146 FERC ¶ 61,149
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Gulf South Pipeline Company, LP Petal Gas Storage, L.L.C.	Docket No. CP13-532-000
Gulf South Pipeline Company, LP	Docket No. RP13-1245-000

ORDER ISSUING CERTIFICATE, AUTHORIZING ABANDONMENT, AND ACCEPTING TARIFF RECORDS

(Issued February 28, 2014)

1. On August 13, 2013, in Docket No. CP13-532-000, Gulf South Pipeline Company, LP (Gulf South) and Petal Gas Storage, L.L.C. (Petal) (jointly, Applicants) filed an application pursuant to sections 7(b) and 7(c) of the Natural Gas Act (NGA) requesting authority for Petal to abandon by lease certain storage capacity to Gulf South, and for Gulf South to acquire that capacity by lease. Concurrently, in Docket No. RP13-1245-000, Gulf South filed tariff records[1] proposing a new Alternative No-Notice Service (NNS-A or Rate Schedule NNS-A). Gulf South proposes to use the leased storage capacity from Petal to support the storage component of the proposed NNS-A service.

2. Because the proposals are interdependent, we address the two unconsolidated applications in one order. Subject to the conditions discussed below, the Commission grants the requested certificate and abandonment authorizations and accepts the tariff records implementing the new NNS-A service listed in the Appendix, to be effective on the date that Gulf South places the facilities into service, subject to refund.[2]

---

[1] *See* Appendix.

[2] *E.g.*, *High Point Gas Transmission, LLC*, 140 FERC ¶ 61,259, at P 10 (2012).

3. Gulf South and Petal are both interstate natural gas companies. Gulf South owns and operates storage facilities and over 7,000 miles of pipeline facilities across several states. Petal owns and operates storage facilities and transmission pipelines within the State of Mississippi. Petal is a salt-dome storage field, which provides un-ratcheted injections and withdrawals that, Applicants claim, operationally cannot be provided by Gulf South's existing traditional storage fields. Both Gulf South and Petal are operating subsidiaries of Boardwalk Pipeline Partners, LP.

4. Applicants state that they have entered into a maximum storage quantity of 1,000,000 Dth operational lease agreement whereby Petal will abandon unsubscribed storage capacity on its system to Gulf South. In turn, Gulf South proposes to acquire the storage capacity from Petal and combine it with unsubscribed transportation capacity on its system to provide a new no-notice service. According to the Applicants, the lease is integral to providing the flexible characteristics of Gulf South's proposed NNS-A service, a service designed to meet the market swings of electric generators and large LDCs. Gulf South requests that the Commission approve its NNS-A proposal contemporaneously with the certificate application for approval of the lease with Petal.

I. <u>Procedural Matters</u>

5. Public notice of the applications was issued on August 23, 2013, with interventions and protests due September 3, 2013. Pursuant to Rule 214,[3] all timely filed motions to intervene and any unopposed motion to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties.

6. Indicated Shippers,[4] The United Municipal Distributors Group (UMDG),[5] Atmos Energy Corporation (Atmos), Willmut Gas Company (Willmut) and the City of Vicksburg (together, the Mississippi Distributors), and Southern Company Services

---

[3] 18 C.F.R. § 385.214 (2013).

[4] Indicated Shippers consist of BP America Production Company, BP Energy Company, and Shell Energy North America (US), L.P.

[5] UMDG consists of the following municipal-distributor customers of Gulf South: City of Brewton, Alabama; Town of Century, Florida; Utilities Board of the Town of Citronelle, Alabama; City of Fairhope, Alabama; Utilities Board of the City of Foley, Alabama; North Baldwin Utilities, Alabama; Okaloosa Gas District, Florida; City of Pascagoula, Mississippi; City of Pensacola, Florida; and South Alabama Gas District, Alabama.

(SCS) filed protests or comments. Answers were filed by the Applicants (Gulf South and Petal), SCS, and Indicated Shippers. Rule 213(a) of the Commission's Rules of Practice and Procedure does not permit answers to protests or answers to answers unless otherwise ordered by the decisional authority.[6] We will accept the answers identified above because they provide information that has assisted in our decision-making process. Admitting the answers will not cause undue delay or unfairly prejudice other parties.

7. UMDG and Atmos request that the Commission consolidate the two proceedings because of common issues of law and fact, and the interrelationship of the applications. Applicants state that they do not oppose consolidation. This order jointly considers issues arising in both applications. Therefore, we find no need for formal consolidation.

8. Mississippi Distributors also argue that Gulf South's proposal to abandon mainline transportation facilities in South Central Mississippi in Docket No. CP13-92-000 could impact the instant proceeding. On December 19, 2013, the Commission issued an order in Docket No. CP13-92-000, et al., denying Gulf South's proposed abandonment of facilities in South Central Mississippi. *Gulf South Pipeline, LP*, 145 FERC ¶ 61,236 (2013), *reh'g pending*. Therefore, Mississippi Distributers' concerns are dismissed as moot.

