128 FERC ¶ 61,166
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

August 18, 2009

In Reply Refer To:
Columbia Gas Transmission Corporation
Docket No. RP00-327-007
Docket No. RP00-604-007

Columbia Gas Transmission Corporation
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Houston, Texas 77056

Attention: Kurt L. Krieger,
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Reference: Accepting Segmentation Report Subject to Revisions

1. On June 1, 2005, Columbia Gas Transmission Corporation (Columbia)[1] filed a report (Segmentation Report) in compliance with the Commission's order in this proceeding issued July 19, 2002.[2] In part, the July 19 Order directed Columbia to file a Segmentation Report providing information related to segmentation on its system during the first year of operation. The July 19 Order also directed Columbia to provide information concerning its secondary point allocation methodology. On February 1, 2006, Columbia filed a report on a meeting it held with its customers to discuss segmentation on its system. As discussed below, the Commission accepts the Segmentation Report subject to conditions.

2. Order No. 637 requires pipelines to permit a shipper to use its contracted firm capacity by segmenting that capacity into separate parts for its own use or for releasing segmented capacity to replacement shippers to the extent such segmentation is

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[1] Since this application was filed, Columbia changed its name from Columbia Gas Transmission Corporation to Columbia Gas Transmission, LLC. See *Columbia Gas Transmission LLC*, Docket No. RP09-150-000 (Jan. 14, 2009) (unpublished letter order).

[2] *Columbia Gas Transmission Corp.*, 100 FERC ¶ 61,084 (2002) (July 19 Order), *order on reh'g and clarification*, 104 FERC ¶ 61,168 (2003).

operationally feasible.[3] In its filing to comply with Order No. 637, Columbia maintained that it was operationally infeasible to implement physical segmentation on its system, and instead it proposed a virtual segmentation pool. The segmentation pool permits shippers under Rate Schedules FTS (Firm Transportation Service), NTS (No Notice Service), SST (Storage Service Transportation), and OPT (Off-Peak Firm Transportation Service) to segment their existing transportation agreements into separate Supply Segment and Market Segment contracts. The Supply Segment contract provides for transportation from a primary and/or secondary receipt point(s) to the segmentation pool on a secondary basis. The Market Segment contract provides for transportation from the segmentation pool on a secondary basis to a primary and/or secondary delivery point(s). The gas to be transported from the segmentation pool must be equal to the amount of gas supply from transportation to the segmentation pool and/or from inventory transfers. As a result, the segmentation pool must be kept in balance on a daily basis and within each nomination cycle. The segmentation pool is considered a secondary point for nominations and scheduling, and shippers have the right to transport gas into and out of the segmentation pool on a secondary firm basis. Shippers are allowed under Rate Schedules FSS (Firm Storage Service) and FBS (Firm Balancing Service) to make storage withdrawals and transport the gas to the segmentation pool.

3. In the July 19 Order, the Commission found that Columbia's segmentation pooling approach was reasonable based on the operational characteristics of Columbia's system.[4] The Commission agreed with Columbia that, except for a few short spurs off its system, there are no predictable flow patterns on its system. Therefore, assigning specific flow routes in order to implement physical segmentation would reduce Columbia's reliability and flexibility of service to its firm customers. However, the Commission required Columbia to submit a report on how its segmentation approach worked during the first year of operation proposing any modifications and justifying the continuation of any restrictions on segmentation. The report was required to include: (1) the identification of all segmentation requests; (2) the amount of time Columbia required to grant or deny each request; (3) the reason(s) for any denial; (4) the reason(s) for such changes; and (5) the amount of interruptible volumes transported by Columbia to these upstream

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[3] *Regulation of Short-Term Natural Gas Transportation Services and Regulation of Interstate Natural Gas Transportation Services*, Order No. 637, FERC Stats. & Regs. ¶ 31,091, *clarified*, Order No. 637-A, FERC Stats. & Regs. ¶ 31,099, *reh'g denied*, OrderNo. 637-B, 92 FERC ¶ 61,062 (2000), *aff'd in part and remanded in part sub nom. Interstate Natural Gas Ass'n of America v. FERC*, 285 F.3d 18(D.C. Cir. 2002), order on remand, 101 FERC ¶ 61,127 (2002), *order on reh'g*, 106 FERC ¶ 61,088 (2004), *aff'd sub nom. American Gas Ass'n v. FERC*, 428 F.3d 255 (D.C. Cir. 2005).

