

UNITED STATES OF AMERICA¹⁰⁷ FERC 61,094
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell and Joseph T. Kelliher.

ANR Pipeline Company

Docket No. RP04-216-000

ORDER REJECTING TARIFF SHEETS

(Issued April 30, 2004)

1. On March 15, 2004, ANR Pipeline Company (ANR) filed revised tariff sheets¹ proposing Hydrocarbon Dewpoint (HDP)² gas quality specifications pursuant to section 4 of the Natural Gas Act to be effective May 1, 2004. ANR filed the proposed provisions in response to the Commission's order of December 30, 2003 in Docket No. RP04-65-000.³ The Commission rejects the tariff sheets and provides guidance concerning gas quality tariff provisions. This order benefits the public by assisting in setting gas quality standards on ANR that will permit the safe and reliable transportation of natural gas.

Background

2. Indicated Shippers, producers of gas, alleged that a number of pipelines are changing their gas quality standards without making section 4 filings. Indicated Shippers are concerned that pipelines are restricting the amount of liquefiable hydrocarbons that enter their systems through improper means. When gas prices increase, it is less profitable to remove these hydrocarbons from the gas stream and sell them as natural gas liquids. Allowing them to remain in the gas stream flowing through the pipeline raises

¹ Fifth Revised Sheet No. 86; Second Revised Sheet No. 129; First Revised Sheet No. 130; Original Sheet No. 130.01; Original Sheet No. 130.02; and First Revised Sheet No. 131.

² The HDP is the temperature at which gas flow begins to change from a single gaseous phase to a dual gas and liquid phase in the gas stream.

³ Indicated Shippers v. Trunkline Gas Company, LLC, Docket No. RP04-64-000 and Indicated Shippers v. ANR Pipeline Company, Docket No. RP04-65-000 (not consolidated), 105 FERC ¶ 61,394 (2003).

the heat content, or British thermal unit (Btu) level, of the gas. It also means that liquefiable hydrocarbons are conveyed into regions with lower temperatures and may condense out of the gas stream. The resulting condensate may damage pipeline equipment through corrosion and obstruction.

3. On November 21, 2003, Indicated Shippers filed a complaint against ANR Pipeline Company in Docket No. RP04-65-000. They alleged, inter alia, that ANR's tariff permits gas to have a heat content of up to 1,200 Btu per cubic foot,⁴ but that ANR had restricted the Btu content of gas received in its Southeast (SE) system to no more than 1,050 Btu per cubic foot through Operational Flow Orders (OFOs) that had been issued since November 2001, and were then in effect until December 31, 2049. The OFOs were posted in the Critical Notice portion of ANR's website.

4. The Commission issued an order granting the complaint against ANR on December 30, 2003.⁵ The Commission stated that section 4(d) of the NGA requires pipelines to give notice and to make a filing with the Commission to change tariff provisions. The Commission found ANR had violated section 4(d) of the Natural Gas Act by making permanent changes to the gas quality standards in its tariff by posting OFOs on its website and that ANR had misused OFOs. The Commission required ANR to remove its then posted OFO of March 4, 2003 from its website on or before January 31, 2004. The Commission stated that it expected ANR to file a proposal concerning gas quality standards on its system as soon as possible.

5. On January 21, 2004, ANR filed a Notice of OFOs with the Commission. The Notice stated that ANR would impose an OFO for the month of February 2004, because the processing plants in the Southeast Area of its system would not operate for that month in the absence of a restriction from ANR on the Btu or HDP of gas to be transported.

6. Subsequently, on February 24, 2004, the Commission held a technical conference concerning ANR's gas quality standards. At the conference ANR made a presentation concerning its proposals for modifications to its existing gas quality provisions. It also stated that, based on continuing unfavorable processing economics, the processing plants on its system would not operate for the month of March 2004 and that ANR was again issuing a short-term OFO for the month of March 2004. ANR issued this OFO on

⁴ ANR's FERC Gas Tariff, Second Revised Volume No. 1, Section 13.1, Original Sheet No. 129.

⁵ 105 FERC ¶ 61,394 (2003).

February 27, 2004. ANR also stated that it would submit a tariff filing regarding gas quality standards prior to the end of the March OFO. ANR made the instant filing on March 15, 2004 under section 4 of the Natural Gas Act.

