140 FERC ¶ 61,147
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony T. Clark.

Transwestern Pipeline Company L.L.C. Docket No. CP12-94-000

ORDER GRANTING ABANDONMENT

(Issued August 27, 2012)

1. On March 21, 2012, Transwestern Pipeline Company, L.L.C. (Transwestern) filed an application under section 7(b) of the Natural Gas Act (NGA) seeking authorization to abandon by sale to its affiliate, Lone Star NGL Pipeline LP (Lone Star), an approximately 59.5-mile long segment of a 24-inch diameter line that is part of the West Texas Lateral. The Commission will grant the requested authorization, subject to conditions, as discussed below.

I. Background and Proposal

2. Transwestern is a natural gas company, as defined by section 2(6) of the NGA. Transwestern owns and operates a natural gas transmission system that provides access to gas supplies in the San Juan Basin in northwest New Mexico and southwest Colorado, the Texas-Oklahoma Panhandle, and the Permian Basin region of West Texas. Transwestern is a subsidiary of Energy Transfer Partners, L.P.

3. Lone Star is a joint venture. Energy Transfer Partners, L.P. owns, through Lone Star's indirect parent, a 70 percent interest in Lone Star, with Regency Energy Partners LP owning the remaining 30 percent interest. Lone Star transports natural gas liquids in the Permian Basin area and is not a natural gas company regulated by the Commission.

4. Transwestern's bi-directional West Texas Lateral extends southeasterly from its Station 9 Compressor Station in Chaves County, New Mexico to its Lone Star Compressor Station in Pecos County, Texas. The lateral consists of a core 24-inch diameter pipeline that is looped with 24- and 36-inch diameter pipeline from the Station 9 Compressor Station to the WT-1 Compressor Station in Chaves County, New Mexico, and with 30-inch diameter pipeline from an interconnection with the Monument Lateral

in Lea County, New Mexico to an interconnection with Oasis Pipeline Company in Ward County, Texas.

5. Transwestern proposes to abandon by sale to Lone Star an approximately 59.5-mile long segment of the 24-inch diameter pipe that extends from Monument Junction to Halley Junction in Winkler County, Texas.[1] Transwestern states that it will make minor modifications to its facilities to isolate the segment proposed to be abandoned. Specifically, Transwestern will (1) install and remove yard piping and valves at its WT-2 Compressor Station; (2) install and remove cross-over piping and valves at three mainline valve locations; and (3) install or modify pigging facilities.[2] Transwestern does not propose to abandon any compressor stations. Transwestern states that the pipeline segment to be abandoned is looped for its entire length by a 30-inch diameter pipeline, which Transwestern will retain.

6. The current capacity of the West Texas Lateral is 585,000 Mcf per day for northbound flows and 550,000 Mcf per day for southbound flows. After the proposed abandonment, Transwestern anticipates that the capacity for northbound flows on the West Texas Lateral will be approximately 500,000 Mcf per day and that the capacity for southbound flows will be 480,000 Mcf per day, a reduction of 85,000 Mcf per day for northbound flows and 70,000 Mcf per day for southbound flows. Transwestern states that average deliveries for January 2011 through May 2012 were approximately 160,000 Mcf per day. Transwestern further states that firm customers presently have subscribed for only 250,000 Mcf per day of capacity on the West Texas Lateral, all of which can be served from the 30-inch diameter loop line.

7. Transwestern acknowledges that there are receipt and delivery points on the 24-inch diameter pipeline to be abandoned that have been used within the past 12 months by some of its existing customers, including some customers with firm service agreements that designate these receipt and delivery points. To assure continuity of service, Transwestern states that these customers' receipt and delivery points on the 24-inch diameter pipeline will be relocated, at no cost to the customers, to the 30-inch diameter loop.[3] Transwestern states that points that have not been used by shippers within the past

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[1] Transwestern asserts that Lone Star will use the pipeline segment to be abandoned to transport natural gas liquids in the Permian Basin area.

[2] Transwestern states that it will perform these activities under its Part 157, Subpart F blanket construction certificate or section 2.55(a) of the Commission's regulations.

[3] Exhibit Z-4 of the application lists the currently active receipt and delivery points that are connected to the facilities to be abandoned. Transwestern states that it will

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12 months and that are not listed under a firm transportation contract will be abandoned or relocated to the 30-inch diameter loop at its discretion.

