

129 FERC ¶ 61,093
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Transcontinental Gas Pipe Line Company

Docket No. CP08-31-004

ORDER AMENDING CERTIFICATE

(Issued October 30, 2009)

1. On September 17, 2009, Transcontinental Gas Pipe Line Company (Transco) filed an application, pursuant to section 7(c) of the Natural Gas Act (NGA) and Part 157 of the Commission's regulations, to amend the certificate for its Sentinel Expansion Project (Sentinel Project) issued on August 14, 2008¹ and amended on October 23, 2008.² Transco requests authorization to revise for a second time the approved Phase 2 initial recourse rates for services using the authorized incremental capacity to reflect an increase in estimated construction costs. As discussed below, the requested authorization is granted.

I. Background and Proposal

2. Transco is a natural gas pipeline company engaged in the transportation of natural gas in interstate commerce by means of its natural gas transmission system extending from Texas, Louisiana, Mississippi, and the offshore Gulf of Mexico area, through Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Pennsylvania, and New Jersey, to the New York City metropolitan area.

3. The August 14, 2008 Order granted Transco a certificate of public convenience and necessity to construct the Sentinel Project and to provide up to 142,000 dekatherms per day (Dth/d) of incremental firm transportation capacity. Transco has negotiated rate service agreements with seven shippers for 100 percent of the incremental firm transportation service created by the project. Phase 1 of the project created incremental capacity of 40,000 Dth/d that was placed in service on November 1, 2008. Phase 1

¹ *Transcontinental Gas Pipe Line Corp. (Transco)*, 124 FERC ¶ 61,160 (2008) (August 14, 2008 Order).

² *Transco*, 125 FERC ¶ 61,086 (2008) (October 23, 2008 Order).

construction included installing 3.87 miles of pipeline loop and modifying compressor stations and appurtenant facilities in Pennsylvania. Phase 2 of the project will provide additional capacity of 102,000 Dth/d with a target in-service date of November 1, 2009. Phase 2 construction included replacing 7.15 miles of existing pipeline, installing 6.88 miles of pipeline loop, and modifying compressor stations and appurtenant facilities in Pennsylvania and New Jersey.

4. The October 23, 2008 Order amended Transco's certificate prior to placing the Phase 1 facilities in service to revise Transco's approved initial Phase 1 and Phase 2 recourse rates, including meter station surcharges, to reflect an increase in costs and to remove the costs to modify three meter stations for which Transco will be reimbursed. At that time, Transco's revised estimate for the total cost of the Sentinel Expansion Project facilities, as amended, was increased by approximately \$14,400,000 to \$169,000,289.

5. The August 14, 2008 Order and the October 23, 2008 Order required Transco to file actual tariff sheets setting forth its Phase 2 incremental rates no sooner than 60 days but no later than 30 days before commencing service for Phase 2 shippers. In Docket No. RP10-3-000, Transco submitted actual tariff sheets for Phase 2 shippers based on the increase in estimated construction costs proposed in the instant certificate amendment in CP08-31-004. The Commission has accepted Transco's actual tariff sheets, subject to action in this amendment order.³

6. In the instant application, Transco proposes to amend the Sentinel certificate to adjust the cost of the Sentinel Expansion Project to \$228,605,642, an increase of approximately \$59.6 million. The revised costs are detailed in Exhibit K, Cost of Facilities, in Transco's amendment application. To reflect this cost increase, Transco is also proposing to revise the initial recourse rates for services using the additional incremental capacity created by the Phase 2 construction, including certain meter station surcharges. The initial rates being paid by customers for services using the Phase 1 capacity will not be affected.

II. Notices and Interventions

7. Notice of Transco's application to amend its certificate in Docket No. CP08-31-004 was published in the *Federal Register* on September 29, 2009.⁴ Timely, unopposed motions to intervene were filed by Delmarva Power & Light Company

³ *Transco*, Docket No. RP10-3-000, at 1 (October 29, 2009) (unpublished letter order).

⁴ 74 Fed. Reg. 49872 (2009).

(Delmarva) and Louis N. Ottaviano.⁵ Delmarva included comments in its motion to intervene. These comments raised concerns about certain cost increases that pertained specifically to Delmarva, and in large part formed the basis of a request for more information by the Commission staff.

III. Details of the Instant Application

8. Transco's revised estimate for the total cost of the Sentinel Expansion Project facilities, as amended, will be \$228,605,642. As stated, this is an increase of approximately \$59,600,000 over the estimated cost of facilities used in calculating the initial recourse rates approved in the October 23, 2008 Order.