Details of Filing

7. In the instant filing, ANR proposes several revisions to its tariff concerning the gas quality standards in general and the HDP in particular.⁶ First, in Section 1.24A of the General Terms and Conditions of its FERC Gas Tariff (GT&C), ANR proposes to define HDP as “cricondentherm, the highest temperature at which the vapor-liquid equilibrium may be present.” ANR also proposes in this section a method for calculating the HDP, the Peng-Robinson equation of state.

8. ANR proposes to revise Section 13 of its GT&C by requiring that all gas delivered to it shall be of merchantable quality. In addition, ANR proposes in Section 13.2(a) that gas delivered to it be commercially free from objectionable odors, hydrocarbon liquids, and water which might interfere with merchantability or interfere with or injure the equipment through which it flows. ANR also proposes that gas received be free from any substance that might become separated from the gas in ANR’s facilities.

9. With respect to the HDP, ANR proposes in Section 13.2 (a) that, from time to time, as operationally necessary, ANR may establish and post on its Internet site a limit on HDP for receipts “consistent with this section.” The HDP limit will be on specified segments or other specified locations on ANR’s system. The purposes of the HDP limit

⁶ Hydrocarbon dew point level in a natural gas stream is the temperature at which a liquefiable hydrocarbon in the gas stream will condense at a given pressure. Gas transported in interstate pipelines is rarely pure methane, but rather a composition of methane (CH₄) and several other heavier hydrocarbons. The heating value of each hydrocarbon constituent is different, with the heavier hydrocarbon molecules containing a higher heating value than the lighter constituents. The heating value of a cubic foot of pipeline “natural gas” is, therefore, a function of the various hydrocarbon constituents of the gas. Dewpoint is a characteristic that varies with the composition of the gas. At a given pressure and as the temperature of the gas drops, heavier hydrocarbons change from a gaseous to liquid phase before lighter hydrocarbons. If, as part of the gas quality standard the dew point temperature is reduced, the heavier hydrocarbon constituents of the gas are the first to change from gaseous to liquid form. The result of a reduction in a dew point standard but retaining the same heating value is to reduce the heavier hydrocarbon constituents’ contribution to the heating value in favor of a mix of lighter hydrocarbons.

are to prevent hydrocarbon fallout and to assure that gas will be accepted for delivery into interconnects, including with interstate or intrastate pipelines, end-users, local distribution companies, and others. The proposal states ANR will attempt to provide such notice at least ten days prior to the effective date of the limitation. The notice will include the duration of the HDP limit. ANR may make an exception, to the extent operationally feasible, for meters that flow 500 Dt or less per day and are not upstream of a processing plant.

10. In Section 13.2(a)(i), ANR proposes that the HDP safe harbor for its system will be 15 degrees Fahrenheit. ANR may not refuse to accept delivery of gas with an HDP equal to or less than 15 degrees Fahrenheit, provided that the gas meets the other applicable provisions of ANR's Tariff. In this section, ANR also proposes that ANR may not make a posting under Section 13.2(a) that sets an HDP limit of less than 15 degrees Fahrenheit.

11. In Section 13.2(a)(ii), ANR proposes that it may accept gas with a higher HDP than that established and posted pursuant to Section 13.2(a) to the extent operationally practicable through aggregation or other reasonable means.

12. In Section 13.2(a)(iii), ANR proposes that if a posting pursuant to Section 13.2(a) contains an HDP limitation, it will make available the HDP at such a point on its internet site. It also proposes that it will make available, within 24 hours after making the calculation, each HDP "calculated per the above."

13. In Section 13.2(e), ANR proposes that gas received must be free of hydrocarbons in liquid form. ANR proposes in addition in this section that gas received shall not contain any excessive liquefiable hydrocarbons that might condense to free liquids in the pipeline under normal pipeline conditions

Notice, Interventions and Protests

14. Notice of the filing was issued on March 19, 2004 with protests and interventions due on March 31, 2004. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2003)), all timely filed motions to intervene and any motions to intervene out-of-time filed by the issuance date of this order are granted. As discussed below, a number of intervenors also filed protests.