[4] July 19 Order, 100 FERC ¶ 61,084 at P 41.

delivery Market Areas.[5] Further, Columbia was directed to explore the development of a second segmentation pooling point and to include its findings in the report as well as whether segmentation could be offered on a primary firm basis. With respect to secondary point allocation methodology, Order No. 637 requires that each pipeline must afford a higher priority over mainline capacity to shippers seeking to use a secondary point within their capacity path than shippers seeking to use a secondary point outside of their path, unless the pipeline can demonstrate that such an approach is operationally infeasible or leads to anti-competitive outcomes on its system.[6] In its Order No. 637 compliance filing, Columbia asserted that due to the reticulated nature of Columbia's system, it is not possible to define consistent flow paths for all customers. Columbia's proposed secondary point priority allocation methodology (SPPAM) provides shippers priority access to secondary points in certain Market Areas which Columbia determines based on the location of those Market Areas relative to the Market Areas containing the shipper's primary delivery points and the location of internal constraint points on the system.

4. In the July 19 Order, based on Columbia's explanation of the operational characteristics of its system, the Commission approved Columbia's SPPAM proposal.[7] However, Columbia was required to include information concerning the operation of its secondary point allocation methodology as part of the Segmentation Report. Columbia was directed to: (1) provide a narrative describing in general its experience in administering its allocation proposal; (2) list all changes in the upstream delivery Market Areas by date; (3) provide the rationale it gave customers for the change; and (4) indicate whether it will expand or reduce the Market Area in which customers may receive priority.[8]

5. In its segmentation report, Columbia stated that, during the first year of segmentation, all 285 requests for segmentation were approved in an instantaneous manner. Columbia further stated that it was considering the possibility of merging the segmentation pool into the Rate Schedule IPP (Interruptible Paper Pool) to create one virtual paper pool to exist with the physical pooling points under Rate Schedule AS (Aggregation Service). However, Columbia stated that this proposal would require that the ratchets in section 3 (b) of the IPP Rate Schedule and section 4 (b) (ii) of the AS Rate Schedule be eliminated. Those ratchets provide a mechanism under which the Rate

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[5] July 19 Order , 100 FERC 61,084 at P 51. In its Segmentation Report, Columbia states that item nos. 4 and 5 concern Columbia's secondary point allocation and are not relevant to segmentation.

[6] Order No. 637-A, FERC Stats. & Regs. ¶ 31,099 at 31,596-98 (2000).

[7] July 19 Order, 100 FERC ¶ 61,084 at P 86.

[8] July 19 Order, 100 FERC ¶ 61,084 at P 90.

Schedule IPP and AS pools are balanced on a monthly basis.[9] Columbia contended these monthly balancing requirements conflict with the segmentation pool which requires balancing on a daily basis. Therefore, Columbia asserted, it cannot allow transfers from the segmentation pool (or Rate Schedule FSS) to the IPP/AS pool without eliminating the ratchets and requiring the IPP/AS pool to be balanced on a daily basis. Otherwise, Columbia's ability to meet its firm obligations would be jeopardized. Columbia stated that it was submitting this option for comments by the parties and that it was willing to hold a customer meeting if there was adequate customer support. Columbia further stated that the submission of any revised tariff sheets would be contingent on continued customer support.

6. Columbia asserted that the facts underlying the Commission's decision to approve Columbia's existing segmentation program remained unchanged. Columbia further asserted that, to the extent the concept of merging the segmentation pool with the IPP pool does not receive adequate customer support, the status quo should be maintained for all the reasons previously recognized by the Commission.

