

123 FERC ¶ 61,003
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Saltville Gas Storage Company L.L.C.

Docket No. RP08-257-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS
SUBJECT TO REFUND AND CONDITIONS AND ESTABLISHING A HEARING

(Issued April 2, 2008)

1. On March 4, 2008, Saltville Gas Storage Company L.L.C. (Saltville) filed revised tariff sheets¹ pursuant to section 4 of the Natural Gas Act proposing a general increase in its rates to be effective on April 1, 2008, or the first day of any month at the end of the suspension period ordered by the Commission. Saltville also proposes to recover fuel costs through a separately stated in-kind retention percentage. The Commission accepts and suspends Saltville's revised tariff sheets to be effective September 1, 2008, subject to refund and conditions and the outcome of the hearing established herein.

Background

2. Saltville owns and operates a salt-cavern natural gas storage system in Smyth and Washington Counties, Virginia, and provides storage services in interstate commerce pursuant to certificate authorization issued by the Commission on June 14, 2004,² as amended by Commission order dated November 22, 2004.³ Saltville states that during its proposed test period, it will acquire two additional storage fields adjacent to its existing

¹ See the Appendix to this order.

² *Saltville Gas Storage Company L.L.C.*, 107 FERC ¶ 61,267 (2004).

³ *Saltville Gas Storage Company L.L.C.*, 109 FERC ¶ 61,200 (2004). On February 21, 2008, the Commission issued an order further amending Saltville's certificate authority, among other things, to decrease its certificated operating levels. 122 FERC ¶ 61,151 (2008).

facilities, collectively referred to as the Virginia Storage Project.⁴ Saltville also indicates that during the test period it will become a wholly-owned indirect subsidiary of Spectra Energy Partners, L.P., which will acquire ownership interests in Saltville from Spectra Energy Corp.

Details of the Filing

3. Saltville proposes test period adjustments to its cost-of-service reflecting, among other things, costs and revenues related to Saltville's acquisition of the Virginia Storage Project. Saltville included the following tables in Appendix B of its Transmittal Letter as summaries of the rates and rate design determinants proposed in this filing compared to its currently effective rates and their underlying rate design determinants from Saltville's certificate proceeding in Docket No. CP04-13:

Rate Design Determinants	Docket No. RP08-257	Docket No. CP04-13
Cost of Service	\$29,359,600	\$16,794,651
Rate Base	\$103, 128,350	\$86,267,462
Throughput		
Maximum Storage Quantity	5,562,000 Dth	4,929,000 Dth
Maximum Daily Withdrawal Quantity	306,821 Dth/day	411,000 Dth/day
Maximum Daily Injection Quantity	152,742 Dth/day	205,000 Dth/day
Injection /Withdrawal Usage	17,478,950 Dth	19,716,000 Dth

Storage Rates/Dth	Docket No. RP08-257	Docket No. CP04-13
Space Reservation (Annual)	\$1.607	\$1.020
Withdrawal Reservation (Monthly)	\$2.428	\$1.019
Injection Reservation (Monthly)	\$4.877	\$2.043

⁴ Blanket certificate authorization for the Virginia Storage Project was granted, in Docket No. CP08-39-000, by operation of 18 C.F.R. § 157.205(h) (2007).

Storage Rates/Dth	Docket No. RP08-257	Docket No. CP04-13
Withdrawal Usage	\$0.088	\$0.061
Injection Usage	\$0.088	\$0.061

4. Saltville also proposes tariff revisions to add a compensation mechanism for recovery of gas used as fuel and lost and unaccounted-for quantities. In this regard, Saltville proposes a separately stated in-kind Fuel Reimbursement Percentage of 0.45 percent applicable to Storage Injections as well as to Storage Withdrawals. Saltville states that it has not historically had a separate charge for company use gas and fuel but has instead included such costs as operating and maintenance expenses.

Notice, Interventions, Protests and Answer

5. Notice of Saltville's filing was issued on March 6, 2008. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R. §154.210 (2007). Pursuant to rule 214, 18 C.F.R. § 385.214 (2007), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. The East Tennessee Group (ETG) and Sequent Energy Management, L.P. (Sequent) filed protests and request that the Commission set the instant filing for hearing. On March 26, 2008, Saltville filed an answer to the protests.⁵

6. ETG and Sequent argue that the proposed rates have not been shown to be just and reasonable. ETG asserts that filing should be examined to determine why Saltville's claimed cost savings due to the consolidation of storage facilities is not reflected in the proposed rates. ETG contends that the overall cost of service, including the adjustments to actual base period costs, rate of return, and throughput and billing determinants, requires careful examination and investigation. Sequent asserts that, for example, it is not clear how the Early Grove storage facility costs, which are high, can be rolled into Saltville's rates. Sequent expresses concerns over Saltville's proposed 13.50 percent return on equity and, in particular, Saltville's inclusion of master limited partnerships in its proxy group.

⁵ The Commission's Rules of Practice and Procedure do not permit answers to protests (18 C.F.R. § 385.213(a)(2) (2007)). However, the Commission finds good cause to admit Saltville's answer since it will not delay the proceeding, may assist the Commission in understanding the issues raised, and will ensure a complete record. Therefore, for good cause shown, Saltville's answer is accepted.

