FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

October 19, 2006

In Reply Refer To:
Columbia Gulf Transmission Company
Docket No. RP06-596-000

Columbia Gulf Transmission Company
12801 Fair Lakes Parkway
Fairfax, Virginia 22033-3874

Attention: Thomas D. Stone
Manager, Rates and Tariffs

Reference: Tariff Revisions – Creditworthiness Provisions

Ladies and Gentlemen:

1. On September 19, 2006, Columbia Gulf Transmission Company (Columbia Gulf) filed revised tariff sheets (see Appendix) to implement changes to the creditworthiness provisions of its FERC Gas Tariff. The Commission accepts the tariff sheets effective October 19, 2006, subject to Columbia Gulf filing revised tariff sheets as discussed below.

2. Columbia Gulf states that its proposed changes implement the Commission's policies on creditworthiness as articulated in its *Policy Statement on Creditworthiness for Interstate Natural Gas Pipelines and Order Withdrawing Rulemaking Proceeding* in Docket Nos. PL05-8-000 and RM04-4-000 (Policy Statement).[1] Columbia Gulf proposes to require requestors for service to provide financial reports for the past two years certified by the Chief Accounting Officer or the Chief Financial Officer of the applicant. Columbia Gulf also specifies the criteria it will apply to determine if a requestor is deemed to be creditworthy. Among other things, the requestor is deemed creditworthy if its long-term unsecured debt securities are rated at least BBB by Standard & Poor's Corporation (S&P) or Baa2 by Moody's Investor Service (Moody's), the requestor's short-term

[1] 111 FERC ¶ 61,412 (2005).

and long-term outlook opinion is Stable or Positive from S&P or Moody's, and if the net present value of the sum of reservation fees, utilization fees, and any other associated fees for the contract term is less than three percent of the requestor's net worth. If a requestor fails to meet these criteria the requestor may have Columbia Gulf evaluate its creditworthiness using several other proposed specified criteria.

3. Columbia Gulf also incorporates provisions which specify: (1) the methods by which a shipper who has failed to satisfy the creditworthiness criteria may still obtain service by providing credit assurance; (2) a shipper's right to and the procedure to initiate creditworthiness reevaluation; (3) an elaboration on the procedures that apply if there is a loss of creditworthiness; (4) Columbia Gulf's ability to require additional credit assurance for new expansion projects; (5) additional detail on a shipper's payment obligations and billing procedures; and (6) Columbia Gulf's ability to protect its financial interests in the event of a permanent release in proposed §14.1(e) of the General Terms and Conditions (GT&C) of its tariff.

4. The Commission noticed Columbia Gulf's filing on September 21, 2006, with interventions and protests due as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2006). Pursuant to Rule 214 (18 C.F.R. § 385.214 (2006)), all timely filed motions to intervene and 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. Hess Corporation (Hess), the East Ohio Gas Company d/b/a Dominion East Ohio (East Ohio), Stand Energy Corporation (Stand), and the Process Gas Consumers Group (PGC) protested the filing. Columbia Gulf filed an answer to the protests. Generally, the Commission does not permit answers to protests (18 C.F.R. § 385.213 (2006)). However, the Commission will accept Columbia Gulf's answer because it will assist the Commission's analysis and facilitate the decision-making process.

5. Hess generally does not oppose Columbia Gulf's proposal to revise the creditworthiness provisions of its tariff, but does protest two proposed provisions. Hess argues that the creditworthiness criteria is unnecessarily stringent because it requires requestors to exceed the minimum investment grade levels established by named ratings agencies (BBB- for S&P and Baa3 for Moody's). Hess states that shippers meeting the rating agencies' standards for investment grade, the Stable to Positive outlook requirement, and the tangible net worth limit, would nonetheless be forced into the alternative evaluation mechanism set forth in General Terms and Conditions (GT&C) 9.5(b)(4), which relies more heavily on subjective credit evaluation by Columbia Gulf. Hess states that other pipelines have less rigid provisions that have been approved by the Commission, and requests that the

Commission direct Columbia Gulf to revise its tariff to provide that a requestor will be deemed creditworthy if it meets the investment grade status established by one or more of the rating agencies.

6. Columbia Gulf answers that BBB and Baa2 ratings are just and reasonable and in fact have been accepted for other pipelines. Columbia Gulf argues that the ratings which Hess advocates are inappropriate as an indicator that a shipper should automatically be deemed creditworthy. Columbia Gulf states that its creditworthiness criteria provides a cushion between investment grade and junk status.

7. Hess and PGC protest the requirement that, in order to be deemed creditworthy under proposed GT&C § 9.5(b)(3)(iii), the net present value of the sum of a requestor's reservation fees, and any other associated fees for the term of the contract must be less than 3 percent of the shipper's tangible net worth. Hess argues that this level has not been shown to be just and reasonable, and that it is far more restrictive than the levels established by other pipelines and approved by the Commission. PGC questions the appropriateness of Columbia Gulf's proposal.

