

144 FERC ¶ 61,190  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;  
Philip D. Moeller, John R. Norris,  
Cheryl A. LaFleur, and Tony Clark.

Gulf South Pipeline Company, LP

Docket No. RP12-74-002

ORDER ON REHEARING

(Issued September 5, 2013)

1. On May 30, 2012, several parties (Rehearing Shippers)<sup>1</sup> filed a request for rehearing to the Commission's April 30, 2012 order,<sup>2</sup> which accepted a proposal by Gulf South Pipeline Company, LP (Gulf South) to implement daily allocations of gas on its pipeline system to be effective May 1, 2012, subject to conditions. Rehearing Shippers argue that the April 2012 Order has the effect of prejudicially harming shippers that depend on No Notice Service (NNS). For the reasons discussed below, we deny rehearing.

**Background**

2. Gulf South offers a no notice service through its NNS Rate Schedule. Service under this rate schedule includes both firm transportation and firm storage components. While NNS shippers must submit scheduling nominations for service at their primary receipt points, they need not submit scheduling nominations for storage injections or deliveries at their no notice primary delivery points up to their Daily Contract Demand. Any variance between daily allocated transportation receipts and deliveries is recorded as a storage withdrawal or injection for that day, unless the NNS customer elects to execute

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<sup>1</sup> The Rehearing Shippers, for the purpose of this docket, are: Mobile Gas Service Corporation; Willmut Gas Company; the City of Vicksburg, MS; and the United Municipal Distributors Group. The United Municipal Distributors Group, in turn, consists of the South Alabama Gas District and the utilities boards and/or municipal governments of the following cities: Atmore, AL; Brewton, AL; Century, FL; Citronelle, AL; Fairhope, AL; Foley, AL; North Baldwin, AL; Okaloosa, FL; Pascagoula, MS; and Pensacola, FL.

<sup>2</sup> *Gulf South Pipeline Co., LP*, 139 FERC ¶ 61,086 (2012) (April 2012 Order).

a Pre-Determined Allocation Agreement (PDA). While not a formal requirement, NNS customers on Gulf South's system are traditionally the point operators at their no notice primary delivery points. As point operator, these NNS customers manage the PDA, which are voluntary agreements that Gulf South customers who share a common point use to instruct Gulf South how it should allocate any variance between receipt and delivery quantities.

3. Section 6.13 of Gulf South's General Terms and Conditions (GT&C) permits the point operator and other shippers at the point to choose from various standard PDA methods, some of which involve ranking the order in which contracts are allocated delivered volumes, and some of which use methods other than ranking, such as *pro rata* allocation or agreed-upon percentages.<sup>3</sup> Typically, NNS shippers have adopted PDAs in which their contracts are ranked (or sequenced) last in the allocation of delivered volumes. Under this method, the pipeline allocates to each of the other shippers at the point the volumes they nominated to be delivered. The pipeline then allocates any remaining volumes to the NNS shipper. To the extent that the volumes thus allocated to the NNS shipper are more than the volumes it nominated at its receipt point, the overage is treated as a storage injection under its NNS service. If the volumes are less than the volume nominated at the receipt point, the underage is treated as a storage withdrawal. Section 6.13 requires the point operator to submit the PDA before the 9:00 a.m. start of the Gas Day.

4. On October 28, 2011, Gulf South filed tariff records proposing to replace its monthly allocation system for firm service with a daily allocation system. Gulf South proposed revisions throughout its tariff, but only two to the text of the NNS Rate Schedule. In the character of service provision, NNS section 2(b) previously included the following sentence (emphasis ours):

Any variance between **monthly** allocation transportation receipts and deliveries shall be recorded as a storage withdrawal or injection **during such month** unless the NNS Customer elects to execute a PDA which will allocate any variance between receipt and delivery quantities.

The revised tariff changes the time frame from month to day, but otherwise uses the same language.<sup>4</sup>

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<sup>3</sup> Section 6.13, GT&C – Allocation Procedure, 5.0.0.

