

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

ANR Pipeline Company

Docket No. CP06-358-000

ORDER ISSUING CERTIFICATE AND GRANTING ABANDONMENT

(Issued November 22, 2006)

1. On May 30, 2006, ANR Pipeline Company (ANR) filed an application under sections 7(b) and 7(c) of the Natural Gas Act (NGA) for authority to perform certain enhancements to its storage system in four Michigan storage fields. ANR proposes to increase its working gas capacity and deliverability by a total of 17.0 billion cubic feet (Bcf) by realigning and converting base gas and working gas, as well as by facility enhancements. Additionally, ANR proposes to abandon certain facilities at one of the four storage fields. The Commission is granting ANR's requested certificate and abandonment authorizations, as conditioned herein.

Background

2. The ANR pipeline system extends from Texas, Oklahoma and the producing areas in the Gulf Coast, to points in Wisconsin and Michigan. ANR provides storage, transportation, and various capacity-related services on an open-access basis to qualifying shippers. ANR currently owns four natural gas storage reservoirs and leases five others located in the state of Michigan. All of these fields are operated by ANR in interstate commerce. The combined working gas capacity of these fields is approximately 116.8 Bcf. Additionally, ANR holds storage capacity of approximately 75 Bcf pursuant to storage agreements with two of its affiliated companies, ANR Storage Company (ANR Storage) and Blue Lake Gas Storage (Blue Lake).

3. ANR held an open season in November and December of 2005, as well as a reverse open season in March of 2006. ANR states that it received firm service requests of over 17 Bcf of capacity and no offers to turn back capacity. ANR awarded 17 Bcf of capacity to qualified bidders. In addition to the open seasons for firm storage service,

ANR states it solicited bids for firm injection and withdrawal transportation capacity, which it further states is ancillary to the provision of storage service. ANR states that it will be able to meet all transportation requests by using 4 Bcf of unsubscribed capacity that has been reserved for the project. ANR states that it proposes to enhance the functional capabilities of its storage facilities to a degree that will increase its FSS storage service capacity by 13 Bcf and daily deliverability capacity by 212 MMcf/d.

Proposal

4. ANR states that its proposed project will include facility enhancements and the conversion of base gas to working gas at its Lincoln-Freeman and Winfield Storage Fields. ANR proposes to abandon five existing compressor units at its Goodwell Storage Field and replace them with two new units. ANR also proposes to convert base gas to working gas at its Reed City Storage Field without any facility enhancements. Finally, ANR proposes to reduce the storage capacity, working gas and associated deliverability and withdrawal capacity currently retained for system balancing. The overall cost of the project is \$34,500,000. The following describes ANR's planned activities at each of the storage fields.

Lincoln-Freeman Storage Field

5. ANR states that the Lincoln-Freeman Field is owned by Mid Michigan Gas Storage Company (Mid Michigan) and operated by ANR. ANR holds a lease on the entire reservoir and was originally granted Commission authorization to operate the field with a total storage capacity of 38.2 Bcf.¹ The Lincoln-Freeman Field was discovered in 1938 as a dry natural gas field and was converted to a gas storage field in 1950. The Lincoln side of the field was developed first and the Freeman side was developed in 1972. However, ANR states that it has not used the Freeman side of the field for active working gas capacity for 20 years.

6. In ANR's Order No. 636 restructuring, ANR indicated that Lincoln-Freeman's storage capacity was 35.223 Bcf, of which 13.0 Bcf was working gas and 22.223 Bcf was base gas. Subsequently, conversion of 3.0 Bcf of base gas capacity to working gas capacity was authorized, thus providing the field with 19.223 Bcf of base gas and 16 Bcf of working gas.²

¹ See *Michigan-Wisconsin Pipeline Co.*, 9 FPC 152 (1950) (Michigan-Wisconsin changed its name to ANR Pipeline Company in 1984).

² See *ANR Pipeline Co.*, 108 FERC ¶ 61,179 (2004).

