

131 FERC ¶ 61,193
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
and John R. Norris.

Columbia Gas Transmission LLC

Docket No. RP10-198-000

ORDER ON COMPLIANCE FILING

(Issued May 28, 2010)

1. On December 30, 2009, the Commission accepted and suspended, subject to conditions, a December 1, 2009 filing made by Columbia Gas Transmission Corporation (Columbia) to revise section 3(b) of its Rate Schedule SIT (Storage in Transit).¹ Specifically, the Commission stated that because Columbia filed an answer on December 18, 2009 providing additional explanations and clarifications regarding its proposal and also included some revised tariff language based on the shippers' concerns, the Commission would provide parties an opportunity to comment on Columbia's revised proposal.

2. For the reasons discussed below, the Commission accepts Columbia's proposed tariff language, as revised effective June 1, 2010.

I. Background

3. Columbia implemented its Rate Schedule SIT service initially in its Order No. 636 restructuring proceeding providing for interruptible storage of gas to balance differences between actual receipts and actual deliveries pursuant to a shipper's transportation service agreement under other rate schedules.² The SIT service was designed as an interruptible balancing service for shippers with wide swings in daily demand, such as electric power plants. The SIT shipper uses this service in conjunction with

¹ *Columbia Gas Transmission LLC*, 129 FERC ¶ 61,297 (2009) (December 2009 Order).

² *Columbia Gas Transmission Corp.*, 64 FERC ¶ 61,060, at 61,510 (Compliance Order), *order on reh'g*, 64 FERC ¶ 61,365, at 63,534 (1993).

transportation service agreements under Columbia's Rate Schedule FTS (Firm Transportation Service), OPT (Off-Peak Transportation Service), NTS (No-Notice Transportation Service), SST (Storage Service Transportation), or ITS (Interruptible Transportation Service) Rate Schedules, which it designates as subject to SIT service.

4. Pursuant to section 2(a) of Rate Schedule SIT, when a SIT shipper's actual daily receipts under its transportation service agreements exceed its actual daily deliveries, the pipeline will, on an interruptible basis, inject the difference (Overtendered Balance Quantity or OBQ) into storage. Similarly, when a SIT shipper's actual daily deliveries exceed its actual daily receipts, the pipeline will, on an interruptible basis, withdraw the difference (Undertendered Balance Quantity or UBQ) from storage. The net of such injections or withdrawals may not on any day exceed the Maximum Balancing Quantity set forth in the shipper's SIT service agreement. Columbia bills the SIT shipper a usage charge based on the daily change, if any, in the shipper's undertendered or overtendered balances. The maximum daily rate for this usage charge is \$0.0412 per Dth.³

5. Pursuant to section 3(b) of Rate Schedule SIT, Columbia maintains a running net balance of each SIT shipper's undertendered and overtendered balances. This net balance is referred to as the shipper's "Imbalance Quantity." Section 3(b) provides that, twice during any 30-day period, SIT shippers are required to eliminate any existing Imbalance Quantity, convert any outstanding UBQ to an OBQ, or convert any outstanding OBQ balance to an UBQ (cross-zero-twice). An imbalance penalty of \$0.25 per Dth is required for each day at the end of a 30-day period in which the shipper does not comply with the cross-zero-twice requirement.

6. In its December 1, 2009 filing, Columbia proposed to modify section 3(b) of Rate Schedule SIT, so that shippers must cross-zero-twice within a calendar month, as opposed to its currently effective tariff requirement that SIT shippers cross-zero-twice during every 30-day rolling period. Columbia asserted that this change will simplify the process of determining whether the cross-zero-twice requirement has been satisfied, and as a consequence, it will be more administratively efficient. Specifically, Columbia proposed:

The running net balance of Shipper's UBQs and OBQs shall be Shipper's Imbalance Quantity. Twice during any Month, Shipper shall be required to (i) eliminate any existing Imbalance Quantity, (ii) convert any outstanding UBQ to

³ See Columbia Gas's Fifth Revised Sheet No. 32 to FERC Gas Tariff, Third Revised Volume No. 1.

an OBQ, or (iii) convert any outstanding OBQ to a UBQ. Maintaining an Imbalance Quantity of zero for two or more consecutive days within a month will satisfy this requirement. For each Month during which the Shipper fails to satisfy this requirement, Shipper shall pay Transporter a penalty of \$0.25 per Dth of its existing Imbalance Quantity on each day of such month. If there is an interruption of Shipper's service under this Rate Schedule, Transporter will waive the requirement that the foregoing requirements specified in (i), (ii), or (iii) immediately above be accomplished within a Month.

