125 FERC ¶ 61,167
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Stingray Pipeline Company, L.L.C. Docket No. RP08-436-000

ORDER ON FURTHER REVIEW AND INCLUDING ISSUE IN HEARING

(Issued November 13, 2008)

1. On June 30, 2008, Stingray Pipeline Company, L.L.C. (Stingray) filed original and revised tariff sheets pursuant to section 4 of the Natural Gas Act (NGA) proposing a general increase in its transportation rates. In addition to the rate increase, Stingray proposed to include a commodity surcharge mechanism that Stingray stated will enable it to better manage the cost impacts and volatility associated with natural disasters affecting its system. Furthermore, Stingray included in the instant filing numerous other tariff revisions, including revisions to its General Terms and Conditions (GT&C) and to the provisions of various rate schedules.

2. On July 30, 2008, the Commission issued an Order Accepting and Suspending Tariff Sheets Subject to Refund and Further Review and Establishing Hearing Procedures.[1] The July 30 Order, among other things, allowed time for additional comments on Stingray's proposed tariff changes. Initial comments were due 20 days after the date the July 30 Order issued, with reply comments due 30 days after the date the order issued. After further review, and for the reasons discussed below, the Commission will accept the proposed tariff sheets listed in the Appendix, effective November 1, 2008, except for Third Revised Sheet No. 185 which will be included in the hearing established by the July 30 Order.

I. Background

3. Stingray proposed to increase its reservation rate for firm transportation service from $2.99 to $7.76 per dekatherm (Dth), an increase of about 260 percent. Recognizing

[1] *Stingray Pipeline Company, L.L.C.*, 124 FERC ¶ 61,117 (2008) (July 30 Order).

the proposed rate increase as extraordinary, Stingray asserted that the increase was necessary because of the dramatic throughput decreases experienced on its system since its last rate increase in 2003. Stingray stated that the rate increase is necessary to recover increases in operating costs experienced since 2003 and an increase in its return on equity that reflects the significant risks associated with its offshore operations. Stingray contended these cost increases were attributable to many factors, including general inflation, a highly competitive labor market with limited availability of the specialized resources required to operate in the offshore environment and cost escalations that occurred in the wake of Hurricanes Rita and Katrina.

4. In addition to the rate increase, Stingray proposed a commodity surcharge mechanism (Event Surcharge) that Stingray stated will enable it to better manage the cost impacts and volatility associated with natural disasters affecting its system. The proposed Event Surcharge would recover actual costs incurred in connection with preventing, preparing for, and repairing damages caused by major storms and other significant natural disasters that affect its system.

5. Stingray also included numerous tariff revisions in its filing. The majority of the proposed tariff changes were general clean-up changes, such as standardizing the use of defined terms and updating contact information. However, Stingray also proposed to make a number of other changes to provide it and its shippers with greater flexibility to facilitate administrative consistency in implementing its service agreements and to address issues that have arisen since Enbridge Inc. acquired an interest in Stingray on December 31, 2004.

6. On July 30, 2008, the Commission accepted and suspended the tariff sheets subject to refund and further review and established a hearing.[2] In that order, the Commission accepted the tariff sheets setting forth Stingray's revised rates and the Events Surcharge, listed in Appendix A to the July 30 Order, to be effective January 1, 2009, subject to refund and the outcome of the hearing. The Commission also accepted the tariff sheets setting forth other tariff changes, listed in Appendix B, subject to further review, to be effective January 1, 2009, or on an earlier date specified by subsequent Commission order. Finally, the Commission allowed time for additional comments on Stingray's proposed tariff changes. Initial comments were due 20 days after the date the July 30 Order issued, with reply comments due 30 days after the date the order issued.

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[2] *Stingray Pipeline Company, L.L.C.*, 124 FERC ¶ 61,117 (2008).

7. On August 19, 2008, the Indicated Shippers[3] filed comments opposing certain of the proposed tariff changes and on August 29, 2008, Stingray filed reply comments. These matters are discussed below.