II. <u>Lease Proposal in Docket No. CP13-532-000</u>

9. Since the proposed leased capacity is used to provide interstate natural gas transportation and storage services subject to the jurisdiction of the Commission, Petal's proposed abandonment of the capacity, and Gulf South's acquisition of the capacity are subject to the requirements of sections 7(b) and 7(c) of the NGA, respectively.

10. Applicants state that by using a lease format, there will be no need to build any additional facilities on either Petal's or Gulf South's systems, which will eliminate any potential environmental effects of the proposal.

11. Applicants assert that because NNS-A service will utilize available unsubscribed firm capacity on both Gulf South and Petal, no existing firm customer of either company will be adversely affected, nor will the quality of their services be degraded. Gulf South states that to the extent the full capacity of the lease is not contracted and/or utilized by NNS-A customers; it will utilize the lease for operational purposes to support all services on its system. Applicants also explain that the proposed NNS-A rates are designed to include the costs of the lease and will be charged only to those Gulf South customers that contract for this optional service.

---

[6] 18 C.F.R. § 385.213(a) (2013).

12. Under the proposed lease, Gulf South will lease from Petal, a Maximum Storage Quantity of 1,000,000 Dth, a Maximum Daily Withdrawal Quantity of 50,000 Dth per day, and a Maximum Daily Injection Quantity of 25,000 Dth per day. Gulf South may use the leased capacities in Petal's storage facility only at the injection and withdrawal points specified in the lease agreement.

13. The lease agreement provides that Gulf South will have the right to use the leased capacities to provide service under the terms of its tariff. The agreement also provides that Petal will maintain operational control of the facilities used to provide the leased capacities.

14. Section 3.1 of the lease agreement provides for a primary term of 5 years, and year to year thereafter unless terminated by either Gulf South or Petal by providing the other party with at least 30 days prior written notice. The primary term will commence on the date Gulf South begins service under proposed Rate Schedule NNS-A.

15. Section 4.1 of the lease provides that Gulf South will pay Petal a demand charge of $0.1317 per Dth per Month. In addition, Gulf South will pay an injection charge of $0.01 per Dth and a withdrawal charge of $0.01 per Dth for all injections and withdrawals incurred under the lease. Petal's currently effective rates are market based rates. Applicants state that the lease rates are derived based on the average rates included in Petal's fourteen storage contracts with unaffiliated shippers.

16. Under section 4.4 of the lease, the quantity of fuel gas required for deliveries to the Withdrawal Point(s), including lost and unaccounted for gas, shall be the actual fuel as calculated pursuant to Petal's tariff for all gas quantities delivered for the account of Gulf South.

A. Lease Policy

17. The Certificate Policy Statement provides guidance as to how the Commission evaluates proposals for certificating new construction by establishing criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest.[7] A proposal to lease capacity with no related construction of facilities, such as the proposal in this proceeding, eliminates the Certificate Policy Statement's concerns with overbuilding, disruptions of the environment, and the exercise of eminent domain. However, the threshold requirement under the Certificate Policy Statement, that a pipeline must be prepared to financially

[7] *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999), *clarified*, 90 FERC ¶ 61,128, *further clarified*, 92 FERC ¶ 61,094 (2000).

support the project without relying on subsidization from its existing customers, is equally applicable to leases of capacity. Similarly, whether the applicant has made efforts to eliminate or minimize any adverse effects the proposed lease might have on the applicant's existing customers and existing pipelines in the market and their captive customers is also relevant to our evaluation of the proposal.

18. Historically, the Commission views lease arrangements differently from transportation or storage services under rate contracts. The Commission views a lease of interstate pipeline capacity as an acquisition of a property interest that the lessee acquires in the capacity of the lessor's pipeline.[8] To enter into a lease agreement, the lessee generally needs to be a natural gas company under the NGA and needs section 7(c) certificate authorization to acquire the capacity. Once acquired, the lessee in essence owns that capacity and the capacity is subject to the lessee's tariff. The leased capacity is allocated for use by the lessee's customers. The lessor, while it may remain the operator of the pipeline system, no longer has any rights to use the leased capacity.[9]

19. The Commission's practice has been to approve a lease if it finds that: (a) there are benefits for using a lease arrangement; (b) the lease payments are less than, or equal to, the lessor's firm transportation rates for comparable service over the terms of the lease; and (c) the lease arrangement does not require subsidization from or adversely affect existing customers.[10] The storage lease agreement between Gulf South and Petal satisfies these requirements, as discussed below.

20. As more fully discussed below, we find that the Gulf South's proposal to lease capacity will satisfy the threshold test of the Certificate Policy Statement because Gulf South has proposed to recover the incremental costs associated with the lease from customers who elect to take new service under Rate Schedule NNS-A. In addition, in accordance with the Commission's lease policy, the Commission also finds that the lease will create benefits, the lease payments are satisfactory, and the lease arrangement will not adversely affect existing customers.