9. Transco has recalculated its initial rates using the calculation factors previously approved in the August 14, 2008 Order, including a straight fixed-variable rate design methodology, a pre-tax return of 15.34 percent, and a depreciation rate of 2.79 percent. Based on the net increase in the estimated cost of facilities, Transco's Phase 2 daily reservation rate will increase from \$0.53585 to \$0.73632 per Dth for firm capacity to non-New York delivery points, and from \$0.98981 to \$1.32214 per Dth for firm capacity to delivery points in New York. For the Pivotal Meter Station, Transco's Daily Reservation Rate will increase from \$0.16349 to \$0.22511, and for the PSE&G Meter Station, Transco's Daily Reservation Rate will increase from \$0.10842 to \$0.13551.

IV. Staff Data Request and Transco's Response

10. On October 7, 2009, in light of Delmarva's comments regarding increased costs related to its meter stations, Commission staff issued a request for more information from Transco. Noting that Transco's first certificate amendment filing was made on September 11, 2008, shortly before work was to begin on Phase 2 of the Sentinel Project, Commission staff asked Transco to explain the \$300,000 increase in estimated costs for upgrades to Delmarva's meter stations reflected in Exhibit K of the instant request. Commission staff also noted that Transco proposes to increase the Other Services & Costs line item by \$80,000, or over 300 percent. In Footnote 6 of Exhibit K of its September 17, 2009 application, Transco attributes "the majority of these costs" to "environmental monitoring, mitigation, restoration and remediation." Commission staff asked Transco to provide further explanation and describe how this has caused an \$80,000 increase in meter station upgrade costs.

11. On October 14, 2009, Transco filed its response. Transco explained that the costs for the Delmarva meter stations have increased since the September 11, 2008 amendment

⁵ 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 (2009).

filing because of unanticipated extra work charges from the primary construction contractor, material freight charges, additional X-ray charges, and asbestos removal costs. Transco explains the construction priority was changed by Delmarva, thereby causing a re-mobilization of contractor resources. The extra work charges for the primary contractor totaled \$246,628. Transco provided a detailed break-down of this figure in its response. With respect to the additional material freight charges, Transco acknowledges that it should have forecasted the meter skid freight in the materials costs included in the September 11, 2008 filing.

12. Transco further explains that the increased costs in Other Services and Costs for Delmarva's stations are the result of X-ray service costs at the Wilmington and Hockessin meter stations; X-ray service costs for the 10" valve replacement in April 2009; additional costs for asbestos removal and disposal at the Wilmington meter station; and miscellaneous expenses. Transco explains that the X-ray services are required by Transco and U.S. Department of Transportation safety specifications, but that the costs were underestimated in the September 11, 2008 forecast. Transco acknowledges that the asbestos removal was inadvertently omitted in the forecast at the time of the filing.

V. Discussion

13. Based on Transco representations in its September 17, 2009 certificate amendment application and its responses to Commission staff's data requests, the Commission finds that the total proposed increase in cost for Phase 2 of the Sentinel Project is primarily attributable to higher than anticipated construction, remediation and restorations costs. Further, Transco has provided sufficient explanation specifically responding to Delmarva's comments regarding increased costs related to its meter stations. No other issues have been raised regarding any of the other increased costs.

14. The August 14, 2008 Order found that the Sentinel Expansion Project satisfied the requirements of the Commission's Certificate Policy Statement addressing new facilities.⁶ In particular, the Commission found that Transco met the Certificate Policy Statement's threshold requirement that the pipeline must be prepared to financially support the project without relying on subsidization from existing customers because Transco proposed incremental rates for the expansion capacity.

15. The revisions proposed by Transco do not change the incremental rate structure or the rates for services already using the capacity created by the Phase 1 facilities. Therefore, the revised cost of facilities and the revised initial recourse rates will not

⁶ *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999), *order on clarification*, 90 FERC ¶ 61,128 (2000), *order on clarification*, 92 FERC ¶ 61,094 (2000) (Certificate Policy Statement).

unsettle the August 14, 2008 Order's finding that the project will not be subsidized by existing customers. Further, approval of the proposal will permit Transco to recover the \$59,600,000 increase in estimated construction costs to complete the Sentinel Project. The Commission finds that the public convenience and necessity requires approval of Transco's proposed amendment to its certificate to increase its initial Phase 2 recourse rates for services using the expansion capacity.

The Commission orders:

Transco's certificate issued by the August 14, 2008 Order, and amended by the October 23, 2008 Order, is further amended to authorize Transco's proposed revised initial rates for incremental firm transportation services using capacity created by Phase 2 construction of the Sentinel Expansion Project as discussed herein.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.