

FERC Standards of Conduct

Training & Compliance

(Updated August 2006)

NGO Transmission, Inc.

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FERC Standards of Conduct

Background

➤ **Federal Energy Regulatory Commission (FERC)**

- regulates interstate natural gas pipelines
- responsible for ensuring that pipeline service is provided in a just, reasonable, and not unduly discriminatory manner

➤ **NGO Transmission, Inc. (NGO Transmission)**

- became a certificated interstate natural gas pipeline in fall 2003 as the result of a corporate reorganization
- subject to FERC's jurisdiction and regulation

➤ **Standards of Conduct**

- issued by FERC in November 2003 (revised in April and August 2004)
- govern interaction between pipelines and certain affiliates
- requires that pipelines function independently and without discriminating in favor of affiliates
- small pipelines are afforded a measure of flexibility
- compliance required by September 22, 2004

FERC Standards of Conduct

Basic Responsibilities

➤ **NGO Transmission**

- provide open access service in a just, reasonable, and not unduly discriminatory manner
- function independently of affiliates to the maximum extent practicable and pursuant to the organizational structure disclosed to FERC
- ensure that affiliated customers are *not* afforded a preference over unaffiliated customers
- file compliance materials at FERC and train employees

➤ **Employees**

- be familiar with the Standards of Conduct
- participate in training and execute training certification (attached)
- follow the standards and ask questions when they arise
- recognize that violations of the Standards of Conduct may result in the initiation of enforcement proceedings by FERC

FERC Standards of Conduct

Applicability to NGO Transmission

- The standards apply to “Transmission Providers,” which include “any interstate natural gas pipeline that transports gas for others...”
- NGO Transmission *is* a Transmission Provider and, thus, it is subject to the Standards of Conduct.
 - Although the size of a pipeline may affect *how* a compliance is implemented, it does not change the requirement to comply.
 - NGO Transmission was granted a partial waiver from certain standards.

FERC Standards of Conduct

Applicability to Affiliates

- The standards govern interaction with Marketing and Energy Affiliates.
- Marketing and Energy Affiliates include affiliates that:
 - are involved in transmission transactions
 - manage or control transmission capacity
 - buy, sell, or trade gas or electricity
 - engage in financial transactions relating to the sale or transmission of gas or electricity
- Certain entities are exempted from the definition of Marketing and Energy Affiliates:
 - affiliated, state-regulated local distribution companies that generally do not engage in off-system sales (*LDC exception*)
 - parent or service companies that do not engage in transmission or commodity activities
 - affiliated Transmission Providers

Standards of Conduct

Applicability to Affiliates (cont.)

➤ Marketing and Energy Affiliates of NGO Transmission include:

- Producers Gas Sales, Inc. (Producers)
- NGO Development Corporation (NGO Development)
- Licking Rural Electric (LRE)
- National Gas and Oil Cooperative (NGO Cooperative)

➤ NGO Cooperative

- FERC granted partial waiver of independent functioning and information disclosure standards.
- permits sharing of employees and information

Standards of Conduct

General Principles

➤ **Independent Functioning**

- Employees and others performing operational services on behalf of NGO Transmission must function independently from the employees of Marketing and Energy Affiliates.

➤ **Non-Discrimination Requirements**

- All customers and prospective customers must be treated in a non-discriminatory and non-preferential manner, regardless of whether they are affiliated with NGO Transmission.

INDEPENDENT FUNCTIONING

“A Transmission Provider’s employees engaged in transmission system operations must function independent from the employees of its Marketing and Energy Affiliates.” 18 C.F.R. § 358.2(a)

Independent Functioning

Separation of Functions (#1)

➤ **Requirement #1**

- Transmission Function employees must function independently of Marketing and Energy Affiliates.
- Functional independence may be compromised in emergency situations.
 - may take whatever action is necessary to keep the system in operation
 - emergency situations must be reported on the pipeline's website

➤ **Applicability**

- NGO Transmission must function independently of Producers, NGO Development, and LRE.
- Not applicable to NGO Cooperative pursuant to FERC waiver.

