UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Gas Transmission Northwest Corporation | Docket No. RP06-407-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS SUBJECT TO REFUND AND CONDITIONS, ESTABLISHING HEARING PROCEDURES, AND ESTABLISHING A TECHNICAL CONFERENCE

(Issued July 31, 2006)

1. On June 30, 2006, Gas Transmission Northwest Corporation (GTN) filed revised tariff sheets[1] pursuant to section 4 of the Natural Gas Act (NGA) and Part 154 of the Commission's regulations. In its filing, GTN proposes market-based rates for interruptible service, rates for new flexible services, a rate increase for existing firm recourse service, and changes to cost of service and general terms and conditions of service. GTN requests an effective date of August 1, 2006 for its tariff sheets.

2. As discussed below, the Commission will accept GTN's tariff sheets listed in the Appendix and suspend their effectiveness until January 1, 2007, subject to refund and conditions and the outcome of the hearing and technical conference established in this order.

Background

3. GTN is a natural gas company that operates an interstate pipeline system for the transportation of natural gas from areas in the northwestern United States through the states of Idaho, Washington, and Oregon. GTN provides delivery of gas to the Oregon/California border, Pacific Northwest, and Nevada markets. GTN also offers parking and lending services. The current rates for service on GTN's system were established by a Settlement filed by Pacific Gas Transmission Company (PGT)[2] on March 21, 1996 (1996 Settlement) and approved by the Commission.[3]

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[1] *See* Appendix.

[2] GTN was formerly known as Pacific Gas Transmission Company (PGT).

[3] *See Pacific Gas Transmission Company*, 76 FERC ¶ 61,246 (1996).

Details of GTN's Filing

A. Cost of Service Issues

4. GTN proposes firm rates that reflect an increase of approximately 58 percent of the maximum recourse full-haul unit rate. GTN's rates are based on its existing straight fixed variable cost allocation and rate design. The proposed rates reflect actual experience for the twelve-month period ending March 31, 2006 (base period), as adjusted for known and measurable changes through December 31, 2006 (test period).

5. GTN's rates are based on a total cost-of-service of approximately $303.5 million. GTN projects non-mileage annual billing determinants of approximately 779.5 million Dth. GTN projects mileage-based annual billing determinants of approximately 384.2 billion Dth.

6. The proposed cost of service includes Operation and Maintenance expenses of approximately $34.9 million and Administration and General Expenses of approximately $36.6 million. GTN's capitalization is 37 percent debt and 63 percent equity. GTN proposes an overall rate of return of 11.3 percent and a return on equity of 14.5 percent. Also, GTN has proposed to increase its transmission depreciation rate from 2.30 percent to 2.76 percent.

B. Rate Issues

Market-Based Interruptible Rate and Flexible Services

7. GTN states that consistent with Commission precedent,[4] it proposes market-based rates for full-haul interruptible transportation (IT) service from one receipt point (Kingsgate) near the border with British Columbia to one delivery point (Malin) located in Oregon. GTN has included in its filing a HHI market power analysis supporting its position that GTN does not have market power over full-haul IT in the region proposed. GTN also states that it is not proposing to charge market-based IT rates at any other delivery points on its system since these customers do not have the same quality of good alternatives available to them. GTN states that it will continue to provide all other customers at all other delivery points with IT service at a capped, cost-based IT tariff rate.

8. GTN proposes to offer flexible services which would include seasonal long-term firm, variable MDQ long-term firm, and short-term firm and interruptible transportation other than full-haul. GTN proposes to set the maximum rate for flexible services equal to 2.5 times the maximum reservation component of the recourse rate applicable to long-

[4] GTN cites *KN Interstate Gas Transmission Company*, 76 FERC ¶ 61,134 (1996); *Rendezvous Gas Services, L.L.C.*, 112 FERC ¶ 61,141, at 61,792-94 PP 26-40; *Koch Gateway*, 61 FERC ¶ 61,013 (1996).

term firm, uniform MDQ shippers. In addition, GTN proposes to charge the delivery component applicable to long-term, uniform MDQ shippers. GTN also proposes that revenues above a specified threshold[5] be shared among GTN and its shippers on a 25/75 percent basis, consistent with the revenue sharing percentage GTN is proposing for unsubscribed capacity sales.

Turnback Capacity

9. GTN states that it anticipates that during the test period, it will have approximately 450,000 Dth per day of unsubscribed long-term capacity as a result of turnback capacity and/or defaults by customers. As a result, GTN proposes that it share with its shippers the costs associated with unsubscribed mainline capacity with 90 percent recovered from shippers. GTN states that to the extent it is able to remarket its unsubscribed capacity, GTN proposes that shippers receive 75 percent of the revenues generated above associated costs. GTN concludes that by allowing the pipeline to retain 25 percent of the revenues, GTN will have an ongoing incentive to sell its unsubscribed capacity.

