



**FERC**

# **Standards Of Conduct Training For Contractors and Agents**

(Updated March 13, 2008)



## Standards of Conduct Training For Contractors and Agents

This training is being provided to you because you are a contractor, consultant, representative or agent (or employee of a contractor, consultant, representative or agent) doing work for one of the following affiliated interstate gas transmission pipelines, hereinafter referred to as Affiliated Gas Pipelines (you may be working for another affiliated entity but the training is applicable if the work is ultimately for the benefit of an Affiliated Gas Pipeline):

- Natural Gas Pipeline Company of America (NGPL)
- Kinder Morgan Interstate Gas Transmission Company (KMIGT)
- Rockies Express Pipeline LLC (Rockies Express)
- TransColorado Gas Transmission Company (TransColorado)
- Trailblazer Pipeline Company (Trailblazer)
- Canyon Creek Compression Company (Canyon)
- Horizon Pipeline Company LLC (Horizon)
- Kinder Morgan Louisiana Pipeline L.L.C.\* (KMLP)
- Kinder Morgan Illinois Pipeline \* (KMIP)
- MidContinent Express Pipeline, LLC\* (MEP)

\* Was not yet in service as of the date this training was prepared (August 2007).



### BASIC MESSAGE:

- The primary thrust of this training is that non-public information about the Affiliated Gas Pipelines or their customers should not be disclosed to or discussed with any person outside of your company unless such person is an authorized representative or contact person for the particular Affiliated Gas Pipeline company for which (or on whose behalf) you are doing work.
- Non-public information is any information about the transportation system (including pipeline, compression and storage facilities) or services of an Affiliated Gas Pipeline, or any information about a customer of such a pipeline, which is not posted on the public portion of the pipeline's internet website. This would include non-public information regarding pipeline construction plans and activities, regulatory compliance and permitting, time schedules, issues that could affect in-service dates, capacity availability, operations, etc.



Interstate gas transmission pipelines are subject to comprehensive regulation by the Federal Energy Regulatory Commission (FERC). One important aspect of FERC regulation is a set of rules entitled the “Standards of Conduct.” The Standards of Conduct restrict how interstate gas transmission pipelines can interact with certain of their Affiliates, called “Marketing Affiliates,” a term which is defined in Slide Nos. 8-14.



The Standards of Conduct apply to interstate gas transmission pipelines and their employees. The Standards of Conduct also apply to anyone doing work, directly or indirectly, for interstate gas pipelines, such as contractors, consultants, representatives or agents and their employees. That is why you are taking this training.



### \* \* \* WARNING \* \* \*

- The consequences to the Affiliated Gas Pipelines of non-compliance with the Standards of Conduct can be severe.
- Non-compliance can also have serious direct adverse consequences for contractors, consultants, representatives and agents, since liability for violations can extend to “any person.”
- Under the Energy Policy Act of 2005, potential penalties can be up to \$1 million per day per violation.
- In addition to potential regulatory liability, non-compliance might also result in termination of your existing contracts and/or may affect eligibility for future contracts.



# QUESTIONS

If you have any questions about the Standards of Conduct or their applicability in any specific situation, contact one of the Compliance Officers identified on Slide 35.



The Standards of Conduct relate to interactions between interstate gas transmission pipelines and their respective Marketing Affiliates.

- ❖ FERC defines a Marketing Affiliate as an Affiliate (10% interest is presumed to create an Affiliate relationship) which engages in gas marketing, sales or brokering activities.
- ❖ Includes sales for resale of natural gas in interstate commerce, except for incidental purchases or sales of natural gas to operate interstate gas transmission facilities.
- ❖ Marketing or brokering of electric energy does not make an entity a Marketing Affiliate of its affiliated interstate gas transmission pipelines.
- ❖ An entity is a Marketing Affiliate of an interstate gas transmission pipeline only if it is conducting transportation or storage transactions on that pipeline.



### The following are the types of entities which are Marketing Affiliates of the Affiliated Gas Pipelines:

1. Certain producing, gathering and/or processing companies (See slide 10).
2. Marketing Companies Affiliated with Equity Owners (See Slide 11).
3. The Commodity Unit of Texas Intrastate Pipelines (See Slide 12).
4. Horizon\* only: A Nicor Affiliate (See Slide 13).
5. Canyon Creek\* Only: Certain Questar and El Paso Affiliates (See Slide 13).
6. Rockies Express\* Only: Certain affiliates of Sempra, Encana and ConocoPhillips (See Slide 13).



### Certain Producing, Gathering and Processing Entities:

1. For TransColorado only, Red Cedar Gathering Company.
2. For KMIGT only, KM Upstream LLC.



### Marketing Companies:

The following gas marketing companies are Marketing Affiliates of one or more of the Affiliated Gas Pipelines because an entity with an equity ownership in the indirect parent company of the pipeline or of its Managing Partner also owns an interest in the marketing company:

- J. Aron & Co.
- Niska Gas Storage LLC
- Tenaska Gas Storage LLC
- Tenaska Marketing Ventures
- SemGas, L.P.