B. <u>Lease Benefits</u>

21. The Commission has found that capacity leases in general have several potential public benefits. Leases can promote efficient use of existing facilities, avoid

---

[8] *Texas Eastern Transmission Corp.*, 94 FERC ¶ 61,139, at 61,530 (2001).

[9] *Texas Gas Transmission, LLC*, 113 FERC ¶ 61,185, at P 10 (2005).

[10] *Id.*; *Islander East Pipeline Co., L.L.C.*, 100 FERC ¶ 61,276, at P 69 (2002) (*Islander East*).

construction of duplicative facilities, reduce the risk of overbuilding, reduce costs, and minimize environmental impacts.[11] In addition, leases can result in administrative efficiencies for shippers.[12]

22. Here, the storage lease arrangement will support Gulf South's proposed new no-notice service which will provide future NNS-A shippers enhanced scheduling flexibility to support gas-fired electric generation and other operational activities that require natural gas to be provided without notice. The lease will also promote the efficient use of unused capacity on both Petal and Gulf South and allows Gulf South to provide the NNS-A service without having to construct additional storage facilities, thereby eliminating any environmental impacts.

23. Atmos complains that Gulf South did not provide supporting information to demonstrate what, if any, other storage options Gulf South considered and whether there are any other viable storage providers, aside from an affiliate. Atmos claims that without additional information, it cannot assess whether another third party could provide comparable service at the same or a lesser cost than Gulf South's affiliate pipeline, or whether the terms of Gulf South's proposed capacity lease with Petal are just and reasonable.

24. We find that Atmos' concerns are not relevant to our consideration of the proposal before us. When reviewing an application under NGA section 7, the Commission does not conduct an analysis to determine whether the applicant's proposal is the best option for serving the identified demand. Rather, the Commission analyzes an applicant's specific proposal to determine if it is in the public convenience and necessity. Based on the record developed in this proceeding, we find that Gulf South's proposal to acquire storage capacity from Petal is consistent with our lease policy and Certificate Policy Statement and thus is required by the public convenience and necessity, as conditioned herein. As the Commission has explained, having determined that a proposed project meets our requirements for authorization, we leave it to the market to decide whether the project will meet the needs of shippers and actually go forward.[13] Relying on the market to decide which projects ultimately are best suited to meet the infrastructure needs of an area best serves the public interest because it allows for the most efficient, cost effective, and timely development of energy infrastructure.

---

[11] *See, e.g., Dominion Transmission, Inc.*, 104 FERC ¶ 61,267, at P 21 (2003); *Islander East*, 100 FERC ¶ 61,276 at P 70.

[12] *See Wyoming Interstate Co., Ltd.*, 84 FERC ¶ 61,007, at 61,027 (1998).

[13] *See, e.g., Broadwater Energy LLC*, 124 FERC ¶ 61,225, at P 240 (2008).

C. **Lease Rates**

25. Indicated Shippers complain that while Gulf South claims that the lease rate is similar to rates paid by Petal's current unaffiliated shippers, Gulf South has not provided evidence of what those rates are. Thus, Indicated Shippers maintain that there is no evidence that the lease rate paid by Gulf South to its affiliate Petal is comparable to an arms-length negotiated rate between unaffiliated entities.

26. Indicated Shippers also claim that Gulf South's proposal to pass the market-based lease rate through to its NNS-A customers, as part of a bundled rate for NNS-A service, is the equivalent of including a market-based rate component, between affiliated entities, in what should otherwise be a cost-based NNS-A rate. Indicated Shippers assert that in *Transok*, the Commission rejected a similar proposal to include the market-based storage rate component in the pipeline's bundled cost-based no-notice transportation rates and required the pipeline to develop and file a cost-based no-notice rate within 60 days.[14] Indicated Shippers claim that the same condition should apply in the instant case.

27. In response to Indicated Shippers' concern regarding the lack of information supporting the lease rate, Applicants submitted a schedule of Petal's existing FSS contracts with unaffiliated shippers.[15] Gulf South reiterates that the average rates for Petal's contracts with unaffiliated shippers were used to derive Gulf South's lease rates. Thus, Gulf South claims that the Petal lease rate is "comparable to an arms-length negotiated rate" as requested by Indicated Shippers.

28. Gulf South also maintains that the Commission should reject Indicated Shippers' claim that Gulf South is charging market-based rates for the storage-component of NNS-A service. Gulf South contends that it is not charging market-based rates for the storage component of NNS-A service, but is passing through the actual costs of acquiring the Petal storage capacity.

29. Generally, the Commission's policy is that lease rates must be less than generally applicable recourse rates charged by the lessor pipeline for the same service.[16] But when no maximum cost-based firm interstate recourse rate is available for comparison to the

---

[14] Indicated Shippers Comments at 7 (citing *Transok, L.L.C.; Ozark Gas Transmission, L.L.C.*, 97 FERC ¶ 61,362, at 62,684 (2001) (*Transok*)).