Roll-In of 1998 and 2002 Expansion Projects

10. GTN is proposing to roll in the costs associated with the 1998 and 2002 expansions. GTN states that the 1998 expansion benefits from de minimis capital costs of only $6 million easily meets the rolled-in threshold of the Commission's 1995 Policy Statement.[6] GTN further states that the rate impact of rolled-in treatment for the proposed expansion is below the five percent threshold established by the Commission. GTN concludes that its rolled-in analysis demonstrates that there are rate reductions and system benefits associated with the 1998 expansion.

11. GTN states that the 2002 expansion meets the rolled-in test as set forth in the 1999 Policy Statement.[7] GTN states that consistent with Commission policy,[8] it calculated a rolled-down 2002 expansion rate which is lower than the filed-for mainline system rate without the 2002 expansion costs and volumes. GTN concludes that the 2002 expansion

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[5] Revenues that exceed what would have been collected had the maximum recourse rates for long-term, uniform MDQ shippers applied to all mainline volumes transported during the annual period.

[6] GTN cites *Pricing Policy for New and Existing Facilities Constructed by Interstate Natural Gas Pipelines*, 71 FERC ¶ 61,914 (1995).

[7] GTN cites *Certificate of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,225 (1999), *clarified*, 90 FERC ¶ 61,128 (2000).

[8] GTN cites *PG&E Gas Transmission, Northwest Corp.*, 82 FERC ¶ 61,289, at 62,123 n. 29 (1998).

qualifies for rolled-in treatment under the 1999 Policy Statement since existing shippers will not subsidize the expansion. GTN states that it also proposes to roll in fuel costs associated with the 2002 expansion yielding a full-haul rate of 1.14 percent.

Hub Service Rates

12. GTN states that consistent with Commission precedent,[9] it is proposing to charge a postage-stamp rate for hub services which is similar to a 100 percent load factor IT rate. GTN states that this will create a level playing field for pipelines serving western markets by allowing GTN the opportunity to charge similar rates for similar services.

C. Tariff Issues

13. GTN proposes to make a number of changes to its tariff and to implement those changes in conjunction with its proposed rate modifications. GTN states that the proposed tariff changes include: 1) creditworthiness; 2) reservation of capacity for future expansion; 3) open seasons for expansion capacity and ROFR capacity; and 4) ROFR notice period when expansion project is proposed. The details of GTN's tariff proposals are set forth below.

Creditworthiness

14. GTN proposes four changes pertaining to its creditworthiness provisions. GTN states that it proposes to modify section 18.1(e) of the General Terms and Conditions (GT&C) of its tariff to allow GTN to consider a shipper's creditworthiness when evaluating bids and awarding capacity in an open season for long-term firm capacity. GTN states that it will use specific, objective criteria which will be posted prior to commencement of each open season. GTN states that its proposal is consistent with the Commission's Policy Statement on Creditworthiness Issues for Interstate Natural gas Pipelines.[10] GTN explains that this change is necessary due to GTN's experience with non-creditworthy shippers.

15. GTN proposes to modify sections 18.3(A)(2)(b) and 18.3(D)(3) of its GT&C to provide GTN the discretion to determine whether to allow a shipper to replace its original credit assurances with an alternative assurance. GTN states that this proposal would prevent a shipper from substituting for a superior form of credit used to obtain capacity during an open season with an inferior form of credit after the open season.

[9] GTN cites *Mojave Pipeline Co.*, 79 FERC ¶ 61,347 (1997).

[10] GTN cites *Policy Statement on Creditworthiness for Interstate Natural Gas Pipelines and Order Withdrawing Rulemaking Proceeding*, 111 FERC ¶ 61,412 (2005).

16. GTN proposes to clarify sections 18.3(A)(2)(b)(i) and 18.3(D)(3)(a) of its GT&C to provide GTN with the authority to request additional assurances when a shipper provides GTN with a guarantee and the guarantor has become non-creditworthy or no longer has a sufficient credit limit.

17. GTN states that it is proposing to eliminate its 10 percent of tangible net worth test for establishing shipper credit limits in section 18.3(A)(2)(b) and replace it with a more flexible approach that considers a shipper's specific circumstances in determining credit limits.