7. ANR proposes to install three new injection/withdrawal (I/W) wells in the Freeman side of the storage field on an 8.42 acre site. ANR asserts that each well will consist of a well and wellhead, a 4-inch meter run, and approximately 120 feet of lateral piping. ANR states that a total of approximately 360 feet of 6-inch gathering pipelines will connect the three wells to the existing 12-inch header pipeline.³

8. ANR states that it plans to use the new facilities to aid in storing an additional 1.0 Bcf of working gas that will result from the conversion of 0.5 Bcf of base gas to working gas and the addition of 0.5 Bcf of working gas volume, made possible by the reactivation and enhancement of the Freeman side of the reservoir. As a result, maximum capacity will increase by 0.5 Bcf to 35.723 Bcf, which ANR states is less than the original certificated capacity of 38.2 Bcf. Additionally, as a result of the installation of the new I/W wells and enhancements at the Lincoln Compressor Station and the Freeman Meter Station, ANR avers that the last day withdrawal deliverability will increase from 205 MMcf/day to 219 MMcf/day.⁴

Winfield Storage Field

9. In ANR's Order No. 636 restructuring, the Winfield Storage Field's total certificated storage capacity was authorized at 15.929 Bcf, of which 5.8 Bcf was working gas and 10.129 Bcf was base gas.⁵ In the instant proposal, ANR plans to enhance the efficiency of its operations at Winfield by installing two new I/W wells located within the storage field on 7.71-acre and 10.75-acre sites. ANR asserts that each well will consist of a well and wellhead, a 4-inch meter run, and approximately 200 feet of 6-inch pipe to connect one of the wells to the existing 6-inch header and approximately 840 feet of 6-inch pipe to connect the second well to the header line.⁶

³ ANR additionally proposes to install some minor control enhancements at the Lincoln Compressor Station and replace the existing instrumentation and flow control at the Freeman Meter Station.

⁴ The last day withdrawal deliverability refers to the withdrawal rate a facility is capable of sustaining on the last day of its normal withdrawal cycle.

⁵ *ANR Pipeline Company*, 78 FERC ¶ 63,003 (1997).

⁶ Additionally, ANR proposes minor modifications to the existing dehydration facility and installing glycol filtration to compressor internals.

10. ANR avers that these facility enhancements will allow it to convert 1.0 Bcf of base gas to working gas, such that total working gas will increase to 6.8 Bcf, and the total base gas will decrease to 9.129 Bcf. ANR states that after realignment of base gas to working gas, the last day withdrawal deliverability will increase from 29 MMcf/day to 39 MMcf/day.

Goodwell Storage Field

11. ANR states that the Goodwell Field is owned by Mid Michigan and operated by ANR. ANR states that the maximum storage capacity is 31.7 Bcf, of which 19.3 Bcf is working gas, and that the maximum certificated capacity and certificated pressure will not change as a result of the proposed actions at Goodwell.

12. ANR proposes to abandon five existing 1,100 horsepower compressor units and replace them with two, new 7,700 horsepower turbine compressor units that will be housed in a newly constructed building. Additionally, ANR will install a filter separator, a high pressure gas cooler, a new control room and a new dehydration tower that will be tied to existing station piping, valves and controls. ANR also proposes to install a new moisture analyzer that will be added to monitor the downstream water content, a new regenerator gas compressor to regenerate dry gas, and a new inlet separator for the inlet gas stream to remove liquids prior to the dehydration equipment. ANR states the facility enhancements will allow ANR to maintain its current certificated withdrawal capability at lower inventory levels late in the withdrawal season. ANR asserts that the new compression will allow for a potential design day deliverability increase of approximately 100 MMcf/d to 206 MMcf/d and increase last day withdrawal deliverability to approximately 100 Mcf/d with a target capacity of 3.0 Bcf.

Reed City Storage Field

13. ANR states that the Reed City Field is also owned by Mid Michigan and operated by ANR. As approved in ANR's Order No. 636 restructuring, the total certificated capacity is 28.912 Bcf, of which 16.712 Bcf is base gas and 12.2 Bcf is working gas.

14. ANR proposes to convert 1 Bcf of base gas to working gas and states that the last day deliverability will decline from 160 MMcf/d to 148 MMcf/d. ANR asserts that the decrease in last day withdrawal deliverability of 12 MMcf/d at Reed City Field will be offset by increases in last day deliverability at Lincoln-Freeman Field, Winfield Field, and Goodwell Field, which total approximately 124 MMcf/d. ANR states that Reed City Field's total maximum capacity, maximum pressure and maximum withdrawal rates will not change.

ANR's Integrated Storage Complex

15. ANR states that it currently has a total 192 Bcf of storage capacity and 2.9 Bcf/day of design day deliverability, including storage capacity under contract with ANR Storage and Blue Lake. ANR avers that as a result of the facility modifications and working-base gas realignment proposed, there will be a net increase in storage capacity and late season deliverability of 3 Bcf and 112 MMcf/day, respectively.

