Pipeline Construction under Blanket Certificate Authority
EBA Brown Bag/Teleconference

Michael J. McGehee
Director, Division of Pipeline Certificates
Office of Energy Projects
Federal Energy Regulatory Commission

Washington, DC  February 22, 2012
Build What?

That’s a lot of pipe!

Did he use the Blanket?
In the United States, there are approximately 217,300 miles of interstate natural gas transmission pipeline.

Case Processing Paths

NATURAL GAS ACT

Section 7(c) Interstate
- Case Specific
- Automatic

Section 3 Import/Export
- Blanket Authority
- Prior Notice
- Case Specific

February 22, 2012 Federal Energy Regulatory Commission
- New Blanket Certificate updated older “budget-type certificates” to include various routine activities

- Only natural gas companies which have been issued an NGA section 7 certificate and had rates accepted by the Commission are eligible for a blanket certificate

- Intended to provide streamlined procedures which increase flexibility and reduce regulatory burden

- Allows various routine activities without the need for a case-specific section 7 certificate
Blanket Certificates

Automatic Authorization

- Cost of facilities is less than $10.8 million in 2012
- Certain facilities are “eligible” facilities
- 45-day landowner notification
- Annual Report

Prior Notice

- Cost is between $10.8 and $30.8 million in 2012
- 60-day notice period prior to construction
- Certain facilities are “eligible” facilities
- Annual Report
Blanket Certificates

Automatic Authorization

- Projects have relatively little impact on ratepayers, operations or the environment
- Must meet environmental requirements
- Must use existing approved rates

Prior Notice

- Projects could raise concerns, therefore, notice and protest procedures
- Must meet environmental requirements
- Must use existing approved rates
Blanket Certificate Program Expansion
Order No. 686

- Extends Blanket Certificate eligibility to mainlines, storage field facilities, and facilities receiving gas from LNG or synthetic natural gas plants

- New projects subject to **Prior Notice** so that FERC staff and the public can ensure
  - New activities do not adversely affect existing customers’ rates and services
  - New activities do not have an adverse impact on environmental, safety, and security issues
Mainline projects - include compression and loop line facilities

- Can increase mainline capacity
- Still allows mainline replacements

Storage

- Automatic authority - for remediation and maintenance activities – no change in certificated parameters
- Prior Notice – re-engineer facility to change cushion/working gas ratios, improve injection/withdrawal capabilities, add more cycles
Section 2.55

- All Section 2.55 facilities are jurisdictional
  - By regulation, not statute, the facilities are exempt from further NGA section 7(c) authority because the pipe, ROW, and environmental conditions have already been certificated

- Section 2.55(a) Auxiliary installations
  - For obtaining more efficient or economical operation

- Section 2.55(b) Replacements
  - Physically deteriorated or obsolete facilities
  - Equivalent designed delivery capacity
Importance of Data Systems in Pipeline Construction under Blanket Certificate Authority

Achieving compliance in regulatory reporting for pipeline construction projects

February 22, 2012
Draft Discussion Document Only
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Deloitte Center for Energy Solutions

The Deloitte Center for Energy Solutions provides a forum for innovation, thought leadership, groundbreaking research, and industry collaboration to help companies solve the most complex energy challenges.

Through the Center, Deloitte’s Energy & Resources Group leads the debate on critical topics on the minds of executives — from legislative and regulatory policy, to operational efficiency, to sustainable and profitable growth. We provide broad solutions through a global network of specialists and thought leaders.

With locations in Houston and Washington, D.C., the Deloitte Center for Energy Solutions offers interaction through seminars, roundtables and other forms of engagement, where established and growing companies can come together to learn, discuss and debate.
The regulatory reporting challenge

Accurate, complete, and timely regulatory reporting is essential as regulators have publically stressed their increased reliance on this information. In addition, regulators have added resources to analyze regulated firm submissions to identify potential industry-wide risk. Firms have to find the right balance between the data needed to meet their regulatory needs and the operational requirements to produce the data with acceptable quality.

### Regulator’s Focus
- Timely, complete, and accurate filing of regulatory reports
- Risk identification by the regulators of potential firm-specific issues or industry-wide issues:
  - Usage of data analytics to compare firms to each other
  - Analysis of data across reports
  - Reconciliations of different report types

### Industry Response
- Remediation of Identified Issues
- Enhanced Operating Model / Governance
- Risk-based Testing and Monitoring

### Firm’s Focus
- Struggle to keep up with the changing regulatory environment
- Solve the immediate regulatory reporting issue while developing affordable and sustainable longer term solutions
- Implementation of more regulatory focused controls to complement their more traditional controls environment

Searching for the right sustainable balance
Compliant regulatory reporting – it’s all about data

Understanding your regulatory reporting requirements and working back to key data and metadata elements can assist a regulated company in developing a governance framework and process over the integrity of information. Our approach not only assesses the health of the data, but also provides insights into the root causes and potential remediation needed to prepare the data for load into the target regulatory report and serve as a foundation to an ongoing sustainable monitoring process.