[15] *See* Gulf South September 16, 2013 Answer, Exhibit A.

[16] *See, e.g., Columbia Gas Transmission, LLC*, 145 FERC ¶ 61,028, at P 19 (2013) (*Columbia*) (approving a lease reservation charge that was lower than the lessor's rates for comparable service).

lease rate, the Commission may look to other comparisons for determining whether a lease rate is appropriate.[17]

30. Here, Gulf South has shown that the proposed lease rates are the average market-based demand and commodity rates charged by Petal to its fourteen unaffiliated shippers for storage service provided under its Rate Schedule FSS. We find that Applicants' use of the rates agreed to between Petal and its existing unaffiliated storage customers provides adequate safeguards to prevent affiliate abuse and ensures prices that would be consistent with competitive outcomes. Further, since NNS-A is a new service with no existing shippers, any prospective shipper will be able to decide whether the NNS-A rates are acceptable.

31. We also disagree with Indicated Shippers' claim that the Commission's holding in *Transok* supports rejection of Gulf South's proposed rates for the storage components of Rate Schedule NNS-A. In *Transok*, the Commission rejected the applicant's initial proposal to charge a rate for no-notice service that included an unstated, market-based storage component and required the pipeline to establish a cost-based rate for no-notice transportation service.[18] In contrast, Gulf South proposes to include stated rates for the storage components of NNS-A service equal to the costs of the lease payments to Petal. Under these circumstances, we find that Gulf South is passing through the costs it will incur to obtain storage service from Petal and thus has established cost-based rates for the storage components of the NNS-A rate.

D. Impact on Future Proceedings

32. Several parties raise concerns regarding Gulf South's statement that to the extent the full volume of the lease is not subscribed or utilized by NNS-A shippers, Gulf South will utilize the leased capacity for operational purposes to support all services on its system. Specifically, these parties are concerned that the lease costs will be shifted to existing customers in the future.

33. UMDG claims that Gulf South has made no showing that the leased storage capacity or any additional storage capacity is needed to support existing system

[17] *See, e.g., Midcontinent Express Pipeline, LLC*, 124 FERC ¶ 61,089, at PP 36-37 (2008) (comparing the lease rate to intrastate rates for firm service since the lessor section 311 intrastate pipeline did not have a firm interstate rate).

[18] *Transok*, 97 FERC at 62,683-84. The applicant's subsequent proposal to charge a storage rate equal to the sum of the rates and charges Ozark would pay to obtain storage service was accepted. *Ozark Gas Transmission, L.L.C.*, Docket No. RP02-155-000 (February 28, 2002) (delegated letter order).

operations if the leased capacity is not used by the new NNS-A service. Therefore. UMDG requests that the Commission require Gulf South to be at risk for the lease-related costs, or alternatively find that Commission approval of the proposal does not prejudge or predetermine the appropriateness of allocating costs of the leased capacity to customers other than those directly served under Rate Schedule NNS-A in a future proceeding. Similarly, Indicated Shippers request that the Commission condition acceptance upon the requirement that there be no subsidization from non-NNS-A shippers in the future.

34. In response, Gulf South states that, at least until Gulf South's next rate case, all of the costs of the Petal lease will be borne by either NNS-A customers or Gulf South. Further, Gulf South explains that if it elects to continue to hold leased operational storage capacity in the future and Gulf South is able to show in a future rate case that those storage costs were prudently incurred and benefit existing shippers, then Gulf South should have the opportunity to seek to include some or all of the costs in the rates of existing shippers. According to Gulf South, in these circumstances there would be no subsidy because existing shippers would be receiving a demonstrated benefit from the leased storage capacity.

35. In this proceeding, we are approving Gulf South's proposal to recover all the costs of the lease from shippers contracting to pay an incremental rate for service under new Rate Schedule NNS-A. If Gulf South is unable to recover all these costs from NNS-A shippers, it will be bear the risk of any under recoveries. As discussed above, we find that this satisfies the no subsidy requirement of the Certificate Policy Statement.

36. However, if Gulf South elects to file a section 4 rate case in the future and proposes to re-allocate any of the lease costs to existing customers or services, it will bear the usual burden of demonstrating that the lease capacity benefits existing customers and such allocation of costs is appropriate. Moreover, any party will have their full procedural rights to contest any future proposal. Nothing in this order is meant to prejudge or predetermine the appropriateness of any such future rate proposal. Therefore, we find that the lease arrangement, as conditioned herein, will not adversely affect Gulf South's existing customers.[19]

---

[19] Several parties also raise concerns regarding whether Gulf South's reservation and use of its unsubscribed transportation capacity to provide the new NNS-A service will negatively impact the quality of existing services. These issues are addressed below in connection with Gulf South's proposal to establish a new, no-notice service under Rates Schedule NNS-A in Docket No. RP13-1245-000.