8. Columbia Gulf answers that the tangible net worth standard is only one of several measures it applies in determining creditworthiness, and that even if the shipper does not meet this standard, the shipper is not precluded from presenting additional evidence of creditworthiness. Columbia Gulf argues that it believes that 3 percent is an appropriate measure of tangible net worth because it reflects the fact that Columbia Gulf will not be a shipper's only creditor and that a 3 percent threshold is the maximum financial risk Columbia Gulf is willing to bear without the opportunity to make further financial analysis.

9. East Ohio and Stand protest that Columbia Gulf's filing lacks sufficient explanation to enable parties to determine what changes to its creditworthiness provisions are proposed and how they pertain to the Policy Statement.[2] East Ohio argues that Columbia Gulf also failed to provide explanation or support for its proposed billing and payment changes in section 10 of its GT&C. In addition,

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[2] East Ohio highlights Columbia Gulf's proposed section 9.6(h) as one noteworthy example of the problems East Ohio claims that customers face in trying to identify the substantive changes made by Columbia Gulf to its Tariff. East Ohio notes that the problem with section 9.6(h) is compounded since it is a restatement of a NAESB standard on creditworthiness, whereas Commission policy requires a pipeline to adopt a NAESB standard either by reference or verbatim. East Ohio cites *Transcontinental Gas Pipeline Corp.*, 112 FERC ¶ 61,181, P 6 (2005).

East Ohio states that Columbia Gulf does not appear to have incorporated NAESB standard, version 1.7, section 5.3.59. East Ohio also protests that Columbia Gulf has failed to incorporate paragraph 35 of the Policy Statement which requires that capacity will revert to the releasing shipper upon suspension or termination of the replacement shipper. East Ohio further protests Columbia Gulf's proposal to add a new paragraph providing that Columbia Gulf may refuse to allow a permanent release if it has a reasonable basis to conclude that it will not be financially indifferent to the release. East Ohio states that this change was not mentioned in Columbia Gulf's cover letter and that Columbia Gulf provided no support for this change. East Ohio further states that this change would be acceptable if the Commission conditions its approval upon Columbia Gulf adding a provision requiring Columbia Gulf to provide written notification and the reasons for any denial of a request for permanent release.

10. Columbia Gulf answers that its adoption of the language in proposed section 14.1(e) is well supported by Commission precedent,[3] but that, if the Commission requires, the following language will be added to proposed section 14.1(e): "If Transporter denies Shipper's request to permanently release capacity, Transporter will notify Shipper via e-mail and include in the notice, the reasons for the denial." Columbia Gulf also answers that its proposed changes to section 10 of its GT&C are just and reasonable and that all of the changes are consistent with the Policy Statement. Finally, Columbia Gulf admits that it did neglect to make the subsequent filing to add section 5.3.59 of the NAESB standards to its Tariff, but that it will make a separate compliance filing to correct this oversight.

11. The Commission denies the protest by Hess and accepts Columbia Gulf's tariff revisions subject to the conditions discussed below. In the Policy Statement, the Commission declined to issue a final rule establishing specific criteria for evaluating and establishing creditworthiness and instead issued general guidance on the Commission's creditworthiness policies. The Commission stated that pipelines must establish and use objective criteria for determining credit-worthiness, but allowed individual pipelines to establish those objectives. While Hess states that the Commission has accepted provisions less stringent than the BBB and Baa2 ratings that Columbia Gulf has proposed, the Commission has also accepted ratings similar to those proposed by Columbia Gulf as a measure of creditworthiness.[4] Individual pipelines are free to propose the criteria which they

[3] Columbia Gulf cites *Texas Eastern Transmission Corp.*, 83 FERC ¶ 61,092, at 61,446 (1998); *Algonquin Gas Transmission, LLC*, Letter Order dated September 9, 2005 in Docket No. RP05-559 at PP 11-12.

[4] *North Baja Pipeline, LLC*, 100 FERC ¶ 61,183 (2002).

feel are most appropriate in their particular circumstances. Columbia Gulf's proposal is not inconsistent with those of other pipelines. We therefore accept Columbia Gulf's proposed section 9.5(b)(3)(i).

12. For the same reasons we accept proposed section 9.5(b)(3)(iii) discussing tangible net worth. In the Policy Statement, the Commission declined to set specific standards with industry-wide application, instead permitting each pipeline to establish standards based on its own needs and circumstances. In addition, tangible net worth is not the sole determinant of creditworthiness in Columbia Gulf's tariff. Shippers which do not qualify under the 3 percent threshold can be deemed creditworthy under other criteria. Columbia Gulf states that it believes the 3 percent threshold is appropriate because Columbia Gulf will not be the shipper's only creditor, and that a higher threshold would put Columbia Gulf at an extremely high financial risk. For these reasons, the Commission declines to require Columbia Gulf to expose itself to risk other than that which it proposes and accepts proposed section 9.5(b)(3)(iii).