16. In addition to the proposed facility enhancements and gas realignments previously described, ANR is proposing to reduce the storage capacity and working gas capacity currently allotted for system balancing from 15 Bcf to 5 Bcf to help meet the 17 Bcf of additional requested service. ANR states that based upon its recent operational experience, it believes only 5 Bcf of storage capacity and working gas and 50 MMcf/day of associated deliverability and withdrawal transportation capacity (as opposed to the current level of 150 MMcf/d) is needed to support system imbalances.

17. ANR explains that it has experienced month-end imbalances over the last five years ranging from 27,811 Dth (September 2005) to 4,808,294 Dth (February 2003). Additionally, ANR states that over the past five years, the highest net imbalance was 2,915,569 Dth (February 2005). ANR states that, as a result of modifications made to its cashout mechanism in Docket No. RP02-335-000, cashout imbalances are likely to decrease from the historical levels. ANR asserts that this will allow it to reduce the storage capacity and working gas currently retained for system imbalancing by 10 Bcf, along with 100 MMcf/day of associated deliverability and withdrawal transportation capacity.

18. ANR states that the reduction of the 10 Bcf of operational system balancing gas will not only free up additional storage capacity and deliverability that can be used to meet increased market demand without affecting existing services, but will also enable ANR to develop additional storage services in a more cost effective manner.⁷

19. ANR's proposed facility enhancements, capacity realignments and reduction in operational system balancing gas will allow it to provide an incremental 13 Bcf in storage capacity and an incremental 212 MMcf/day of withdrawal capacity. ANR states that the

⁷ ANR states that subsequent to its filing its application in this proceeding, it intends to file for certificate authority to construct and operate a new storage facility at Cold Springs 1. ANR states that should the instant proposal be approved, it will propose to transfer 4 Bcf of the operational system balancing gas for use as base gas for the Cold Springs 1 storage facility.

remaining 4 Bcf of capacity required to meet the 17 Bcf of contractual capacity demand will be supplied by capacity reserved for the project. ANR states that it plans to retain ownership of the newly constructed facilities and modifications in the leased fields.

Rates and Tariff

20. ANR proposes no changes to its existing rates or tariff, and will use its currently effective maximum recourse rates for storage service as the applicable rates for service on the proposed facilities.⁸ ANR shows that the first-year estimated cost of service of \$9.6 million is less than the projected revenues to be generated from the storage contracts of \$13.4 million. The cost of service includes \$2.2 million of costs related to the 4 Bcf of existing capacity that has been reserved for the project. ANR states that this capacity has been priced at ANR's currently effective maximum recourse rates for its FSS ratcheted service with flexible entitlements. ANR states that as a result, it believes that rolled-in rate treatment of the proposed facilities is appropriate. ANR proposes that any revision to its existing rates as a result of the project, including the impact of additions and modifications to facilities and the reduction of base gas and system balancing gas, be addressed in ANR's next section 4 rate case.

Notice and Interventions

21. Public notice of ANR's application was published in the *Federal Register* on June 16, 2006 (71 Fed. Reg. 34903), with comments, protests and interventions due on or before June 30, 2006. BP Canada Energy Marketing Corp., Chevron U.S.A. Inc., Coral Energy Resources, L.P., The East Ohio Gas Company d/b/a Dominion East Ohio, Madison Gas & Electric Company, Michigan Consolidated Gas Company, Michigan Gas Utilities Corporation, Nexen Marketing U.S.A. Inc., Peoples Gas Light and Coke Company and North Shore Gas Company, ProLiance Energy, L.L.C., Semco Energy Gas, Shell Offshore Inc., Wisconsin Electric Power Company and Wisconsin Gas LLC, and Wisconsin Public Service Corporation filed timely motions to intervene.⁹ ConocoPhillips Company (ConocoPhillips) filed a late motion to intervene. Granting ConocoPhillips' motion at this stage of the proceeding will not cause undue delay or prejudice any party. Therefore, for good cause shown, the Commission will grant

⁸ ANR has executed binding precedent agreements for service with six shippers, four of which have elected to pay negotiated rates for the term of the agreements.

⁹ 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 (2006).

ConocoPhillips' motion. No protests, motions to intervene in opposition, or adverse comments were filed.

Discussion

22. Since the construction, operation, and abandonment of the proposed facilities would involve the transportation of natural gas in interstate commerce, ANR's proposal is subject to the Commission's jurisdiction under sections 7(c) and 7(b) of the NGA.¹⁰

23. On September 15, 1999, the Commission issued a Policy Statement to provide guidance as to how we will evaluate proposals for certificating new construction.¹¹ The Policy Statement established criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest. The Policy Statement explains that in deciding whether to authorize the construction of major new pipeline facilities, the commission balances the public benefits against the potential adverse consequences. Our goal is to give appropriate consideration to the enhancement of competitive transportation alternatives, the possibility of overbuilding, subsidization by existing customers, the applicant's responsibility for unsubscribed capacity, the avoidance of unnecessary disruptions of the environment, and the unneeded exercise of eminent domain in evaluating new pipeline construction.