37. Likewise, Petal will be at risk for the recovery of any costs associated with the lease capacity that are not collected from Gulf South.[20] Petal is directed to file with the Commission a notification in this docket within 10 days of the date of abandonment of the capacity leased to Gulf South providing the effective date of the abandonment.[21] We also remind applicants, that when the lease terminates, Gulf South is required to obtain authority to abandon the lease capacity, and Petal is required to obtain certificate authorization to reacquire that capacity.[22]

E. <u>Accounting</u>

38. Applicants propose to treat the capacity lease as an operating lease. For accounting purposes, Gulf South must record the lease payments in Account 858, Transmission and Compression of Gas by Others. In addition, Petal is directed to record the monthly receipts in Account 489.2, Revenues from Transportation of Gas of Others Through Transmission Facilities. The Commission has previously authorized similar accounting treatment for transportation capacity lease agreements.[23]

F. <u>Environmental Analysis</u>

39. Since no facilities are proposed to be constructed or physically abandoned, the Commission concludes that the proposed action creates no environmental impact.[24]

---

[20] *See Columbia*, 145 FERC ¶ 61,028 at P 20 (requiring Columbia Gulf, the lessor, to remove all the costs and revenues associated with the lease capacity from its cost of service in future section 4 rate cases).

[21] *See, e.g., Columbia*, 145 FERC ¶ 61,028; *Tallgrass Interstate Gas Transmission, LLC*, 144 FERC ¶ 61,197 (2013).

[22] *See, e.g., Islander East Pipeline Co.*, 102 FERC ¶ 61,054, at P 35 (2003).

[23] *See, e.g., Columbia*, 145 FERC ¶ 61,028 at P 24 (citing *Gulf South Pipeline Co., L.P.*, 119 FERC ¶ 61,281 at P 42; *Millennium Pipeline Co.*, L.P., 97 FERC ¶ 61,292, at 62,331 (2001)).

[24] *See* November 21, 2013 Environmental Assessment Report in Docket No. CP13-532-000.

III. Rate Schedule NNS-A Proposal in Docket No. RP13-1245-000

40. Except as discussed below, we find Rate Schedule NNS-A just and reasonable, and accept the tariff records filed by Gulf South, effective the date Gulf South first offers the service, subject to the conditions discussed below.

A. Proposal

41. Gulf South filed tariff records to establish a new, open access, no-notice Rate Schedule NNS-A service. The service is a bundled service, containing both a storage and transportation component. A shipper under Rate Schedule NNS-A will be entitled to no- notice deliveries at its primary delivery point up to its Maximum Daily Quantity (MDQ). Gulf South states that the storage component of this no-notice service will be provided utilizing the leased Petal capacity, but other firm storage capacity may be acquired to support additional NNS-A service. Gulf South states that NNS-A will have no impact on the contractual and tariff rights of Gulf South's existing firm customers as only unsubscribed capacity will be used. Gulf South requests that the Commission approve its NNS-A proposal contemporaneously with the certificate application for approval of the lease with Petal. Gulf South states that the new NNS-A will further complement its slate of offerings for electric generators and others interested in innovative pipeline services.

42. An NNS-A shipper is responsible for delivering sufficient quantities of gas into Gulf South's system to meet its actual demand at its primary delivery points and to fill its no-notice storage capacity during its injection season. The shipper may choose either a summer or winter injection season. Section 2(b) of the proposed NNS-A Rate Schedule provides that scheduling "nominations are required at the [shipper's] primary or supplemental receipt points, but are not required for storage injections or for transportation to the primary delivery points up to the applicable" MDQ. Any variance between the shipper's daily allocated transportation receipts and deliveries will be recorded as a storage withdrawal or injection for the day. Section 2(c) provides that NNS-A service is only available at the shipper's primary delivery point. However, an NNS-A shipper will have access to supplemental receipt points in addition to its primary receipt point.

43. When an NNS-A shipper executes its service agreement, it must elect the percentage of its MDQ that may be met through unnominated withdrawals from storage. The shipper may a elect a percentage equaling either 25, 50, or 75 percent of its MDQ. The shipper also must elect the number of days it may withdraw gas from storage. The shipper may elect 10, 20, or 30 days of unnominated withdrawal service. The unnominated daily withdrawal quantity shall be the shipper's Maximum Daily Withdrawal Quantity (MDWQ).

44. Gulf South describes the above described terms and conditions of the proposed NNS-A service as dividing a shipper's service into two components: an "unnominated storage component" and a "nominated transportation component." The unnominated storage component permits the shipper withdraw a quantity of gas from storage up to its MDWQ and have that gas transported to its primary delivery point without submitting any scheduling nomination for either the storage withdrawal or the transportation to the shipper's primary delivery point. The nominated transportation component permits the shipper to have a quantity of gas up to its MDQ minus any storage withdrawal transported directly to its primary delivery point. The nominated transportation component need not be injected into storage. That service is considered to be nominated, because the receipts onto Gulf South's system must be nominated, even though pursuant to section 2(b) of the NNS-A rate schedule the delivery to the shipper's primary delivery point does not need to be nominated.

