, distorting the value of the packages and resulting in higher prices for natural gas consumers. Indicated Shippers Comments at 2-3. We use the phrase "junk and jewel" to refer to this scenario throughout the document.

¹³ We note that pipelines are only required to publicly provide informational postings on their EBBs for 90 days. 18 CFR 284.13(b). After the 90 days, pipelines are required to archive this information for a period of three years. 18 CFR 284.12(a)(3)(v).

¹⁴ In conducting its survey, Staff did not examine postings related to new expansions, right-of-first-refusal, receipt point shifts, and reserving capacity.

¹⁵ As noted above, in conducting its survey, Staff did not examine postings related to new expansions, right-of-first-refusal, receipt point shifts, and reserving capacity.

additional segments of capacity. However, Staff could not determine whether any of these examples reflect the packaging of high-value capacity with low-value capacity criticized by the Petitioners because Staff did not analyze the market value of any paths.

IV. Request for Comments

10. As part of ensuring that the Commission continues to meet its statutory obligations, the Commission, on occasion, engages in public inquiry to gauge whether there is a need to add to, modify, or eliminate certain policies or regulatory requirements. Following our review of the Petition and of Staff's 2019 and 2023 surveys, we are issuing this NOI to examine the practices of interstate natural gas pipelines related to the packaging of non-contiguous and/or operationally unrelated segments of capacity in a single auction or open season and the aggregation of bids across those segments to determine the highest value bid for the purpose of awarding capacity, as well as whether the Commission should continue to allow such practices. We invite comments from interested persons on what, if any, policy changes the Commission should implement, as well as the potential impacts of any such policy changes.

11. We invite interested persons to submit comments and reply comments on any or all of the questions listed below. Commenters need not respond to all of the questions.

A. Frequency of the Inclusion of Aggregated Non-Contiguous Segments in Capacity Postings

A1. In the Docket No. RM22-17-000 Petition for Rulemaking, Petitioners provided 15 examples of what they describe as “junk and jewel” postings from 2018 through 2022. If available, please provide the Commission with any more recent examples of postings pairing desirable, high-value capacity with unwanted, low-value capacity. Explain, with supporting data if possible, whether there has been a change in frequency of such postings since the filing of the Petition. Is the

publicly available information on pipelines' EBBs sufficient to identify the frequency with which pipelines offer non-contiguous and/or operationally unrelated paths for aggregated bidding?

A2. Please comment on the frequency with which shippers who were allowed to bid on multiple segments of capacity were awarded capacity in the auction despite bidding on only a portion of the posted capacity.

A3. It appears that the examples of "junk and jewel" scenarios provided by the Petition only include short-term (less than one year) capacity auctions. Please provide information that might explain why these scenarios are mostly occurring with short-term capacity auctions. If available, please provide specific examples of postings for long-term (equal to or greater than one year) capacity that use bid aggregation with non-contiguous and/or operationally unrelated segments of capacity.

A4. Please provide information on how and why non-contiguous and/or operationally unrelated segments are chosen to package together in the same open season. Comment as to what extent capacity that Petitioners label as "junk" is still required to serve certain markets.

A5. Please explain if there are any seasonal trends for available capacity postings, particularly for any non-contiguous paths that appear together in postings. What are the times of year at which these situations occur for short-term, seasonal, and long-term capacity? What, if any, market conditions (time of year, pipeline-specific business practices, market scenarios, etc.) elevate the potential for pipelines to post capacity with bid aggregation for non-contiguous and/or operationally unrelated capacity postings?

B. Impacts of Bid Aggregation on Pipeline Rates

B1. Please explain whether and how shippers do or do not receive the benefit of a rate reduction related to capacity awards of short-term capacity in rate cases (i.e., including billing determinants and revenues in the test period, along with selection of the test period itself). Provide examples from specific rate cases if possible. Include information about distance-based allocation and zoned billing determinants.

B2. Petitioners claim that current Commission policy allows for pipelines to collect revenue from shippers above the Commission-approved maximum tariff rates by packaging high-value segments with non-contiguous and/or operationally unrelated low-value segments. Please explain in more detail. If this practice is effectively allowing pipelines to collect over the maximum tariff rate, then please provide other methods for awarding capacity desired by multiple customers.

