FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

November 30, 2005

In Reply Refer To:
Northern Natural Gas Company
Docket No. RP00-404-018

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

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

Reference: Implementing Phase 2 of Segmentation Plan

Ladies and Gentlemen:

1. On April 1, 2004, Northern Natural Gas Company (Northern) filed a Field Area segmentation proposal[1] in its Order No. 637 compliance proceeding in Docket No. RP00-404-012. Northern's segmentation plan included two phases. Under Phase 1, Northern proposed to create a segmentation point at the boundary between MID 7 and MID 8 in its Field Area, designating it MID 7/8.[2] According to the plan, shippers could segment capacity in the Field Area if: (1) they split their existing service agreement into two new contracts created specifically to facilitate segmented transactions; and, (2) their existing service agreement had a primary receipt point south of MID 7/8 and a primary delivery point north of MID 7/8, or vice versa. Under Phase 2, Northern proposed to: (1) allow segmenting shippers to amend their agreements to include the two associated segments on the same contract; and, (2) establish primary points and paths for each segment as well as alternative points and paths.

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[1] The Commission did not require Northern to offer segmentation in its Market Area due to the reticulated nature of its system.

[2] Northern divides its Field Area into 17 specific segments called Mileage Indication Districts (MIDs).

2. On August 4, 2004, the Commission issued an order[3] in Docket No. RP00-404-014 accepting Phase 1 of Northern's segmentation proposal. Phase 1 became effective on September 1, 2004. The Commission also directed Northern to file a one-year report summarizing segmentation activity on its system. The Commission deferred action on Phase 2 until it reviewed Northern's one-year segmentation report. Northern filed its report on July 1, 2005. According to the report, three shippers segmented five contracts during Phase 1, segmenting a total contract quantity of 80,000 Dt per day into 160,000 Dt per day. Segmented quantities totaled about 8.6 Bcf of gas, accounting for about three percent of Field Area throughput for that period. Northern reported that implementing Phase 1 of its segmentation plan cost about $0.75 million, and projected costs of $2.25 million for implementing Phase 2. On September 20, 2005, the Commission issued an order[4] in Docket No. RP00-404-017 accepting the one-year segmentation report and directing Northern to implement Phase 2 of its segmentation plan.

3. In the subject filing, Northern files revised tariff sheets[5] to implement Phase 2 of its segmentation plan. Under Phase 2, Northern would allow shippers to segment through the nomination process. This deviates from Northern's original Phase 2 proposal, which would have required segmenting shippers to amend their current contracts to include the two associated contract segments. Northern states that it changed its original proposal at the request of shippers. According to Northern, to implement Phase 2, it will modify its Contract Management System (CMS) and Transportation Management System (TMS) so they will recognize and identify the segmenting shipper's contractual rights and scheduling priorities. Northern states that, under its proposal, a shipper requesting segmentation will retain its existing contract, and the existing contract maximum daily quantities (MDQ) will be available to the shipper at the primary receipt and delivery points both north and south of the MID 7B segmentation point. Northern states that, should a shipper nominate quantities at or below the contractual MDQ, Northern will schedule the nominations on a primary or secondary basis depending on the points. Northern states that, should a shipper nominate quantities above the contractual MDQ, Northern will schedule the nominations that exceed a segment's MDQ on an interruptible basis. Northern adds that its modified CMS and TMS systems will recognize and schedule the alternate nominations as within or outside the path. Northern includes with its filing examples of how it will operate Phase 2 of its segmentation under various segmenting plan scenarios.

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[3] 108 FERC ¶ 61,124 (2004).

[4] 112 FERC ¶ 61,316 (2005).

[5] Third Revised Sheet No. 260A and Fourth Revised Sheet No. 305A to its FERC Gas Tariff, Fifth Revised Volume No. 1.

4. Northern proposes to implement Phase 2 effective April 1, 2007. According to Northern, Phase 2 requires extensive modifications to its CMS and TMS systems. Northern states that it is currently overhauling its CMS system, and expects to complete the work by February 28, 2007. Northern plans to incorporate any Phase 2 changes into its current system modification. Northern states that, by doing so, it will save between $500,000 and $600,000. Further, Northern argues that February 28, 2007, falls in the middle of a heating season. Northern asserts that, due to the significant changes to the capacity scheduling and allocation systems that Phase 2 requires, it does not want to implement Phase 2 during a heating season. Accordingly, Northern proposes Phase 2 to become effective April 1, 2007.

5. The Commission noticed Northern's filing on October 6, 2005, allowing for protests to be filed as provided by section 154.210 of the Commission's regulations. Aquila, Inc., filed comments in support of Northern's proposal. CenterPoint Energy Resources Corporation and the Northern Municipal Distributors Group and Midwest Region Task Force Association also filed comments. Generally, both parties oppose Northern proceeding with Phase 2 of its segmentation plan, arguing that costs outweigh the benefits based on the limited use of segmentation use during Phase 1. However, both parties state that, should the Commission direct Northern to proceed with Phase 2, they support Northern's subject proposal, including the implementation date.

6. We accept Northern's revised tariff sheets implementing Phase 2 of its segmentation plan. Most of Northern's shippers generally support or do not oppose Northern's proposed plan. Implementing Phase 2 will benefit shippers by promoting competition and increasing transportation service options. Implementing Phase 2 should also increase the use of segmentation on Northern's system since it will simplify the administrative contracting process for segmented capacity. Two parties express concern over the estimated $2.25 million cost of implementing Phase 2 of Northern's segmentation plan. As we held in our September 20, 2005, Order,[6] we do not find this cost excessive given the size of Northern's system and importance of providing segmentation options to shippers. Finally, accepting Northern's segmentation plan brings Northern more fully into compliance with the segmentation requirements of Order No. 637. Additionally, we accept Northern's proposed implementation date of April 1, 2007.

[6] 112 FERC ¶ 61,316 at 62,411 (2005).

This will provide Northern with enough time to make necessary modifications to its CMS and TMS systems, and will not require Northern to implement its revised plan in the middle of a heating season.

By direction of the Commission.

Magalie R. Salas,
Secretary.

cc: All Parties

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