45. An NNS-A shipper is entitled to firm hourly deliveries of up to 1/16th of its MDQ. While a shipper must elect either a summer or winter injection season, Gulf South will provide the shipper with off period injections and withdrawals on a best efforts basis.

B. Impact on Existing Shippers

1. Comments

46. Several parties express concern that Gulf South's reservation and use of its unsubscribed transportation capacity to provide the new NNS-A service will negatively affect the quality of their existing services. They note that there is no detailed operational or engineering explanation provided by Gulf South that shows how Gulf South is going to reserve capacity on its system. They request that Gulf South explain how much would be reserved for NNS-A use in Gulf South's scheduling model and not made available for firm service, and specifically what assumptions it will make regarding the firm rights of its existing FTS and NNS customers when it models the utilization of its system with and without the requested NNS-A service. The shippers argue that the adverse impacts to existing NNS customers of over subscribing NNS-A service could be even more acute on the east side of Gulf South's system and on laterals where pressure problems have occurred in the past. They request that the Commission condition the implementation of the proposed service on a guarantee that existing NNS shippers will in fact receive all of their historical service without any adverse impacts from the provision of the new NNS-A service.

47. SCS argues it should be made clear that the nominated portion of the NNS-A service is subject to the same capacity allocation rules imposed on other nominated firm services pursuant to section 6.12(4)(e)(2) of Gulf South's General Terms and Conditions (GT&C). SCS argues Gulf South's Tariff definitions of Firm Primary Service, Firm Secondary Service, and Firm Supplemental Service should apply to the nominated

portion of NNS-A service based upon the shipper's choice of primary or alternate receipt and delivery points.[25]

48. SCS objects that the proposed tariff revisions do not clearly state whether the expected use of NNS-A service would reduce the amount of capacity available for nominated services under section 6.12(4)(a) of the GT&C of Gulf South's tariff. Similarly, SCS states it is unable to discern whether NNS-A deliveries could bump a Firm Secondary, Firm Supplemental, or Interruptible Service nomination in a later cycle if the NNS-A customer began taking gas at its no-notice delivery point.

49. SCS requests that the unnominated portion of NNS-A service have a Firm Secondary priority on the scheduling cycle (unless the shipper has Petal Storage as a Firm Receipt Point and is within its Maximum Daily Receipt Quantity) and only to the extent that Gulf South reasonably determines that the unnominated portion will be taken by the NNS-A customer. SCS argues that Firm Primary and Firm Secondary nominations on SCS's FTS and EFT contracts should not be relegated to a lower priority than what are essentially Firm Secondary deliveries being made for the NNS-A shipper.

2. **<u>Answers</u>**

50. In its answer, Gulf South states that it will use the same Commission-approved tariff procedures to evaluate requests for NNS-A service that it has historically used and continues to use to evaluate requests for its other firm transportation and no-notice services.[26] Gulf South states it will only grant requests for NNS-A service or any other firm transportation service when there is available firm capacity and Gulf South's system is physically capable of providing the requested firm transportation service without adversely affecting service to any other firm customer.

51. In response to questions about modeling, Gulf South answers that it will model the hourly usage of an NNS-A customer at 1/16 of the customer's MDQ, just as its EFT is modeled. Gulf South rejects, as pure speculation, suggestions that Gulf South will not reserve sufficient capacity to provide NNS-A service.

---

[25] SCS states despite the similar bundling of storage and transportation assets, the proposed NNS-A service has no connection to the restructuring of bundled sales obligations that led to the creation of NNS service in Gulf South's Order No. 636 implementation. Although the proposal does not expressly state this, SCS states the idea that NNS-A service should have a superior priority over nominated firm services merely because it is called "No-Notice" should neither be inferred nor sanctioned.

[26] *Citing* Gulf South's FERC NGA Gas Tariff, Tariffs, Section 6.8, GT&C - Requests for Service, 7.0.3.

52. Gulf South urges the Commission to reject the contention that NNS-A will somehow impair traditional NNS service simply because traditional NNS service is not subject to the Uniform Hourly Rate of Flow requirements set forth in Sections 6.2 and 6.7 of the GT&C of Gulf South's tariff. Gulf South claims that nothing about the proposed NNS-A service changes traditional NNS service. Gulf South states it would reserve more transportation capacity to provide NNS-A service than it would to traditional NNS service, and NNS-A customers would pay higher rates as a result. Gulf South states that despite the differences in the amount of transportation capacity reserved for each service, Gulf South would not grant a request for NNS-A service if it would impair the rights of a traditional NNS customer, just as Gulf South would not grant a request for FTS service that would impair the rights of a traditional NNS customer.