C. Customers and Operational Need

C1. Petitioners argue that LDCs, municipal gas systems, and industrial customers have an operational need for segments of capacity to serve LDC load or a power plant or manufacturing facility but, due to various constraints, cannot justify bidding on other segments of the “effectively tied” capacity that they do not need for their customers. Given the short-term nature of the example contracts cited by Petitioners, please describe how these short-term contracts would help meet long-term load growth and please explain alternative solutions employed by these entities to meet their load growth and/or long-term supply needs.

C2. Please explain or provide specific examples of how certain shippers such as LDCs and municipal gas systems might not have the creditworthiness to bid on

multiple unrelated paths to increase their chance of winning valuable capacity or how they might be subject to a prudence review from state regulators for bidding on non-contiguous and/or operationally unrelated capacity packages.

C3. Please explain to what extent industrial customers are prohibited from bidding on non-contiguous and/or operationally unrelated capacity packages.

D. Potential Policy Changes

D1. Please comment on whether the Commission should change its current policy, which allows bid aggregation on non-contiguous segments so long as shippers are not required to bid on undesired segments of capacity. Explain any issues that the Commission should consider when determining whether to make this policy change. What policy and/or regulation changes should the Commission implement if it determines that it should no longer allow interstate natural gas pipelines to package non-contiguous and/or operationally unrelated segments of capacity in an open season? Explain any additional issues that the Commission should consider if it were to make this policy change (e.g., how should the Commission determine whether segments of capacity are non-contiguous and/or operationally unrelated, etc.). Additionally, please provide any potential alternative policy change and explain how it would be implemented.

D2. Explain how a policy change might affect short-term capacity auctions and how it would affect shippers (e.g., LDCs, marketers, producers, etc.) and interstate natural gas pipelines. Explain any interactions between this policy and the Commission's negotiated rate policy.¹⁶

¹⁶ *Nat. Gas Pipelines Negotiated Rate Policies & Pracs.; Modification of*

V. Comment Procedures

12. The Commission invites interested persons to submit comments and reply comments on the matters and issues addressed in this document, including any related matters or alternative proposals that commenters may wish to discuss. Comments are due **[INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]** and reply comments are due **[INSERT DATE 120 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. Comments must refer to Docket No RM22-17-000 and must include the commenter's name, the organization they represent, if applicable, and their address in their comments.

13. The Commission encourages comments to be filed electronically via the eFiling link on the Commission's website at <http://www.ferc.gov>. The Commission accepts most standard word-processing formats. Documents created electronically using word-processing software should be filed in native applications or print-to-PDF format and not in a scanned format. Commenters filing electronically do not need to make a paper filing.

14. Commenters that are not able to file comments electronically may file an original of their comment by USPS mail or by courier or other delivery services. For submissions sent via USPS only, filings should be mailed to: Federal Energy Regulatory Commission, Office of the Secretary, 888 First Street, NE, Washington, DC 20426. Submission of filings other than by USPS should be delivered to: Federal Energy Regulatory Commission, 12225 Wilkins Avenue, Rockville, MD 20852.

Negotiated Rate Pol'y, 104 FERC ¶ 61,134 (2003), *order on reh'g and clarification*, 114 FERC ¶ 61,042, *reh'g dismissed and clarification denied*, 114 FERC ¶ 61,304 (2006).

VI. Document Availability

15. In addition to publishing the full text of this document in the *Federal Register*, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through the Commission's Home Page (<http://www.ferc.gov>).

16. From the Commission's Home Page on the Internet, this information is available on eLibrary. The full text of this document is available on eLibrary in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in eLibrary, type the docket number excluding the last three digits of this document in the docket number field.

17. User assistance is available for eLibrary and the Commission's website during normal business hours. For assistance, please contact the Commission's Online Support at 202-502-6652 (toll free at 1-866-208-3676) or email at ferconlinesupport@ferc.gov, or the Public Reference Room at (202) 502-8371, TTY (202) 502-8659 or email at public.referenceroom@ferc.gov.

Authority: 15 U.S.C. 717–717z, 3301–3432; 42 U.S.C. 7101–7352; 43 U.S.C. 1331–1356.

By direction of the Commission.

Issued: March 21, 2024.

Debbie-Anne Reese,
Acting Secretary.

[FR Doc. 2024-06562 Filed: 3/28/2024 8:45 am; Publication Date: 3/29/2024]