

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Southern Natural Gas Company

Docket No. RP04-42-000

ORDER DIRECTING UPDATE OF GAS QUALITY PROVISIONS

(Issued September 27, 2006)

1. On October 31, 2003, Southern Natural Gas Company (Southern) filed revised tariff sheets pursuant to section 4 of the Natural Gas Act to be effective on December 1, 2003, in response to the Commission's September 16, 2003 order in *The Toca Producers v. Southern Natural Gas Company (Toca Order)*.¹ The filing addressed issues related to gas quality specifications for gas received into and certain deliveries from Southern's pipeline system. The Commission accepted and suspended the filing subject to the outcome of a technical conference directed by that order.² The technical conference was held in January 2004, and comments and reply comments were filed. However, this case has been held in abeyance pending industry-wide efforts to address the issue of hydrocarbon liquids dropout.³ In June 2006, in Docket No. PL04-3-000, the Commission issued a *Policy Statement* on gas quality and interchangeability.⁴ This order

¹ 104 FERC ¶ 61,300 (2003), *reh'g denied*, 106 FERC ¶61,158 (2004), *affirmed*, *The Toca Producers v. FERC*, 411 F.3d 262 (D.C. Cir. 2005).

² 105 FERC ¶ 61,254 (2003) (the Suspension Order).

³ The revised tariff sheets went into effect on May 1, 2004, at the end of the five month suspension period, pending further Commission action.

⁴ *Policy Statement on Provisions Governing Natural Gas Quality and Interchangeability in Interstate Natural Gas Pipeline Company Tariffs, Natural Gas Interchangeability*, 115 FERC ¶ 61, 325 (2006).

requires Southern to submit revised tariff sheets addressing the requirements and concerns of the *Policy Statement*.

Background

2. In late 2000 there was an increase in the hydrocarbon dewpoint (HDP) levels on Southern's system, resulting in an increase in the liquids in the gas stream. HDP levels are the temperatures and corresponding pressures at which hydrocarbons will condense out of the gas stream and become liquid. As pressure rises from zero, the temperature necessary to maintain the gaseous state rises. However, once the pressure goes above a certain level, the temperature necessary to maintain the gaseous state starts to fall. The highest temperature on this curve is known as the cricondentherm hydrocarbon dewpoint (CHDP) of the gas stream in question.⁵ The heaviest hydrocarbon drops out first, followed by the others in the order of their weight. Liquids in the gas stream can cause operational and safety problems. The Commission considers hydrocarbon dropout to be an issue of gas quality.⁶

3. Historically, producers have processed natural gas and removed the hydrocarbons heavier than methane. They were able to sell the extracted liquid hydrocarbons for a greater profit than that received for natural gas. The HDP issue arose because the price of natural gas increased in 2000 and 2001 to the point where it was more profitable to leave the heavier hydrocarbons in the gas stream to be sold as natural gas than to process the gas, extract the heavier hydrocarbons, and sell them as liquids.

4. There are three processing plants in Toca, Louisiana that process gas entering Southern's interstate pipeline system. In December 2000 the operators of these plants notified Southern that they intended to shut down the processing plants by the end of the month. Since liquids in the gas stream can cause operational and safety problems, Southern issued notices of possible steps it might take to address this matter, which included the possible shut-in of production that did not meet Southern's tariff provisions regarding gas quality.

⁵ For a fuller explanation see *ANR Pipeline Co.*, 116 FERC ¶ 61,002, at P 3-6 (2006).

⁶ This order uses the term "gas quality" to mean the impact of non-methane hydrocarbons on the safe and efficient operation of pipelines, distribution facilities, and end-user equipment, the meaning adopted in the *Policy Statement* at P 5.