### Intrastate Entities

Under an exemption granted by FERC, a limited group of employees in the following Texas intrastate or Hinshaw pipelines, identified as the Commodity Sales Unit, has been designated as a Marketing Affiliate of NGPL:

- Kinder Morgan Texas Pipeline, LLC.
- Kinder Morgan Tejas Pipeline, LLC
- Kinder Morgan North Texas Pipeline, LLC



### JOINT VENTURE PIPELINES

Certain of the Affiliated Gas Pipelines are joint ventures with other owners: Horizon, Canyon Creek and Rockies Express. These pipelines have or may have Marketing Affiliates based on the joint venture owners, as follows:

- Horizon – A Nicor Gas Affiliate
- Canyon Creek – Certain Questar and El Paso Affiliates
- Rockies Express – Certain Affiliates of Sempra, Encana and ConocoPhillips



Marketing Affiliates may change from time to time and you may not personally know who works for these various entities. To protect yourself, your employer and your interstate gas pipeline customers, you should not discuss interstate gas pipeline business with any person outside your company who is not either an authorized representative of the interstate gas pipeline company for which you are doing work or a contact person designated by such an authorized representative.



The Standards of Conduct encompass three basic concepts:

- 1) Independent Functioning. Interstate gas transmission pipelines and their Marketing Affiliates must function independently of each other, which means that certain employees, activities, functions, facilities, records and files of an interstate gas transmission pipeline must be kept separate from those of the pipeline's Marketing Affiliates.
  
- 2) No Preference. Interstate gas transmission pipelines may not give preferential treatment to any of its Marketing Affiliates in providing transmission or storage services
  
- 3) Prohibited Disclosure of Information. Interstate gas transmission pipelines may not share certain types of information with any of its Marketing Affiliates unless that information has been publicly posted on that pipeline's internet web site.



Independent Functioning: The Standards of Conduct require that many employees, activities, functions and facilities of interstate gas transmission pipelines must be kept separate from those of their Marketing Affiliates. For example:

- Organizational and operational separation is required.
- Interstate gas transmission pipelines and their Marketing Affiliates may not share personnel who make day-to-day business and operational decisions.
- Work areas must be kept separate.
- Certain files and records must be kept separate.
- Certain computer data bases must be maintained separately.



### Shared Functions:

Certain functions, however, may be shared: for example, interstate gas transmission pipelines and their Marketing Affiliates may generally share support personnel in such areas as Legal, Information Technology (IT), Risk Management, Human Resources, Travel and field operations.



No Preference: An interstate gas transmission pipeline may not treat its Marketing Affiliates any more favorably than nonaffiliates in connection with providing transmission or storage service.

- Preferential access to information is one of the primary concerns.



Prohibited Disclosure of Information:  
Interstate gas transmission pipelines may not share Prohibited Information (defined at slides 22 – 23) with their Marketing Affiliates, either directly or indirectly. This is referred to as the No Conduit Rule.



The No-Conduit Rule is most relevant to your relationship with the Affiliated Gas Pipelines and will be the primary focus of this presentation.



The No Conduit Rule: No interstate gas transmission pipeline nor any employee, consultant, agent, representative or contractor of such a pipeline, may disclose Prohibited Information (defined in the next 2 slides) to any Marketing Affiliate of that pipeline, directly or indirectly. Nor may such an employee, consultant, representative, agent or contractor use anyone else as a means (“conduit”) for sharing Prohibited Information with any Marketing Affiliate of that pipeline.



### Prohibited Information includes:

- Any non-public shipper information acquired from actual or potential customers of the interstate gas transmission pipeline, or developed in the course of responding to a customer's request for service (transportation or storage).
- Any transportation information about the transmission (including storage) system, services or operations of the interstate gas transmission pipeline which is not public (e.g., posted on the public portion of the interstate gas pipeline's internet web site).
- Any non-public transportation information about the transmission system of a third party.



- Prohibited transportation information includes but is not limited to non-public information about the transmission system of the interstate gas transmission pipeline or how it is operated, such as available transmission capability at any given time, the price of services, curtailments, storage, capacity and inventory, ancillary services, balancing, maintenance activity, capacity expansion plans, etc.



There are some exceptions permitting the disclosure of certain Prohibited Information. Nevertheless, those exceptions are very narrow and limited and would require consultation with management of the affected interstate gas transmission pipeline.



The No Conduit Rule applies to direct and indirect disclosure of Prohibited Information:

- Employees, consultants, contractors, representatives or agents of an interstate gas transmission pipeline cannot circumvent the information sharing restrictions by disclosing Prohibited Information to a third party who then passes the Prohibited Information on to a Marketing Affiliate of that pipeline.



# INFORMATION DISCLOSURE

What if Prohibited Information is disclosed?

- If Prohibited Information is disclosed to a Marketing Affiliate or its employees, including inadvertent disclosure, immediately contact a Chief Compliance Officer for the Affiliated Gas Pipelines (identified on Slide 35).
- FERC regulations require the immediate posting on the interstate gas pipeline's internet website of the Prohibited Information that was improperly disclosed.