8. After it removes the 24-inch diameter pipeline segment from service, Transwestern states that it will continue to provide transportation service to its current customers at receipt and delivery points on the 30-inch diameter pipeline loop. Transwestern states that existing customers will not be adversely affected by the proposed abandonment, since the West Texas Lateral will still have sufficient capacity to meet current and anticipated demand for transportation service. In addition, Transwestern states that the proposed abandonment will enable it to eliminate costs associated with the segment of pipeline to be abandoned, resulting in savings to its firm customers.[4] Transwestern also maintains that there are numerous other pipelines within a 20-mile radius of the West Texas Lateral that could provide area shippers with alternative natural gas transportation capacity if needed. Finally, Transwestern believes that producer/shippers in the West Texas area have a greater need for liquids take-away capacity than for natural gas transportation, and that the subject pipeline segment will be used by Lone Star to provide such liquids service.

II. <u>Interventions</u>

9. Notice of Transwestern's application was published in the *Federal Register* on April 5, 2012.[5] Timely, unopposed motions to intervene were filed by Salt River Project Agricultural Improvement and Power District, New Mexico Gas Company, Inc., Southwest Gas Corp., Agave Energy Corp. (Agave), and DCP Midstream, LP jointly with DCP Midstream Marketing, LLC (hereinafter DCP).[6]

10. Agave submitted comments to the application and DCP filed a protest. Transwestern filed an answer to the comments and protest, and DCP filed an answer to

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perform any activities related to the relocation of receipt or delivery points under its Part 157, Subpart F blanket construction certificate or section 2.55(a) of the Commission's regulations.

[4] Transwestern states that, as provided in the settlement approved by the Commission on October 31, 2011, it will file its next general rate case on October 1, 2014. *Transwestern Pipeline Co*., LLC, 137 FERC ¶ 61,095 (2011).

[5] 77 Fed. Reg. 20,618.

[6] Timely, unopposed motions to intervene are granted by operation of Rule 214 of the Commission's Rules of Practice and Procedure. 18 C.F.R. § 385.214(d) (2012).

Transwestern's answer. Rule 213(a)(2) of the regulations prohibits answers to protests and answers to answers unless otherwise ordered by the decisional authority.[7] We will allow Transwestern's and DCP's answers because doing so will not cause undue delay and they may assist us in our decision-making process. We will address the comments, protests, and answers below.

III. <u>Discussion</u>

11. Because Transwestern seeks to abandon facilities used for the transportation of natural gas in interstate commerce subject to the Commission's jurisdiction, the proposal is subject to the requirements of section 7(b) of the NGA.

12. Section 7(b) of the NGA[8] allows an interstate pipeline company to abandon jurisdictional facilities or services only if the abandonment is permitted by the "present or future public convenience and necessity." We examine abandonment applications on a case-by-case basis. In deciding whether a proposed abandonment is warranted, we consider all relevant factors, but the criteria vary as the circumstances of the abandonment proposal vary.

<u>Continuity of Service</u>

13. When a pipeline company proposes to abandon facilities that will reduce the amount of service that it is able to provide, continuity and stability of existing services are the primary considerations in assessing whether the public convenience and necessity permit an abandonment that will take the subject facilities and the capacity represented by those facilities permanently out of service.[9] If the Commission finds that a pipeline's proposed abandonment of particular facilities will not jeopardize continuity of existing natural gas transportation services, it will defer to the pipelines' own business judgment.[10] We recognize, as argued by DCP, that the pipeline segment at issue here

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[7] 18 C.F.R. § 385.213(a)(2) (2012).

[8] 15 U.S.C. § 717f(b) (2006).

[9] *See, e.g.*, *El Paso Natural Gas Company*, 136 FERC ¶ 61,180, at P 22 (2011) (authorizing El Paso to abandon compression facilities to reduce amount of excess capacity on its system).

[10] *See, e.g.*, *Trunkline Gas Company*, 94 FERC ¶ 61,381, at 62,420 (2001). Trunkline's proposal was similar to Transwestern's proposal in this proceeding. Trunkline also sought to reduce excess capacity on its system by selling a 720-mile

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will no longer be available for gas transportation service if Transwestern sells it to Lone Star for liquids transportation. However, we do not agree with DCP that there will be no assurance of continuity of the gas transportation services currently being provided by Transwestern.