5. In response to these notices, the Toca Producers⁷ filed a petition in Docket No. RP01-208-000, requesting that the Commission issue an immediate temporary restraining order to prevent Southern from shutting in natural gas supply upstream of the Toca processing plants. Southern did not shut in any gas, and the parties entered into negotiations to resolve the dispute. However, the underlying concern of the Toca Producers remained, and in Docket No. RP03-484, the Toca Producers filed a complaint against Southern requesting an evidentiary hearing in order to establish, among other things, just and reasonable natural gas HDP quality specifications in Southern's tariff. The *Toca Order* dismissed the complaint, and dismissed the pending proceeding in Docket No. RP01-208-000, subject to the condition that Southern would make the filing that it had offered to make to modify its tariff to include an aggregation methodology substantially as agreed to by the parties, and including the flexible hydrocarbon dewpoint standard adopted in the *Natural* proceeding.⁸ Accordingly, Southern made the October 31, 2003 filing.⁹

6. Since protests were filed to Southern's filing, the Commission accepted and suspended the filing, and directed the convening of a technical conference to investigate all aspects of Southern's proposal.

7. Shortly before staff conducted the technical conference the Commission commenced its industry-wide consideration of gas interchangeability on January 15, 2004 in Docket No. PL04-3-000.¹⁰ On February 18, 2004, the Commission held a public conference in Docket No. PL04-3-000 which included discussion of both gas quality and interchangeability issues. Following the conference the natural gas industry, under the

⁷ The Toca Producers are comprised of: BP America Production Company, Chevron U.S.A. Inc., ExxonMobil Gas & Power Marketing Company, and Shell Offshore, Inc.

⁸ *Natural* refers to *Natural Gas Pipeline Company of America*, 102 FERC ¶ 61,234, and 104 FERC ¶ 61,322 (2003).

⁹ On June 15, 2005, the United States Court of Appeals for the District of Columbia Circuit affirmed the Commission's action dismissing the Toca Producers' complaint and the petition for a restraining order, *The Toca Producers v. FERC*, 411 F.3d 262 (D.C. Cir. 2005).

¹⁰ That proceeding was initially concerned only with gas interchangeability, but was later broadened in scope to include the gas quality issue of hydrocarbon liquids dropout.

auspices of the Natural Gas Council,¹¹ initiated a collaborative effort to seek consensus on industry-wide standards for gas quality and interchangeability. On February 28, 2005, the Natural Gas Council filed a report on gas quality entitled *Liquid Hydrocarbon Drop Out in Natural Gas Infrastructure* (HDP Report or *White Paper*).¹²

8. The White Paper recommended adopting interim standards that translate historic experience into terms of CHDP or C6+ GPM methodologies. The phrase “C6+ GPM” represents hexanes and hydrocarbons with more than six carbon atoms, as measured in gallons per thousand cubic feet of natural gas. The *White Paper* suggested measuring and controlling for the amount of these heavier hydrocarbons in the natural gas stream as an alternative to the CHDP method.

9. On June 15, 2006, the Commission issued its *Policy Statement* on gas quality and interchangeability. The Commission’s policy embodies five principles: (1) only natural gas quality and interchangeability specifications contained in a Commission-approved gas tariff can be enforced; (2) pipeline tariff provisions on gas quality and interchangeability need to be flexible to allow pipelines to balance safety and reliability concerns with the importance of maximizing supply, as well as recognizing the evolving nature of the science underlying gas quality and interchangeability specifications; (3) pipelines, their customers, and other interested parties should develop gas quality and interchangeability specifications based on technical requirements; (4) in negotiating technically based solutions, pipelines and their customers are strongly encouraged to use the Natural Gas Council Plus Group (NGC+) interim guidelines filed with the Commission on February 28, 2005 as a common reference point for resolving gas quality and interchangeability issues; and, (5) to the extent the parties cannot resolve disputes over gas quality and interchangeability, those disputes can be brought before the

¹¹ The Natural Gas Council is an organization made up of the representatives of the trade associations of the different sectors of the natural gas industry. The associations particularly involved in writing the *White Paper* were the Independent Petroleum Association of America (IPAA), representing independent natural gas producers; the Natural Gas Supply Association (NGSA), representing producers and marketers of natural gas; the Interstate Natural Gas Association of America (INGAA), representing interstate pipelines; and the American Gas Association (AGA) representing natural gas utilities (LDCs).

¹² The NGC+ group which wrote the paper, included many industry volunteers from the member companies of the various trade associations as well as other industry participants interested in these issues.

Commission to be resolved on a case-by-case basis, on a record of fact and technical review.

