

Next Generation * Natural Gas (NG)²

Information Requirements Executive Summary

The Energy Information Administration (EIA) has initiated the **Next Generation * Natural Gas (NG)²** project to design and implement a new and comprehensive information program for natural gas to meet customer requirements in the post-2000 time frame. This effort is in response to regulatory changes and the evolving structure and operations of the industry that have impacted the needs of EIA's customers for its data and other information products. EIA has undertaken this effort so that its natural gas data and analysis programs will reflect the information appropriate to a restructured industry. The (NG)² project uses input from public policy makers and other natural gas information users to identify and define the information needed for policy making, and to assess the gas industry's performance. This assessment includes addressing supply, demand and price developments within the industry; the competitiveness of the industry; and determinants of long-term demand.

EIA has developed an Information Requirements report which presents a draft set of data requirements that have been identified for the new information program. This Executive Summary gives an overview of the report. The full report contains four sections that:

- discuss the economic issues and public policy questions that the natural gas information program intends to address.
- present a brief background description of EIA's current data collection program.
- describe how these requirements can be used to assess the performance of the industry and what issues are associated with the requirements.
- present a table detailing the proposed data requirements.

Information users and providers are invited to comment on the proposed data requirements. EIA plans to consider these comments during the process of validating and refining a final set of data requirements.

After the final data requirements are established, EIA plans on implementing new and revised data collection and information programs. The plan for the implementation process includes innovative design and collection techniques and thorough testing of proposed collections. Collection of information by survey forms is only one option that will be investigated to address any new data requirements. In every stage of the (NG)² project, EIA plans to seek cooperation and feedback from natural gas information stakeholders. The (NG)² project is a long-term effort that has an ultimate completion date of January 1, 2003, with portions of the project becoming operational as soon as January 2001.

Public Policy and Economic Issues

The public's need for information about the natural gas industry has changed with restructuring. Public policy now relies on competition to ensure adequate supplies, low costs, and reasonable prices to consumers. Competition in exploration, development, and production appears to be vigorous. Storage facilities are multiplying and marketers are selling increasing volumes of gas. Residential and other small volume customers traditionally purchased gas solely from local distribution companies, but increasingly, these customers find they have a choice of suppliers. At present, many still depend upon their local distribution companies to purchase their supplies, but the number of alternate arrangements is growing. Where customer choice prevails, the gas commodity is delivered by the still regulated pipelines and local distributors. Both the transition to a competitive market with continued deliveries by monopoly common carriers, and the

perpetuation of utility companies as regulated merchants raise issues of public policy. Consequently there is a need to confirm that market mechanisms are working as intended. Public policy makers are also looking to natural gas to supply new competitive electricity generators and, longer term, to displace more carbon intensive fuels. Data are needed to make realistic assessments of the ability of the gas industry to support these policy objectives.

Regulatory reform has greatly complicated the task of collecting price data about the industry. Before regulatory reform, companies reported extensive financial information to regulators who verified that the costs and profits satisfied regulatory guidelines. Because pipelines and local distribution companies owned the gas in their custody, they knew the purchase and sales prices. In that environment EIA only had to survey a relatively small number of firms to obtain a complete picture of physical flows, financial returns, and prices in the industry. Today, pipelines and increasing numbers of distribution companies are becoming open-access transporters of natural gas. Because gas shipped along an open-access transporter generally is priced in unreported private deals, the transporter is not expected to reliably know the prices of the gas transported for others. In addition, entities which did not exist a decade ago (i.e., marketers, independent storage facilities, spot markets, and futures markets) are now central to the industry operation. The data collected under EIA's traditional approach have come to describe only a portion of the industry, and they fragment price, quantity, and financial data.

Summary of Objectives

The *Next Generation * Natural Gas* project is a multi-year effort intended to produce a revised information system reflecting the new realities that have resulted from regulatory reform and the new competitive structure of the industry. Collection of the targeted information is expected to rely on a combination of survey forms and secondary sources. Achieving a successful new program will support EIA's goal to serve policymakers and private decisionmakers with high quality, timely, and comprehensive energy information.

A number of features of the data redesign effort have been identified, including:

- EIA has long maintained quality coverage of volumes of gas delivered to consumers. It is expected

that this quality and coverage can be maintained under the new information program.

