
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION ADOPTS GAS INTERCHANGEABILITY POLICY IN SETTING GAS QUALITY STANDARDS FOR FLORIDA GAS PIPELINE

The Federal Energy Regulatory Commission will not accept requests from interstate natural gas pipelines to compensate customers or other downstream entities for any costs they may incur in using gas supplies that include revaporized liquefied natural gas (LNG) that meets approved standards for gas quality and interchangeability.

The Commission announced the new policy in a case involving a complaint filed by AES Ocean Express LLC against Florida Gas Transmission Co. (FGT). The Commission today generally affirmed an administrative law judge's ruling and approves the standards proposed by Florida Gas to receive AES Ocean's revaporized LNG, which will be imported from facilities currently under consideration in the Bahamas. Imported LNG has a higher heat content than domestically produced natural gas supplies.

"This order provides greater regulatory certainty with respect to how the Commission will address gas interchangeability issues associated with LNG import projects. This is critical if the U.S. is going to be successful in its competition with Europe and Asia for LNG imports," Commission Chairman Joseph T. Kelliher said.

FGT provides transportation services for electric generation (which accounts for 80 percent of its throughput) and local distribution companies located primarily in Florida and Alabama.

In a January 2004 order, the Commission authorized AES Ocean Express to construct and operate natural gas pipeline facilities to transport revaporized LNG from an offshore receipt point at the boundary between the Exclusive Economic Zone of the United States and the Commonwealth of the Bahamas to onshore delivery points in Broward County, Florida. AES Ocean Express proposes to interconnect its planned pipeline with FGT's system.

Under the terms of the authorization, AES Ocean Express was to deliver large

quantities of revaporized LNG directly into FGT's Market Area. When the two companies were unable to reach an agreement on the terms and conditions articulated in FGT's tariff, AES Ocean Express filed a formal complaint with the Commission.

The Commission ordered hearings before an administrative law judge to determine the appropriate natural gas quality and interchangeability standards to accommodate the introduction of regasified LNG into FGT's pipeline system. In recognition of the special needs of the electric generators attached to its system, FGT proposed interchangeability standards that are more stringent than would otherwise have been permitted by the interim standards adopted by Natural Gas Clearinghouse's NGC+ White Paper.

Citing the Commission's June 2006 Policy Statement on Natural Gas Quality and Interchangeability, the Commission today affirmed the judge's recommendation and found that Florida Gas' proposed interchangeability standard is just and reasonable because it will permit the safe operation of electric generation turbines receiving gas from FGT's system without violating environmental standards and at the same time will permit the importation of a substantial amount of LNG.

The Commission determined the standards should apply to both domestic and revaporized LNG received by FGT to its Market Area customers, not just for the LNG supply as recommended by the judge.

The Commission further affirmed the judge by ruling against establishing a mechanism in FGT's tariff that would provide for recovery of mitigation costs incurred by FGT's downstream gas users as a result of the introduction of LNG into the pipeline system.

Parties had argued the Commission is responsible for establishing a method for downstream users to recover their costs of testing, remediation and repair that may be necessary to accommodate the introduction of LNG into FGT's pipeline system. The administrative law judge said such an endeavor would be "...a prescription for unnecessary or inflated costs and endless bickering."

In announcing its policy that it will not make such a determination, the Commission in its order agreed with the ALJ, stating no specific testing program has been established and that "it is not for the Commission to propose or supervise one and monitor its costs."

While the AES Ocean Express complaint was before the administrative law judge, FGT entered into arrangements with other companies involving the transportation of LNG supplies for projects authorized by the Commission. These companies include Southern Natural Gas Co., which constructed new facilities to interconnect LNG supplies imported at the Elba Island LNG terminal owned by Southern and located near Savannah,

Georgia. The expansion facilities began operations in February 2006.

In addition, Cypress Pipeline Project plans to construct a new pipeline that will, for the first time, transport Elba Island LNG supplies directly to Florida through an interconnection with Florida Gas' Jacksonville Lateral near Jacksonville, Florida, and to a direct interconnection with JEA, formerly known as Jacksonville Electric Authority. Southern also entered into agreements with BG LNG Services LLC and Florida Power Corp., a unit of Progress Energy, for firm transportation of revaporized LNG to various Florida interconnections.

The Commission said the Florida Gas tariffs for providing services to these other companies will control the gas quality and gas interchangeability standards that Southern must meet to deliver the revaporized LNG to Florida Gas' pipeline facilities.

While the Cypress project is currently under construction and expected to begin service by Mavy 2007, the AES Ocean Express project is no longer imminent. The company sought and was granted by the Commission an extension of time, until January 29, 2009, to complete construction of its project and to make its facilities available for service.

The Commission established certificate compliance requirements for Southern and Florida Gas.

The Commission further directed FGT to file tariff sheets implementing the approved interchangeability standards prior to the in-service date of the Cypress Pipeline's proposed interconnection with Florida Gas.

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