Southern's October 2003 Filing

10. Southern's filing included revised tariff sheets specifically proposing to revise Southern's tariff to replace the existing 0.3 gallons per Mcf of isopentane and heavier (C5+) hydrocarbons quality standard with a new flexible HDP quality standard. That standard included an aggregation methodology that Southern stated will permit the blending of various supplies of gas before applying the HDP standard. Southern proposed to establish monitoring points on the mainline portions of its system placed downstream of the major supply receipt areas.

11. Southern stated that it would use chromatographs to monitor and record the liquefiable hydrocarbon content of the gas stream at the monitoring points. Southern explained that it would post a gas quality HDP limitation whenever monitoring point readings indicate that liquefiable hydrocarbons are likely to condense out of the gas stream, or if the liquefiable hydrocarbon content of the gas is likely to change and cause condensation. As long as the HDP reading indicates that the gas is not conducive to the condensation of liquids out of the gas stream, Southern stated it would not refuse to accept gas at any receipt point because of its liquefiable content. The posted HDP specification will be based on the quantity of gallons per Mcf of hexanes and heavier (C6+) hydrocarbons in, or projected to be in, the gas stream at the monitoring point that Southern calculates need to be removed in order to ensure that liquefiable hydrocarbons do not condense out of the gas stream. Southern stated under the revised provisions it would transport all gas at individual receipt points meeting the posted HDP specification and at all receipt points within an aggregation group that meet the posted HDP specification.

12. Southern noted that the proposed gas temperature specifications in section 3.1(e) of its GT&C were revised to include the restriction that the temperature of the gas must be at least five degrees Fahrenheit above the HDP of the gas to ensure the liquefiable hydrocarbon in the gas will remain in a gaseous state and that the gas is susceptible to accurate measurement. At section 3.2(c), Southern proposed to apply the same five degrees Fahrenheit above HDP test for deliveries upstream of processing plants.

13. The technical conference directed by the Suspension Order was held on January 21, 2004. Southern made a presentation explaining its pipeline operations, the necessity for processing gas on its pipeline system, the reasonableness of the new HDP gas quality standard, and how it will operate.

Procedural Matters

14. Notice of Southern's October 2003 filing was issued on November 5, 2003. The Commission granted the interventions and protests listed on the Appendix to the Suspension Order. Superior Natural Gas Corporation (Superior) and Walter Oil & Gas Corporation (Walter), Southern Cities,¹³ Duke Energy Marketing America, L.L.C. and Duke Energy Trading and Marketing, L.L.C. (Duke Energy), and High Island Offshore System, L.L.C. and Chevron U.S.A. filed out-of-time motions to intervene subsequent to the issuance of the Suspension Order.

15. Pursuant to Rule 214, 18 C.F.R. § 385.214 (2006), 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 the proceeding or place additional burdens on existing parties.

Initial and Reply Comments to the January 21, 2004 Technical Conference

16. Southern, Toca Producers, Alabama Gas Corporation (Alabama Gas), the Municipals,¹⁴ South Carolina Pipe Line Corporation (SCANA), Southern Company Services (SCS), and Superior and Walter, filed initial comments to the technical conference. All parties also filed reply comments.

17. With its initial comments Southern also filed *pro forma* tariff sheets which incorporate certain changes to the previously filed tariff sheets that Southern stated it was willing to adopt from the list of items provided by the Toca Producers at the end of the technical conference.

18. The *pro forma* tariff sheets include the following changes: (1) Southern agrees that it will attempt to minimize the use of HDP limitation notices and any such notices will set only such HDP for a specific portion of its system, (2) in issuing an HDP limitation notice, Southern will utilize as its criteria, the aggregate gas quality at the Monitoring Point, events that could lead to hydrocarbon condensation, market demand (location and

¹³ The Southern Cities are comprised of the City of Tallahassee, Florida, and the Cities of Cordele, Dublin, Cartersville, Cuthbert, Hawkinsville, La Grange, and Tallapoosa, Georgia.