Reservation of Capacity for Future Expansions

18. GTN is proposing to revise section 32 of its GT&C to reserve unsubscribed firm capacity, or capacity under existing or expiring firm transportation agreements that are not subject to ROFR, for use in future expansion projects. GTN states that under its proposal it will only be permitted to reserve capacity for a future expansion project for which an open season has been held or will be held within one year of posting the capacity as reserved. GTN also states that capacity may only be reserved for up to one year prior to GTN filing a certificate application for the proposed expansion, and thereafter until the expansion is placed into service. GTN states that its proposal is consistent with Commission policy.[11]

Open Seasons for Expansion Capacity and ROFR Capacity

19. GTN proposes to add section 33.11 to its GT&C to permit GTN to hold one open season for an expansion project and a shipper's ROFR capacity upon the announcement of a project expansion and a shipper notifying the pipeline of its intent to exercise its ROFR rights. GTN states that allocating ROFR capacity and expansion capacity in one open season would mitigate the risk of future capacity turnback by ensuring that the longest possible term for the capacity is obtained. GTN explains that in 2001 an open season for ROFR capacity generated contract extensions of 2 to 5 years while contemporaneous open seasons for GTN's 2002 Expansion Project generated binding bids for terms ranging from 10 to 52 years. According to GTN, shippers have been reluctant to bid on ROFR capacity because of the uncertainty inherent in the ROFR shipper's right to retain capacity by matching the highest bid.

20. GTN proposes to include a provision in section 33.11 of its GT&C to require a shipper to match the lowest acceptable bid that meets the minimum terms and conditions of the expansion open season. GTN states that its proposal to require the shipper to match the minimum terms and conditions in the expansion open season is consistent with

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[11] GTN cites *Texas Gas Transmission, LLC*, 111 FERC ¶ 61,380 (2005); *Dominion Transmission, Inc.*, 111 FERC ¶ 61,135 (2005); *Tennessee Gas Pipeline Co.*, 84 FERC ¶ 61,304 (1998), *reh'g and clarification,* 86 FERC ¶ 61,066 (1999).

Commission policy.[12] GTN submits that its matching proposal is consistent with the Commission's allocative efficiency principle that holds that pipeline capacity should be allocated to shippers that value the capacity most. GTN states that its proposal rationalizes capacity by reducing the pipeline's need to construct additional capacity.

ROFR Notice Period When Expansion Project is Proposed

21. GTN proposes to revise its ROFR procedures in section 33 of its GT&C to provide GTN with the authority, when proposing an expansion of capacity, to notify a shipper that it must exercise its ROFR rights up to 36 months prior to termination of its service agreement. GTN states that section 33 of its GT&C currently provides a shipper with one year notification of exercising its ROFR rights. GTN states that its proposal is necessary in order to rationalize the allocation of ROFR capacity with the allocation of expansion capacity. GTN states that its proposal is virtually identical to language the Commission approved for Northern Border Pipeline Company.[13]

Public Notice, Interventions and Protests

22. Public notice of GTN's filing was issued on July 3, 2006. Interventions and protests were due July 12, 2006, as provided in section 154.210 of the Commission's regulations. Pursuant to Rule 214 (18 C.F.R. § 385.214), any timely filed motion to intervene is granted unless an answer in opposition is filed within 15 days of the date such motion is filed. Any motions to intervene out-of-time filed before the date of this order are granted pursuant to 18 C.F.R. § 385.214(d), since the Commission finds that granting intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. Protests or comments were filed by Sierra Pacific Power Company (Sierra Pacific); the Indicated Shippers;[14] BP Canada Energy Marketing Corp.; IGI Resources, Inc.; Public Utilities Commission of the State of California (CPUC); Pacific Gas and Electric Company (PG&E); San Diego Gas & Electric Company (San Diego); Turlock Irrigation District (Turlock Irrigation); United States Gypsum Company; Calpine Energy Services, L.P.; City of Redding, California;

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[12] GTN cites *Kern River Gas Transmission Co.*, 105 FERC ¶ 61,114, at P 14 (2003) (citing *Tennessee Gas Pipeline Co.*, 84 FERC ¶ 61,304 at 62,397 (1998), in which the Commission permitted the pipeline to impose the same minimum terms and conditions in the posting of "expired contract capacity" that it received from shippers "as a result of an expansion open season").

[13] GTN cites Northern Border Pipeline Company, FERC Gas Tariff, section 5.1 of Rate Schedule T-1, Third Revised Sheet No. 102A, First Revised Volume No. 1.

[14] The Indicated Shippers include Anadarko Energy Services Company, Chevron U.S.A. Inc., Conoco Phillips Company, and Coral Energy Resources, L.P.

