

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

July 15, 2005

In Reply Refer To:
Northern Natural Gas Company
Docket No. RP05-376-000

Northern Natural Gas Company
P.O. Box 3330
Omaha, NE 68103-0330

Attention: Mary Kay Miller, Vice President
Regulatory and Government Affairs

Reference: Revisions to IDD Rate Schedule

Ladies and Gentlemen:

1. On June 15, 2005, Northern Natural Gas Company (Northern) filed revised tariff sheets¹ to modify its provisions for posting storage inventory allocations under its Interruptible Deferred Delivery (IDD) Rate Schedule, effective July 16, 2005. Under its current tariff, Northern may post a daily storage inventory allocation when IDD shippers have positive storage balances that may affect Northern's ability to accommodate firm storage obligations. When Northern posts a daily storage inventory allocation, Northern prohibits IDD shippers with a positive storage balance from injecting gas for the duration of the inventory allocation period. IDD shippers with a negative storage balance may only inject until their balance is zero. Northern, however, expresses concerns that posting daily storage inventory allocations is disruptive to shippers who use IDD service to help balance their market and supply by storing or borrowing gas. Northern notes that excessively high storage balances forced it to post storage inventory allocations last year for almost the entire second half of its injection season. Northern asserts that it currently has no means to force an IDD shipper to remove its excess storage inventory to accommodate firm storage obligations until that shipper's IDD contract expires, at which point it may confiscate the excess gas pursuant to section 5 of its IDD Rate Schedule.

¹ Seventh Revised Sheet No. 146 and Eighth Revised Sheet No. 269 to its FERC Gas Tariff, Fifth Revised Volume No. 1.

2. Accordingly, Northern revises its IDD Rate Schedule to provide IDD shippers additional flexibility to inject and withdraw gas during allocation periods while at the same time giving an additional incentive for IDD shippers to remove excess storage inventories by the end of the storage allocation period. Under its proposal, Northern will post on its Web site storage inventory allocations when excessive storage levels may prevent it from accommodating firm storage obligations. When Northern posts a storage inventory allocation, it will include the duration of the allocation period and any actions it requires of such shippers, based on whether the shipper has a positive or negative storage balance. As an example, Northern states that during projected high storage balances (*i.e.*, during the injection season), it will require any IDD shipper having a positive storage balance to have a balance at the end of the allocation period not higher than its balance at the beginning of the allocation period. Similarly, any IDD shipper having a negative storage balance must have a storage balance at the end of the allocation period not greater than zero. Likewise, during a period of low storage balances (*i.e.*, during the withdrawal season), any IDD shipper having a negative storage balance must have a balance at the end of the allocation period not lower than it had at the beginning of the allocation period. Similarly, it will require any IDD shipper having a positive storage balance to have a storage balance at the end of the allocation period not less than zero. Northern provides that, in either type of storage inventory allocation, shippers may pursue whatever storage activities they choose in the interim (*e.g.*, injecting or withdrawing volumes) as long as: (1) their storage balance at the end of the inventory allocation does not exceed the required level; or, (2) Northern is not allocating daily IDD activity.

3. As part of its proposal, Northern proposes: “In the event an IDD Shipper does not comply with an IDD inventory allocation, at the end of an allocation period, Northern shall invoke the provisions of section 5.c below on the applicable account balance.” Northern’s currently effective section 5.c governs what happens to IDD storage gas left on Northern’s system after a shipper’s contract expires, providing that:

Any positive balance remaining in Shipper’s IDD Service Agreement after the grace period² shall become the property of Northern at no cost to Northern, free and clear of any adverse claims. Any negative balance remaining in Shipper’s IDD Service Agreement after the grace period shall

² Section 5 of IDD Rate Schedule provides that “Northern shall provide Shipper at least three (3) business days notice prior to termination of its IDD Service Agreement that a balance remains in Shipper’s IDD account. Shipper shall have fifteen (15) days from the date of termination to withdraw or inject quantities to bring its IDD account balance to zero. The fifteen (15) day period (“grace period”) will be extended by one (1) day for each day on which Shipper nominates gas to be injected or withdrawn but Northern is unable to schedule such nomination.”

be invoiced to the Shipper at 150% of the Index Price,³ as defined below, for the day on which Shipper's IDD Service Agreement terminated. The value of this gas shall be credited to shippers in accordance with Section 57 of the "General Terms and Conditions" of this Tariff.

Northern proposes no changes to section 5.c. Northern proposes its storage inventory allocation modifications so that it can better manage its storage inventories, and so shippers' have the flexibility to use Northern's IDD service to balance its markets and supplies during allocation periods.

4. The Commission noticed Northern's filing on June 21, 2005, allowing for protests as provided by section 154.210 of the Commission's regulations. Pursuant to Rule 214, 18 C.F.R. § 385.214 (2004), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. Madison Gas & Electric Company (Madison) filed a protest, which we discuss below. Northern filed an answer. Generally, the Commission does not permit answers to protests (*see* 18 C.F.R. § 385.213 (2004)). However, the Commission will accept Northern's answer in order to fully consider the proposal.

5. Northern's proposal increases the operational flexibility of shippers during storage inventory allocations, and will allow Northern to better manage its storage services. Accordingly, we conditionally accept Northern's revised tariff sheets effective July 16, 2005, as further discussed below.

6. Madison supports Northern's proposal to modify its storage inventory allocation mechanism, but finds certain elements of Northern's proposal vague. Madison recommends that Northern clarify how it intends to implement its proposal and define the extent of IDD shipper rights during an allocation period. Specifically, Madison requests that Northern include and clarify in its tariff: (1) notice procedures for posting an IDD storage inventory, including what information will be included in the notice; (2) conditions under which Northern may issue an IDD inventory allocation; (3) what storage activities, if any, Northern will permit during an inventory allocation; (4) what a shipper's storage inventory levels must be at the close of the allocation period; and, (5) that the grace period set forth in section 5.b of Northern's IDD Rate Schedule will apply to IDD shippers during storage inventory allocations. Madison notes that, although Northern discusses some of these issues in its transmittal letter, it does not include them

³ The currently effective index price is the average of the prices at Northern-Demarcation, Northern-Ventura, El Paso, Permian Basin, and Panhandle, Tx-Okla.

in its tariff revisions. Madison includes in its protest suggested tariff language for Northern to incorporate.

7. In its answer, Northern provides additional tariff language it proposes to incorporate into its IDD Rate Schedule to address Madison's concerns. Northern's additional tariff language: (1) establishes the conditions under which Northern may post an IDD storage inventory allocation; (2) explains what shippers' imbalances need to be at the close of any IDD inventory allocation period; (3) requires Northern to post on its Web site notice of an IDD inventory allocation at least 24 hours prior to the timely nomination deadline for the gas day on which the allocation period is to commence; and, (4) requires Northern to provide notice of a grace period of one day for each day that Northern cannot schedule an IDD shipper's nominations to comply with an IDD inventory allocation during the last two weeks of any allocation period. In response to Northern's proposed tariff changes, Madison filed a motion concurring with Northern's modified proposal and agreeing to withdraw its protest should the Commission adopt these changes.

8. We find that Northern's proposal will enable it to better manage its storage operations and provide shippers more opportunities to use the IDD service. Accordingly, we accept the tariff sheets listed in footnote 1 to become effective July 16, 2005, subject to the condition that Northern file revised tariff sheets, within 15 days of the date this order issues, incorporating the modifications proposed in its answer.

By direction of the Commission.

Linda Mitry,
Deputy Secretary.

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