II. Discussion

8. Indicated Shippers was the only party commenting on Stingray's proposed tariff changes. Consequently, most of the tariff sheets set forth in Appendix B of the July 30 Order are unchallenged, particularly since many of the proposed changes are primarily general clean-up changes and changes to increase the flexibility and consistency in Stingray's contract administration. However, Indicated Shippers has raised concerns about Stingray's proposed: (1) form of reserve dedication agreement for Rate Schedule FTS-2; (2) changes to its imbalance cash-out provisions; and (3) changes to its gravity specification and the $10.00 charge for injected free water. Indicated Shippers' comments and Stingray's responses on these proposed tariffs are addressed below.

A. Reserve Dedication Agreement for Rate Schedule FTS-2

9. Stingray provides firm transportation service under its Rate Schedule FTS-2 to producers who dedicate reserves for transportation over Stingray's pipeline. The FTS-2 rate is volumetric, with no reservation charge. Stingray has proposed to add to its tariff a form of Reserve Dedication Agreement, pursuant to which producers would make the reserve dedication required for service under Rate Schedule FTS-2.

1. Initial and Reply Comments

10. Indicated Shippers assert that the proposed dedication agreement is overreaching and unjust and unreasonable in several respects. First, they argue that Stingray is unreasonably requiring that an entire production block be dedicated under the FTS-2 dedication agreement. Indicated Shippers state that the FTS-2 dedication agreement requires shippers to dedicate all gas produced from a specific block for the economic life of the reserves with no option to dedicate specific wells in a block, or specific wells tied to a designated platform in a block, as there is under the ITS dedication agreement that is currently in Stingray's tariff. Indicated Shippers assert that this is akin to a pipeline requiring a firm shipper to commit to purchase full requirements service for all natural gas needs forever. Indicated Shippers deem this anti-competitive and inconsistent with basic open access principles under Order Nos. 436 and 636.

[3] The Indicated Shippers are Anadarko Energy Services Company, Apache Corporation, Chevron U.S.A. Inc., and Shell Energy North America (US), L.P.

11. In response, Stingray counters that the Indicated Shippers have provided no basis for rejecting or maintaining suspension of Stingray's proposed dedication agreement for its Rate Schedule FTS-2. Stingray asserts that the existing language of Rate Schedule FTS-2 already requires shippers to dedicate their entire interest within a block. Stingray states that section 4.1 of Rate Schedule FTS-2 provides that a shipper must commit:

> to deliver into and ship through Stingray's Pipeline Facilities for the life of the reserves, all natural gas (in excess of natural gas required by Shipper for use on its Leases) produced by or for the account of Shipper, or any Affiliate thereof, attributable to Shipper's Leasehold Interest(s) in specifically identified OCS Field(s) which OCS Field(s) and Leasehold Interest(s) shall be listed on Exhibit A to Shipper's FTS-2 Agreement (Commitment). Shipper's Commitment may include more than one OCS Field but, in no event, shall Shippers Commitment to any single FTS-2 Agreement be less than all of Shipper's Leasehold Interest(s) in each OCS Field listed on Exhibit A.

12. Stingray argues that because a block is within a field, the requirement to dedicate all leasehold interests within a field includes all interests in blocks within such field. Accordingly, Stingray submits that the proposed form of reserve dedications agreement for Rate Schedule FTS-2 does nothing more than put into effect, consistently and transparently, the existing requirements of section 4.1 of Rate Schedule FTS-2.

13. Next, Indicated Shippers argue that the tariff provisions governing the release of the dedication obligation are unreasonable and internally inconsistent. Indicated Shippers assert that both the ITS dedication agreement and the FTS-2 dedication agreement contain the same language at section 1.5, regarding release of dedication obligations if Stingray for any reason fails to provide transportation service for the dedicated reserves for more than 90 consecutive days in any 12-month period. Indicated Shippers state that the dedication agreements provide under such circumstances, that the shipper may request a permanent release of the dedicated reserves, which Stingray has been unable to transport. Indicated Shippers continue stating that, within 60 days from receipt of such a request, Stingray shall either (i) prepare a schedule or outline the steps that are being or will be taken to transport the impacted quantities or (ii) grant the request for a permanent release. According to Indicated Shippers, Stingray will have 6 months from the request to take action (if minor construction is required), or 15 months (if additional pipeline platform and/or compression facilities are required), and Stingray will have the right to extend that 15-month period for an additional 3 months.

