

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Grama Ridge Storage and Transportation, LLC Docket No. PR05-16-000

ORDER APPROVING PETITION FOR RATE APPROVAL

(Issued December 21, 2005)

1. On July 29, 2005, Grama Ridge Storage and Transportation, LLC (Grama) filed a petition requesting authority to continue to charge market-based rates for firm and interruptible storage services performed under section 311 of the Natural Gas Policy Act (NGPA). It also requests that the Commission not impose any triennial rate review requirement. Grama also urges the Commission to grant similar authority for its proposed interruptible hub services. For the reasons discussed below, the Commission will authorize Grama to charge market-based rates for its firm and interruptible section 311 storage services and interruptible hub services, on the condition that Grama notify the Commission if its current market power status changes in the future. Additionally, Grama is directed to file an updated market power analysis within five years of the date of this order.

Background

2. Grama is a limited liability company and a subsidiary of Enstor, Inc. The company is an “intrastate pipeline” within the meaning of section 2(16) of the NGPA and Part 284 of the Commission’s regulations implementing the NGPA. Grama is currently providing storage services under section 311 of the NGPA from an underground natural gas storage reservoir known as the Grama Ridge Storage Facility. The storage facilities owned by Grama include certain associated lands, injection wells, withdrawal wells, compression facilities, station piping and processing equipment located in southeastern New Mexico. Grama’s facilities are interconnected with four natural gas pipelines, and have a total working capacity of 4.5 billion cubic feet.

3. Grama purchased the subject facilities from Raptor Natural Pipeline, LLC, on May 4, 2005. The Commission first authorized market-based rates for the firm and interruptible section 311 storage services performed at these facilities in August 6, 1996.¹

¹The Commission first granted market-based rate authority, subject to triennial rate review condition, for storage services performed at the Grama facilities in *LG&E Natural Pipeline Co.*, 76 FERC ¶ 61,181 (1996).

When the facilities were owned by Raptor, an intrastate pipeline that also provided section 311 transportation service at cost-based rates, the Commission's authorization of market-based rates for the storage services was subject to a triennial rate review requirement. As the new owner and operator of the Grama Facilities, Grama intends to continue to provide such storage services at market-based rates, but requests that the Commission not impose the triennial rate review condition. Grama is also seeking to offer hub services at market-based rates. These new services include parking, lending, wheeling, and third party provider transfer tracking services. Included in the filing is a Market Power Analysis (MPA) that concludes that Grama does not possess market power for its storage services in the three relevant geographic markets that it serves. Also included in the filing is Grama's Statement of Operating Conditions (SOC), which has been revised to reflect the addition of services requests in the instant petition.

Market Power Analysis – Storage Services

4. Grama's MPA states that Grama does not possess market power for its storage services in the three relevant geographic markets that it can serve: the Texas region; the Midwest region (from southwest Texas and New Mexico to the upper Midwest); and the Southwest region (from west Texas to southern California). The study asserts that the first two regions, whether standing alone or on a combined basis, lack the necessary market concentration. Grama adds that while the third region, the Southwest market, is concentrated, Grama will be a small player in a market that is dominated by Southern California Gas Company. Grama states that based on the number of existing storage services offered by potential competitors, alternatives to conventional storage, and the number of proposed storage projects, it is clear that entry into these geographic markets can occur with relative ease. Grama states that it is unlikely that Grama could effectively raise prices for storage services by either withholding or restricting storage services from the market, nor can it unduly discriminate in the price, terms or conditions of its services.

Market Power Analysis – Hub Services

5. Grama states that the MPA also demonstrates that Grama qualifies for market-based rate authorization for its proposed interruptible hub services. It notes that the Commission has held that such services are essentially variations of storage service, and that market power analyses for storage services are equally applicable to those for hub services.² Grama notes that the pipelines that either connect, or that are accessible to the Grama facilities collectively, have dozens of alternative transportation paths, including 39 direct paths to hubs and market centers in Texas, 10 direct paths to hubs and market centers in the Midwest and 12 to the hubs and market centers in the Southwest.³

² *Katy Storage and Transportation, LP*, 106 FERC ¶ 61,145 at P 20 (2004).

³ *Id.*

Procedural Matters

6. Notice of Grama's filing was issued in the *Federal Register* on August 12, 2005, 69 Fed. Reg. 13,024, with interventions, protests and comments due on September 1, 2005. None were received. The Commission issued a data request on October 6, 2005, seeking additional information regarding its petition for rate approval. Grama filed its response along with the additional requested data on October 17, 2005.

