FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

September 9, 2004

In Reply Refer To:
Trunkline Gas Company, LLC
Docket Nos. RP04-449-000, RP04-449-001

Trunkline Gas Company, LLC
5444 Westheimer Road
Houston, TX 77056-5306

Attention: William W. Grygar, Vice President
Rates and Regulatory Affairs

Reference: New Provision Establishing Contract Demand Reduction Rights

Ladies and Gentlemen:

1. On August 9, 2004, Trunkline Gas Company, LLC (Trunkline), filed revised tariff sheets, listed in the Appendix,[1] to provide shippers with contract demand reduction rights under specified circumstances. The proposed tariff provisions would allow shippers to elect from four types of contract demand reduction options if they meet specified eligibility requirements, as discussed below. We accept Trunkline's tariff sheets effective September 10, 2004, subject to the outcome of the proceedings in Docket No. RP04-454-000. This order benefits the public by providing customers more flexibility in making contracting decisions.

2. In particular, Trunkline proposes to allow shippers to elect from four types of contract demand reduction options if they meet certain eligibility requirements. Trunkline designed these rights to address specific circumstances where a shipper may need to reduce its contract demand. Three scenarios in which Trunkline proposes to allow contract demand reduction rights are: (1) regulatory unbundling; (2) loss of load; and (3) plant outage. Trunkline states that it patterned these three provisions after

[1] On August 11, 2004, Trunkline filed Third Revised Sheet No. 2 to correct an inadvertent error. Trunkline states that, in its August 9, 2004 filing, it inadvertently submitted Second Revised Sheet No. 2, which had previously been approved by the Commission. Third Revised Sheet No. 2 replaces the Second Revised Sheet No. 2.

provisions previously approved by the Commission in *ANR Pipeline Company* (*ANR*).[2] Trunkline also includes a fourth option that allows a shipper to buy out all or a portion of its service agreement by paying the net present value of the remaining reservation charges. Trunkline states that the Commission approved a similar buy-out provision in *Florida Gas Transmission Company*.[3]

3. Each of the four options contains specific eligibility and notice requirements. For regulatory unbundling, Trunkline limits eligibility to local distribution companies (LDCs) or their agents. The shipper must give Trunkline sixty days prior written notice of the anticipated effective date of the reduction. For loss of load, Trunkline limits eligibility to LDCs or municipalities or their agents. The shipper must give Trunkline written notice no more than thirty days after shipper receives notice from its customers of a loss of load. For plant outage, Trunkline limits eligibility to industrial customers of Trunkline. The shipper must give Trunkline written notice no more than thirty days following a public announcement that the shipper will close the plant or will permanently and materially reduce plant production output. Any shipper may elect buy-out rights by paying Trunkline the net present value of the remaining reservation charges. Trunkline limits all of the reduction rights to service agreements with terms of five years or more, and eligible shippers may only exercise the contract demand reduction option during the last two years of the contract, unless otherwise agreed. In addition, the provisions include conditions addressing the level of reduction permitted when another pipeline also provides service to the shipper in addition to Trunkline, or when a shipper has contracted for both storage and related transportation service. In both of these instances, the proposed tariff provision provides for a proportionate reduction in contract quantity.

4. The Commission noticed Trunkline's filing on August 11, 2004, permitting comments, protests, or interventions as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2004)). Notices of intervention, unopposed timely filed motions to intervene, and all motions to intervene out of time filed before the issuance of this order are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214 (2004)). Granting late interventions will not disrupt the proceeding or place additional burdens on existing parties. The East Ohio Gas Company, d/b/a Dominion East Ohio (Dominion) filed a request for conditions and Consumers Energy Company (CECo) filed additional comments, as discussed below. No party protests Trunkline's filing.

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[2] ANR Pipeline Co., 99 FERC ¶ 61,310 (2002); ANR Pipeline Co., 101 FERC ¶ 61,246 (2002); ANR Pipeline Co., 106 FERC ¶ 61, 210 (2004).

[3] Florida Gas Transmission Co., 101 FERC ¶ 61,401 (2002).