¹⁴ The Municipals are comprised of the Alabama Municipal Distributors Group, the Austell Gas System, the Municipal Gas Authority of Georgia, and The Southeast Alabama Gas District.

volume), supply diversity (location and volume), the weather, and opportunities within Southern's control to blend gas supplies, (3) Southern agrees to post in the HDP limitation notice the HDP for all Aggregation Groups upstream of the affected Monitoring Point, all pipeline interconnections upstream of the affected Monitoring Point, and all Receipt Points that are above the HDP specification within the Aggregation Groups that are also above the HDP specification, (4) all Receipt Points upstream of the Toca plant will constitute a permanent Aggregation Group, new Receipt Points will be automatically assigned to the existing Aggregation Group covering the geographical area where the point is located, and Southern will provide thirty days notice to move a Receipt Point from one Aggregation Group to another and will explain the operational reasons for moving it, and (5) Southern clarifies that section 3.4 is not intended to circumvent section 3.1(g).

19. The comments essentially address the "safe harbor" HDP level,¹⁵ the aggregation methodology and data posting, which are briefly summarized below.

A. The Need for a Safe Harbor HDP

20. The Toca Producers, Superior and Walter assert that an HDP gas quality standard should include a "safe harbor" HDP specification stated in the tariff, as the Commission has required in other cases. If Southern is required to implement a safe harbor HDP specification, then an evidentiary hearing should be established to determine what the level of the safe harbor HDP should be, among other issues raised.

21. In addition, although the tariff language provides flexibility by including an aggregation methodology there is insufficient detail as to how it would work. Southern should be required to monitor and post daily the gas quality at its Monitoring Points. When Southern imposes an HDP limitation, it should be required to post gas quality and operational data to justify its actions.

¹⁵ The Commission has defined a safe harbor as:

"A minimum systemwide dewpoint for the gas tendered to Natural, that guarantees that any gas with a dewpoint that does not exceed the safe harbor dewpoint will be allowed to flow on Natural's system, regardless of changing conditions in Natural's own market areas, and/or what Btu and/or dewpoint limits are in place on the deliveries Natural makes to interconnecting downstream pipelines." *Natural*, 102 FERC ¶ 61,234 P 23.

22. Alabama Gas, Municipals, SCANA, and SCS argue that the Commission has already addressed the matter in the Toca Order and that Southern should not be required to establish a safe harbor standard. They assert that the Commission has reiterated that Southern's tariff does not conflict with the Commission's regulations and that the Toca Producers had failed to show that Southern's existing tariff was no longer just and reasonable, therefore, there is no reason to revisit the issue.

23. Southern argues that the Commission has already addressed the issue in the *Toca Order*, which states that the arbitrary imposition of a safe harbor HDP would imperil the efficient and safe operation of Southern and its customers and that there is no need for an evidentiary hearing to determine a safe harbor HDP value. Southern contends that the *Toca Order* constitutes the Commission's determination with respect to a safe harbor HDP requirement for the Southern system.

B. Aggregation Methodology

1. Details of the Aggregation Methodology Process

24. Toca Producers argue Southern's tariff provides no detail with regard to how it will proceed moving from downstream to upstream when it determines there is a problem. They assert it was this fundamental deficiency which caused the Toca Producers to question the aggregation methodology that Southern was proposing in its tariff, and whether it was even consistent in principle with discussions of the aggregation concept in settlement negotiations.

25. Toca Producers comment that Southern, in its initial comments, did not propose any additional language to clarify the actual aggregation methodology process. Such language is essential to be included in the tariff. Without the detail, there would be no way to ensure that Southern is 1) taking maximum advantage of aggregation and blending, and 2) not leap-frogging upstream by omitting intervening supply sources, in order to single out the Toca Plant Aggregation Group whenever Southern has a potential hydrocarbon liquids problem. It is critical to include the detailed aggregation and monitoring process in the tariff in order to protect against the discrimination that was the basis for the producer complaints in this and prior related proceedings.

26. To remedy this serious omission from the tariff, the Toca Producers provided a detailed paragraph, to be included in Southern's tariff. This description provides sufficient detail and transparency to permit any third party to understand and replicate the aggregation methodology when it is implemented by Southern.