14. However, Indicated Shippers argue that there is a similar provision in section 19.2 of the FTS-2 rate schedule relating to force majeure, but the time periods are different. Indicated Shippers argue that section 19.2 provides that if Stingray fails to cure an event

of force majeure within 90 days of notice, then the shipper, after providing 30 days notice, may terminate the FTS-2 agreement. However, according to Indicated Shippers, where the shipper is declaring force majeure, the shipper will have 180 days to cure the problem at depths of 200 meters or greater. Indicated Shippers maintain that these two conflicting provisions need to be reconciled because it is unclear which of the timelines will control if pipeline transport service is not being provided. Furthermore, Indicated Shippers argue that it is unreasonable to require a shipper, who has dedicated its gas to Stingray for the economic life of the dedicated reserves, to essentially shut in its production for a period of up to 18 months while Stingray takes whatever steps it may take to cure the problem.

15. In its reply comments, Stingray contends the Indicated Shippers' concerns regarding release of dedication obligations are misplaced. Stingray asserts that there is no conflict between section 1.5 of the dedication agreement and section 19.2 of Rate Schedule FTS-2 as the two provisions serve separate and distinct purposes. Stingray explains that section 19.2 of Rate Schedule FTS-2 provides for termination of the service agreement, and may apply, but does not have to apply, when either the shipper or Stingray fails to cure an event of force majeure within 90 days. Further, Stingray states that section 1.5 of the proposed dedication agreement provides for prospective permanent release of dedicated reserves under the dedication agreement when Stingray, for any reason, fails to provide transportation services with respect to dedicated reserves for more than 90 consecutive days in any 12 month period. Stingray continues that although the time periods under section 1.5 of the dedication agreement extend out further than those of section 19.2 of Rate Schedule FTS-2, in the case of force majeure, section 1.4 of the proposed dedication agreement permits shippers to temporarily transport their dedicated reserves on other pipelines in the interim. Stingray also disagrees with the Indicated Shippers assertion that the proposed time frame for Stingray to be able to cure a failure to transport dedicated reserves before allowing a permanent release of dedicated reserves is too long. Stingray argues that a shorter cure period is simply not reflective of such a life of lease commitment or the pipeline's associated long-term reservation of firm capacity for the shipper. Further, Stingray states that it does not believe a shorter cure period is realistic for offshore systems, where it may take several months to assess a problem and complete necessary repairs.

16. Finally, Indicated Shippers question the reasonableness of section 1.6 of the FTS-2 dedication agreement which requires that a Memorandum of Agreement and Covenant Running be filed with the Minerals Management Service (MMS). Indicated Shippers argue that Indicated Shippers contend that Stingray has offered no justification for this requirement or explained why it is necessary, given that the dedication agreement requires dedication of the designated reserves for the economic life of the lease and contains a successor and assignment provision. The Indicated Shippers recognize that there is a covenant already in Stingray's tariff associated with Stingray's ITS dedication

agreement. However, Indicated Shippers claim that this covenant is also objectionable and should be removed from Stingray's tariff.

17. In response, Stingray argues that the Indicated Shippers have provided no rational basis for denying the requirement to enter into a Memorandum of Agreement and Covenant Running with the dedicated reserves and to have that memorandum filed with the MMS. Stingray asserts that absent a memorandum or agreement and covenant regarding such dedication on file with the MMS, a successor to or assignee of a shipper that has dedicated reserves on Stingray could take title to the lease without knowledge of the reserve dedication and, under principles of property-law, thereby obtain the lease unencumbered by the associated reserve dedication. Stingray argues that the memorandum and the requirement that it be filed with the MMS serves to ensure that the dedication of the reserves is for the life of the lease regardless of subsequent transfers to successors and assigns.

