

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Northern Natural Gas Company	Docket Nos.	CP05-410-000 CP05-410-001 CP05-411-000
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ORDER ISSUING CERTIFICATE

(Issued March 24, 2006)

1. On September 2, 2005, Northern Natural Gas Company (Northern) filed applications under section 7(c) of the Natural Gas Act (NGA) for certificates of public convenience and necessity to: (1) construct and operate water handling facilities in order to increase the certificated maximum storage capacity and withdrawal rate of the Redfield Storage Field (Redfield) in Dallas County, Iowa, in Docket No. CP05-410-000¹; and (2) replace two existing compressor units and increase the certificated injection and withdrawal rates of the Cunningham Storage Field (Cunningham) in Pratt and Kingman Counties, Kansas, in Docket No. CP05-411-000. The cumulative additional capacity created by the two proposals will enable Northern to provide six billion cubic feet (Bcf) of additional firm deferred delivery (FDD) service to its storage customers.²
2. As discussed below, we find that Northern has presented evidence of a need for the proposed additional capacity and that the proposed increase in capacity is required by the public convenience and necessity. Therefore, we will grant the requested authorizations.

¹ When Northern originally filed its application in Docket No. CP05-410-000, it intended to install the water handling facilities pursuant to section 2.55(a) of the Commission's regulations. Northern subsequently filed an amendment on December 23, 2005, for authorization to construct those facilities pursuant to section 7(c) of the NGA.

² Two Bcf of the additional service will be from Redfield and 4 Bcf will be from Cunningham.

Background and Proposal

3. Northern is a natural gas company engaged in the transportation of natural gas in interstate commerce pursuant to the NGA. Northern is a Delaware corporation having its principal place of business in Omaha, Nebraska. It is authorized to do business in the states of Delaware, Texas, New Mexico, Oklahoma, Kansas, Nebraska, Iowa, Minnesota, Illinois, Michigan, Wisconsin, North Dakota, South Dakota, and Louisiana.

4. Northern held an open season from June 17 to July 31, 2005, to seek customer interest in expanded levels of FDD service.³ The open season resulted in the execution of precedent agreements for a total of 6 Bcf of incremental FDD storage service with Northern States Power Company in Minnesota and Wisconsin (jointly, the Northern States Power Companies). The two shippers have requested terms of 21 years beginning June 1, 2006.

5. While Northern notes that its FDD service is not tied to any particular storage field but is supported by multiple fields including Redfield and Cunningham, its proposals at Redfield and Cunningham are designed to provide the necessary additional working gas capacity to accommodate these new FDD services. Once the Redfield modifications are complete, Northern will make a tariff compliance filing to reflect an increase in its certificated capacity of 2 Bcf for FDD-allocated service. It will make a second compliance filing to reflect conversion of 4 Bcf of capacity currently allocated for interruptible service to 4 Bcf of capacity allocated for FDD service once the Cunningham compressors are installed. The cumulative increases in FDD service will be provided under existing FDD rates and the terms and conditions of Northern's existing FERC gas tariff.

Redfield Storage Field

6. Currently, Northern operates 194 wells at Redfield, including 151 injection/withdrawal wells and 43 observation wells. Northern also operates approximately 60 miles of lines and a compressor station at Redfield. This station has four compressor units totaling 7,000 HP. Redfield is an aquifer type storage facility.

7. Northern proposes to increase the maximum working gas capacity at Redfield by 2 Bcf, from 120 Bcf to 122 Bcf. Northern proposes to install water handling facilities to

³ FDD service is a generally available storage service which permits shippers to have natural gas quantities transported to or received from Northern on a deferred basis under Northern's Firm or Interruptible Throughput Rate Schedules.

remove excess water during the withdrawal periods. Northern states that the facility enhancements will also allow it to increase its maximum withdrawal rate at Redfield from 425,000 Mcf/day to 460,000 Mcf/day. Northern states that the increase in maximum storage capacity will result in an increase in reservoir pressure of approximately 50 psig during peak operations which, in turn, will create the increased peak day withdrawal capability of 35,000 Mcf/day and raise the maximum working gas capacity by 2 Bcf from 120 Bcf to 122 Bcf.