27. The Municipals argue that the Toca Producers proposed new section 3.2(f) is wrong in at least two respects. First, this section states that there must be an existing

"liquefiable fall-out problem" which implies that Southern would not be able to impose a standard when necessary to prevent an anticipated problem. In contrast, the language proposed by the Toca Producers wrongly suggests that the pipeline could not take action until there is a problem and damage has already been done. Second, this new section states that "supplies entering the system at the problem location would first be examined if the problem is attributable to deliveries from COMPANY." The section then appears to suggest that only if the problem is "attributable to deliveries from COMPANY" may Southern take protective measures.

28. SCS argues that the Toca Producers' proposed tariff language would require that liquids fall-out actually have occurred before Southern would be able to take action to address this gas quality issue on its system. SCS argues it is completely unacceptable to restrain the pipeline from taking actions reasonably calculated to prevent harm. A pipeline must have the tools in place that allow it to identify potential problems and to prevent problems from occurring and not be left only to try and recover after operations and services have been compromised.

2. Definition of "Aggregation Groups"

29. Southern proposed to define Aggregation Groups as follows:

All of the Receipt Points upstream of the processing plants located on COMPANY'S system near Toca, Louisiana, shall constitute an Aggregation Group. The gas supplies from the Receipt Points in this Aggregation Group will be monitored downstream of the Toca Plant and upstream of any Receipt point. Other Aggregation Groups as established from time-to-time shall be posted on SoNet Premier. New Receipt Points will be automatically assigned to the existing Aggregation Group covering the geographical area where the point is located. COMPANY shall provide thirty (30) days notice with a posting on SoNet Premier to move a Receipt Point from one Aggregation Group to another and shall include in said posting the operational reasons for moving the Receipt Point.

30. Toca Producers argue that while the additional tariff language is helpful, it is not acceptable. First, the second sentence needs to be modified to clarify what is intended by the phrase that the gas will be monitored "downstream of the Toca Plant and upstream of any Receipt point."

31. Second, while the language does define the Aggregation Group upstream of the Toca Plant, the Toca Producers continue to object to Southern's refusal to list all of the other Aggregation Groups and related Receipt Points, in its tariff. This is necessary to ensure that the aggregation methodology is being applied in an even-handed,

nondiscriminatory manner and that the Toca Plant and its upstream Receipt Points are not being singled out for discriminatory processing requirements from time to time. There is no burden associated with listing all of the Aggregation Groups, and related Receipt Points, in the tariff. If Southern can list the Toca Plant Aggregation Group area, it can list all of the other Aggregation Groups and related Receipt Points in its tariff.

32. Southern declined to add the requirement to list all Aggregation Groups in the Tariff. Southern contends a requirement to list all Aggregation Groups in the Tariff unnecessarily limits the flexibility of the provision and is unduly burdensome. Southern should be permitted the flexibility to manage the implementation of the aggregation methodology to minimize the disruption caused by the need to implement an HDP Limitation and to maximize the gas supplies available to the system. The ability to create and modify Aggregation Groups without making a section 4 tariff filing is essential to achieving those goals.

3. Definition of Merchantable Gas

33. Toca Producers argue that Southern did not include the language proposed by the Toca Producers at the introduction at section 3.1, which would clarify that when gas is consistent with the gas quality standards in section 3 of the tariff, it will be deemed to be “merchantable”. They assert that this change is essential to close a loophole that would permit circumvention of the aggregation methodology.

34. The Municipals oppose the Toca Producers’ position for two reasons. First, the merchantability provision is essential to ensure that gas delivered by Southern can be consumed and consumed safely by Southern's downstream users. Second, the proposed revision goes well beyond the limited scope of this proceeding.

35. SCANA argues the merchantability standard should remain intact since the Toca Producers’ position would undercut the current “merchantability” requirement in the tariff that applies to all gas flowing on the Southern system. SCANA further argues that virtually all interstate pipelines have a merchantability requirement which is essential to the safe operation of Southern’s system as well as to the systems downstream of Southern.

36. Southern declines to make revisions to the quality standard of merchantability since this change would have the effect of eliminating merchantability as an independent quality standard. Southern argues merchantability has been an independent quality standard in Southern’s Tariff for many years. Moreover, merchantability has long been recognized in every segment of the natural gas industry as a touchstone of gas quality. Making this change would make Southern a minority of one in the industry without a merchantability quality standard.