2. Commission Ruling

18. The Indicated Shippers raise three main concerns respecting Stingray's proposed dedication agreement for Rate Schedule FTS-2, none of which forms a valid basis for rejecting or continued suspension of that proposed tariff change. The Commission agrees with Stingray that section 4.1 of Rate Schedule FTS-2 already requires shippers to dedicate their entire interest within a block.[4] Accordingly, the proposed dedication agreement does nothing more than put into effect the existing requirements of previously accepted section 4.1 of Rate Schedule FTS-2. In addition, the Commission finds that the fact that the existing ITS form of reserve dedication agreement provides more flexibility than the proposed form for Rate Schedule FTS-2 does not render the proposed form for Rate Schedule FTS-2 contrary to Commission policy. Firm service, by its very nature, requires more commitment from both the pipeline and the shipper than interruptible service, and it is therefore perfectly rational for a pipeline to require a higher level of reserve dedication commitment with respect to firm service than interruptible service. Furthermore, the Commission has approved of such requirements to dedicate a shipper's entire interest in a field, including the blocks therein, as consistent with Commission policy and precedent.[5]

19. The Indicated Shippers' concern that section 1.5 of the form conflicts with section 19.2 of Rate Schedule FTS-2 is misplaced as the two provisions serve separate and

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[4] *See* section 4.1 of Stingray's First Revised Sheet No. 64.

[5] *See* Sea Robin Pipeline Company, LLC FERC Gas Tariff, Original Sheet No. 381; Garden Banks Gas Pipeline LLC FERC Gas Tariff, Original Sheet No. 284; Nautilus Pipeline Company, LLC FERC Gas Tariff, Original Sheet Nos. 20 and 21.

distinct purposes. In addition, the time periods proposed by Stingray reflect a life of lease commitment by the shipper. Having benefited from not having to pay fixed reservation fees, shippers should not be permitted to walk away from their reserve dedications with respect to firm service without an adequate time for Stingray to cure a problem on its system. The Indicated Shippers' proposed three month cure period is simply not reflective of such a life of lease commitment or the pipeline's associated long-term reservation of firm capacity for the shipper. Moreover, the time frames in section 1.5 of the proposed form agreement are the exact same time frames provided for in section 1.5 of the form of reserve dedication agreement for Rate Schedule ITS in Stingray's tariff.

20. Likewise, the Commission agrees with Stingray's requirement to enter into a Memorandum of Agreement and Covenant Running with the dedicated reserves. These requirements put interested parties, including prospective buyers, on notice that a life of lease dedication attaches to certain leasehold interests. Furthermore, the Commission has already approved the exact same provision with respect to the form of reserve dedication agreement for Stingray's Rate Schedule ITS. The Indicated Shippers have provided no basis for removing the memorandum requirement from the proposed form agreement for Rate Schedule FTS-2 or for entertaining the removal of the already-approved form of reserve dedication agreement for Rate Schedule ITS that is currently in Stingray's tariff.

B. Imbalance Cash-out Provisions

21. Stingray proposed various changes in its tiered cash-out mechanism tariff provisions concerning shippers' cashing out of their monthly imbalances. Among other things, Stingray proposed to modify its existing provision that all imbalances between 0 percent up to 5 percent be cashed out at the average monthly index price. Stingray proposed to replace that provision with a requirement that, where Stingray owes the shipper, the price will be the lowest weekly index price during the month, and where the shipper owes Stingray, the price will be the highest weekly index price during the month. Stingray also proposed a change in the index prices used in the cash-out mechanism and its method of recovering any net under-recoveries of its cash-out costs and revenues.

1. Initial and Reply Comments

22. Indicated Shippers argue that Stingray has unreasonably eliminated a penalty-free imbalance zone for imbalances between 0 percent up to 5 percent. The Indicated Shippers object to this change asserting that Stingray has offered no evidence that there has been any gaming or other type of abuse of its system under which imbalances are intentionally being created. Furthermore, Indicated Shippers believe Stingray has offered no justification for instituting a "high/low" cash-out mechanism, which would penalize imbalances within this 0 to 5 percent zone.