### SAMPLE SCENARIO (1)

Situation: Clark Kent is a contractor who does work for the Human Resources department, which serves both Gotham Interstate Pipeline Company (Gotham), an interstate gas transmission pipeline and for Kryptonite Processing Company (Kryptonite), a Marketing Affiliate of Gotham. At lunch, Clark overhears a discussion by several operating employees of Gotham about a situation not yet announced which is going to result in capacity constraints on the Gotham pipeline by the end of the month. Later that afternoon, Clark mentions this situation to Lois Lane while they are discussing Lois' benefit package for next year. Lois is an employee of Kryptonite. Has there been a violation of the Standards of Conduct?



### SAMPLE SCENARIO (1) (CONT'D.)

Analysis: Yes. Clark Kent is a contractor doing work for a corporation which includes both an interstate gas transmission pipeline (Gotham) and a Marketing Affiliate of that pipeline (Kryptonite). Since he is working in a support function (Human Resources), this sharing is permitted. However, Clark Kent has improperly acted as a conduit for transportation information not yet publicly posted on Gotham's internet website, by disclosing this anticipated capacity constraint situation on Gotham to an employee (Lois Lane) of the Marketing Affiliate, Kryptonite. This disclosure violates the Standards of Conduct and also obligates Gotham to post this information on its internet website immediately.



### SAMPLE SCENARIO (2)

Situation: Bugs works at Ace Construction (Ace), which is constructing facilities for Acme Interstate Gas Transmission Pipeline Company (Acme). Bugs lives next door to Daffy, who works for Looney Tunes Processing (Looney Tunes), a Marketing Affiliate of Acme. Saturday, Bugs and Daffy share lemonade after mowing their adjacent lawns. Bugs tells Daffy that construction problems (not yet publicly announced) will delay by at least 3 months completion of Acme's new lateral. Has a violation of the Standards of Conduct occurred?



### SAMPLE SCENARIO (2) (CONT'D.)

Analysis: Yes. The Standards of Conduct prohibit disclosure by an interstate gas pipeline (Acme) of any non-public information about its system to a Marketing Affiliate (Looney Tunes). This prohibition extends to disclosure by employees, consultants, agents, representatives and contractors of Acme, such as Ace and its employees (Bugs). Bugs has improperly acted as a conduit for non-public transmission information about Acme's system to the Marketing Affiliate (Looney Tunes). Acme is also obligated to post this information on its internet website immediately, now that it has been disclosed to an employee of Looney Tunes (Daffy).



### SAMPLE SCENARIO (3)

Situation: Claudius works for an Information Technology (IT) consulting firm. He provides IT services to Rome Energy Services (Rome), a parent company of Tiber Interstate Pipeline Company (Tiber). Tiber has a Marketing Affiliate, Legion Marketing (Legion). Claudius is updating Tiber's system for maintaining customer information. While testing the new system, Claudius notes that Hannibal Intrastate Pipeline Company (Hannibal), which has a facility near his house, has just made an offer for a storage contract with Tiber. Hannibal is not affiliated with Rome or Tiber. Claudius meets Nero, an Account Manager at Legion, for a drink that evening. He tells Nero about the Hannibal offer, including the prices, volumes and points. Has a violation of the Standards of Conduct occurred?



### SAMPLE SCENARIO (3) (CONT'D.)

Analysis: Yes. Claudius works in a support function (IT) which can properly be shared by Tiber and Legion. Nevertheless, the Standards of Conduct prohibit disclosure of non-public shipper information about a customer (Hannibal) by an interstate gas pipeline (Tiber) to any of its Marketing Affiliates (Legion). This prohibition extends to disclosure of such shipper information by Tiber's employees, consultants, agents, representatives or contractors, such as Claudius. Disclosure by Claudius of the Hannibal offer to Nero, an employee of Legion, therefore constitutes improper disclosure of shipper information to a Marketing Affiliate.



### SAMPLE SCENARIO (4)

Situation: Hamilton works for Continental Fabrication (Continental), which builds and sells compressor units and related equipment for gas transmission pipelines, including Congress Interstate Gas Transmission (Congress). Jefferson is an Account Manager for Liberty Bell Gathering (Liberty Bell), a gathering and processing company which is a Marketing Affiliate of Congress. Congress is currently curtailing transportation service because one of its compressor units is out of service. Jefferson is visiting Hamilton to talk about some equipment for a gathering system owned by Liberty Bell. Hamilton mentions to Jefferson that there has been a delay in replacing the compressor unit for Congress due to fabrication problems. Has a violation of the Standards of Conduct taken place?



### SAMPLE SCENARIO (4)

Analysis: Yes, unless the delay has already been publicly posted by Congress. The delay in replacement of the compressor unit represents transportation information about the transmission system of an interstate gas transmission pipeline (Congress) which may not be disclosed to an employee (Jefferson) of the Marketing Affiliate (Liberty Bell) unless that information has been posted on the public portion of Congress' internet website. This prohibition extends to contractors doing work for Congress, such as Continental. Given the disclosure, Congress will now have to post this information on the public portion of its internet website immediately.



If you have any questions on any aspect of this training, or its applicability to a specific situation, please contact one of the following Chief Compliance Officers:

Sheila R. Tweed – Deputy General Counsel  
Tel. (713) 369-8874

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