8. Northern submits that the proposed increases in the certificated maximum storage capacity and maximum withdrawal rate can be implemented without facility modifications to injection/withdrawal wells, pipelines or compressors, and without expansions of existing storage boundaries or right-of-way easements. Thus, the proposed water handling facilities are the only facilities needed to achieve the increased levels of FDD.

9. Northern requests that the estimated \$2,850,000 cost of the facility enhancements at Redfield be rolled into its existing FDD rates. In support of this proposal, Northern compared the existing approved FDD rates⁴ to the rates assuming that the project costs are rolled in. The rate comparison shows that the existing reservation charge would decline by \$0.0448, the capacity charge would fall by \$0.0098, and the injection and withdrawal charges would fall by \$0.0003. Additionally, Northern provided data indicating that the estimated revenues from the project exceed the project's cost-of-service by approximately \$1,000,000 for each of the first ten years after the project is placed in service.

Cunningham Storage Field

10. Northern operates 79 wells at Cunningham, including 50 injection/withdrawal wells, 28 observation wells, and one water disposal well. Northern also operates approximately 22 miles of lines and a compressor station at Cunningham. This station currently has six compressor units totaling 13,950 HP.⁵ Cunningham is a depleted reservoir type storage facility.

⁴ The FDD rates were established in Northern's rate case settlement in Docket Nos. RP03-398 and RP04-155.

⁵ The total horsepower does not include a 200 HP electric compressor that was approved on September 15, 2005 in Docket No. CP05-55-000 that has not been put into service. See *Northern Natural Gas Company*, 112 FERC ¶ 61,291 (2005).

11. To support the incremental increase in FDD service, Northern proposes to convert 4 Bcf of storage capacity, currently used for interruptible service, to storage capacity used for FDD service. Northern states that the current total cycle capacity of the Cunningham field of 32 Bcf from which firm, interruptible and operational storage services are provided will not change. Nor will the modification require a change in the current maximum certificated storage capacity of 62 Bcf. Additionally, Northern does not propose to expand existing storage boundaries and no right-of-way easements will be required.

12. However, Northern does seek increases in the maximum certificated injection rate at Cunningham from 500,000 Mcf/day to 545,000 Mcf/day and the withdrawal rate from 650,000 Mcf/day to 720,000 Mcf/day. To achieve these increases, Northern proposes to replace two existing compressor units at the Cunningham compressor station with two new units with a higher horsepower rating. Northern states the total estimated cost of the Cunningham facilities is \$6,200,000.

13. Northern proposes to increase horsepower by replacing compressor units number 4 and 5, each currently rated at 2,400 HP, with units rated at 3,550 HP. It states that the two new units will be installed on the existing foundations within the existing station yard. Northern states that the increased horsepower will enable it to convert 4 Bcf of capacity to meet the additional contractual obligations associated with increased FDD service.⁶

14. Northern requests a pre-determination of rolled-in rate treatment for the Cunningham project costs. In support of its proposal, Northern compared the existing approved FDD rates⁷ to the rates assuming that the project costs are rolled in. The rate comparison shows that the existing reservation charge would decline by \$0.0927, the capacity charge would fall by \$0.0197, and the injection and withdrawal charges would fall by \$0.0007. Northern also provided a study showing that estimated revenues from the project will exceed the project's cost-of-service by over \$2,000,000 for each of the first ten years after the project is placed in service.

⁶ The addition of the two proposed units totaling 7,100 HP to the four remaining units totaling 9,150 HP and the 200 HP unit approved in Docket No. CP05-55-000 will increase the cumulative horsepower at the Cunningham storage field to 16, 450.

⁷ The FDD rates were established in Northern's rate case settlement in Docket Nos. RP03-398 and RP04-155.