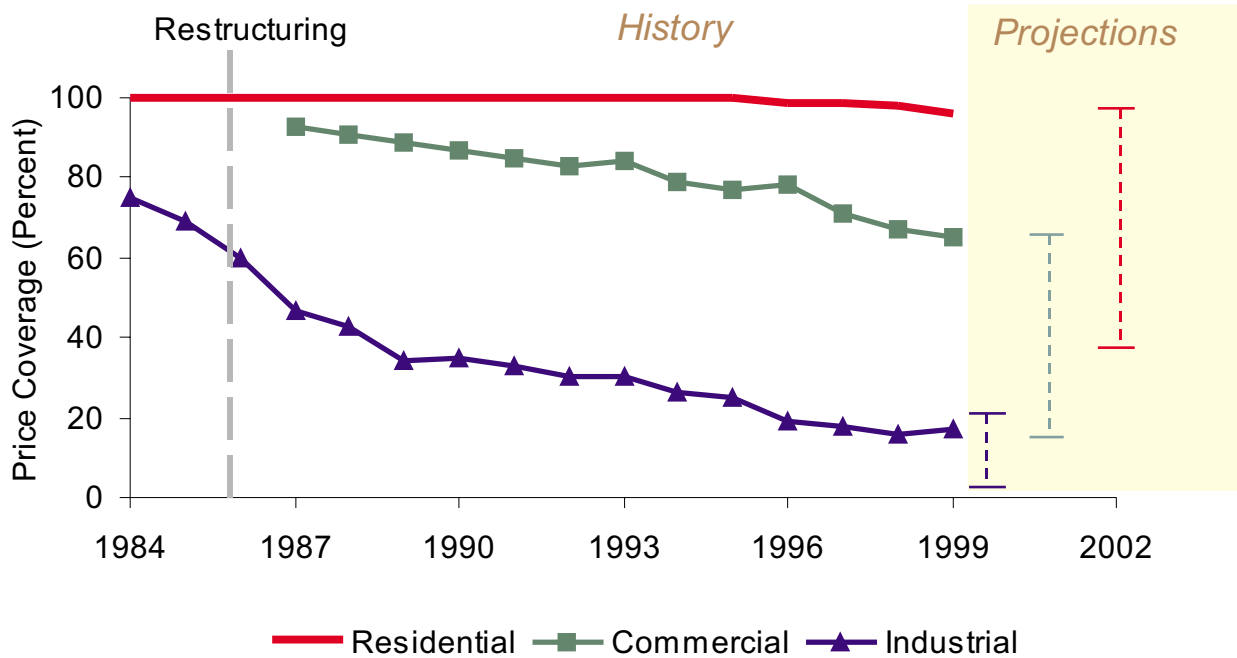
- The usefulness of consumer sector definitions must be reconsidered. Would categorizations such as large- versus small-volume commercial consumer, or residential versus nonresidential consumer be more useful than the present classification scheme that aggregates commercial and residential customers?
- EIA's coverage of prices has declined as the industry has restructured. It is expected that EIA can improve its coverage of prices with the new information program.
- Because consumer price information can no longer be gathered from a single source (primarily the local distribution companies), the price may be developed from several components and sources. This will pose a challenge to maintain coverage and quality of data.
- The ability to understand the impact of new market institutions, such as unbundled local distribution companies, and their role in the efficient functioning of the marketplace is important and needs to be addressed in a comprehensive information program.

Current Data Collection Program

Most elements of EIA's current natural gas data collection program have been in place for more than 20 years. During this period as the industry has restructured, coverage of certain of its aspects has declined. It is expected that the current data collection program will be revised and expanded to address this coverage decline and to address new information requirements.

The most notable change in coverage has occurred as the physical and financial flows of gas in the market place have diverged. EIA's current data collections effectively track the volumes of gas flowing from processing plants and border points of entry through pipelines to storage and end-use customers. However, the coverage of prices has declined as marketers and other new players have entered the industry. The respondents that provide volume data to EIA often no longer know the associated prices. Price coverage has declined sharply in the industrial sector (by 80 percent) and significantly in the commercial sector (by 20 percent) (Figure SR1). Coverage of residential

Figure SR1. Price Coverage by Sector Has Declined in Recent Years



Source: EIA, Office of Oil and Gas, Natural Gas Division.

prices could also decline soon as customer choice programs for purchasing natural gas are implemented in several States. For example, the State of Georgia has mandated retail supplier choice for many of the State’s natural gas residential and commercial users. These developments are expected to impact EIA’s coverage of these prices in Georgia.

Data Requirements

The data requirements were developed from the results of a series of focus groups that were conducted by EIA with representatives of various groups including the gas industry, state governments, economists, Federal officials, and others; the results of executive interviews conducted by EIA with industry representatives and Congressional staff; and meetings with EIA industry experts. The data requirements were developed with careful consideration of the public policy and economic issues described above.

The data requirements are grouped into seven categories: domestic supplies, foreign trade, storage, consumption, transportation, distribution, and markets. The full Information Requirements report describes how the requirements for these categories can be used to assess the performance of the industry and what issues are associated with the requirements. While the need for financial characteristics of companies and environmental data have been raised in discussions with users, the current effort is focusing more directly on market issues.

Information User and Provider Comments

The full Information Requirements report is on the EIA website at http://www.eia.doe.gov/oil_gas/natural_gas/ng2/ng2main.html. Information users and providers are invited to comment on the proposed data requirements. Your comments may be directed to: Ann Ducca, ann.ducca@eia.doe.gov, (202) 586-6137 or William Trapman, william.trapmann@eia.doe.gov, (202) 586-6408.