23. Stingray insists that its proposed “high/low” price for the 0 to 5 percent zone is consistent with prior Commission rulings. Moreover, Stingray argues that the affidavit of Stingray witness Mr. Stephen L. Merritt demonstrates that under Stingray’s current cash out mechanism, some shippers seize the opportunity for economic gain through price arbitrage. Stingray states that it desires to reduce this level of price arbitrage because of the cost pressures, scheduling burdens and operational complications that it imposes on other compliant shippers, interconnecting pipelines, and Stingray. Stingray asserts that adopting the high/low pricing methodology will eliminate the economic incentive that shippers currently have during the month.

24. Next, Indicated Shippers argue that it is not clear: (i) whether the entire imbalance is treated under the same cash-out methodology (e.g., if the imbalance is 8 percent, would the first 5 percent be cashed out under the 0 to 5 percent rule and the remaining 3 percent be cashed out under the 5 to 10 percent rule); (ii) how long shippers will have to trade imbalances; and/or (iii) whether shippers will have the right to adjust their invoices to reflect imbalance trading prior to paying the bill (preferred), or whether the full amount must be paid and the invoice would be adjusted after the fact to reflect any trading. Indicated Shippers request Stingray to clarify these matters.

25. Stingray responds that the Indicated Shippers misunderstand several of Stingray’s proposed changes to its monthly transportation imbalance provisions. Stingray questions why the Indicated Shippers claim that it is not clear whether the entire imbalance is treated under the same cash-out methodology. Stingray states that section 11.3(b) has an explicit example which answers the Indicated Shippers’ question in the affirmative. Stingray further explains that existing section 11.2(b) of Stingray’s imbalance provision, a section which Stingray states it has not proposed to change, makes it clear that shippers or their agents may trade offsetting imbalances with shippers or their agents until the close of business on the seventeenth business day of the month. Stingray also argues that the proposed tariff provisions are clear on whether shippers will have the right to adjust their invoices to reflect imbalance trading prior to paying the bill or whether the full amount must be paid and the invoices adjusted after the fact to reflect any trading. Stingray states that section 13.1 of the GT&C regarding monthly invoices provides that “[i]nvoices will reflect a cash-out of imbalances existing at the end of the preceding Month and may be adjusted pursuant to section 11.3(f).” Further, Stingray states that section 11.3(f) of the GT&C provides that a shipper “may offset the billed amount related to the traded or offset imbalances against the total billed amount for the Month or, if an amount is owed Shipper, Stingray may credit the amount owed on the billings for the next Month.” Thus, Stingray proposes, as the Indicated Shippers prefer, that shippers may indeed adjust their invoices to reflect imbalance trading prior to paying their monthly invoices.

26. Indicated Shippers next assert that section 11.5(b) of Stingray’s GT&C now permits Stingray to invoice its shippers for any under-recoveries of cash-out revenues.

Indicated Shippers state that prior to this change, the tariff provided that the net under-recoveries would be carried forward to a subsequent billing period and be credited against net over-recoveries. Indicated Shippers argue that Stingray has offered no justification for this new provision, nor provided any explanation as to how it would work, or the criteria that would be used to determine when to implement such a bill.

27. Stingray responds that its proposal to invoice shippers if Stingray has a negative revenue/cost balance in its transportation imbalance account at the end of the annual cycle is consistent with tariff provisions of other pipelines. Furthermore, Stingray explains invoicing a negative balance in its imbalance/cost account will only occur if Stingray's costs to manage shipper imbalances are greater than its cash-out revenue. According to Stingray, such a determination will be made after the end of the annual billing period, which ends on November 30th of each year. Stingray further explains that invoices to shippers must be made by January 29th and that the invoices will be based on each shipper's share of transportation quantities during the annual billing period.