7. With respect to the possible creation of a second segmentation pool, Columbia stated that it believed that the risks and disadvantages outweigh any advantages. Columbia asserted that creating a second segmentation pool on Columbia's system could have a negative impact on system operations and would dilute IPP liquidity on Columbia's system. Columbia further asserted that a second segmentation pool would require Columbia to resolve significant operational issues, i.e., how capacity would be allocated between the two pools, and how the second pool would be balanced. Columbia contended that the possible benefits that could be derived from the creation of a second segmentation pool would not offset the significant administrative burdens and costs necessary for successful implementation. Therefore, Columbia strongly recommended that the existing single segmentation pool approach be maintained.

8. Columbia maintained that physical segmentation continued not to be operationally feasible on Columbia's system. Columbia asserted that, as explained in its Order No. 637 compliance filing, the physical operations used to serve a shipper on its system often bear little resemblance to the contractual flow path. Columbia further asserted that it is not physically possible to dedicate specific flow routes to specific shippers to allow

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[9] The ratchet tariff provisions state that, if specified percentages of gas from Appalachian receipt points are not sold and nominated for transportation by the specified dates during the month, Columbia may issue interruption or operational flow orders and reduce supplies in accordance with the shipper's supply reduction lists. *See* Original Sheet Nos. 141 and 145 to Columbia Gas Transmission, LLC's FERC Gas Tariff, Third Revised Volume No. 1.

segmentation without causing a substantial reduction in reliability and flexibility of service. Columbia contended that applying the theory that specific paths are dedicated to specific shippers on Columbia's system would seriously compromise system integrity. Columbia further contended that, given the fact that there had been no change in how Columbia's system is configured or the manner in which it is operated, the Commission's finding that physical segmentation is not appropriate should not be revised.

9. With respect to its secondary point allocation methodology, Columbia stated that it had implemented the SPPAM program and had had no problems with that implementation. Columbia maintained that, during the reporting period, it was unaware of any major complaints from shippers regarding the implemented methodology. Columbia further maintained that it had moved more than 35 Bcf of natural gas on a secondary point priority basis to secondary priority Market Areas which are clearly posted on the Navigator, Columbia's electronic bulletin board. Columbia stated that the amount of secondary volumes transported by Columbia to the secondary point priority Market Areas is set forth in Exhibit B of the Segmentation Report by Market Area.[10] Columbia maintained that it had retained flexibility to determine secondary point priority Market Areas based on operational changes. Columbia stated that it believed that maintaining its flexibility, combined with the transparency in its secondary point priority Market Areas, remained the best approach for its shippers and the one that is most consistent with the Commission's policy of fostering shipper flexibility to the maximum extent possible.

10. Columbia stated that there were no changes in secondary point priority Market Areas during the one-year report period from April 1, 2004 to March 31, 2005. However, Columbia submitted that immediately prior to this period, on January 8, 2004, Columbia added Market Areas 25, 26, and 35 as secondary point priority Market Areas for shippers with primary firm deliveries in Market Area 24 and that the addition of these Market Areas were posted on Columbia's Navigator system in a timely manner. With respect to the rationale provided to shippers in support of Market Area changes, Columbia maintained that since there were no changes in secondary point priority Market Areas during the one-year report period, this report requirement was not applicable. However, Columbia further maintained that the change prior to the report period adding Market Areas 25, 26, and 35 was made because additional flexibility was created due to construction of facilities approved by the Commission in Docket No. CP02-142.[11]

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[10] Exhibit B of the Segmentation Report indicates that 35.8 Bcf of gas was moved on a secondary point priority basis to secondary priority Market Areas during the report period.

[11] Columbia Gas Transmission Corp., 101 FERC ¶ 61,337 (2002).

11. Columbia submitted that it is maintaining the defined Market Areas. Columbia asserted that although its system operations and gas flows change from time to time, during the report period Columbia had not experienced changes of a magnitude that would affect existing internal constraint points or otherwise require a change in secondary point priority Market Areas. Columbia further asserted that its existing secondary point allocation methodology was working as it should to provide maximum flexibility to Columbia's shippers, while Columbia retained necessary operational control of its system.