13. Upon examining Columbia Gulf's proposal and its existing tariff provisions, we conclude that Columbia Gulf has not incorporated section 5.3.59 of the NAESB standards into its Tariff. Columbia Gulf was granted a two month deferral (to November 1, 2005) in implementing section 5.3.59.[5] The Commission directs Columbia Gulf to incorporate this NAESB standard into its tariff either verbatim or by reference.

14. Additionally, we find that Columbia Gulf has not included a provision governing what happens to capacity upon the suspension or termination of a releasing shipper's service agreement. Paragraph 32 of the Policy Statement provides that in those instances, the pipeline is permitted to terminate a release of capacity to the replacement shipper, but that the pipeline must first provide the replacement shipper with an opportunity to continue service if it agrees to pay the lesser of: (1) the releasing shipper's contract rate; (2) the maximum tariff rate; or (3) some other rate that is acceptable to the pipeline. The Commission also directs Columbia Gulf to incorporate that provision into its tariff.

15. We also determine that East Ohio correctly points out that Columbia Gulf has not incorporated into its tariff a provision consistent with paragraph 35 of the Policy Statement stating that capacity will revert to the releasing shipper upon the suspension or termination of the replacement shipper's service agreement. The Commission directs Columbia Gulf to incorporate such a provision into its tariff.

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[5] *Columbia Gulf Transmission Co.*, Unpublished letter order issued August 15, 2005, in Docket No. RP05-434-000.

16. We determine that Columbia Gulf correctly points out that the Commission permits a pipeline to refuse to allow a permanent release of capacity if it has a reasonable basis to conclude that it will not be financially indifferent to the release. The Commission has stated that, to help ensure that this provision is administered on a non-discriminatory basis, the pipeline must provide written notification and the reasons for any denial of a request for permanent release to the releasing shipper.[6] The Commission directs Columbia Gulf to include this provision in its tariff.

17. We also determine that, under the Policy Statement, Columbia Gulf lacks justification for its proposed provision requiring that insolvent or uncreditworthy shippers make an advance payment equal to one month of demand charges and another three months of demand charges as collateral, in order to receive or continue to receive service, as stated in section 9.5(c) of its GT&C. As we stated in the Policy Statement, for existing shippers under contract, "no more than the equivalent of three months' worth of reservation charges reasonably balances the shippers' right to continued service with the pipelines' risk."[7] Although Columbia Gulf refers to the one month of demand charges as an "advance payment," Columbia in total will be retaining four months of demand charges as collateral, which goes beyond the Policy Statement, and has not been justified.[8] Therefore, we will accept this provision only if Columbia Gulf files a revision within 30 days to be consistent with the Policy Statement's requirement that existing shippers whose credit status has fallen below the pipeline's credit standards provide 3 months' worth of reservation charges as collateral.

18. Finally, Columbia Gulf proposes to revise section 9.6(h) of the General Terms and Conditions (GT&C) of its tariff. Currently, that section states that Columbia Gulf <u>should</u> provide a written response to a shipper's request for reevaluation of its creditworthiness, and that the response <u>should</u> include a determination of creditworthiness status, or an explanation supporting a future

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[6] *Northwest Pipeline Corp.*, 111 FERC ¶ 61,231, P 25 (2005).

[7] Policy Statement, FERC Stats. & Regs. [Regulations Preambles] ¶ 31,191, at P 14.

[8] In proposing to permit pipelines to assess an advance payment of one month, the Commission made clear that a pipeline choosing this option could add only two additional months of collateral. FERC Stats. & Regs. [Proposed Regulations] ¶ 32,573, at P 23 (2004) (requesting comment on whether "pipelines should be permitted to require a non-creditworthy shipper to provide an advance payment for one month of service." The Commission states that the pipeline could then require the shipper to post collateral for an additional two months).

date by which a reevaluation will be made. Columbia Gulf proposes to replace should with the more permissive may, without explanation or justification. The Commission thus directs Columbia Gulf to eliminate this revision from its proposal and to retain the existing language of section 9.6(h).

19. The Commission accepts the tariff sheets listed in the Appendix effective October 19, 2006, subject to Columbia Gulf filing revised tariff sheets in accordance with the above directives within thirty days of the date of this letter order.

By direction of the Commission.

Magalie R. Salas,
Secretary.

Appendix

Tariff Sheets Accepted Effective October 19, 2006

FERC Gas Tariff, Second Revised Volume No. 1

First Revised Sheet No. 139
First Revised Sheet No. 140
Second Revised Sheet No. 141
Second Revised Sheet No. 171
Original Sheet No. 171A
Original Sheet No. 171B
Fourth Revised Sheet No. 172
Original Sheet No. 172A
Second Revised Sheet No. 173
Second Revised Sheet No. 175
Fifth Revised Sheet No. 176
Third Revised Sheet No. 177
Seventh Revised Sheet No. 191A