Our framework consists of five distinct stages that include:

- **Data Strategy and Risk Assessment** – Establishes the program framework, scope and prioritization
- **Data Quality Analysis** – Provides an understanding of the data and is a key input into the data cleansing/remediation plan
- **Data Remediation** – Prepares the data and addresses anomalies and exceptions
- **Data Validation** – Confirms that data are loaded completely and as intended
- **Data Quality Monitoring** – Sustains data quality and provides a mechanism to measure the quality of the data post go-live

<table>
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<tr>
<th>Accelerator</th>
<th>Description</th>
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<tr>
<td>Data Quality Methodology</td>
<td>Implementation focused methodology for data quality work streams.</td>
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<tr>
<td>Data Quality Reference Architectures</td>
<td>Specific reference architectures for the leading data quality tools. Reference architectures are available for a variety of technology scenarios (e.g., use of MDM technologies, hosted solutions).</td>
</tr>
<tr>
<td>Data Quality Risk Matrix for Key Data Domains</td>
<td>Specific risk matrix that shows the key risks and data quality considerations for the key data domains.</td>
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<tr>
<td>Data Profiling Quick Start Scripts and Templates</td>
<td>Custom data profiling scripts that can be used to quick start the data profiling efforts. Data profiling scripts are developed in SAS and would be executed on Deloitte hardware.</td>
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<tr>
<td>Data Quality Business Rule Library for Key Data Domains</td>
<td>Library of specific data quality business rules for key data domains.</td>
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<tr>
<td>Data Quality Scorecard Templates</td>
<td>Summary and detail level scorecards for reporting data quality issues and to track the data quality remediation progress.</td>
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[Data Quality Dashboard Image]

Summary of Data Discrepancies Category:

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<tr>
<td>Buy/Sell</td>
<td>11</td>
<td>1%</td>
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Total Reconciled Transactions: 1,762
Data accuracy promotes consistent regulatory determinations

**Key inputs**
- Project plan
- Project data
- Regulatory framework

**Goal**
- Ensure that people, process and technology accurately capture changes in data throughout pipeline construction projects to allow for accurate and consistent regulatory determinations

**Key issues**
- Data entry into multiple systems
- Communication of changes in project data from field workers to data managers and regulatory/legal staff
- Building the regulatory report from multiple systems
- Confidence that the regulatory report reflects complete details of construction activities

**Keys to results**
- Capture project data in one system
- Communication of changes among field workers, data managers and regulatory/legal staff
- Understanding the importance of data quality

**Results**
- Increased data accuracy promotes
  - Consistent regulatory determinations
  - Fewer supplemental reports
  - Decreased man hours
  - Overall compliance
Methodology to achieve Continuous Monitoring (CM) of regulatory reports

Four steps designed to move towards data quality and regulatory reporting transparency

**Key Activities**

**Risk Categorization**
- Develop process flow from source system to reports
- Identify processes and controls to address risks
- Determine analytic tests aligned to controls and business rules

**Data Aggregation**
- Identify source systems and data flow from source to report
- Data extraction & data integrity check using Extract, Transform & Load (ETL) & test queries
- Gap analysis between reports and test queries to enable standardized data

**Analytics Application / Testing**
- Iteratively fine tune the rules (Analytics, Business Regulatory)
- Perform risk-based testing and develop analytics models to determine anomalies
- Determine root cause of any issues identified

**Continuous Monitoring**
- People, process, and technology aligned
- Apply rule and model based analytics for continuous monitoring of transactions
- Identify/monitor key changes and issues. Determine & implement resolution

**Inputs**

- Risk maps
- Process Flow
- Data Sources
- Detection algorithms
- Exception Transaction Handling Rule-set

**Results**

- Requirements & Data Specification
- Data Warehouse
- Exception Reports
- Management Dashboard
# Contact information