53. Gulf South replies that NNS-A service features both a nominated transportation component and an unnominated storage component. The nominated transportation component entitles the NNS-A customers to firm hourly deliveries of up to one-sixteenth of their MDQ at primary delivery points. Gulf South states that by definition, customers must nominate the nominated transportation component of NNS-A to receive service. Gulf South states that, to the extent an NNS-A customer does not submit an NNS-A nomination up to its full MDQ, the remaining capacity will be available for, and can be nominated by, other Gulf South customers, subject to the Scheduling Provisions set forth in Section 6.12 of the GT&C of Gulf South's tariff. Gulf South state that the nominated portion of the NNS-A service is subject to the same capacity allocation rules that apply to other nominated firm services pursuant to Section 6.12.

54. Gulf South states that customers have the right to receive or deliver gas quantities on an unnominated basis between the Petal storage facility and the customer's primary delivery points and NNS-A customers are not required to nominate this capacity. Gulf South states that the unnominated portion of NNS-A is not subject to the Scheduling provisions set forth in section 6.12 of the GT&C of Gulf South's tariff. Gulf South states the unnominated portion of NNS-A service will flow regardless of how its other capacity is allocated during the scheduling process. Gulf South states that the Commission should disregard SCS's suggestion that the unnominated NNS-A service should be considered to be Firm Secondary Service, because NNS-A customers are entitled to transport their unnominated portion to their primary delivery point without need to invoke Gulf South's scheduling process.

55. SCS, in its answer, argues that Gulf South should operate the transportation component of unnominated NNS-A service within the priority for scheduling transportation capacity established in its tariff, even if the shipper is not required to nominate the capacity directly. SCS argues that capacity needed to serve the unnominated portion of NNS-A service should be allocated in accordance with section 6.12(4)(c) of the GT&C of Gulf South's tariff. SCS argues that shippers may use

unnominated NNS-A either for Firm Primary Service, to the extent the NNS-A shipper has available firm receipt quantities at Petal, or Firm Secondary Service otherwise.

56. Gulf South answers that the priority of Primary Firm Service will be granted for scheduling a customer's nominated NNS-A volumes up to the "remaining percentage of MDQ," i.e., the percentage of MDQ that is not dedicated to unnominated service. Further, Gulf South states that when utilized, the unnominated NNS-A capacity will receive Firm Primary Service between the storage receipt point, up to the NNS-A customer's MDWQ, and the primary delivery point. Gulf South clarifies that it will reserve firm capacity for the unnominated portion of NNS-A service when capacity is awarded pursuant to Section 6.8 of the GT&C of Gulf South's tariff, just like all other firm services. Gulf South states that NNS-A customers will have paid for both the transportation and storage capacity necessary to support this service, whether nominated or unnominated. Gulf South states unnominated quantities may only be received or delivered between the Petal storage facility and the customer's primary delivery points and NNS-A service will only be offered on unsubscribed capacity. Gulf South states there is no basis for SCS's contention that Gulf South should be required to give a lower scheduling priority to NNS-A service as compared to traditional NNS service because NNS-A service is not the merchant function replacement that Gulf South implemented in accordance with Order No. 636.

3. <u>Discussion</u>

57. The Commission has previously approved several pipelines' requests to offer firm transportation services that provide increased flexibility to their customers over the objection of shippers so as long as such services do not degrade the services provided to the pipeline's existing shippers.[27] Gulf South states that it will only provide service under Rate Schedule NNS-A if capacity is available, and in a manner that will not adversely affect any other existing firm service. We note that Gulf South will model the hourly usage of an NNS-A customer at 1/16 of the customer's MDQ, just as its Rate Schedule EFT is modeled. Gulf South states that it will reserve enough capacity to provide the new service without interrupting or impairing other firm services. Gulf South has also included in proposed Rate Schedule NNS-A the same standards and requirements for awarding NNS-A capacity as are in its other firm service rate schedules, including availability of capacity and the same adherence to its GT&C as apply to its other firm services. There is no reason for the Commission to assume that Gulf South will implement NNS-A service in any manner that is not compliant with its stated proposal and the applicable NAESB standards.

---

[27] *See, e.g., Gulf South Pipeline Company, LP*, 136 FERC ¶ 61,086 (2011) (Commission accepted Gulf South's enhanced hourly flexibility proposal as existing firm shippers under other rate schedules were not harmed) (EFT Order).