5. Both Dominion and CECo submit that Trunkline's proposed five-year minimum contract term requirement is too long. They point out that, in *ANR*, the pipeline proposed a three-year minimum contract term and the Commission approved that proposal. CECo therefore argues that Trunkline's proposed five-year minimum contract term should be reduced to three years. Dominion contends that a reasonable minimum contract term is one year, certainly no more than the three years approved in *ANR*. Dominion, in recognition of the Commission's decision in *ANR* regarding the voluntary nature of the filing, requests that the Commission condition any approval of minimum contract term language for Trunkline with an explanation that the approved contract term does not reflect Commission policy.

6. Under the Natural Gas Act pipelines have the initiative under section 4 to propose rates, terms, and conditions for their services. If the pipeline's proposal is just and reasonable, the Commission must accept it, regardless of whether other just and reasonable rates, terms, and conditions may exist.[4] The Commission approves Trunkline's proposed minimum contract term of five years. Trunkline voluntarily offered to provide contract demand reduction rights in contracts of at least five years. As the Commission pointed out in *ANR* and *Columbia Gas Transmission Corp*. (*Columbia*),[5] there is no policy requiring pipelines to permit customers to terminate or reduce their contractual obligations before the end of their contract terms. Accordingly, the Commission previously approved pipeline proposals to offer this right subject to various limitations, so long as the limitations are not unduly discriminatory. While in *ANR* the Commission accepted a proposed three-year minimum contract term, in *Columbia* the Commission accepted a proposed five-year minimum contract term similar to that proposed here. In both cases, the Commission found that shippers entering into shorter term contracts have less need for contract reduction rights because they have a greater ability to protect their needs over the relatively shorter duration of the contract. In addition, the pipeline could reasonably conclude that a five-year requirement is appropriate because it helps encourage longer term contracts and Trunkline could be reasonably concerned about revenue loss and adverse affects on remaining customers. Therefore, the Commission accepts Trunkline's proposed minimum five-year contract term.

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[4] Tennessee Gas Pipeline Co., 80 FERC ¶ 61,070 at 61,223 (1997) (Opinion No. 406-A) and cases cited.

[5] 103 FERC ¶ 61,388 (2003), *reh'g denied*, 105 FERC ¶ 61,373 (2003) (the Commission accepted only a regulatory unbundling contract reduction option with a requirement that the service agreement have an initial or remaining term of at least five years).

7. Dominion also requests that the Commission require Trunkline to post on its website any service agreement that reflects the mutual agreement of Trunkline and its customer to contract reduction rights when the term of the contract is other than five years with a remaining term of two years or less. The Commission finds that any agreement by Trunkline to include a contract demand reduction provision in a contract, regardless of the provision concerning minimum contract term, contains "special details pertaining to a transportation contract" which Trunkline must post on its website pursuant to section 284.13(b)(1)(viii) of the Commission's regulations.[6] Providing such notice will enable all of Trunkline's shippers to monitor Trunkline's contracting practices and guard against any perceived discrimination.

8. In Docket No. RP04-454-000, Panhandle Eastern Pipe Line Company, LP (Panhandle) proposed contract demand reduction provisions similar to those proposed in this proceeding. In the order in that proceeding, the Commission required Panhandle to provide further information and explanation with adequate support responding to the certain issues related to the proposed tariff provisions. Therefore, the Commission's acceptance of the proposed tariff sheets in this proceeding is subject to the outcome of the proceedings in Docket No. RP04-454-000.

By direction of the Commission. Commissioner Kelly not participating.

Linda Mitry,
Acting Secretary.

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[6] 18 C.F.R. § 284.13(b)(1)(viii) (2004).

APPENDIX

Trunkline Gas Company, LLC
FERC Gas Tariff, Third Revised Volume No. 1

Tariff Sheets conditionally accepted effective September 10, 2004:

Third Revised Sheet No. 2
First Revised Sheet No. 200
Second Revised Sheet No. 269
Second Revised Sheet No. 270
Original Sheet No. 270A
Original Sheet No. 270B
Original Sheet No. 270C
Original Sheet No. 270D
Original Sheet No. 270E
Original Sheet No. 270F
Original Sheet No. 270G
Original Sheet No. 270H