12. Public notice of Columbia's Segmentation Report was issued on June 9, 2005, requiring protests to be filed in accordance with Rule 211 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.211(2009)). Pursuant to Rule 214,[12] all timely-filed motions to intervene and any motions to intervene out-of-time filed before the date of issuance of this order are granted. Granting late intervention at this stage of the proceeding will not delay or disrupt the proceeding, nor will it place additional burdens on existing parties. Comments were filed by Amerada Hess Corporation; BP Energy Company and BP America Production Company; Connectiv Energy Supply, Inc.; Dominion Field Services, Inc.; Independent Oil & Gas Association of West Virginia; New Jersey Natural Gas Company and NJR Energy Services Company; NiSource Distribution Companies;[13] and Pivotal Utility Holding Inc. d/b/a Elizabethtown Gas, Virginia Natural Gas, Inc., and Sequent Energy Management, L.P. Virginia Power Energy Marketing, Inc. (VPEM) filed comments and a conditional protest. Columbia filed an answer to the conditional protest and comments.[14]

13. The comments generally addressed the request for comments on merging the segmentation pool into the Rate Schedule IPP pool. Some comments supported the pool merger concept, others opposed it or questioned certain features, i.e., elimination of the ratchets in the IPP and AS Rate Schedules. VPEM argued that the Commission should direct Columbia to merge the existing IPP and segmentation pools to ensure compliance with Order No. 637. However, VPEM opposed elimination of the ratchets. VPEM argued that, concerning Columbia's operational justifications, virtual operations do not have physical impacts. With respect to creation of a second pool, VPEM contended that,

[12] 18 C.F.R. § 385.214 (2009).

[13] The NiSource Distribution Companies consist of: Columbia Gas of Kentucky, Inc., Columbia Gas of Maryland, Inc., Columbia Gas of Ohio, Inc., Columbia Gas of Pennsylvania, Inc., and Columbia Gas of Virginia, Inc.

[14] The Commission's Rules of Practice and Procedure do not permit answers to protests (18 C.F.R. § 385.213(a) (2) (2009)). However, the Commission finds good cause to admit Columbia's answer since it will not delay the proceeding, will assist the Commission in understanding the issues raised, and will insure a complete record on which the Commission may act.

while Columbia cites the need to resolve significant operational issues, paper pools have no operational impacts. VPEM argued that the Commission should order Columbia to immediately commence discussions with its customers concerning the best manner in which to implement the formation of a second pool to increase shipper flexibility. Alternatively, VPEM argued that, if the Commission is considering giving Columbia's operational concerns weight, a technical conference should be convened.

14. With respect to the secondary point allocation methodology, VPEM argued that the 35.8 Bcf the report indicates was delivered to secondary points during the one-year report period ending March 31, 2005, raises questions. VPEM questioned how the 35.8 Bcf compares to the volume transported in prior years and whether the clarification and codification of Columbia's procedures have a beneficial impact on the market. VPEM argued that comparative data from prior years is necessary to answer these questions. VPEM stated that, based on its experience, Columbia's practices have resulted in less access to the markets. VPEM argued that a detailed analysis of the trends in secondary access by Market Area and cause of any declines is needed. VPEM requested that the Commission convene a technical conference to discuss this data.

15. In its answer, Columbia stated that the dearth of substantial comments and the lack of any consensus, particularly on the pool merger concept, indicate that its existing segmentation pooling and SPPAM approaches should be maintained for the foreseeable future. Columbia contended that the elimination of the IPP ratchets is a necessary component of its pool merger proposal. Columbia further contended that VPEM ignores the fact that, while virtual pools do not have physical locations on the system, the gas associated with such pools physically exists and has definite operational consequences on Columbia's system. Columbia argued that VPEM is the only customer supporting the creation of a second segmentation pool and there is no foundation for VPEM's request for a technical conference. Columbia further argued that establishing a second segmentation pool would require the resolution of significant operational issues on Columbia's system, such as how capacity would be allocated between the two pools and how the second pool would be balanced. Columbia contended that VPEM's request for a technical conference concerning the SPPAM methodology should also be denied since VPEM is the only customer interested in exploring this issue and its concerns are speculative. Finally, Columbia stated it would convene a customer meeting to discuss the pool merger concept and file a report on the meeting with the Commission.