Notice and Interventions

15. Notices of Northern's applications for Docket Nos. CP05-410-000 and CP05-411-000 were published in the *Federal Register* on September 28, 2005 (70 *Fed. Reg.* 56,660 and 56,661). Notice of the amendment in Docket No. CP05-410-001 was published in the *Federal Register* on January 9, 2006 (71 *Fed. Reg.* 1420). Mid American Energy Company, Aquila, Inc. d/b/a Aquila Networks, the Northern Municipal Distributors Group and the Midwest Region Gas Task Force Association, SEMCO Energy Gas Company, and the Northern States Power Companies filed timely, unopposed motions to intervene.⁸ Marvin L. Park of Liberal, Kansas filed comments regarding the proposed compressors at the Cunningham storage field. No other protests, motions to intervene in opposition or adverse comments were filed. We will discuss Mr. Park's comments below.

Discussion

16. Since the proposed facilities will be used for the storage of natural gas in interstate commerce subject to the jurisdiction of the Commission, the construction and operation of these facilities is subject to the requirements of subsections (c) and (e) of section 7 of the NGA.

Certificate Policy Statement

17. The Certificate Policy Statement provides guidance as to how we will evaluate proposals for certificating new construction.⁹ It established criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest. The Certificate Policy Statement explains that in deciding whether to authorize the construction of major new pipeline facilities, we balance the public benefits against the potential adverse consequences. Our goal is to give appropriate consideration to the enhancement of competitive transportation alternatives, the possibility of overbuilding, subsidization by existing customers, the applicant's

⁸ Timely, unopposed motions to intervene are granted by operation of Rule 214 of the Commission's Rules of Practice and Procedure. 18 CFR § 385.214(d) (2005).

⁹ *Certification of New Interstate Natural Gas Pipeline Facilities* (Certificate Policy Statement), 88 FERC ¶ 61,227 (1999), *order clarifying statement of policy*, 90 FERC ¶ 61,128, *order further clarifying statement of policy*, 92 FERC ¶ 61,094 (2000).

responsibility for unsubscribed capacity, the avoidance of unnecessary disruptions of the environment, and the unneeded exercise of eminent domain in evaluating new pipeline construction.

18. Under this policy, the threshold requirement for pipelines proposing new projects is that the pipeline must be prepared to financially support the project without relying on subsidization from its existing customers. The next step is to determine whether the applicant has made efforts to eliminate or minimize any adverse effects the project might have on the applicant's existing customers, existing pipelines in the market and their captive customers, or landowners and communities affected by the route of the new pipeline. If residual adverse effects on these interest groups are identified after efforts have been made to minimize them, we will evaluate the project by balancing the evidence of public benefits to be achieved against the residual adverse effects. This is essentially an economic test. Only when the benefits outweigh the adverse effects on economic interests will we proceed to complete the environmental analysis where other interests are considered.

Redfield Storage Field

19. As illustrated in Northern's supplemental Exhibit N filing, estimated incremental revenues from the proposed Redfield facilities exceed the estimated incremental cost of service in each of the first ten years of the project life. Projected revenues exceed projected costs by \$945,000 in year one and increase to \$1,078,000 in year ten. Northern has also demonstrated that the FDD rates would decline when project costs are rolled into currently effective rates, providing existing shippers with a net benefit. Accordingly, the Commission finds that Northern has met the no-subsidy requirement. We thus find that it is appropriate to permit Northern to roll in the Redfield project costs as part of its storage function cost of service in the context of any subsequent general section 4 rate proceeding, absent any significant change in circumstances.

20. Additionally, since the proposed project affects only Northern's system and will involve only expansion of existing storage services, there is no adverse impact on other pipelines or their customers. Finally, since the proposal will not require expansion of existing storage boundaries or additional right-of-way easements, there will be no impact on landowners and communities. Consistent with the Policy Statement, since Northern has demonstrated that the proposal will result in benefits without adverse impacts, the proposal is required by the public convenience and necessity.

Cunningham Storage Field

21. As illustrated in Exhibit N of its application, estimated incremental revenues from the proposed Cunningham facilities exceed the estimated incremental cost of service in

each of the first ten years of the project life. Projected revenues exceed projected costs by \$2,012,000 in year one and increase to \$2,307,000 in year ten. Northern has also demonstrated that the FDD rates would decline when project costs are rolled into currently effective rates, providing existing shippers with a net benefit. Accordingly, the Commission finds that Northern has met the no-subsidy requirement. We thus find that it is appropriate to permit Northern to roll in the Cunningham project costs as part of its storage function cost of service in the context of any subsequent general section 4 rate proceeding, absent any significant change in circumstances.