4. Gas Quality on Downstream Pipeline and Distribution Systems

37. Southern's language at section 3.1(g) stated that it would post an HDP as necessary "to prevent hydrocarbon condensation in company's system or from deliveries to its customers in order to ensure that the gas redelivered will be merchantable . . ."

38. The Toca Producers object to the underlined language arguing that the language would appear to apply Southern's gas quality requirements not only on its own system, but also on downstream pipeline and distribution systems to prevent liquid fallout on those downstream systems. Toca Producers argue that the downstream customers' position is patently unreasonable. First, the Commission has no jurisdiction over gas quality standards on non-interstate natural gas pipelines and distribution systems. Those standards are determined by state commissions. Moreover, there are many sources of gas into those downstream nonjurisdictional pipeline and distribution systems. A liquid fallout problem on such a system might be totally unrelated to the quality of the gas delivered by Southern into such systems.

39. The Municipals, SCANA and Alabama Gas basically support Southern's tariff with the general caveat that section 3.1(g) of the General Terms and Conditions of Southern's tariff should be modified to make clear that Southern's tariff obligation to protect against the hazards of heavy hydrocarbons extends not only to its own system but also the downstream systems of its customers and end-users. They contend it would be wholly inappropriate to penalize shippers on Southern's system, when the real problem is caused by gas from other sources.

40. Southern maintains that the phrase "or from deliveries to its customers" is necessary since its elimination would fundamentally alter the intended purpose of the proposed HDP gas quality standard. Southern explained the standard is intended to ensure that natural gas consumers relying on the Southern system for transportation services receive pipeline quality gas. The key characteristic of gas quality is the composition of the gas. The location of the gas on its journey from wellhead to burner tip is largely irrelevant. If the composition of the gas is such that liquefiable hydrocarbons are prone to condense out of the gas stream, that gas is not going to meet the marketplace's requirements notwithstanding the ownership of the pipe where the condensation occurs.

5. Nondiscriminatory imposition of an HDP Limitation

41. Southern has revised section 3.1(g) to specify when it will impose an HDP Limitation and the criteria it will use in deciding whether to issue an HDP Limitation.

42. The Toca Producers had suggested language in their newly designated section 3.2, that when an HDP Limitation is imposed it would “be imposed in designated areas on a nondiscriminatory basis...” The Toca Producers argue that the “nondiscrimination” requirement is not included in the aggregation methodology proposed by Southern with regard to issuing an HDP Limitation. They state it should be included, for example, to ensure that if an HDP Limitation is being imposed within an area designated as subject to an HDP Limitation, Southern is not permitted to discriminate among noncomplying sources within such area.

43. Southern states it would attempt to minimize the use of HDP Limitation Notices and any such notice will set only such HDP for a specific portion of its pipeline system as necessary to prevent hydrocarbon condensation based on the operating conditions prevailing on the system.

44. Southern comments it will utilize the following objective criteria in determining whether to issue an HDP Limitation Notice: the aggregate gas quality at the Monitoring Point, events that could lead to hydrocarbon condensation, market demand (location and volume), supply diversity (location and volume), the weather, and opportunities within Southern’s control to blend gas supplies.

C. Informational Issue

1. Posting of Daily Information at “Monitoring Points”

45. The Toca Producers propose to include language in Southern’s tariff that would require Southern to post gas quality information at Monitoring Points on a daily basis since other pipelines, such as Gulf South, post gas quality information on a real time basis. Moreover, the chromatograph equipment is available and not costly.

46. Southern declined to add a requirement to measure and post on SoNet Premier on a daily basis the HDP and equivalent gallons of C6+ hydrocarbons in the gas stream at the Monitoring Points. Southern argues that a requirement to make daily postings is both unnecessary and unduly burdensome. The vast majority of the time the gas quality on Southern’s system is excellent, and there is no need to install facilities and develop programs to permit daily monitoring on SoNet Premier. Southern monitors conditions on its system very carefully, and its HDP provision provides for the posting of the HDP not only at the Monitoring Points but also at all affected locations and pipeline interconnections whenever an HDP Limitation Notice is issued. This information will give shippers a clear picture of the conditions on the system and enable them to determine that they are being treated fairly.