Northwest Industrial Gas Users; Avista Corporation; Cascade Natural Gas Corporation; PPM Energy, Inc.; Canadian Association of Petroleum Producers; Northwest Natural Gas Company; and Tenaska Marketing Ventures. GTN filed an answer to parties motions in this proceeding.

23. A number of parties protest and request summary disposition of GTN's proposal, arguing that it violates the 1996 Settlement of its last rate case[15] and Commission precedent. The CPUC and PG&E (jointly), San Diego, and Sierra Pacific request that the Commission summarily reject the proposal because it violates Article IV, section 1(d)(ii) of the 1996 Settlement which requires GTN to include the approximately 443,000 MMBtu per day of capacity turned back by PG&E in its Rate Schedule FTS-1 rate design volumes, whether the capacity is remarketed or remains unsubscribed.[16] A number of parties protest GTN's proposal to allocate to its shippers 90 percent of the cost of the unsubscribed capacity and to share 75 percent of the revenues above associated cost if the capacity is remarketed. Turlock Irrigation requests that the Commission summarily reject this proposal. These protesters argue that GTN's proposal is inconsistent with Commission precedent that does not permit pipelines to shift all the costs of turned back capacity to captive customers, so that the pipeline has an incentive to remarket the capacity.[17] The protesters generally request, if the proposal is not summarily rejected, that the issue be set for technical conference and that the Commission confirm GTN's obligation under the 1996 Settlement.

24. Various parties request summary disposition of portions of GTN's filing pertaining to market-based rates for long-haul interruptible transportation, rates for flexible services, proposed billing determinants and underlying discount adjustments for Rate Schedule FTS-1 pertaining to turnback capacity, as well as ROFR and creditworthiness provisions. Various parties also request that the Commission suspend GTN's filing for the full five-month statutory period and set many of the rate and tariff issues for either hearing or technical conference.

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[15] *See Pacific Gas Transmission Co.*, 76 FERC ¶ 61,246 (1996), *reh'g denied*, 82 FERC ¶ 61,289 (1998), *aff'd sub nom. Washington Water Power, et al., v. FERC*, 201 F.3d 497 (D.C. Cir. 2000). (In 1998, Pacific Gas Transmission changed its name to PG&E Gas Transmission, Northwest Corp. It was subsequently renamed Gas Transmission Northwest Corp.)

[16] Article IV, section 1(d)(ii) of the 1996 Settlement provides, in part: "In future rate cases, PGT's reservation charge design determinants shall continue to include design determinants equal to the reduction in PG&E's Maximum Daily Quantity pursuant to section 1(d)(i) even if customers have not fully contracted for firm service equal to the service rights PG&E relinquishes."

[17] Turlock Irrigation cites *Natural Gas Pipeline Company of America*, 73 FERC ¶ 61,050 (1995). Indicated Shippers cite *Mississippi River Transmission Corp.*, 95 FERC ¶ 61,460 at 62,659 (2001).

25. Various parties filed protests objecting to a number of cost-of-service issues such as return on equity, depreciation, billing determinants, and regulatory assets. Various parties also protest GTN's market-based IT and flexible service rate proposals. Shippers argue that the proposed flexible service rates are arbitrary, non-cost based, and contrary to Commission policy since it creates a disincentive to purchase these services. Protesters also argue that GTN's market power analysis for its full-haul IT rate fails to pass muster and does not meet the Commission's standards for proving that GTN lacks market power. Additionally, Sierra Pacific urges the Commission not to act on GTN's flexible services as they have failed to file tariff sheets laying out the entire proposal.

26. Various parties filed protests objecting to tariff issues such as ROFR and creditworthiness. Parties take issue with GTN's proposal to include creditworthiness criteria in a bid evaluation process. Parties request that the Commission require GTN to establish objective bid evaluation criteria for non-creditworthy shippers. Parties also argue that GTN's proposed thirty-six month notice requirement should be rejected since it exceeds what the Commission has deemed to be reasonable. Parties also object to GTN's proposal to require an existing ROFR shipper to match the minimum terms and conditions of an expansion open season. Parties argue that GTN's proposal violates the Commission's ROFR policy as existing shippers are only required to match the winning bid for their ROFR capacity.

Discussion

27. The instant application raises many typical rate case issues that need to be investigated further. Accordingly, the Commission will establish a hearing to explore issues including, but not limited to, the issues set out in the protests regarding cost-of-service, cost allocation, and rate design for the existing services, rolled-in costs associated with 1998 and 2002 expansion projects, and Hub service rates. These issues should be examined in the context of a hearing where a factual record can be developed by the parties.