7. BP Energy Company, BP America Production Company and Interstate Gas Supply, Inc. (collectively "Indicated Shippers"), Virginia Power Energy Marketing, Inc. (VPEM), Sequent Energy Management, L.P. (Sequent) and United States Gypsum Company (USGC) filed protests arguing, among other things, that Columbia's proposal: 1) increases penalties that apply to Rate Schedule SIT retrospectively; 2) deletes a provision that adds a day to the rolling 30-day period for each day Columbia interrupts service; 3) does not provide for a "clean slate" as of the effective date; and 4) questions the need for any changes at all.

8. On December 18, 2009, Columbia filed an answer (December 18 Answer) to the protests clarifying its proposed modifications to section 3(b) concerning prior period adjustments, interruption of service, clean slate, and deferral of the effective date. In response to the protests, Columbia suggests the following changes to its proposed tariff language:

The running net balance of Shipper's UBQs and OBQs shall be Shipper's Imbalance Quantity. Twice during any Month, Shipper shall be required to (i) eliminate any existing Imbalance Quantity, (ii) convert any outstanding UBQ to an OBQ, or (iii) convert any outstanding OBQ to a UBQ. Maintaining an Imbalance Quantity of zero for two or more consecutive days within a month will satisfy this requirement. For each Month during which the Shipper fails to satisfy this requirement, Shipper shall pay Transporter a penalty of \$0.25 per Dth of its existing Imbalance Quantity for each day in the subsequent Month in which Shipper fails to satisfy the requirements specified in (i), (ii), or (iii) immediately above ~~on each day of such month~~. If there is an interruption of Shipper's service under this Rate Schedule, Transporter will waive the requirement that the foregoing requirements specified in (i), (ii), or (iii) immediately above be accomplished within a Month and the \$0.25 per Dth penalty will not be imposed on Shipper for that Month. Prior period adjustments will not affect the calculation of any penalty owed under this provision. Shipper

will be permitted to carry over the net Imbalance quantity in effect on the last day of a Month into the next Month.

9. Columbia further clarifies that regardless of the last time a shipper crossed zero prior to the implementation of the calendar month methodology, all SIT shippers will have a full calendar month in which to cross-zero-twice.

10. In the December 2009 Order, the Commission accepted and suspended Columbia's proposed tariff revisions until June 1, 2010 and gave parties an opportunity to comment on Columbia's December 18 Answer.

II. Procedural Matters

11. Most of the original protestors did not file supplemental comments on Columbia's December 18 Answer; only VP EM, USGC, and Sequent filed comments. VP EM filed in support of the proposed modifications to section 3(b) of Rate Schedule SIT as revised in Columbia's December 18 Answer. On January 25, 2010, Columbia filed an answer to the comments (January 25 Answer), and on February 2, 2010, Sequent filed an answer to Columbia's January 25 Answer.

12. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.213(a)(2) (2009)) prohibits an answer to an answer unless otherwise ordered by the decisional authority. In this case, we will accept Columbia's and Sequent's answers because they have provided information that assisted us in our decision-making process.

III. Discussion

A. Degradation of SIT Service

13. Sequent states that Columbia's proposal to force all SIT customers to conform their usage of SIT service to an inflexible calendar month basis will diminish the quality of SIT service without providing any offsetting benefits. Sequent disputes Columbia's statement that Columbia's "approach will better enable shippers to manage their penalty exposure without increasing their liability."⁴ Sequent argues Columbia's contention that a shipper's need to cross the zero threshold will neatly and tidily occur every time within the confines of a calendar month is wrong. Instead, Sequent asserts that this change will force SIT customers to enter into artificial "inventory-churning" transactions for the sole purpose of complying with the calendar month requirement or suffer penalties. Sequent

⁴ Columbia, December 18 Answer at 11.

further argues that SIT is driven by real-world events, among them are weather changes, supply and demand variances, and transient operational constraints but not by the calendar. Sequent also points out that no customer has stated that it is incapable of managing its SIT crossing zero obligations under the current rolling 30-day protocol and Columbia has not identified any instances of disputes between Columbia and its shippers regarding the crossing zero obligations.

14. Moreover, Sequent states that it is uneasy about commenting on the proposed “revisions” submitted by Columbia in the December 18 Answer filed with the Commission. Sequent contends that because Columbia has not withdrawn its original filing and submitted a formal revised SIT application, there are no “revisions” on which to comment. Secondly, Sequent states that none of the “revisions” or “clarifications” set forth in Columbia’s December 18 Answer addresses the core defect in the proposal and are essentially meaningless as they are merely refinements to a tariff proposal that is fundamentally unjust and unreasonable.