2. The Information to be Posted

47. Southern proposed to post more information that includes “the latest HDP at all Aggregation Groups upstream of the affected Monitoring Point, all pipeline interconnections upstream of the affected Monitoring Point, and all Receipt Points that have an HDP above the HDP Specification within the Aggregation Group(s) that has/have an HDP above the HDP Specification,” as well as “information utilized in deciding to issue the HDP Limitation Notice.”

48. The Toca Producers argue there is still one category of information that is not included that should be included to validate a hydrocarbon liquids problem. This would be the location of the problem area and the gas composition and operating conditions at such location. Producers argue Southern has not included this information in what it is willing to provide.

49. Toca Producers argue the disclosure of the problem area information is essential. First, it would validate that there truly is a problem or a realistic anticipation of a problem downstream of the Monitoring Point. One of the issues in contention throughout these proceedings has been that no actual problem has ever been proven. In addition, gas composition and operating condition information is necessary to determine if the liquid fallout issue is related to design flaws on the downstream system, or to gas entering the downstream system from other sources. The point is that the “problem location” is the core reason for issuing an HDP Limitation. Accordingly, gas quality and operating conditions at that “problem location” should be disclosed.

3. Notice of an HDP Limitation

50. Southern had proposed to provide notice of an HDP Limitation at least two days prior to the day it would be effective and Southern would attempt to provide notice prior to the beginning of the month.

51. Toca Producers argue that the Commission should require Southern to expand the minimum notice period, at least to two “business” days. If notice were issued on a weekend, there would not be sufficient opportunity to comply with the HDP Limitation.

52. Superior and Walter argue that the Commission should require Southern to expand the minimum notice period, to not less than five “business” days prior to the month of flow to permit shippers to make such determination and enter into the necessary processing contracts. Superior and Walter agree that the notice period for mid-month HDP limit postings may be less than five business days, if such postings are made as a result of actual and verifiable operating changes on Southern’s system that make such a posting necessary.

53. The Municipals and SCANA disagree with the Toca Producers' proposed change in new section 3.2(i) to increase the required notice from two days to two business before Southern can impose a gas quality limit. They argue that Southern has explained that the longer the notice that Southern is required to provide, the less knowledge Southern has and, thus, the more aggressive Southern must be in protecting its system and its customers system against the range of possible problems. In sum, there is no reason to modify the minimum notice provision, which appears reasonable and should be adopted.

54. Southern declined to add the requirement that an HDP Limitation Notice be posted two (2) business days before its proposed effective date since such a change makes a distinction that is not relevant in today's natural gas industry. Southern stated that interstate pipelines, as well as nearly all the other segments of the industry, operate on the basis of a twenty-four (24) hour day, seven (7) days a week, fifty-two (52) weeks a year. Moreover, requiring that notice of an HDP Limitation Notice be given on a "business" day basis, could add two (2) or more days to the time it takes to put a Limitation Notice into effect--more than sufficient time for gas with excessive levels of liquefiable hydrocarbons to reach Southern's market areas.

Discussion

55. Southern's tariff provisions were filed well before the issuance of the *White Paper* on liquid dropout, and the Commission's *Policy Statement*. As a result, those provisions, and the technical conference, and the parties' comments after the conference, do not address the requirements and concerns of the *Policy Statement*. Consistent with Commission action in other proceedings,¹⁶ the Commission requires Southern to update its compliance filing in light of the *Policy Statement*. In addition, the *Policy Statement* encourages pipelines, customers, and other interested parties to resolve gas quality issues on their own.¹⁷ To this end, the Commission will not require Southern to make this filing until sixty days after the date of this order. This will provide an opportunity for Southern to discuss with interested parties technical, engineering and scientific considerations of its proposal in order to resolve as many issues as possible before Southern makes its revised filing. Parties may file comments on Southern's revised proposal twenty days thereafter. In addition, the Commission directs staff to convene a technical conference, after the

¹⁶ *Indicated Shippers v. Columbia Gulf Transmission Co.*, 116 FERC ¶ 61,112 (2006), and *Indicated Shippers v. Tennessee Gas Pipeline Co.*, 116 FERC ¶ 61,113 (2006).