28. In addition, the Commission will establish a technical conference to further review certain issues in order to seek a prompt resolution prior to the end of the suspension period. These issues include the parties' requests for summary disposition as discussed above, market-based rates for long-haul interruptible transportation, flexible services rate (*i.e.* firm short-haul and seasonal rate design), as well as all proposed changes to terms and conditions provisions. Because the parties request for summary disposition of turnback capacity and billing determinants are fundamental to the development of rates, the Commission will hold the hearing in abeyance pending the outcome of the technical conference. Resolution of these issues permits the Commission to make a determination in a quick and efficient manner prior to resolving the remaining cost-of-service issues set for hearing in this proceeding.

Suspension

29. Based on a review of the filing, the Commission finds that the proposed tariff sheets have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission shall accept the tariff sheets in the Appendix for filing, and suspend their effectiveness for the period set forth below, subject to the conditions in this order.

30. The Commission's policy regarding rate suspensions is that rate filings generally should be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards.[18] It is recognized, however, that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to harsh and inequitable results.[19] Such circumstances do not exist here. Therefore, the Commission shall exercise its discretion to suspend the rates for five months, and permit the tariff sheets to take effect on January 1, 2007, subject to refund. Additionally, the tariff sheets in the Appendix are accepted subject to the outcome of a hearing and a technical conference in this proceeding, as discussed above.

31. GTN must adhere to section 154.303(c)(2) of the Commission's regulations which provides that at the end of the test period, the pipeline must remove from its rates costs associated with any facility that is not in service or for which certificate authority is required but has not been granted.

<u>The Commission orders:</u>

(A) The proposed tariff sheets listed in the Appendix are accepted and suspended for five months to be effective January 1, 2007, subject to refund and conditions and the outcome of the hearing and technical conference established in this order.

(B) Upon its motion to place suspended rates into effect, GTN must remove facilities not placed in service before the effective date.

(C) The Commission Staff is directed to convene a technical conference to explore issues, and to report the results of the conference to the Commission within 150 days of the issuance of this order.

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[18] *See Great Lakes Gas Transmission Co.*, 12 FERC ¶ 61,293 (1980) (five-month suspension).

[19] *See Valley Gas Transmission, Inc.*, 12 FERC ¶ 61,197 (1980) (one-day suspension).

(D) Pursuant to the authority of the Natural Gas Act, particularly sections 4, 5, 8, and 15 thereof, and the Commission's rules and regulations, a public hearing shall be held in Docket No. RP06-407-000 concerning the lawfulness of GTN’s proposed rates.

(E) A Presiding Administrative Law Judge, to be designated by the Chief Administrative Law Judge for that purpose pursuant to 18 C.F.R. § 375.304, shall hold the hearing (and the litigation time track) in abeyance pending the outcome of the issues set for technical conference. Nevertheless, the parties are free to exchange data requests and responses on all issues while the technical conference issues are under review. Upon completion of the technical conference and issuance of a Commission order regarding the issues discussed therein, the Administrative Law Judge shall convene a prehearing conference in this proceeding in a hearing or conference room of the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426. The prehearing conference shall be held for the purpose of clarification of the positions of the participants and establishment by the presiding judge of any procedural issues and discovery dates necessary for the ensuing hearing. The Presiding Administrative Law Judge is authorized to conduct further proceedings in accordance with this order and the Rules of Practice and Procedure.

By the Commission. Commissioner Wellinghoff voted present.

(S E A L)

Magalie R. Salas,
Secretary.

Appendix

Gas Transmission Northwest Corporation
Docket No. RP06-407-000
Accepted Tariff Sheets
Effective January 1, 2007
Subject to further order
Third Revised Volume No. 1-A

Ninth Revised Sheet No. 4
Fourth Revised Sheet No.5
Eighth Revised Sheet No. 6
Fourth Revised Sheet No. 12
Sixth Revised Sheet No. 100
Second Revised Sheet No. 108
Second Revised Sheet No. 109
First Revised Sheet No. 129
First Revised Sheet No. 130
Second Revised Sheet No. 133
First Revised Sheet No. 133A
Second Revised Sheet No. 134
Second Revised Sheet No. 135
First Revised Sheet No. 135A
Second Revised Sheet No. 136
First Revised Sheet No. 136A
Second Revised Sheet No. 137
Second Revised Sheet No. 138
Second Revised Sheet No. 139
First Revised Sheet No. 140
Third Revised Sheet No. 141
First Revised Sheet No. 141A
First Revised Sheet No. 210
Original Sheet No. 210A
Third Revised Sheet No. 211
Original Sheet No. 211A
Third Revised Sheet No. 212
Fourth Revised Sheet No. 213
Second Revised Sheet No. 214