28. Finally, Indicated Shippers argue that Stingray has not fully justified the change of Stingray's price indices used to calculate the imbalance cash-out price. Indicated Shippers state that historically, Stingray used (i) South Louisiana, NGPL, and (ii) South Louisiana, LRC via Stingray published by *Natural Gas Intelligence*. However, Indicated Shippers state that Stingray is now proposing to use (i) Columbia Gulf Onshore, (ii) ANR, LA, and (iii) Tennessee, LA, 800 Leg. The Indicated Shippers oppose the new price indices, in particular the inclusion of Columbia Gulf Onshore, claiming that Columbia Gulf Onshore is not one of the direct Stingray redelivery point options.

29. Stingray responds that its proposed new pricing indexes are fully justified and consistent with Commission policy. Stingray suggests that the removal of South Louisiana LRC and South Louisiana NGPL pricing points is appropriate because the South Louisiana LRC pricing point is no longer reported by *Natural Gas Intelligence* and needs to be replaced. Furthermore, Stingray argues there is not enough reported transaction activity at the South Louisiana NGPL pricing point for it to be a reliable indicator of the market price for gas delivered by Stingray. On the other hand, Stingray asserts that not only do the three proposed new pricing points all satisfy the Commission's liquidity requirements, but they also accurately represent the value of the gas supplies delivered by Stingray. Accordingly, Stingray maintains that these three pricing points are a reasonable proxy for the market value of gas delivery by Stingray, and the Indicated Shippers' objection to these new pricing points is without merit.

2. Commission Ruling

30. The Commission's policy allowing a "high/low" index pricing methodology in the first tolerance zone to reduce price arbitrage has been approved by the D.C. Circuit.[6] The goal of minimizing arbitrage supports the use of the high/low pricing method for all imbalances, not just those in excess of a tolerance level. Adoption of the high/low pricing methodology will eliminate the economic incentive that shippers currently have during the month to determine whether it would be better or worse from a pricing perspective for the shippers to maintain a positive or negative transportation imbalance on Stingray.

31. The Indicated Shippers allege that it is not clear whether the entire monthly transportation imbalance is treated under the same cash-out methodology. However, Stingray's imbalance provision has an explicit example answering the Indicated Shippers' question in the affirmative.[7] Furthermore, the Indicated Shippers allege that it is not clear how long shippers will have to trade imbalances. However, existing section 11.2(b) of Stingray's imbalance provision in its GT&C, a section which Stingray has not proposed to change, is clear on this point, providing that "Shippers or their agents may then trade offsetting imbalances with Shippers or their agents until the close of business on the seventeenth Business Day of the Month (Trading Period)."[8]

32. In addition, the Indicated Shippers question whether shippers will have the right to adjust their invoices to reflect imbalance trading prior to paying the bill, or whether the full amount must be paid and the invoices would be adjusted after the fact to reflect any trading. The proposed change to section 13.1 of the GT&C regarding monthly invoices states that "[i]nvoices will reflect a cash-out of imbalances existing at the end of the preceding Month and may be adjusted pursuant to section 11.3(f) of these General Terms and Conditions." Further, section 11.3(f) provides that shippers may offset the billed amount related to the traded or offset imbalances against the total billed amount for the

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[6] *See The Industrials et al. v. FERC*, 426 F. 405 (D.C. Cir. 2005), *aff'g Northern Natural Gas Company*, 105 FERC ¶ 61,172 (2003), *reh'g denied*, 107 FERC ¶ 61,252 (2004).

[7] Section 11.3(b) of Stingray's tariff states, "[f]or example, if total receipts [by Stingray on behalf of a Shipper] were 1,000 Dth and the remaining negative imbalance after offsetting with other Shippers was 100 Dth, the total Imbalance Level would be 10 percent. The first 5 percent (50 Dth) would be cashed out at 100 percent of the HMIP and the remaining 50 Dth would be cashed out at 110 percent of the AMIP." *See* proposed Fifth Revised Sheet No. 133 & Second Revised Sheet No. 134.