Independent Functioning

Separation of Functions (#2)

- **Requirement #2** – The Transmission Provider is prohibited from permitting the employees of its Marketing and Energy Affiliates from:
 - conducting system operations or reliability functions
 - having access to control facilities that would not be made available to unaffiliated customers

- **Applicability**
 - Employees of Producers, NGO Development, and LRE may not perform operational or reliability services on behalf of NGO Transmission.
 - To the extent that Producers, NGO Development, or LRE are afforded access to NGO Transmission's control facilities, NGO Transmission must be willing to afford the same access to unaffiliated customers that may request service in the future.
 - Not applicable to NGO Cooperative pursuant to FERC waiver.

Independent Functioning

Separation of Functions (#3)

➤ **Requirement #3**

- Transmission Providers may share officers and directors, support employees, field and maintenance employees, and risk management employees with their Marketing and Energy Affiliates.
- *No Conduit Rule* – shared employees and officers and directors must *not* function as a conduit for inappropriately sharing information with Marketing and Energy Affiliates or for otherwise circumventing the Standards of Conduct.

➤ **Applicability**

- NGO Transmission may share field, maintenance, and support staff with Producers, NGO Development, and LRE (line men, accounting services, etc.).
- NGO Transmission's senior officers and directors may hold similar positions with Producers, NGO Development, and LRE.
- These sharing arrangements should not be used to circumvent the Standards of Conduct (*e.g.*, if NGO Transmission is prohibited from disclosing information to Producers, NGO Development, and LRE, a shared officer should not act as a conduit for the exchange of the same information).

Independent Functioning

Identifying Affiliates on the Internet

➤ **Requirement**

- Transmission Providers must post certain affiliate information on their websites, including:
 - names and addresses of Marketing and Energy Affiliates
 - a list of any facilities and/or employees that are shared
 - an organizational chart
- Information must be updated promptly in accordance with timing requirements listed in the standards.

➤ **Applicability**

- NGO Transmission posted documents in compliance with this standard.

Independent Functioning *Transfers*

➤ **Requirement**

- Employees may transfer between a Transmission Provider and its Marketing and Energy Affiliates, provided any such transfer is not used to circumvent the Standards of Conduct.
- Transfer notices must be posted on the Transmission Provider's website.

➤ **Applicability**

- Employees may transfer between NGO Transmission, Producers, NGO Development, LRE, and NGO Cooperative provided the purpose is not to inappropriately exchange information or otherwise end-run the standards.
- NGO Transmission will post transfer notices on its website.

Independent Functioning

Books and Records

➤ **Requirement**

- Transmission Providers must maintain their books of account and records separately from Marketing and Energy Affiliates.
- Books and records must be maintained in accordance with FERC's guidelines (Uniform System of Accounts, Retention Policy).
- A Transmission Provider's books and records must be made available for FERC inspection upon request.

➤ **Applicability**

- NGO Transmission's books and records must be kept separately.
- NGO Transmission is required to follow FERC's accounting and records retention policies.

Independent Functioning

Written Procedures

➤ **Requirement** – Transmission Providers must:

- file a compliance plan at FERC
- post written procedures on their websites explaining how the standards are implemented
- distribute written procedures to their employees and the employees of Marketing and Energy Affiliates
- train employees and require employees to sign certification
- designate Chief Compliance Officer

➤ **Applicability**

- NGO Transmission filed a compliance plan at FERC and designated a Chief Compliance Officer.
- NGO Transmission posted written procedures on its website and performed training.

NON-DISCRIMINATION

“A Transmission Provider must treat all transmission customers, affiliated and non-affiliated, on a non-discriminatory basis, and must not operate its transmission system to preferentially benefit its Marketing or Energy Affiliates.” 18 C.F.R. § 358.2(b)

Non-Discrimination

Information Access

➤ **Requirement**

- Transmission Providers must ensure that employees of Marketing and Energy Affiliates are not afforded preferential access to information (*i.e.*, access to information that is greater than what is or would be afforded to other customers *via* the Transmission Provider's website).