14. Transwestern has explained that it will relocate customers' active receipt and delivery points on the 24-inch diameter segment of pipeline to be abandoned to the adjacent 30-inch diameter line that parallels its entire length. Transwestern has further explained that following the abandonment, the capacity of the West Texas Lateral will be approximately 500,000 Mcf per day for northbound flows and 480,000 Mcf per day for southbound flows. Transwestern's present commitments for firm service on the West Texas Lateral are limited to approximately 250,000 Mcf per day. Further, from the beginning of 2011 through May 2012, average daily deliveries on the West Texas Lateral were 60,000 Mcf per day.

15. The Commission staff's engineering analysis of Transwestern's flow models confirms Transwestern's representation that its abandonment of the 24-inch diameter segment of the West Texas Lateral and the resulting loss of 70,000 Mcf per day for southbound flows of certificated capacity will not interfere with its ability to transport its post-abandonment projections of contract demand. There will still be approximately 300,000 Mcf per day of unsubscribed capacity available on the West Texas Lateral beyond the approximate 250,000 Mcf per day of capacity currently subscribed on a firm basis.

Potential Need for Increased Pipeline Capacity in the Permian Basin

16. DCP argues, however, that the highest daily physical flow rate of natural gas in 2011 on the West Texas Lateral was 95 percent of the lateral's post-abandonment capacity. DCP also contends that future gas production in the Permian Basin is expected to increase substantially. DCP cites the Commission's denial of the application by Northern Natural Gas Company (Northern) and the other co-owners to abandon the Matagorda Offshore Pipeline System (MOPS), contending that Transwestern's abandonment request, like Northern's, should be denied because the facilities to be abandoned by Transwestern will be needed to transport future natural gas production

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segment of a looped pipeline to a company that would convert it to transport refined petroleum products. Continuity of gas service for Trunkline's existing customers was assured by Trunkline's proposal to relocate the existing customers' receipt and delivery taps as necessary to its two remaining parallel gas pipelines.

from the Permian Basin.[11] Transwestern responds that no shipper, including DCP, claims that Transwestern will lack sufficient capacity following the proposed abandonment to meet its shippers' current needs for gas transportation service or that shippers are unable to contract for capacity on other pipelines. Transwestern points out that it held open seasons for capacity on the West Texas Lateral in July and in October of 2011 and from March 29 to April 30, 2012. Transwestern states it received only one bid for a small amount of firm capacity at an unacceptably low discounted rate in response to the July 2011 open season, and that no shipper, including DCP, submitted a bid for firm capacity in response to either the October 2011 open season or the March 29 to April 30, 2012 open season.

17. The results of Transwestern's open seasons demonstrate that there presently is little or no demand for additional firm service on Transwestern's West Texas Lateral. Moreover, the West Texas Lateral's 30-inch diameter loop line that Transwestern will retain has capacity significantly in excess of Transwestern's current firm service obligations. Therefore, the 24-inch diameter pipeline segment that Transwestern seeks to abandon is no longer essential to maintain natural gas transportation service to its customers. Indeed, no party other than DCP protests the proposed abandonment, and its protest is based on its assertion that the 24-inch diameter pipeline segment will be needed for the transportation of gas if production in the Permian Bain increases in the future, not that the capacity is needed now. The Commission will not require a pipeline to retain unused transmission capacity in reserve awaiting the arrival of potential firm demand that may not materialize.[12]

18. DCP is correct that in the cited *Northern Natural* case, the Commission took into consideration the possibility that the proposal to take the MOPS facilities out of service would make producers reluctant to invest in exploration in the area accessed by MOPS and that as yet undiscovered reserves could be precluded from development if the

[11] *Northern Natural Gas Co. et al.*, 135 FERC ¶ 61,048, *reh'g denied*, 137 FERC ¶ 61,091 (2011) (*Northern Natural*).

[12] *See Trunkline Gas Co.*, 94 FERC 62,420. As noted above, Trunkline also sought to abandon a pipeline segment that was part of a looped system with significant excess capacity. The Commission approved Trunkline's proposed abandonment over objections by some shippers that the true extent of demand for capacity could not be determined unless the Commission directed Trunkline to hold an open season for capacity at sufficiently discounted rates. The Commission noted its belief that a policy of requiring pipelines to maintain more capacity than needed to meet current demand could create false price signals and weaken the long-term gas transportation market.