15. The Wisconsin Distributor Group (WDG) filed a motion for leave to answer the protests and an Answer on April 7, 2004. Five of the members of WDG are parties to

this proceeding.⁷ The Commission will accept the Answer as it provides relevant information that leads to a more complete and accurate record.⁸ Acceptance of the Answer does not make the remaining member of the WDG a party to this proceeding.

Protests and Comments

16. Process Gas Consumers (PGC),⁹ Dominion East Ohio, Michigan Consolidated Gas Company (MichCon), Peoples Gas, and SEMCO Energy Gas Company (SEMCO),¹⁰ and PSEG Energy Resources & Trade LLC (PSEG),¹¹ conditionally support ANR's filing. These parties view gas quality as critical to the safety and reliability of their operations. In addition, the LDCs point out that they must comply with safety standards set by State public utility commissions. Nonetheless, these parties have further comments and protests as given below.

17. PGC asks the Commission to continue the on-going Commission and stakeholder discussions on gas quality regardless of a resolution in this or other individual pipeline proceedings and to make this proceeding subject to the outcome of the Docket No. PL04-3-000, the Commission's general proceeding on policies related to gas quality. Dominion East Ohio, MichCon, Peoples Gas, and SEMCO ask the Commission to consider HDP together with other gas quality issues. MichCon and SEMCO assert the HDP and Btu

⁷ The following members of WDG are parties to this proceeding because they filed a motion to intervene or such a motion was filed on their behalf: Alliant Energy--Wisconsin Power & Light Company, Madison Gas & Electric Company, Wisconsin Gas Company, Wisconsin Electric Power Company, and Wisconsin Public Service Corporation.

The following member of the WDG is not a party to this proceeding because they have not filed a motion to intervene: City Gas Company.

⁸ Northern Natural Gas Co., 85 FERC ¶ 61,223 at 61,915 (1998).

⁹ PGC is an association of industrial consumers of natural gas. The members are not listed in its motion to intervene.

¹⁰ Dominion East Ohio, MichCon, Peoples Gas, and SEMCO collectively referred to as LDCs.

¹¹ PSEG supports the gas service provided by Public Service Electric and Gas Company (PSE&G).

standards operate in tandem and should be considered together.¹² SEMCO states that natural gas appliances and equipment are designed for a nominal Btu range and exceeding this range can lead to safety problems. Dominion East Ohio asserts processing gas to the 15 degrees Fahrenheit HDP may increase the Btu content which could cause safety problems and decreased revenue since it bills gas based on volumes not heat content.

18. MichCon and SEMCO assert the Btu content should be from 950 to 1,100 Btu per cubic foot for gas delivered to the market¹³ as these values comply with the rules of the Michigan Public Service Commission (MPSC) for gas service to customers in Michigan.¹⁴ SEMCO asserts the Commission has recognized that LDCs must meet state gas quality standards and that it is in the public interest for interstate pipelines to have gas quality specifications that reflect the end users' needs.¹⁵ PGC opposes proposals to rapidly change the HDP level since industrial operations and environmental compliance need certainty. Accordingly, it asserts that ten days notice of changes in HDP is too little, that 30 days' notice should be required and also that there should be a maximum HDP level of 25 degrees Fahrenheit.

19. Gulf South Pipeline Company, LP (Gulf South), an interconnecting pipeline, protests the HDP of 15 degrees Fahrenheit. It states that it is located completely in the southern portion of the United States and does not have the operational problems that ANR experiences because the ambient temperature is greater. Gulf South states that if ANR adopts a safe harbor HDP of 15 degrees Fahrenheit, Gulf South's ability to deliver gas to ANR would be impeded and Gulf South's ability to compete for supplies at the

¹² MichCon gives as an example gas with a heating value of 1,100 Btu per cubic foot with an HDP of 30° F which, it states, would not be acceptable in its system because the heating value would be attributable to heavier hexane plus (C₆+) hydrocarbon components that would fall out in its system. SEMCO asserts that liquefied natural gas (LNG) may be able to meet the proposed HDP safe harbor of 15 degrees Fahrenheit, but may actually increase the Btu content of ANR's gas above the maximum level.

¹³ MichCon requests the Commission direct ANR to adopt ceilings of 0° F for the HDP and 1,100 Btu for heat content for gas delivered to the market area.