<sup>4</sup> In the tariff records, this change is written so as not to apply to shippers operating under the Small Customer Option, which is not relevant to the instant request for rehearing.

5. The second change to the NNS Rate Schedule occurs in the overrun provision, NNS section 9, which previously calculated overruns as:

Gulf South shall determine the Overrun Quantity based upon the difference between (1) the total **monthly** allocated delivery quantities under the Customer's contract pursuant to Section 6.13 hereof and (2) the product of the contract MDQ **multiplied by the number of the days in the billing month.**

The revised tariff changes the time frame from month to day, but again, it otherwise uses the same language.

6. Two of the Rehearing Shippers objected that daily allocations would degrade service for NNS shippers. They argue daily allocations expose NNS shippers to the risk of overrun charges, because of the actions of third parties shipping to the same delivery point as the NNS shipper. They hypothesized that, where an NNS shipper and an FTS shipper use the same delivery point, an FTS shipper might take substantially more gas at the delivery point than it nominated for that day, but the gas might be allocated to the NNS shipper under a PDA in which the NNS shipper is ranked last, resulting in the NNS shipper overrunning its contract.

7. In response to customers' concerns, Gulf South offered to modify the timing of its PDA procedure. In its initial filing, Gulf South did not propose any changes to its tariff's PDA language in GT&C section 6.13 concerning the various permitted PDA methods. As revised, Gulf South proposed that the interconnecting party would be allowed to wait until 6:15 pm on the day of gas flow to submit its PDA, instead of being required to submit its PDA before the start of the Gas Day.

8. While the parties acknowledged that Gulf South's offer was an improvement, they argued it was insufficient. NNS shippers argued that the improved flexibility of a 6:15 p.m. PDA submission time pales in comparison to the loss of flexibility that they suffer from daily allocations. They argued that, in order for daily allocations to be acceptable, they need to be able to adjust PDA volumes or nominations retroactively for the entire Gas Day. NNS shippers claimed that other pipelines with daily allocations allow NNS customers to make retroactive corrections at any time.

9. The April 2012 Order directed Gulf South to modify its tariff to implement its offer to ease the deadline on PDAs to 6:15 p.m.<sup>5</sup> However, the Commission stated that it "does not believe that the quality of Gulf South's NNS service will be significantly degraded by the implementation of daily allocations," and therefore did not require the

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<sup>5</sup> *Id.* PP 36-44.

changes sought by the Rehearing Shippers.<sup>6</sup> The Commission held that the claims of degradation were speculative, and that Gulf South's flexible PDA policy should ameliorate the concerns raised about allocating deliveries.

### **Request for Rehearing**

10. The Rehearing Shippers argue that the April 2012 Order "unduly prejudices NNS customers for purposes of daily allocations and overrun charges at delivery points serving both NNS and other customer service classes."<sup>7</sup> The Rehearing Shippers state that, each Gas Day, Gulf South requires PDAs to be submitted for delivery points serving both NNS and other customer service classes. Under the daily allocations implemented by the April 2012 Order, however, the Rehearing Shippers claim that PDAs either deny them the benefits of NNS service or else require them to shoulder the risk of third parties' overruns.

11. The Rehearing Shippers claim that when developing a PDA for daily allocations, they are forced to choose between two intolerable situations: sequencing NNS other-than-last, or sequencing NNS last. If they choose the first, they argue, "sequencing NNS other-than-last in the queue prejudicially denies NNS customers the beneficial, bundled storage withdrawal/injection functions for which they pay."<sup>8</sup> The Rehearing Shippers state the April 2012 Order erroneously assumes that daily PDAs can always be devised so as to permit needed NNS operational flexibility at Gulf South delivery points serving both NNS and other customer service classes. However, they argue that in order to preserve the unnominated, bundled components of NNS service, NNS must be last-in-the-queue of the PDA. The Rehearing Shippers argue that daily PDAs "are unworkable if NNS is other-than-last in the queue because ... Gulf South is not able to know which shipper took what volumes for purposes of daily allocations and overrun charges."<sup>9</sup> If the NNS customer's service is not ranked last, they claim, Gulf South would assume that the quantities to be allocated to the NNS customer at its delivery point are the same as the NNS customer's nominations at its receipt point since quantities to be allocated as deliveries covered by PDAs could not be distinguished from NNS bundled storage volumes resolving overages or underages. This static assumption, they state, denies NNS customers their bundled service components, which otherwise would operate dynamically to allow allocations to NNS customers at their delivery points different from their receipt