Commission approved the applicants abandonment proposal.[13] However, the Commission's greater concern was that the applicant's proposal to shut down the MOPS facilities would lock in supplies from currently producing wells since there were no readily-accessible transportation alternatives presently available to MOPS shippers and the economic feasibility of constructing new pipeline facilities to transport these supplies was not at all clear.[14]

19. The situation here is very different: Transwestern will retain its West Texas Lateral's 30-inch loop line, which by itself has capacity significantly in excess of its present firm service obligations of 250,000 Mcf per day, since it can accommodate northbound flows of approximately 500,000 Mcf per day and southbound flows of approximately 480,000 Mcf per day. Thus, unlike the situation in the cited *Northern Natural* proceeding, Transwestern's abandonment proposal will not result in it being unable to continue service for existing customers.

Undue Discrimination

20. DCP contends that Transwestern's proposal to transfer the pipeline facility at issue to its affiliate Lone Star will reduce natural gas pipeline capacity in favor of natural gas liquids capacity and constitute unduly discriminatory and preferential use of existing pipeline capacity. Specifically, DCP claims that Transwestern should not be allowed to transfer fully depreciated natural gas facilities to an affiliate to provide natural gas liquids transportation, nor should DCP be faced with competitors who are granted a competitive price advantage by the transfer of valuable natural gas assets at essentially zero cost.[15]

21. Transwestern asserts that its proposals are not discriminatory or preferential with respect to any shipper on its system, and that NGA prohibitions against undue discrimination are not relevant in the context of the abandonment and conversion of a natural gas pipeline for use in transporting other commodities.

22. DCP contends that Transwestern's proposal would subsidize its affiliate, Lone Star, by selling fully depreciated facilities at zero cost. Transwestern's application indicates that it proposes to transfer the subject facilities to its affiliate at Transwestern's net book value of $5,155,292.63. Transwestern's proposal to transfer jurisdictional

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[13] *Northern Natural*, 135 FERC ¶ 61,048 at P 37.

[14] *Id*. P 38.

[15] DCP states that an affiliate is contemplating the construction and operation of a 700-mile natural gas liquids pipeline to transport liquids away from the Permian Basin.

natural gas transmission facilities to an affiliate at the net book value of the facilities is consistent with longstanding Commission policy.[16] Accordingly, we will approve Transwestern's proposal to transfer the subject facilities to Lone Star at their net book value.

Operational Impacts

23. DCP argues that Transwestern's application is deficient because it fails to analyze the impact on Transwestern's system of the abandonment on simultaneous bi-directional capability, peak day flows, flexibility, operating pressure, and the quality of service.

24. Transwestern states that currently under no operational circumstances can Transwestern simultaneously provide bi-directional flow on the West Texas Lateral. Transwestern affirms that the facilities are bi-directional in the sense that compression is connected in a way that enables gas to physically flow either north or south, as nominations dictate, and will remain so after the proposed abandonment. Transwestern further states that the proposed abandonment will not impact its ability to deliver gas by displacement.

25. The Commission staff's review of flow diagrams and models submitted by Transwestern confirms that currently neither the 24-inch pipeline segment to be abandoned nor the looped 30-inch pipeline to be retained can simultaneously flow gas bi-directionally. However, staff's review also confirms Transwestern's representations regarding its continued ability after the proposed abandonment to transport gas either north or south based on demand.

26. There is no evidence to suggest that Transwestern will be unable to continue providing the same level and quality of open-access service on peak days after the abandonment as it currently provides. Transwestern states in its May 11, 2012 data response that it does not have existing and proposed flow diagrams for peak day flow conditions because the West Texas Lateral was not designed on a peak day flow basis – it's design capacity is based on the highest overall lateral flows, not the highest values for each individual variable. In its June 28, 2012 data response, Transwestern explained that choosing the peak value for each of the numerous variables on the West Texas Lateral would yield unrealistic results. Instead, Transwestern's flow models and daily design capacity are based on actual historic flows and combinations of operating assumptions

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[16] *See, e.g.*, *Colorado Interstate Gas Company*, Docket No. G-124, 3 FPC 42 (1942); *CNG Transmission Corp.*, 70 FERC ¶ 62,097 (1995); *Arkla Gathering Services Co.*, *et al*., 70 FERC ¶ 61,079 (1995); and *Williams Natural Gas Co.*, 69 FERC ¶ 61,384 (1994).

incorporating a range of conditions that have previously occurred, taking into account changes in pressures and flows. Further, at no time during the past 12 months did firm peak flows on the West Texas Lateral exceed the post-abandonment capacity of 480,000 Mcf per day.