15. Sequent states there is no need to change Columbia’s existing tariff should current SIT customers wish to follow a calendar month cycle because such shippers are free to do so simply by crossing zero twice each month. Sequent also suggests that Columbia offer both the calendar month and 30-day rolling methodology as options to the SIT customers.

16. Finally, Sequent provides two examples of how it believes Columbia’s proposal would increase the penalty exposure of all SIT shippers. In its first example, Sequent states that pursuant to existing SIT tariff requirements, a shipper may cross zero mid-month and may not need to schedule a second crossing transaction until the fifth day of the next month. Sequent states that under Columbia’s current tariff the above shipper would not incur a penalty, but under Columbia’s calendar month proposal, the shipper would incur a penalty. Sequent further argues that if the same shipper then needs to schedule service that results in crossing zero on the third day of the subsequent month, the shipper under Columbia’s calendar month proposal would again incur a penalty.

17. In its January 25 Answer, Columbia asserts that a calendar month structure will not degrade service under Rate Schedule SIT. Columbia also disagrees with Sequent’s assertion that a calendar month methodology is more inflexible than a 30-day rolling period. Columbia states that currently shippers who incur an Imbalance Quantity under their SIT contracts have 30 days in which to cross-zero-twice, while under the proposed calendar month methodology, shippers will have an average of 30.4167 days to cross-zero-twice. Columbia avers that only in the month of February would shippers have less than 30 days to cross-zero-twice.

18. Columbia further states that Sequent's hypothetical examples are misleading and erroneous because they fail to account for the shipper's activity prior to mid-month. In fact, Columbia states that if a shipper adheres to the scheduling activity Sequent describes (crossing early in the month and in the middle of the month), the SIT shipper will not incur a penalty. According to Columbia, a shipper with a positive balance crossing zero early in the month then crossing zero at mid-month would not incur a penalty and continuing this activity month-to-month the shipper would not incur a penalty. Columbia further argues that the calendar month benefits the shipper by allowing shippers additional days to cross-zero-twice. For example, Columbia states that a SIT shipper that crosses zero on May 5 and again on May 15 has satisfied the cross-zero-twice requirement for the month of May. Columbia states that the SIT shipper would have 16 days of flexibility in May where they do not need to cross zero and would thus be required to cross-zero-twice in the month of June. Columbia avers that giving shippers more time in which to satisfy the cross-zero-twice requirement provides SIT shippers the benefit of greater flexibility in addressing its imbalances incurred via Rate Schedule SIT. Columbia's final example is that of a SIT shipper that crosses zero for the second time on May 20 and retains a balance into the next month. Columbia states that under its current tariff, the SIT shipper would have until June 18 to cross-zero-twice; however, under Columbia's revised proposal, the SIT shipper would have until June 30 to cross-zero-twice which provides the shipper with greater flexibility.

19. In response to Columbia's January 25 Answer, Sequent states that an additional .4167 days "on average" to comply with the cross-zero-twice requirement is not a benefit because an additional .4167 days is simply too short to count as a benefit. Sequent argues that the value in the current SIT service is the shipper's current ability to cross-zero-twice during any 30-day rolling period of its own choosing. Sequent states that Columbia's assertion that only in the month of February would SIT customers have less than 30-days to cross-zero-twice during its calendar month proposal, ignores the fact that February is a critical heating month in which shippers must have maximum flexibility in managing assets to meet the actual needs of their customers and attendant delivery obligations. For instance, Sequent asserts that under Columbia's existing system, SIT shippers have the option of "skipping" February all together without incurring penalties by crossing zero in late January and again in early March.

20. Sequent asserts that Columbia has "answered" its hypothetical with two hypotheticals that Sequent never in fact proposed. Sequent claims that Columbia's second hypothetical-positing a situation where a shipper complies with the cross-zero requirement on May 20 – does not actually provide the flexibility Columbia claims. In this example, Columbia states that shippers, under the current methodology, would need to cross-zero-twice by June 18 but under Columbia's proposal, shippers would have an additional 12 days, until June 30, to cross zero. Sequent argues that Columbia's assertion

that the proposed methodology provides a clear benefit to shippers is false inasmuch as shippers would be required to cross-zero-twice in June under Columbia's proposal while under the current methodology, shippers have the option of crossing zero only once in June provided they had already crossed zero in May.