24. Under this policy, the threshold requirement for pipelines proposing new projects is that the pipeline must be prepared to financially support the project without relying on subsidization from existing customers. The next step is to determine whether the applicant has made efforts to eliminate or minimize any adverse effects the project might have on the applicant's existing customers, existing pipelines in the market and their captive customers, or landowners and communities affected by the new construction. If residual adverse effects on these interest groups are identified after efforts have been made to minimize them, the Commission will evaluate the project by balancing the evidence of public benefits to be achieved against the residual adverse effects. This is essentially an economic test. Only when the benefits outweigh the adverse effects on

¹⁰ As defined in section 284.1 of the Commission's regulations, transportation includes storage, exchange, backhaul, displacement or other methods of transportation. 18 C.F.R. § 284.1 (2006).

¹¹ *Certification of New Interstate Natural Gas Pipeline Facilities* (Certificate Policy Statement), 88 FERC ¶ 61,227 (1999), *order clarifying statement of policy*, 90 FERC ¶ 61,128, *order further clarifying statement of policy*, 92 FERC ¶ 61,094 (2000).

economic interests will the Commission proceed to complete the environmental analysis where other interests are considered.

25. Here, the project is fully subscribed and projected revenues exceed the project cost of service by an average of \$4,322,000 for each of the first three years of service. Thus, there is no subsidization by current customers. Additionally, ANR's proposal to improve its storage facilities and realign its storage capacity, including the reduction of operational system balancing gas, meets the needs of its customers, provides additional storage capacity and improves deliverability. Accordingly, ANR's proposal is consistent with the Policy Statement and we find it is appropriate to permit ANR to roll-in the project costs as part of its storage function cost of service in its next general section 4 rate proceeding absent any significant change in circumstances.¹²

26. We also find that the project will have minimal adverse impacts. ANR's customers will not be adversely affected because tariff rates remain unchanged and service to existing customers will not be degraded. The project will provide additional storage capacity and improved deliverability, thus enhancing service options for existing customers. Further, the project will not adversely impact other existing pipelines or their customers because the project is not intended to replace existing customers' service on any other existing pipeline. Finally, the proposed construction will have minimal impact on landowners and the environment because the proposed drilling will be completed within existing storage fields and compressor replacement will occur at the existing compressor station. Additionally, no landowners protested or filed comments in response to ANR's proposed facility enhancements.

Engineering Analysis

27. We have performed an engineering analysis of the application to determine the feasibility of the proposed facility enhancements, the certificated capacity increase at the Lincoln-Freeman Field, the conversions of base gas to working gas capacity at Lincoln-Freeman Field, Winfield Field and Reed City Field, and the use of 10 Bcf of capacity currently utilized for operational system balancing for additional storage capacity and deliverability. Based on the geological, engineering, and storage operation data provided, we find that the installation of three I/W wells on the Freeman Field side of the Lincoln-Freeman Storage Field should allow for the increase in total certificated capacity of 0.5 Bcf.

¹² *Id.* See also, *Texas Eastern Transmission Corp.*, 95 FERC ¶ 62,031 (2000) and *Columbia Gulf Transmission Co.*, 93 FERC ¶ 62,156 (2000).

28. At both the Winfield and Reed City storage fields, the facility enhancements, geological, engineering, and storage operation data provided indicate that the proposed conversion of 1.0 Bcf base gas to working gas at each facility is warranted. The total certificate capacity of each field will not change.

29. At the Goodwell Field, we find that the proposed abandonment of five existing compressor units and installation of two, new units will not change the certificated maximum capacity.

30. Based upon information provided in a data response, ANR has demonstrated that sufficient capacity is available to provide the 4.0 Bcf of capacity reserved for the project. Additionally, we believe that ANR's recent operational experience will enable the utilization or storage service of 10 Bcf of the 15 Bcf capacity currently reserved for system balancing. Issuance of the certificate and abandonment authorizations requested by ANR will enable it to maintain performance, reliability, and efficiency of its storage operations, with minimal adverse impact on ANR's existing customers and landowners affected by the proposal. Balancing the public benefits against the adverse effects of this proposal, we find that approval of ANR's proposal is required by the public convenience and necessity.