27. Transwestern states there will not be any reduction in system flexibility after the proposed abandonment because all necessary receipt and delivery facilities are either dual-connected on Transwestern's 30-inch loop pipeline or will be relocated to the 30-inch pipeline at no cost to shippers. Transwestern also states that the operating pressure on the 30-inch diameter pipeline loop is the same as the operating pressure on the 24-inch diameter pipeline segment and will remain at that operating pressure after the abandonment.

28. Transwestern has adequately demonstrated that its ability to continue providing the level of interruptible transportation service it has been providing will not be adversely affected by its abandonment of the 24-inch diameter pipeline segment. In any event, Transwestern's average day data show that physical flows on the West Texas Lateral are and have been declining. Transwestern's average deliveries on the West Texas Lateral for the period January 2011 through May 2012 were approximately 160,000 Mcf per day. Based on recent gas flow trends, Transwestern believes the 30-inch loop line it is retaining will continue to have low usage -- an approximately 29 percent load factor. According to Transwestern's June 28, 2012 data response, the highest daily physical flow rate on the West Texas Lateral during the period January 2011 through May 2012, including all interruptible volumes, was 458,218 Mcf on July 28, 2011. That flow rate is well within the West Texas Lateral's proposed post-abandonment capacity of 480,000 Mcf per day.

Agave's Comments

29. Agave, a gatherer, processor, and marketer of natural gas and natural gas liquids in New Mexico, Wyoming, and Colorado, contends that it will incur additional costs if it loses its primary receipt points on the 24-inch diameter pipeline segment that Transwestern seeks to abandon. Agave states, however, that it did not protest the application because Lone Star's incorporation of the line into its system could provide Agave with access to natural gas liquids transportation, as long as it is afforded access on reasonable terms and conditions to Lone Star's pipeline.

30. We note that Transwestern confirms that it will relocate Agave's primary receipt points at no cost to its 30-inch diameter pipeline, thereby assuring continuity of natural gas transportation service with no additional cost to Agave. The terms and rates of Lone Star's natural gas liquids service, however, are beyond the scope of this proceeding.

Conclusion

31. The record indicates that Transwestern will continue to have adequate capacity on the West Texas Lateral after the abandonment of the 24-inch diameter pipeline segment to transport its anticipated contract demand. The proposed abandonment will not interrupt, reduce, terminate, or affect the quality of any natural gas transportation services presently rendered by Transwestern or result in undue discrimination. Abandoning the excess capacity on the West Texas Lateral will enable Transwestern to eliminate costs associated with maintaining facilities that are not a vital part of its system. Accordingly, the Commission will grant the requested abandonment authorization.

Accounting

32. Transwestern proposes to transfer the facilities to Lone Star at their net book value of $5,155,292.63. Transwestern proposes to account for the abandonment as a normal retirement by debiting Account 108, Accumulated Provision for Depreciation of Gas Utility Plant, and crediting Account 101, Gas Plant in Service, with the original cost of the facilities. Transwestern's proposed accounting is generally consistent with the requirements of the Commission's Uniform System of Accounts, except Transwestern did not provide a journal entry for how it proposes to record the proceeds from the sale. We therefore direct Transwestern to credit Account 108 with the proceeds from the sale, as required by Gas Plant Instruction 10 (F).[17]

33. In addition, Transwestern proposes to debit Account 115, Accumulated Provision for Amortization of Gas Plant Acquisition Adjustments, and credit Account 114, Gas Plant Acquisition Adjustments, for $2,189,929 to remove an acquisition adjustment related to the facilities being sold. It is unclear from the filing whether the acquisition adjustment related to the facilities being sold was fully amortized. Thus, we will direct Transwestern to write-off any unamortized balance that may exist at the time of sale to Account 425, Miscellaneous Amortization.

Environment

34. Transwestern's abandonment of facilities by sale qualifies as a categorical exclusion from the need for environmental review under section 380.4(a)(31) of the Commission's regulations.[18]

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[17] 18 C.F.R. Part 201 (2012).

[18] 18 C.F.R. § 380.4(a)(31) (2012).

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

The Commission orders:

(A) Transwestern is granted permission and approval under NGA section 7(b) to abandon by sale to Lone Star the facilities described in this order and in the application.

(B) Transwestern shall notify the Commission of the effective date of abandonment within 10 days thereof. Transwestern shall complete the authorized abandonment within one year from the date of this order.

(C) The abandonment authorization is conditioned on Transwestern's complying with the accounting requirements in this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.