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<sup>6</sup> *Id.* P 61.

<sup>7</sup> Rehearing Shippers Request for Rehearing at 3.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 5.

point nominations with the differences treated as storage injections or withdrawals; it thus unduly prejudices NNS customers.<sup>10</sup>

12. On the other hand, the Rehearing Shippers argue, “fenced-in, last-in-the-queue sequencing prejudicially poses greater overrun charge risk for NNS than for other customer service classes.”<sup>11</sup> As a result of the April 2012 Order, Gulf South’s tariff now extends the deadline for PDA submittals to 6:15 p.m. on the day of gas flow. Until this deadline, the tariff lets customers minimize overrun charge risk by modifying customer PDAs to ensure that volumes are allocated to the proper party, using various methods of allocating deliveries at a point in their PDAs. The Rehearing Shippers claim, however, that at a point serving both NNS and other customer service classes, NNS customers must make PDAs workable by sequencing themselves as the last-in-the-queue, swing customer. Other allocation methods thus are not practically available to NNS customers to minimize the risk of failing to allocate volumes to the proper party. Therefore, the April 2012 Order simply foists on NNS customers a prejudicially greater risk of being saddled with overrun charges for the remaining approximately 15 hours after 6:15 pm of the Gas Day for which they pay substantial rates for 24-hour NNS service.<sup>12</sup>

13. Accordingly, the Rehearing Shippers request that Gulf South be required to file revised tariff records that allow NNS point operators or NNS shippers “to adjust allocated quantities within a reasonable period of time after the gas day.”<sup>13</sup>

### **Discussion**

14. For two separate reasons, we reject the premise of the Rehearing Shippers’ argument. First, the Rehearing Shippers present their argument as though the tariff records approved in the April 2012 Order have changed how Gulf South allocates gas, or how a PDA may operate. This is not the case. The order simply transitions Gulf South’s existing allocation process from a monthly to a daily process. The NNS shippers’ ability to control the allocation process is not changed by the conversion, nor is their ability to fully utilize their NNS service.

15. Gulf South’s transition to a daily allocation process does not deny NNS customers the benefits of the enhanced storage functions of that rate schedule as argued by the

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<sup>10</sup> *Id.* at 10.

<sup>11</sup> *Id.* at 5.

<sup>12</sup> *Id.* at 11.

<sup>13</sup> *Id.* at 4.

Rehearing Shippers. Gulf South's NNS Rate Schedule still entitles a shipper to no notice deliveries at its primary no notice delivery points up to its Daily Contract Demand.<sup>14</sup> Gulf South still must record any variances between the NNS customer's daily allocated receipts and deliveries as a storage withdrawal or injection, unless the NNS customer elects to execute a PDA for the purpose of allocating variances. These features remain unchanged and available at primary delivery points to NNS customers with a PDA.<sup>15</sup>

16. Second, the Rehearing Shippers present their argument as though Gulf South's tariff only presents them with two PDA options: sequencing NNS last, or sequencing NNS "other-than-last." While Gulf South does favor PDA methods for allocation, it never compels NNS shippers to make such a binary choice. According to Gulf South's tariff, the upstream or downstream party providing the point confirmation submits the PDA to Gulf South. Therefore, the point operator has the ability to control how capacity is allocated at those delivery points on Gulf South's system where multiple parties are delivering gas. Nothing in Gulf South's transition to a daily allocations process alters NNS shippers' ability to use the PDA process at their primary delivery points, where they are the operator and the party providing confirmation. Further, Gulf South offers several standard PDA allocation methods, including ranked, *pro rata*, percentage, swing and operator-provided value – the terms used in the NAESB PDA standards.<sup>16</sup> Thus, it is fully within the NNS shippers' ability to assure that they are the swing party in the PDA, or that their PDA does not use sequencing at all but some other allocation methodology.