21. The Commission accepts Columbia's proposal to apply the cross-zero-twice requirement on a calendar month basis, rather than on a rolling 30-day period basis. The Natural Gas Act (NGA) gives the pipeline the primary initiative to propose the rates, terms, and conditions for its services under NGA section 4. If the rates, terms, and conditions proposed by the pipeline are just and reasonable, the Commission must accept them, regardless of whether other rates, terms, and conditions may be just and reasonable.⁵

22. As stated previously, SIT service is a short-term imbalance management service for shippers with wide swings in their daily demands for gas.⁶ It is not meant as a long term storage service. The "cross-zero-twice" requirement is intended to maintain the short term nature of the service.⁷ While Columbia's existing rolling 30-day period methodology for implementing the cross-zero-twice requirement was just and reasonable, we believe that Columbia's proposed calendar month methodology is also just and reasonable. As illustrated by examples offered by Sequent and Columbia, either method could be more beneficial to customers under some scenarios and less beneficial under others. Under Columbia's instant proposal, if a shipper crosses zero a second time prior to the end of the month, the shipper will have additional time to cross-zero-twice the next month. For example, a shipper crossing zero for the second time on May 20 will have an additional 11 days to cross-zero-twice the following month. Moreover, most of Columbia's shippers appear to accept the proposed changes to the SIT service because after Columbia clarified and amended the proposed change in its December 18 Answer, no other shipper submitted comments suggesting that the calendar month methodology would diminish Columbia's SIT service.

23. Finally, Columbia asserts that it has proposed the change to its SIT service to simplify the scheduling and operational processes for the pipeline and the SIT shippers.

⁵ *Consolidated Edison Co. v. FERC*, 165 F.3d 992, 998, 1002-4 (D.C. Cir. 1999), and cases cited.

⁶ Compliance Order, 64 FERC at 61,060.

⁷ *Columbia Gas Transmission Corp.*, 118 FERC ¶ 61,210, at P 17 (2007).

A calendar month methodology does appear easier to administer for the pipeline and shippers than a rolling 30-day period methodology. Further, Columbia has modified its proposal to mitigate the deficiencies of its original proposal and all SIT shippers will start with a “clean slate” as of June 1, 2010, when the suspension period ends. This will allow all SIT shippers to know when the calendar month clock starts and each SIT shipper will have until June 30, 2010 to cross-zero-twice under the new service schedule. Compounded with the necessity of servicing 110 SIT agreements, the Commission believes that Columbia’s reasoning for switching its Rate Schedule SIT service to a calendar month schedule for administrative efficiency is reasonable.

B. Allocation Data

24. USGC asserts that tracking imbalances on Columbia’s system can be difficult because of the reliance on inaccurate allocation data provided by Columbia. USGC states that the only remedy for the confusion caused by inaccurate allocation data is to improve the accuracy of Columbia’s data. Further, USGC states that although it is not a remedy to the underlying problem, Columbia’s proposed clarification that prior period adjustments will not result in penalties for shippers failing to comply with the cross-zero-twice requirement is a necessary change.

25. In its January 25 Answer, Columbia states that USGC’s assertion that tracking imbalances on Rate Schedule SIT is made difficult because of inaccurate allocation data provided by Columbia is beyond the scope of this proceeding. Columbia states that the sole issue in this filing is whether a calendar month methodology for SIT service is just and reasonable. Therefore, Columbia claims that USGC’s comments have no bearing on the determination of this issue. Columbia further states that it will follow up with USGC as a normal course of business to address its specific concerns.

26. In reply to Columbia’s January 25 Answer, Sequent argues that USGC’s criticism of Columbia’s faulty allocation data is accurate and highly relevant. Sequent states that it can corroborate USGC’s experiences because it has experienced similar problems with inaccurate allocation data generated by Columbia’s Navigates computer system.

27. The Commission agrees with Columbia that a faulty allocation issue on its Navigates computer system should not be determinative of whether a thirty-day or calendar methodology for crossing-zero-twice is appropriate. If the Navigates system suffers from faulty allocation, this issue would exist regardless of whether SIT shippers adhered to a 30-day or calendar month schedule. Nevertheless, the Commission notes that Columbia states that it will follow up this issue with USGC, and we believe that it should do so with all other parties in this proceeding.

28. Accordingly, the Commission finds that Columbia's proposal to revise section 3(b) of Rate Schedule SIT, as amended by its December 18 Answer, is just and reasonable. Therefore, Columbia is directed, within thirty days of the date of this order, to file revised tariff sheets to modify section 3(b) of its Rate Schedule SIT to include the full language proposed in its answer filed with the Commission on December 18, 2009.

The Commission orders:

Columbia is required to file tariff language within 15 days of the issuance of this order to modify section 3(b) of its Rate Schedule SIT as described in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.