22. Additionally, since the proposed project affects only Northern's system, there is no adverse impact on other pipelines or their customers. Finally, since the proposed new compressor units will be located within the existing station yard with no associated ground disturbance, no new rights-of-way need be acquired and no landowners will be affected. Consistent with the Policy Statement, since Northern has demonstrated that the proposal will result in benefits without adverse impacts, the proposal is required by the public convenience and necessity.

Comments

23. In this proceeding, Marvin L. Park, who owns own oil and gas wells in the vicinity of Cunningham, expresses concern regarding past drilling and compressor-related activities that have taken place at the Cunningham storage field, and requests that the Commission further investigate certain wells previously installed at the Cunningham storage field.

24. Mr. Park, and his brother Herbert, filed similar comments in Docket No. CP05-55-000,¹⁰ in which Northern proposed to install two withdrawal wells and a 200 HP compressor to mitigate gas migration from Cunningham northwest of the field. Mr. Park asserted that the facilities proposed in Docket CP05-55-000 were designed to pull gas away from the wells that the Parks own. Mr. Park objects in this proceeding on a similar basis.

25. The Commission issued an order authorizing Northern's proposal in Docket No. CP05-55-000 that addressed the Parks' concerns, and concluded that the Parks' land and their oil and gas operations would be unaffected by Northern's activities at Cunningham. The order emphasized the distance between the Parks' wells and Cunningham, and

¹⁰ See Parks' filings in Docket CP05-55-000 dated June 20, 2005 and August 23, 2005. See also *Northern Natural Gas Company*, 112 FERC 61,291 at P 18 and 19 (2005) for a discussion of the Parks' comments.

determined that the Parks' claims that Northern's proposed wells were designed to pull gas away from their wells was unfounded. The order also noted that the Parks had failed to provide technical data to support their assertions.

26. In this case, the Parks have made the same generalized and unsupported assertions regarding Northern's proposed compression at Cunningham. As in Docket No. CP05-55-000, an analysis of the distance and pressure differentials between the Parks' wells and Cunningham provide no basis for the Parks' claims. Accordingly, we will dismiss the Parks' objections.

Environment

27. Environmental assessments (EAs) were prepared for Northern's proposals for the Cunningham and Redfield storage fields. The EAs addresses geology and soils, water resources and wetlands, vegetation, wildlife, threatened and endangered species, land use, cultural resources and air and noise quality.

28. Based on the discussion in the EAs, we conclude that if constructed and operated in accordance with Northern's application and supplements filed September 14, 2005 and October 27, 2005 in Docket No. CP05-411-000 and on February 9, 2006 in Docket No. CP05-410-001, approval of this proposal would not constitute a major federal action significantly affecting the quality of the human environment. Any state or local permits issued with respect to the jurisdictional facilities authorized herein must be consistent with the conditions of this certificate. The Commission encourages cooperation between interstate pipelines and local authorities. However, this does not mean that state and local agencies, through application of state or local laws, may prohibit or unreasonably delay the replacement or operation of facilities approved by this Commission.¹¹

29. Northern shall notify the Commission's environmental staff by telephone or facsimile of any environmental noncompliance identified by other federal, state, or local agencies on the same day that such agency notifies Northern. Northern shall file written confirmation of such notification with the Secretary of the Commission within 24 hours.

30. The Commission on its own motion received and made a part of the record in this proceeding all evidence, including the application and exhibits thereto, submitted in support of the authorizations sought herein, and upon consideration of the record.

¹¹*See, e.g., Schneidewind v. ANR Pipeline Co.*, 485 U.S. 293 (1988); *National Fuel Gas Supply v. Public Service Commission*, 894 F.2d 571 (2d Cir. 1990); *Iroquois Gas Transmission System, L.P.*, 52 FERC ¶ 61,091 (1990) and 59 FERC ¶ 61,094 (1992).