17. We acknowledge that if an NNS customer nevertheless chooses to submit a PDA to Gulf South proposing an allocation methodology which allocates imbalances to another party, (i.e., it places itself as other-than-last in the queue of the PDA), then that NNS customer may not receive full use of its NNS service at that point. However, this restriction of service is not a result of Gulf South's transition to daily allocations as argued by those on rehearing. It is simply a reflection of how the PDA operates and NNS customer's voluntary decision as point operator to place itself as other-than-last in the queue and allocate any imbalance in a different manner.

18. More importantly, we reject Rehearing Shippers' reasoning that when an NNS customer does choose to be sequenced last in the PDA in order to take full advantage of

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<sup>14</sup> NNS shippers are not required to nominate for deliveries to the primary NNS delivery points.

<sup>15</sup> Of course, these attributes remain available to NNS shippers at primary delivery points where they are the sole shipper.

<sup>16</sup> GT&C Allocation Procedure, §6.13(2). *See also* April 2012 Order, 139 FERC ¶ 61,086 at P 36.

its NNS service, it must absorb the financial cost of overrun charges for imbalances caused by others. NNS customers can operate their facilities downstream from Gulf South in whatever lawful manner they choose. One of their responsibilities as point operator is monitoring the behavior of their own shippers and working with those parties to manage deliveries and minimize imbalances. The hypothetical shippers causing the imbalances in Rehearing Shippers' scenario would be transporting gas on the NNS shipper's facilities downstream of Gulf South. On these downstream facilities, the NNS shipper can adopt a variety of mechanisms, such as tariff imbalance provisions or overrun penalties on its distribution system that it may apply in order to assist it to manage swings within the gas day and discipline shipper behavior behind the city-gate. In addition, these mechanisms as well as other distribution services, provide the ability for NNS shippers to receive compensation for providing the swing service at the Gulf South delivery point. Specifically, an NNS shipper acting as a delivery point operator may require other shippers taking deliveries at that point to compensate it for any overrun charges it may incur on Gulf South as a result of their behavior. NNS shippers are at no greater risk than other shippers that serve power plant or other end use customers behind the city-gate, and parties that serve customers with volatile load swings must be prepared to responsibly provide such service.

19. For the same reasons, we uphold the April 2012 Order's decision regarding retroactive adjustments to daily allocated quantities at delivery points serving both NNS and other customer service classes after the gas day. While the Rehearing Shippers' proposal would narrowly address their own concern, it would also severely diminish the incentive for customers to nominate accurately or attempt to confirm that flow quantities match scheduled quantities. Gulf South argued that it cannot manage its system without reasonably accurate scheduled quantities upon which it can base operational decisions.<sup>17</sup> As stated in the April 2012 Order, the Commission has not required pipelines to implement retroactive nominations, as the Rehearing Shippers demand, as a condition to moving to daily allocations.<sup>18</sup> We will not do so here, either, as shippers have other tools, including Gulf South's PDA procedures, to manage their daily business.

20. The Rehearing Shippers have shown neither that the change to Gulf South's tariff has caused the faults in the PDA process that they highlight, nor that the change in allocations degrades NNS service. Accordingly, we deny the request for rehearing.

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<sup>17</sup> April 2012 Order, 139 FERC ¶ 61,086 at P 47.

<sup>18</sup> April 2012 Order, 139 FERC ¶ 61,086 at P 49.

The Commission orders:

The request for rehearing is rejected.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.