¹⁴ MPSC Technical Standards for Gas Service R 460.2382(2) and R460.2301(i) which specify a gas Btu content of 1,025 Btus per standard cubic foot, plus or minus 75 Btus at an absolute pressure of 14.65 psig and a temperature of 60° F on a dry basis.

¹⁵ Citing Natural Gas Pipeline Company of America, 104 FERC ¶ 61,322 at P 50 (2003).

wellhead would be diminished. Gulf South asks the Commission to: (1) provide a safe harbor for interstate pipeline and storage operators that deliver gas to another interstate pipeline that meets the delivering pipeline's quality specifications even when the specifications are different than those of the receiving pipeline; (2) clarify that the HDP of 15 degrees Fahrenheit is the specification applicable to a blended gas stream at specific locations along the pipeline rather than at specific receipt points; (3) suspend the filing and request that the National Gas Council develop industry wide gas quality specifications; and (4) avoid managing the national pipeline grid down to the lowest HDP level, but, instead, allow interconnecting pipelines greater flexibility to work together to provide reliable gas flows across the country.

20. Producers oppose ANR's proposal. Indicated Shippers¹⁶ and the Producer Coalition,¹⁷ as well as Aquila, Inc. dba Aquila Networks (Aquila) and Dominion East Ohio, assert ANR has not provided sufficient information to determine whether 15 degrees Fahrenheit is the correct safe harbor HDP. For example, they assert there is no information on the historic or current HDP value of the gas ANR transports either before or after processing.¹⁸ The producers claim the Commission examines the specific operational needs of a pipeline when it proposes to change gas quality standards¹⁹ and that the Commission required such documentation when ANR sought to reduce its maximum Btu limit.²⁰ The producers assert that the HDP standard set on ANR will affect

¹⁶ Indicated Shippers consist of BP America Production Company, BP Energy Company, Chevron Texaco Natural Gas, a division of Chevron U.S.A. Inc., Exxon Mobil Corporation, and Shell Offshore, Inc.

¹⁷ The Producer Coalition consists of Devon Energy Corporation, Dominion Exploration & Production, Inc., Forest Oil Corporation, The Houston Exploration Company, Kerr-McGee Oil & Gas Corporation, Newfield Exploration Company, TOTAL E&P U.S.A., INC., and Westport Resources Corporation.

¹⁸ Producers also seek information regarding the ambient ground and gas temperatures over an extended period of time; the level of pressure drops on ANR's system; the circumstances surrounding specific liquids fallout occurrences; the locations of lower-than-average operating temperatures; the level of and location of extreme high and low pipeline temperatures over the last five years; where and when rapid depressurization and repressurization contributes to hydrocarbon liquids fallout; and the HDP level ANR seeks to achieve for gas at specific pipeline interconnects or other delivery points on its system.

¹⁹ Northwest Pipeline Co., 74 FERC ¶ 61,256 (1996).

²⁰ ANR Pipeline Co., 81 FERC ¶ 61,412 at 62,867; 83 FERC ¶ 61,172 (1998)

gas that can be transported on Gulf South and Natural Gas Pipeline Company of America (NGPL), both of which are interconnected with and deliver gas to ANR. Producers ask the Commission either to reject the filing or to establish an evidentiary hearing to develop a record regarding the correct HDP limits needed to protect ANR's system as the Commission did in Natural Gas Pipeline Company of America.²¹

21. The producers also seek many clarifications and modifications of ANR's proposal. Among these are: (1) including the reason for an HDP limit when one is posted; (2) clarifying that if no HDP posting is made then there is no HDP limit, rather than that the safe harbor HDP of 15 degrees Fahrenheit level goes into effect; (3) explaining the criteria for determining which points will be subject to a given HDP posting; (4) providing HDP information to all interested parties, not just to shippers at a point; (5) assuring that ANR's HDP limits will apply only to points on or interconnections with its system and not to points on other system such as the High Island Offshore System, LLC (HIOS) system; (6) only requiring individual shippers to provide proof of processing if gas at the tailgate of a processing plant does not comply with ANR's posted HDP limit; (7) eliminating references to substances that might become separated from the gas and excessive liquefiable hydrocarbons that might condense from Sections 13.2(a) and 13.2(d) as they are no longer needed if an HDP limit is adopted; (8) using current data for HDP calculations; (9) using C₁₀₊ data rather than C₆₊ data for its HDP calculations; (10) establishing monitoring points at significant operational locations on its system and posting the HDP levels on a daily basis so that shippers will know when HDP levels are high; (11) clearly defining the mechanisms or methodology to be used for aggregation; (12) clarifying that ANR will not use its OFO procedures to impose an HDP limit that is lower than its safe harbor level; and (13) clarifying that ANR will only use its OFO procedures to impose an HDP limit lower than the safe harbor level for 30 days and will not impose such lower levels by issuing short-term OFOs one after another.