Discussion

7. In the Commission's Policy Statement on Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines,⁴ the Commission established the criteria for evaluating proposals for market-based rates for natural gas companies. The criteria included an examination of the relevant product and geographic markets, firm size and market concentration, and ease of entry into the market. For the Commission to grant Grama authority to charge market-based rates, it must first determine that Grama lacks market power in offering its storage and hub services.⁵ The Commission has granted numerous market-based rates for storage services where the applicant has demonstrated that it lacked significant market power, or the applicant has adopted conditions that sufficiently mitigated market power.⁶

8. Based on our review of the petition and the supplemental information Grama subsequently filed, the Commission finds that Grama lacks market power in the areas the facilities serve.⁷ Due to this lack of market power, Grama's market-based rates will be fair and equitable as it will be unable to charge rates in excess of amounts that interstate pipelines and storage providers could charge for similar services. Similarly, Grama qualifies for market-based rate authorization for its proposed interruptible hub services. As the MPA shows, potential customers for Grama's interruptible hub services have

⁴ *Alternatives to Traditional Cost of Service Ratemaking for Natural Gas Pipelines, Regulation of Negotiated Transportation Services of Natural Gas Pipelines*, 74 FERC ¶ 61,076 (1996) (Policy Statement).

⁵ *See Koch Gateway Pipeline Co*, 66 FERC ¶ 61,007 (1996).

⁶ *See, e.g., EPTG Texas Pipeline, LP*, 103 FERC ¶ 61,181 (2002); *Hill-Lake Gas Storage, LP*, 99 FERC ¶ 61,037 (2002); *Transok, LLC* 93 FERC ¶ 61,031 (2000); *ONEOK Gas Storage, LLC*, 90 FERC ¶ 61,283 (2000); *Honeoye Storage Corp.*, 91 FERC ¶ 62,165 (2000).

⁷ Grama serves the Texas region, the Midwest region (from Southwest Texas and New Mexico to the upper Midwest) and the Southwest region (from west Texas to southern California). Grama Petition for Rate Approval at 9.

numerous alternatives in the areas served by Grama.⁸ In addition, we note that there are no protests to Grama's petition. Accordingly, the Commission will accept Grama's request to charge market-based rates for its firm and interruptible section 311 storage services and interruptible hub services.

9. Nevertheless, Grama must notify the Commission if future circumstances significantly affect its present market power status. Thus, our approval of market-based rates for the indicated services is subject to re-examination in the event that:

(a) Grama adds storage capacity beyond the capacity authorized in this order; (b) an affiliate increases storage capacity; (c) an affiliate links storage facilities to Grama; or (d) Grama, or an affiliate, acquires an interest in, or is acquired by, an interstate pipeline connected to Grama. Since these circumstances could affect its market power status, Grama shall notify the Commission within 10 days of acquiring knowledge of any such changes. The notification shall include a detailed description of the new facilities and their relationship to Grama.⁹

10. Grama is also directed to file an updated market power analysis within five years of the date of this order and every five years thereafter. As a general matter, we have not required a periodic rate review in cases where market-based rate authority has been granted under section 311 of the NGPA.¹⁰ However, we have recently required Natural Gas Act (NGA) pipelines to file updated market analyses every five years as a means for the Commission to monitor if market-based rates are still appropriate.¹¹ Therefore, we will require the same thing here for NGPA cases for the same reason: to ensure that the Commission has the means to monitor the continuing appropriateness of market-based rates. The Commission also reserves the right to require such an analysis at any intervening time.

The Commission orders:

(A) Grama's request to charge market-based rates on a non-discriminatory basis for its section 311 storage and hub services is approved, subject to the conditions and discussion above. Grama must notify the Commission if future circumstances, including acquisitions, affect its present market power status.

⁸ *Id.* at 10.

⁹ *See, e.g., Covich County Storage Company*, 99 FERC ¶ 61,316 (2002); *Egan Hub Partners, L.P.*, 99 FERC ¶ 61,269 (2002).

¹⁰ *See, e.g., Katy Storage and Transportation*, 106 FERC ¶ 61,145 (2004); *EPGT Texas Pipeline, LP*, 103 FERC ¶ 61,181 (2003); *Hill-Lake Gas Storage, LP*, 99 FERC ¶ 61,037 (2002); *Transok, LLC*, 93 FERC ¶ 61,031 (2000); *Moss Bluff Hub Partners, LP*, 80 FERC ¶ 61,181 (1997).

¹¹ *See Rendezvous Gas Services, LLC*, 112 FERC 61,141 at P 40 (2005).

(B) Grama must file an updated market power analysis within five years of the date of this order, and every five years thereafter.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.