¹⁷ *Policy Statement*, at P31, *ANR Pipeline Co.*, 116 FERC ¶ 61,002 at P 110 (2006).

revised pleadings have been filed, to address technical, engineering, and operational issues raised by Southern's revised proposal.

56. In its response or filing, Southern should address the relevant procedures and guidelines set forth in the *Policy Statement*, including the following. First, the *Policy Statement* emphasizes that gas quality standards should be based upon "sound technical, engineering and scientific considerations."¹⁸ Accordingly, Southern should include in its response to this order, all the technical, engineering and operational information upon which it relies to support each of its proposed gas quality standards.

57. Second, the *Policy Statement* states that jurisdictional tariffs should contain provisions that govern the quality of gas received for transportation¹⁹ when necessary to manage hydrocarbon liquid dropout within acceptable levels. The *Policy Statement* notes the *White Paper* identified two valid methods that might be used to control hydrocarbon liquid dropout--the cricondentherm HDP (CHDP) method and the C6+ GPM method—and strongly encourages the use of one of these two methods.²⁰ The *Policy Statement* requires a pipeline that wishes to propose a different method to explain how the proposed method differs from the CHDP method described in the *White Paper*.²¹ In its October 23 filing, Southern proposed to post varying HDP specifications as needed to avoid liquid dropouts. It is not clear whether this standard is intended to be the equivalent to a CHDP standard, and if not, how it differs from the CHDP method. Accordingly, Southern must clarify whether its proposal uses the CHDP method, and explain any differences between its proposal and the CHDP method.

58. Third, the *Policy Statement* also requires a pipeline filing to revise its gas quality standards to include a comparison, in equivalent terms, of its proposed gas quality specifications and those of each interconnecting pipeline.²² The purpose of this requirement is to enable the Commission to examine the appropriate circumstances in each individual case and give appropriate weight to the gas quality requirements of

¹⁸ *Policy Statement*, at P 31.

¹⁹ *Id.* at P 34.

²⁰ *Id.* For a technical description of these methods, see *White Paper*, especially sections 4 through 6.

²¹ *Policy Statement* at P 34.

²² *Id.*

interconnecting pipelines, as well as the requirements of markets directly served.²³ Therefore, Southern is directed to include the required information in its filing.

59. Fourth, the *Policy Statement* states that a pipeline's tariff should state the natural gas quality specifications for gas that the pipeline will deliver to its customers.²⁴ At section 3.2, Southern proposes tariff modifications with regard to gas quality delivered upstream of processing plants. Southern must explain the proposed gas quality specifications consistent with the *Policy Statement*.

60. Finally, the *Policy Statement* addresses blending, pairing, and similar strategies. These strategies consist of the mixing together of different gas streams. They may allow gas with a higher HDP (rich gas) to be received on a pipeline's system because it will be mixed with gas of a lower HDP (lean gas) and will ultimately meet a pipeline's HDP limits. The *Policy Statement* encourages the use of blending, pairing, and other strategies to combine rich gas supplies with lean gas supplies in order to accommodate more production when these actions can be undertaken on a non-discriminatory basis and in a manner that is consistent with safe and reliable operations.²⁵ Southern's effective tariff contains an aggregation methodology, and Southern should explain whether that methodology is consistent with the *Policy Statement*.

The Commission orders:

(A) The Commission requires Southern, within sixty days of this order, to update its existing tariff provisions in light of the *Policy Statement* with actual tariff sheets that addresses the requirements and concerns of the *Policy Statement* as discussed in the body of this order.

(B) Parties must file any comments on Southern's revised tariff filing, within twenty days of the date Southern makes that filing.

²³ *Id.* at P 35.

²⁴ *Id.*

²⁵ *Policy Statement* at P 41. The *Policy Statement* states that "safe harbor" provisions and informational posting requirements are means of minimizing the potential for undue discrimination when a pipeline permits blending. *Id.* at P 77.

(C) The Commission's staff is directed to convene a technical conference to address the issues raised by Southern's filing, and report the results of the conference to the Commission within 180 days of the issuance of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.