22. The WDG, in its Answer, asserts that the HDP of 15 degrees Fahrenheit proposed safe harbor level is not arbitrarily low, but is a compromise and that an operational point is much lower, for example 0 degrees Fahrenheit. It also asserts that LDCs and end users have made substantial investments in facilities premised on the level of gas quality that producers had delivered which included processing of the gas to remove liquefiable hydrocarbons. It also states that processing plants for the gas already exist in upstream locations. The WDG asserts that it would be both expensive and wasteful and that LDCs should not be required to install slug catchers and other equipment at hundreds of delivery points.

²¹ Natural Gas Pipeline Company of America, 104 FERC ¶ 61,322 (2003).

Discussion

23. Based on a review of ANR's filing and various parties' protests, we agree that ANR has not provided enough supporting documentation to fully justify its proposed tariff revision as required by §§ 154.201 and 154.204 of the Commission's regulations.²² Among other things, those regulations require a pipeline to include with its filing, "documentation whether in the form of workpapers, or otherwise, sufficiently detailed to support the company's proposed change." § 154.201(b). Specifically, ANR failed to provide any documentation to show how it derived its proposed HDP of 15 degrees Fahrenheit and why that figure is appropriate for the safe operation of its system under various operating conditions. For example, the filing includes no engineering studies or exhibits of any kind to support ANR's assertion in its transmittal letter (at 4) that, "based on current operating conditions and the current practice of the processing plants, 15 degrees Fahrenheit is the highest level at which ANR could allow unprocessed gas on the system and likely not experience problematic liquid fallout." Nor does ANR provide any standards by which it will decide when and where it will accept gas with a higher HDP, or how those standards were derived. The Commission rejects ANR's gas quality proposal without prejudice to ANR filing, in a new proceeding, a fully supported proposal.

24. The Commission does not dispute the fact that the introduction of liquids above some level in a pipeline, either in liquid form or accruing through condensation, can cause operational problems and can result in accelerated deterioration of the pipeline and related facilities. But the interstate natural pipeline industry is not premised on transporting an absolutely pure product. Not all gas introduced into interstate pipelines is pure methane. The gas introduced into interstate pipelines has always been a mix of hydrocarbons and other constituents, including some level of water vapor, oxygen, nitrogen, carbon dioxide, and other components. Taken either individually or in combination, and above certain levels, heavier hydrocarbon components and contaminants can have deleterious consequences for pipeline operations and can cause pipeline deterioration. Taken either individually or in combination and below certain levels, pipeline operations take their presence into account and pipeline deterioration is accounted for.

25. ANR proposes an HDP of 15 degrees Fahrenheit. Gulf South questions why gas delivered to areas in the south must meet such a low HDP. On the other hand, the Michigan and Wisconsin utilities believe that ANR faces operational conditions that would require an HDP below 15 degrees Fahrenheit to guarantee no hydrocarbon liquid condensation. ANR has presented no documentation that either supports its proposed

²² 18 C.F.R. §§ 154.201 and 154.204 (2003).

HDP on a system-wide basis or a segmented basis.²³ Nor has it provided any segment or site specific support that would justify its contention that an HDP level above 15 degrees Fahrenheit would cause operational problems.

26. If ANR decides to propose an HDP safe harbor level or a flexible HDP standard in a future filing, the Commission would expect ANR to support its proposal with documentation. That documentation should include an identification of historical levels of liquids by pipeline segment, month, operating conditions and associated documented liquid related operational problems if any. Further, it should include an analysis of seasonal operating conditions that would establish parameters for establishing an HDP level for specified segments of its system. ANR might have to establish that its HDP proposal is appropriate for an operational segment, and not necessarily driven by just a single facility such as a meter or pressure reduction facility.