7. ETG and Sequent also argue that the proposed fuel reimbursement charge has not been shown to be just and reasonable or consistent with Commission policy. Sequent, in particular, states that it has concerns regarding the lack of a fuel tracker and an associated true-up mechanism in Saltville's filing. Sequent asserts that, if a storage provider over collects fuel, Sequent would want to make certain that Sequent is duly compensated, either in the form of a crediting mechanism or ultimately through reduced fuel rates. Sequent further asserts that if a storage provider over collects fuel during a certain period of time, then having no true-up would allow the storage provider to unnecessarily retain the over collected fuel value. Sequent argues that Saltville's fuel proposal warrants further analysis to help ensure that: (i) any economic disruptions that shippers may initially face are minimized, (ii) all data used in the development of the proposed fuel and unaccounted-for levels are thoroughly scrutinized, and (iii) an appropriate fuel tracker and true-up mechanism is given serious consideration.

8. Finally, Sequent argues that Saltville should be required to file the negotiated rate contracts, discounted rate contracts, and other contracts of the former customers of the Virginia Storage Project facilities with the Commission for approval so that the contracts may be reviewed for unfavorable terms by Saltville's current customers. In its answer, Saltville responds that the Commission's regulations require only that Saltville file negotiated rate agreements and nonconforming agreements with the Commission for approval.⁶

Discussion

9. We believe that Saltville's proposed rate and tariff changes raise issues which are best addressed in a hearing. Accordingly, we accept Saltville's proposed tariff sheets for filing and suspend their effectiveness for the period set forth below, to become effective September 1, 2008, subject to refund and conditions and the outcome of the hearing established herein. The Commission finds that the proposed tariff sheets raise issues that require further investigation at a hearing before an Administrative Law Judge. Therefore, we set all issues in the subject filing for hearing.

10. Finally, Sequent's request that the Commission require Saltville to file its negotiated rate agreements, discount rate agreements, and other unspecified contracts with the former customers of the Virginia Storage Project facilities is denied. As Saltville asserts in its answer in response to Sequent's request, the Commission's regulations only require that Saltville file its negotiated rate agreements and nonconforming agreements with the Commission for approval. Further, Saltville states, in its answer, that, once all the conditions precedent to the acquisition of the Virginia

⁶ *Citing* 18 C.F.R. § 154.1(d) (2007).

Storage Project facilities have been satisfied, it will file any new agreements with the existing customers of the Virginia Storage Project facilities that contain negotiated rates or nonconforming provisions and that those filings and its transactional reports and discount postings will comply the Commission's requirements.

Suspension

11. Based upon a review of the filing, the Commission finds that the proposed tariff sheets listed in the Appendix to this order have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission shall accept such tariff sheets for filing and suspend their effectiveness for the period set forth below, subject to the conditions set forth in this order.

12. The Commission's policy regarding rate suspensions is that rate filings generally should be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards. *See Great Lakes Gas Transmission Co.*, 12 FERC & 61,293 (1980) (five-month suspension). It is recognized, however, that shorter suspensions may be warranted in circumstances where suspensions for the maximum period may lead to harsh and inequitable results. *See Valley Gas Transmission, Inc.*, 12 FERC & 61,197 (1980) (one-day suspension). Such circumstances do not exist here. Accordingly, the Commission will suspend the revised tariff sheets listed in the Appendix to this order for five months and will permit them to take effect September 1, 2008, subject to refund and conditions and the outcome of the hearing established herein.

13. Saltville must adhere to section 154.303(c)(2) of the Commission's regulations which provides that at the end of the test period, the pipeline must remove from its rates costs associated with any facility that is not in service or for which certificate authority is required but has not been granted.

The Commission orders:

(A) The tariff sheets listed in the Appendix to this order are accepted and suspended, to be effective September 1, 2008, subject to refund and conditions and the outcome of the hearing established in this proceeding.

(B) Pursuant to the authority of the Natural Gas Act, particularly sections 4, 5, 8 and 15 thereof, a public hearing will be held in Docket No. RP08-257-000 concerning the lawfulness of Saltville's filing.

(C) A Presiding Administrative Law Judge, to be designated by the Chief Administrative Law Judge for that purpose pursuant to 18 C.F.R. § 375.304, must convene a prehearing conference in this proceeding to be held within twenty (20) days after issuance of this order, in a hearing or conference room of the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington D.C. 20426. The prehearing conference shall be held for the purpose of establishment of a procedural schedule. The Presiding Administrative Law Judge is authorized to conduct further proceedings in accordance with this order and the Commission's rules of practice and procedure.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Appendix

Saltville Gas Storage Company LLC
FERC Gas Tariff, Original Volume No. 1
Tariff Sheets Accepted and Suspended Subject to
Refund and Conditions and the Outcome of the Hearing Established Herein
To Be Effective September 1, 2008

Sixth Revised Sheet No. 11
Sixth Revised Sheet No. 12
Fifth Revised Sheet No. 13
Fifth Revised Sheet No. 14
Fourth Revised Sheet No. 31
Third Revised Sheet No. 32
Fourth Revised Sheet No. 41
Second Revised Sheet No. 41A
Fourth Revised Sheet No. 42
Fourth Revised Sheet No. 51
Fourth Revised Sheet No. 52
Fourth Revised Sheet No. 61
Fourth Revised Sheet No. 62
Fourth Revised Sheet No. 102
Fourth Revised Sheet No. 103
First Revised Sheet No. 121
Fourth Revised Sheet No. 127
Third Revised Sheet No. 134
Third Revised Sheet No. 135
Third Revised Sheet No. 138
First Revised Sheet No. 161