[8] *See* proposed Fifth Revised Sheet No. 132.

month or, if an amount is owed a shipper, Stingray may credit the amount owed on the billings for the next month. Stingray has clarified that these provisions provide, as Indicated Shippers prefer, that shippers may adjust their invoices to reflect imbalance trading prior to paying their monthly invoices.

33. The Commission agrees with Stingray that its proposal to invoice shippers if Stingray has a negative revenue/cost balance in its transportation imbalance account at the end of an annual cycle is consistent with tariff provision of other pipelines.[9] Further, the Commission finds that Stingray has adequately explained that invoicing will only occur if Stingray's costs to manage shipper imbalances are greater that its cash-out revenue.

34. With regard to Indicated Shippers' opposition to the new price indices proposed by Stingray, the Commission finds that Stingray's proposal to remove the South Louisiana LRC and South Louisiana NGPL pricing points is appropriate. First, the South Louisiana LRC pricing point is no longer being reported by *Natural Gas Intelligence*. Second, there is not enough reported transaction activity at the South Louisiana NGPL pricing point for it to be a reliable indicator of the market price for gas delivered by Stingray. In contrast, the ANR, LA., Tennessee, LA., 800 Leg and the Columbia Gulf Onshore price index points published in *Natural Gas Intelligence*, the three proposed new pricing points all satisfy the Commission's liquidity requirements.

[9] *See, e.g.* Third Revised Sheet No. 145 of Discover Gas Transmission LLC's tariff.

C. Gas Quality Changes

35. Stingray operates a dual-phase system that permits its shippers to inject both the natural gas and a range of condensate that is being produced from their offshore production wells. Section 1.18 of the GT&C of Stingray's tariff currently defines "liquids" as any hydrocarbons, other than crude oil, which in their natural state are liquids, and have an API gravity not less than 38 degrees and not more than 50 degrees.[10] Stingray proposes to lower the minimum API gravity to not less than 35 degrees. By lowering the API gravity, Stingray will allow a greater range of condensate to flow on Stingray's system than was previously indicated in Stingray's tariff. Stingray also proposed to add a charge of $10.00 per barrel of free water.

1. Initial and Reply Comments

36. Indicated Shippers argue that Stingray has not fully supported the change to the API gravity specification for liquids in its instant filing. Indicated Shippers assert that Stingray has offered no support for lowering the minimum API gravity to not less than 35 degrees. Accordingly, the Indicated Shippers request Stingray to justify its proposal to change the API gravity standard from 38 degrees to 35 degrees.

37. Stingray argues that the Indicated Shippers have provided no basis for rejecting or maintaining suspension of Stingray's proposed API gravity specification. Stingray claims that the Commission has never required pipelines that are making their gas quality specifications more permissive to justify those changes in the absence of alleged harm. Stingray explains that the purpose behind the change to 35 degrees is to reflect the full range of condensate that has historically flowed into the Stingray system. Stingray asserts that, far from impeding the trade of natural gas, the move to a minimum of 35 degrees from 38 degrees provides shippers with greater flexibility by permitting injection into the Stingray system, along with their natural gas, of a wider API gravity range of condensate than was previously indicated in Stingray's tariff. Thus, Stingray contends that lowering the API gravity specification has the potential to increase the value of shippers' condensate.

38. Next, Indicated Shippers argue that Stingray's proposed section 22.2(g), which permits Stingray to charge $10.00/barrel of free water, is unreasonable. Indicated Shippers argue that Stingray has offered no support for this new penalty, including whether free water is a problem on Stingray's system. In addition, Indicated Shippers argue that the $10.00/barrel penalty overlaps with a $1.00/Dth penalty that Stingray

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[10] Stingray notes that its proposed tariff change regarding the API gravity specification incorrectly included references to Fahrenheit ("F"). Stingray states that those references to Fahrenheit should be removed.

charges for gas which contains more than 7 pounds of water vapor/MMcf. Accordingly, the Indicated Shippers request that the Commission reject the $10.00/barrel fee as an unjustified new penalty.