27. ANR also proposes to revise Section 13 of its GT&C by requiring that all gas delivered to it shall be of merchantable quality. ANR does not define what it means by this term, what criteria it intends to use, how it intends to monitor the gas stream for merchantability, what penalties or actions it intends to impose for violations, or to whom it would assess the penalties or who would be subject to its actions. The Commission rejects this proposal as providing ANR with undue discretion. Further, this provision undermines the certainty of the proposed HDP tariff proposal by providing, in effect, a shipper must abide by the tariff's quantitative gas quality standards or any other standards that ANR might decide to impose at ANR's discretion. The discretion in ANR's proposal is similar to the gas quality tariff language the Commission recently found to be unjust and unreasonable as implemented by certain pipelines.²⁴

28. Further, the Commission has initiated a proceeding on natural gas quality standards in Natural Gas Interchangeability, Docket No. PL04-3-000. Parties to that proceeding have informed the Commission of the National Gas Council's and North American Energy Standards Board's efforts to develop industry wide gas quality measurement and quality specifications and practices that meet the pipeline grid's and the market's needs. As the issues of gas interchangeability and merchantability are national issues, the Commission would prefer, if the industry can reach agreement, to have standards that take into account the movement of gas throughout the pipeline grid. The

²³ Indeed, the Commission notes that in Docket No. RP98-81-000, ANR, speaking in terms of its system and HDP, stated that it often sees temperatures as low as 25 degrees. ANR Pipeline Co., 83 FERC ¶ 61,172 at 61,716 (1998).

²⁴ Indicated Shippers v. Columbia Gulf Transmission Co. and Indicated Shippers v. Tennessee Gas Pipeline Co., 106 FERC ¶ 61,040 (2004).

Commission will act on individual pipeline proposals regarding the quality of gas received by pipelines if there are operational concerns. If the industry cannot achieve a consensus on some or all of the gas merchantability and interchangeability issues on the delivery end of the pipelines, the Commission will have to use other means to address the issues. The Commission is also aware that resolution of the down-stream issues will likely require additional pipeline tariff modifications to receipt point gas quality standards.

Rejection of Filing

29. The Commission finds that the filing does not contain sufficiently detailed documentation to support it, as required by the Commission's regulations.²⁵ The proposed tariff sheets do not comply with the Commission's regulations. Accordingly, the Commission rejects the proposed tariff sheets without prejudice to ANR's filing another proposal concerning gas quality standards in accordance with the guidance given and the information specified in this order.

The Commission orders:

The tariff sheets listed in Footnote No. 1 of this order are rejected.

By the Commission. Commissioner Kelly not participating.

(S E A L)

Linda Mitry,
Acting Secretary.

²⁵ 18 C.F.R. §§ 154.201(b) and 154.204 (2003).

Appendix 1

ANR Pipeline Company
Docket No. RP04-216-000

Interventions and Protests

Alliant Energy Corporate Services, Inc. as Agent for Wisconsin
Power and Light Company and Interstate Power and Light Company
Aquila, Inc. dba Aquila Networks
Atlanta Gas Light Company
Aux Sable Liquid Products LP*
Baltimore Gas and Electric Company
BP America Production Co. & BP Energy Co.
Chevron Texaco Natural Gas, a division of Chevron U.S.A. Inc.
Consumers Energy Company
Duke Energy Trading and Marketing, L.L.C. and
Duke Energy Marketing America, L.L.C.
East Ohio Gas Co., dba Dominion East Ohio Gas Co.***
ExxonMobil Corporation
Gulf South Pipeline Company, LP***
Independent petroleum Association of America
Indicated Shippers**
Madison Gas & Electric Company
Michigan Consolidated Gas Company*
Nicor Gas*
The Peoples Gas Light and Coke Company and North Shore\
Gas Company*
Process Gas Consumers Group**
Producer Coalition**
ProLiance Energy, LLC
PSEG Energy Resources & Trade LLC*
SEMCO Energy Gas Co.*
Shell Offshore Inc.
Wisconsin Electric Power Co. and Wisconsin Gas Company
Wisconsin Public Service Corp.

*Comments

**Protest

***Limited Protest