For more information about our regulatory reporting and compliance risk management services, please contact:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Contact Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bill Hederman</strong></td>
<td>Director</td>
<td>Phone: 1 703 885 6450 Mobile: 1 202 421 9543 E-mail: <a href="mailto:whederman@deloitte.com">whederman@deloitte.com</a></td>
</tr>
<tr>
<td><strong>Sam Bennikutty</strong></td>
<td>Senior Manager</td>
<td>Phone: 1 704 887 1685 Mobile: 1 704 778 8301 E-mail: <a href="mailto:sbennikutty@deloitte.com">sbennikutty@deloitte.com</a></td>
</tr>
<tr>
<td><strong>Blake Jones</strong></td>
<td>Senior Consultant</td>
<td>Phone: 1 713 982 2286 Mobile: 1 713 705 4883 E-mail: <a href="mailto:bljones@deloitte.com">bljones@deloitte.com</a></td>
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BEST PRACTICES
FOR ENSURING COMPLIANCE
WITH FERC PART 157
BLANKET CERTIFICATES

Glenn S. Benson
Perkins Coie LLP
February 22, 2012
OVERVIEW

- Culture of Compliance
- Pre-Construction Procedures and Protocols
- Procedures for After Commencement of Construction
- Reporting Structure
- Training
- Auditing and Evaluation
- Accountability
CULTURE OF COMPLIANCE

- Begins at top: Senior management must take active role in fostering compliance
- Time and effort must be invested in creation, monitoring, and growth of compliance program
- Communicate commitment to compliance frequently
- Organizational Structure (e.g., Director of Blanket Certificate Compliance, reporting structures, layered review)
- Clear Assignment of Responsibilities
- Hiring, Training and Supervision
- Compensation Structure
- Corporate Policies (e.g., for landowner notice, timing of prior notice filings, environmental compliance)
CULTURE OF COMPLIANCE

"Leadership is the art of getting someone else to do something you want done because he wants to do it."

- Dwight D. Eisenhower
PRE-CONSTRUCTION PROCEDURES AND PROTOCOLS

- Institutionalized layers of review, including legal
  - Project description forms
  - Eligible Facility Determinations
  - Automatic Authorization or Prior Notice?
  - Determinations of environmental compliance required
  - Section 2.55 determinations for auxiliary installations and facility replacements
  - Segregation of projects
  - Permit/Environmental Completion Reports that includes checklist of
    - all required permits and clearances
    - all applicable FERC requirements/restrictions under Subpart F (including FERC's ESA, NHPA requirements, and restrictions on sensitive environmental areas, noise emissions, nuclear proximity)
    - FERC Section 380.15 siting and maintenance compliance measures
  - Preparation of Prior Notice filings
PRE-CONSTRUCTION PROCEDURES 
AND PROTOCOLS (Continued)

- Management and Legal Review of PCR and Permits
- Additional Scrutiny for Projects > $1M
- Additional Scrutiny (Initial Review and Tracking on single spreadsheet) for Projects within 5% of Cost Limit
- Policy for when should obtain case specific Section 7 authority (e.g., difficult obtaining “no effect” determination from SHPO)
- Easements and Confirmation of landowner notification compliance
- Procedures for resolving landowners issues
- Effect of protests to prior notice filings
PROCEDURES FOR AFTER COMMENCEMENT OF CONSTRUCTION

- Adherence to Commitments, Permits, Clearances and FERC’s Regs
  - Upland Erosion Control and Revegetation and Maintenance Plan
  - Wetland and Waterbody Construction and Mitigation Procedures
- Applicable completion deadline
- Risk Differentiated Monitoring of Project Costs
- Procedures for Cost Overruns
- Accounting for Segregated Projects (Northern Natural)
- Annual Reporting to FERC and senior management review
- Processes for submitting project information to reporting office
COMPANY REPORTING STRUCTURE

- Should be designed to ensure compliance
- Project Manager should report and certify to Independent Compliance Officer
- Independent Compliance Officer should report to CEO, the Board, or Committee thereof
TRAINING

- Accurate and Up-to-Date training materials
- New employees
- Frequent, continuing training for existing employees, including real world examples
- When and where to get help
- Documentation
AUDITING AND EVALUATION

- Both unscheduled and at regular intervals

- Goal is twofold:
  - Deterrence and detection of violations
  - Evaluation of effectiveness of compliance program and how to improve
ACCOUNTABILITY

- Prompt cessation and reporting of violations
- Tie performance assessments and compensation to regulatory compliance, without discouraging reporting up of mistakes
- Appropriate disciplinary actions
ACCOUNTABILITY

- "It is difficult to get a man to understand something when his salary depends upon his not understanding it."  Upton Sinclair
CONCLUSION

- Compliance starts at the top and should permeate an organization
- Should be reflected in hiring, training, supervision, compensation, and discipline
- Need clear assignment of responsibilities, chains of review, and reporting
- Importance of clear and thorough procedures and protocols
- Continually monitor, evaluate, update, and refine
QUESTIONS?