Environmental Assessment

31. Our staff prepared an environmental assessment (EA) for ANR's proposal. The EA addresses geology, soils, water resources, floodplains, wetlands, vegetation, wildlife, threatened and endangered species, cultural resources, visual resources, air quality and noise, and alternatives. Based on the discussion in the EA, we conclude that if constructed, replaced, abandoned, or operated in accordance with ANR's application and supplements, and the conditions contained in the appendix to this order, approval of the proposal would not constitute a major federal action significantly affecting the quality of the human environment.

32. Any state or local permits issued with respect to the jurisdictional facilities authorized herein must be consistent with the conditions of this certificate. The Commission encourages cooperation between interstate pipelines and local authorities. However, this does not mean that state and local agencies, through application of state or

local laws, may prohibit or unreasonably delay the construction or operation of facilities approved by this Commission.¹³

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

The Commission orders:

(A) A certificate of public convenience and necessity is issued to ANR authorizing ANR to construct, operate and perform certain enhancements to its storage system as more particularly described herein.

(B) The abandonment of facilities, as described in this order and the application, is approved.

(C) The certificate granted in Ordering Paragraph (A) above and rights thereunder are conditioned upon ANR's compliance with all applicable Commission regulations under the NGA, particularly paragraphs (a), (c), (e), and (g) of section 157.20 of such regulations.

(D) The activities authorized by this order shall be completed by ANR within two years from the date this order is issued, pursuant to paragraph (b) of section 157.20 of the Commission's regulations.

(E) ANR shall execute firm service agreements equal to the level of service and consistent with the terms of service represented in its precedent agreements with its customers for service prior to commencing construction.

(F) The certificate issued in Ordering Paragraph (A) above is conditioned upon ANR's compliance with the environmental conditions set forth in the Appendix to this order.

(G) ANR shall notify the Commission's environmental staff by telephone or facsimile of any environmental noncompliance identified by other federal, state, or

¹³ See e.g., *Schneidewind v. ANR Pipeline Co.*, 485 U.S. 293 (1988); *National Fuel Gas Supply v. Public Service Comm'n*, 894 F.2d 571 (2d Cir. 1990); and *Iroquois Gas Transmission System, L.P.*, 52 FERC ¶ 61,091 (1990) and 59 FERC ¶ 61,094 (1992).

local agencies on the same day that such agency notifies ANR. ANR shall file written confirmation of such notification with the Secretary of the Commission within 24 hours.

(H) ANR is authorized under the certificate granted by Ordering Paragraph (A) above to convert a total of 2.5 Bcf of base gas capacity to working gas capacity, all as described in its application and in the body of this order.

(I) The total capacity at Lincoln-Freeman Field may be increased by 0.5 Bcf from 35,223 MMcf to 35,723 MMcf at 14.78 psia and 60° F. The total capacity at Winfield Field shall not exceed 15,929 MMcf at 14.78 psia and 60° F. The total capacity at Goodwell Field shall not exceed 31,696 MMcf at 14.78 psia and 60° F. The total capacity at Reed City Field shall not exceed 28,912 MMcf at 14.78 psia and 60° F.

(J) The late intervention of ConocoPhillips is granted.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

Appendix

As recommended in the Environmental Assessment (EA), this authorization includes the following conditions:

1. ANR shall follow the construction procedures and mitigation measures described in its application and supplements (including responses to staff data requests) and as identified in the EA, unless modified by this Order. ANR must:
 - a. request any modification to these procedures, measures, or conditions in a filing with the Secretary of the Commission (Secretary);
 - b. justify each modification relative to site-specific conditions;
 - c. explain how that modification provides an equal or greater level of environmental protection than the original measure; and
 - d. receive approval in writing from the Director of the Office of Energy Projects (OEP) **before using that modification.**
2. The Director of OEP has delegation authority to take whatever steps are necessary to ensure the protection of all environmental resources during construction and operation of the project. This authority shall allow:
 - a. the modification of conditions of this Order; and
 - b. the design and implementation of any additional measures deemed necessary (including stop work authority) to assure continued compliance with the intent of the environmental conditions as well as the avoidance or mitigation of adverse environmental impact resulting from project construction and operation.
3. ANR shall file a noise survey with the Secretary **no later than 60 days** after placing the authorized air cooler unit at the Central Charlton 1 Storage Field Compressor Station in service. If the noise attributable to the operation of the authorized unit at the station at full load exceeds an L_{dn} of 55 dBA at any nearby noise sensitive area, ANR shall install additional noise controls to meet that level **within 1 year** of the in-service date. ANR shall confirm compliance with the L_{dn} of 55 dBA requirement by filing a second noise survey with the Secretary **no later than 60 days** after ANR installs the additional noise controls.