16. On February 1, 2006, Columbia filed a further report with the Commission, stating that it held its customer meeting on January 18, 2006. Columbia stated that it and the participants ultimately were not able to achieve a consensus on Columbia's pool merger concept. Columbia contended that additional meetings and the submission of tariff sheets to propose the merger of pools clearly were not warranted at that juncture. Columbia stated that to the extent that Columbia plans at some future date to modify its segmentation program, it would file appropriate tariff sheets with the Commission in the

context of a new proceeding and all interested parties would have an opportunity to comment. Columbia asserted that facts underlying the Commission's approval of Columbia's existing segmentation program remained unchanged. Therefore, in the absence of any changed operational circumstances on its system and without adequate customer support for modifications, Columbia believed that the status quo should be maintained on its system with respect to its current segmentation program.

17. The Independent Oil & Gas Association of West Virginia (IOGA) filed comments on the report on customer meeting. IOGA stated that it plans to pursue discussions with Columbia for further customer meetings or a future filing.

18. As discussed below, Columbia's Segmentation Report is conditionally accepted as in satisfactory compliance with our July 19 Order. With respect to its pool merger concept, Columbia states that, to the extent it plans at some future time to modify its segmentation program, it will file appropriate sheets with the Commission in the context of a new proceeding, and all interested parties would have an opportunity to comment on any such proposal at that time. The Commission will consider any such proposal at that time.

19. VPEM's arguments with respect to a creation of a second pool and the secondary point allocation methodology are rejected as vague, speculative, and unsupported. VPEM argues in response to Columbia's assertion of operational concerns related to the establishment of a second segmentation pool that paper pools have no operational impacts. However, as Columbia asserts, the gas associated with virtual pools physically exists and, therefore, can have operational impacts. VPEM asserts that it requires additional comparative data concerning the secondary point allocation methodology from years prior to the one-year report period. VPEM did not request rehearing of the requirement that information be provided for the one-year period of initial operation to which Columbia has satisfactorily responded. In addition, the requested data is prior to implementation of the requirements of Order No. 637. Based on the foregoing, VPEM's requests for technical conferences are not adequately supported and are denied.

20. However, since this Segmentation Report was filed, Columbia implemented Navigates, a new Electronic Bulletin Board (EBB) and gas management system. Navigates, which Columbia originally anticipated implementing in mid-2007, allows Columbia to monitor gas flows and shipper scheduling with greater precision. Columbia placed Navigates related tariff sheets into effect in several proceedings on August 1, 2008, to coincide with Navigates' launch date. Navigates' implementation has resulted in numerous tariff and service revisions on Columbia's system which may have modified its

operational characteristics.[15] In these circumstances, the Commission will accept the Segmentation Report and direct Columbia to file a report with the Commission on or before November 1, 2009 which updates the data contained in the Segmentation Report (2009 Segmentation Report). The 2009 Segmentation Report must cover the initial 12-month period of the operation of Navigates from August 1, 2008 through July 31, 2009. The 2009 Segmentation Report must include a detailed description of any system developments which have modified or could modify the operational characteristics of Columbia's system and their impact on the implementation of segmentation on its system. The 2009 Segmentation Report should provide the same level of detail as provided in the Segmentation Report in this proceeding.[16]

21. The Commission accepts the Segmentation Report as in compliance with the July 19 Order, subject to Columbia filing a report with the Commission on or before November 1, 2009, as discussed in the body of this order.

By direction of the Commission.

Kimberly D. Bose,
Secretary.

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[15] *See*, *e.g.*, the Auto PAL service which automatically deems certain gas quantities at Columbia's pooling points to be park and loans and was authorized in Docket No. RP07-479-000, *Columbia Gas Transmission Corp*., 121 FERC ¶ 61,148 (2007) and also the Navigates related tariff and service revisions in Docket Nos. RP08-127-000, RP08-110-000, RP07-507-000, RP07-509-000, RP07-479-000, RP07-414-000, RP07-413-00, and RP07-340-000.

[16] *See* P 3 of this order and July 19 Order, 100 FERC ¶ 61,084 at P 51.