➤ **Applicability**

- NGO Transmission must not afford Producers, NGO Development, or LRE with preferential access to information. Information that NGO Transmission gives to Producers, NGO Development, and LRE must also be made available to unaffiliated third parties, to the extent that unaffiliated third parties contract for service in the future.
- Not applicable to NGO Cooperative pursuant to FERC waiver.

Non-Discrimination

Prohibited Disclosure

- **Requirement** - Transmission Providers must not give information to Marketing and Energy Affiliates that is not otherwise available to other customers.
 - NGO Transmission may not give Producers, NGO Development, or LRE information that is not, or would not be made, available to other unaffiliated customers.
- **Requirement** - A Transmission Provider may not share information obtained from unaffiliated shippers or potential shippers with Marketing and Energy Affiliates.
 - If NGO Transmission acquires information from an unaffiliated customer or potential customer, such information cannot be shared with Producers, NGO Development, or LRE (recall *no conduit rule* applicable to shared officers and directors).
- **Requirement** – If information is improperly disclosed to a Marketing or Energy Affiliate, the Transmission Provider must immediately post such information on its website so that it is available to all other entities.
 - If NGO Transmission discloses information to Producers, NGO Development, or LRE in violation of the standards, such information must then be posted on NGO Transmission’s website.

Non-Discrimination

Prohibited Disclosure (cont.)

- **Requirement** – Unaffiliated customers may consent to the disclosure of information to Marketing or Energy Affiliates, in which case notice of such consent must be posted on the Transmission Provider’s website.
 - An unaffiliated customer or potential customer may consent to NGO Transmission’s disclosure of information to Producers, NGO Development, or LRE. If so, NGO Transmission must post a notice on its website.
- **Requirement** – Employees, officers, directors, etc. are not permitted to act as information conduits if disclosure of information would otherwise violate the standards (*no conduit rule*).
 - If NGO Transmission shares information with senior officers and directors, such officers and directors may not disclose the information to Producers, NGO Development, or LRE if such information cannot be disclosed by NGO Transmission directly.
- **Requirement** – Transmission Providers may share information with affiliates when necessary to maintain system operations.
 - NGO Transmission may share information with Producers, NGO Development, and LRE when necessary to maintain reliability.

Non-Discrimination

Implementing Tariffs

➤ **Requirement**

- Transmission Providers must strictly enforce all tariff provisions that do not permit the exercise of discretion.
- Tariff provisions that permit the exercise of discretion must be implemented in a fair, impartial, and non-discriminatory manner.
- Similar requests for service must be processed similarly and within the same period of time.
- Transmission Providers must maintain and post a written log, that is available for FERC audit upon request detailing circumstances when discretion under the tariff is exercised.
- Transmission Providers may not give preference to Marketing or Energy Affiliates.

➤ **Applicability** – NGO Transmission must observe these standards when implementing its tariff.

Non-Discrimination

Discounts

➤ **Requirement**

- Transmission Providers must post discount offers on their websites.
- FERC policy further specifies that discounts must not be afforded in an unduly discriminatory manner (*i.e.*, a discount that is made available to one shipper must be made available to similarly situated shippers).

➤ **Applicability**

- NGO Transmission generally does not award or offer discounts, although customers and potential customers are free to request discounts.
- To the extent NGO Transmission grants a discount request, it must be willing to accept the same discount request if made by a similarly situated shipper.
- Likewise, to the extent NGO Transmission offers a discount to a shipper, it must post such offer and be willing to make the discount available to similarly situated shippers.

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Chief Compliance Officer

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Certification of Completion

I _____ certify that I have completed NGO
(Print Name)
Transmission, Inc.'s training on the Standards of Conduct
adopted by the Federal Energy Regulatory Commission.

Date _____

Signature _____