39. Stingray responds that the Indicated Shippers have provided no basis for rejecting or maintaining suspension of Stingray's proposed charge for injection of free water. Stingray argues that the proposed charge is not duplicative of the $1.00/Dth charge for water vapor already in Stingray's tariff. Stingray states that water vapor, which is a gaseous state that is entrained with the natural gas, and free water are not the same. Stingray explains that is why it has separate specifications in its tariff for water vapor and free water. In addition, Stingray states that injection of free water makes it more difficult to maintain control of system corrosion by providing a more favorable environment for growth of corrosion-causing bacteria. Stingray states that it attempts to control corrosion through the injection of chemicals and pigging, however, the more water in the system, the more chemicals and pigging are required to inhibit corrosion. Further, Stingray argues that excessive amounts of free water in the system can exceed the capacity of liquids handling facilities, leading to extended service interruptions.

2. Commission Ruling

40. Stingray operates a dual-phase system that permits its shippers to inject both the natural gas and a range of condensate that is being produced from their offshore production wells. As stated in the Prepared Direct Testimony of Stephen L. Merritt, Exhibit No. SPC-7 at 24, the purpose behind the change in the minimum API specification to 35 degrees is to reflect the full range of condensate that has historically flowed into the Stingray system. Far from impeding the trade of natural gas, the Commission finds that the move to a minimum of 35 degrees from 38 degrees provides shippers with greater flexibility by permitting injection into the Stingray system, along with their natural gas, of a wider API gravity range of condensate than was previously indicated in Stingray's tariff. Furthermore, we note that the change regarding the API gravity specification incorrectly included references to Fahrenheit, we agree with Stingray that those references to Fahrenheit should be removed, accordingly we direct Stingray to correct the relevant tariff sheet by removing the Fahrenheit reference as part of its motion filing.

41. Next, the Commission finds that the proposed $10.00/barrel charge for free water is not duplicative of the $1.00/Dth charge for water vapor already in Stingray's tariff. The Commission recognizes that reducing free water (which when combined with carbon dioxide under pressure forms carbonic acid which is internally corrosive to the pipeline) enhances long-term system integrity and reduces potential damage to the pipeline. However, the Commission questions whether the $10.00 charge is excessive. Accordingly, we find that Stingray has not shown the proposed $10.00/barrel charge for free water to be just and reasonable, and may be unjust, unreasonable, unduly

discriminatory, or otherwise unlawful. For that reason, Stingray's proposed Third Revised Sheet No. 185 will remain suspended for the period set forth in the July 30 Order, to become effective January 1, 2009, subject to the outcome of the hearing proceedings established in the July 30 Order.

<u>The Commission orders</u>:

With the exception of Third Revised Sheet No. 185, which is set for hearing, the tariff sheets listed in the Appendix to this order are accepted, effective November 1, 2008, subject to Stingray correcting Fifth Revised Sheet No. 103 by removing the Fahrenheit reference as part of its motion filing.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Appendix

Stingray Pipeline Company, L.L.C.
FERC Gas Tariff, Third Revised Volume No. 1

Tariff Sheets Accepted Effective November 1, 2008

Seventh Revised Sheet No. 0
Twelfth Revised Sheet No. 2
Second Revised Sheet No. 3
Third Revised Sheet No. 4
Sheets 11 - 39
First Revised Sheet No. 42
Eighth Revised Sheet No. 43
Third Revised Sheet No. 44
Sixth Revised Sheet No. 45
Third Revised Sheet No. 46
First Revised Sheet No. 47
Third Revised Sheet No. 48
Fourth Revised Sheet No. 49
Second Revised Sheet No. 50
First Revised Sheet No. 51
Eighth Revised Sheet No. 52
Third Revised Sheet No. 53
Sixth Revised Sheet No. 54
Third Revised Sheet No. 55
Sixth Revised Sheet No. 56
Sixth Revised Sheet No. 57
Sixth Revised Sheet No. 58
Third Revised Sheet No. 59
First Revised Sheet No. 60
First Revised Sheet No. 61
Fifth Revised Sheet No. 62
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