The Commission orders:

(A) A certificate of public convenience and necessity pursuant to NGA section 7(c) is issued to Northern in Docket No. CP05-410-001, authorizing it to increase the maximum certificated storage capacity at Redfield by 2 Bcf to 122 Bcf. Authorization is also granted to increase the maximum certificated withdrawal rate at Redfield by 35,000 Mcf/day to 460,000 Mcf/day, as conditioned herein and as more fully described in Northern's application and the body of this order.

(B) A certificate of public convenience and necessity pursuant to NGA section 7(c) is issued to Northern in Docket No. CP05-411-000 authorizing it to replace two existing compressors at the Cunningham Compressor Station and to increase maximum certificated injection and withdrawal rates at Cunningham to 545,000 Mcf/day and 720,000 Mcf/day, respectively, as conditioned herein and as more fully described in Northern's application and the body of this order.

(C) The authorizations issued in Ordering Paragraphs (A) and (B) are conditioned on Northern's:

- (1) constructing and making available for service the facilities described herein within 12 months of the date of the order in this proceeding as required by section 157.20(b) of the Commission's regulations;
- (2) complying with all regulations under the NGA including, but not limited to, parts 154 and 284, and paragraphs (a), (c), (e) and (f) of section 157.20 of the Commission's regulations;
- (3) complying with the environmental conditions in the Appendix attached to this order; and
- (4) executing contracts for the levels and terms of service represented in the precedent agreements with the Northern States Power Companies prior to commencing construction.
- (5) making tariff filings to reflect the increases in FDD service at both Redfield and Cunningham attributable to the facility modifications.

(D) Northern shall notify the Commission's environmental staff by telephone and/or facsimile of any environmental non-compliance identified by other federal, state, or local agencies on the same day that such agency notifies Northern. Northern shall file written confirmation of such notification with the Secretary of the Commission within 24 hours.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

APPENDIX

As recommended in the EA, this authorization includes the following conditions:

1. Northern Natural Gas Company (Northern) shall follow the construction procedures and mitigation measures described in its application and supplements (including responses to staff data requests) and as identified in the EA, unless modified by this order. Northern must:
 - a. request any modification to these procedures, measures, or conditions in a filing with the Secretary of the Commission (Secretary);
 - b. justify each modification relative to site-specific conditions;
 - c. explain how that modification provides an equal or greater level of environmental protection than the original measure; and
 - d. receive approval in writing from the Director of the Office of Energy Projects (OEP) before using that modification.
2. The Director of OEP has delegation authority to take whatever steps are necessary to ensure the protection of all environmental resources during construction and operation of the project. This authority shall allow:
 - a. the modification of conditions of this order; and
 - b. the design and implementation of any additional measures deemed necessary (including stop work authority) to assure continued compliance with the intent of the environmental conditions as well as the avoidance or mitigation of adverse environmental impact resulting from project construction and operation.
3. **Prior to any construction**, Northern shall file an affirmative statement with the Secretary, certified by a senior company official, that all company personnel, environmental inspectors, and contractor personnel will be informed of the environmental inspector's authority and have been or will be trained on the implementation of the environmental mitigation measures appropriate to their jobs **before** becoming involved with construction and restoration activities.

4. Additionally, Northern shall not begin construction activities at Redfield until:
 - a. the staff receives comments from the U.S. Fish and Wildlife Service (FWS) regarding the proposed action;
 - b. the staff completes formal consultation with the FWS, if required;
and
 - c. Northern has received written notification from the Director of OEP that construction or use of mitigation may begin

5. Northern shall file a noise survey with the Secretary **no later than 60 days** after placing the authorized units at the Cunningham Compressor Station in service. If the noise attributable to the operation of the modified compressor station at full load exceeds an L_{dn} of 55 dBA at any nearby NSAs, Northern shall install additional noise controls to meet that level **within 1 year** of the in-service date. Northern shall also confirm compliance with the L_{dn} of 55 dBA requirement by filing a second noise survey with the Secretary **no later than 60 days** after it installs the additional noise controls.