58. If Gulf South currently had no unsubscribed capacity, that would be a reason for concern that Gulf South or Petal was over-committing its system.[28] However, both Gulf South and Petal have significant amounts of unsubscribed capacity. It thus appears that Rate Schedule NNS-A is not an attempt to leverage committed capacity, but rather to repackage uncommitted capacity, and accordingly we find no reason at present to doubt that Gulf South will apply its tariff language as proposed. If Gulf South overbooks its system and cannot deliver firm primary capacity in the future, an aggrieved shipper may file a complaint with the Commission under Rule 206 of the Commission's Rules of Practice and Procedure.[29]

59. Further, the record does not support shippers' concern that Gulf South will not be able to provide NNS-A service without a practical degradation of existing services. As Gulf South states, it is modelling the hourly usage of an NNS-A customer at 1/16 of the customer's MDQ. In other words, it is reserving capacity based on a model that conservatively projects more intense use than would be needed on a day-to-day or 1/24 basis. Gulf South states that despite the differences in the amount of transportation capacity reserved for each service, Gulf South would not grant a request for NNS-A service if it would impair the rights of a traditional NNS customer, just as Gulf South would not grant a request for FTS service that would impair the rights of a traditional NNS customer. In the event that Gulf South were to over-commit and impair the rights of other firm customers, it would be doing so not only in contravention of its answer, but also in contravention of the tariff records on file and the Commission's regulations.[30]

60. The Commission also finds that Gulf South's proposed scheduling priorities for both the unnominated and nominated components of the NNS-A service are reasonable. Gulf South proposes that unnominated and nominated transportation quantities of NNS-A will be given the priority of primary firm, as long as the receipt point and delivery point are the primary points established in its shippers' service agreements. When an NNS-A shipper exercises its right to nominate NNS-A transportation service from a secondary receipt point to its primary delivery point, that service will be scheduled according to the same scheduling priorities that apply to other nominated firm services pursuant to Section 6.12 of the GT&C of Gulf South's tariff. The Commission's policy is that scheduling at secondary delivery points is always second in priority to scheduling at firm primary points. The Commission has held that the addition of a new firm service, such as the proposed Rate Schedule NNS-A, to the firm services that may avail themselves of secondary point rights or secondary capacity availability does not

---

[28] *See Panhandle Eastern Pipe Line Co.*, 74 FERC ¶ 61,102, at 61,328 (1996).

[29] 18 C.F.R. § 385.206 (2013).

[30] 18 C.F.R. § 385.207(a)(3) (2013).

constitute a degradation of existing firm services that would render the new firm service unreasonable.[31] Further, for curtailment purposes, once primary and supplemental points are scheduled, curtailment should treat such points on an equal pro rata basis, including NNS-A. Gulf South's proposal is consistent with this policy, since unnominated service under Rate Schedule NNS-A does not enjoy a superior priority over existing firm primary shippers. If curtailment of firm primary services is necessary, NNS-A's unnominated service must be reduced, pro rata, with all other firm obligations.

C. Rate Design

61. Gulf South states that it proposes a cost-based, two-part rate for Rate Schedule NNS-A. The proposed reservation charge reflects the sum of fixed costs associated with the nominated transmission and unnominated storage components of the service. The nominated transportation component is based on Gulf South's existing Rate Schedule EFT zone matrix reservation charges, reduced to reflect only the percentage of the shipper's MDQ that will be met with nominated transportation quantities. The storage component of the reservation charge is based on (1) the fixed payments Gulf South makes to Petal for the storage lease and (2) the EFT reservation charge applicable to the unnominated transportation service from Petal to the shipper's primary delivery point, adjusted to reflect the shipper's choice of an unnominated withdrawal percentage and the number of days of withdrawal service.

62. Gulf South states that the usage charges applicable to Rate Schedule NNS-A are derived using the approved underlying usage charges from Rate Schedule EFT for both the nominated and unnominated portion of service, as well as the volumetric injection and withdrawal charges reflected in the Petal lease for the unnominated portion of the service.

63. Gulf South states that the proposed NNS-A service is also subject to Gulf South's fuel charges and Annual Charge Adjustment (ACA). Gulf South states that NNS-A fuel charges will be the same as the fuel charges for Gulf South's other services, including the existing NNS service, which is currently a postage-stamp retention percentage of 1.6 percent.

1. Comments

64. UMDG argues that the rate design used to develop the proposed NNS-A rates is radically different from the rate design employed to design Gulf South's existing rates for no-notice service. UMDG requests that the Commission expressly clarify that its

---

[31] *See Tennessee Gas Pipeline Co*., 94 FERC ¶ 61,097, at 61,402 (2001); *Southern Natural Gas Co*., 137 FERC ¶ 61,050, at P 15 (2011).

adoption of the proposed rate design for NNS-A service in this proceeding does not establish precedent that would bind the parties in any future rate proceeding.

65. Mississippi Distributors request that the Commission reject the current applications. Alternatively, they request a formal hearing into the purported justness, reasonableness, and lack of undue prejudice or preference of proposing both continued postage stamp rates, for some parts of the system, and new, Rate Zone-based rates for no-notice service. In support, Mississippi Distributors state Gulf South has not filed an NGA section 4 general rate case allowing investigation of the basis for its rates in nearly twenty years.

66. Atmos objects that Gulf South does not propose to share with its existing customers any revenues generated from this new service. Atmos states it and other firm transportation customers are already paying all of Gulf South's costs for its certificated contracted maximum daily transportation quantities through monthly fixed-reservation charges and the pipeline's firm customers have paid for all the flexibility available on Gulf South's system that the pipeline now seeks to repackage under a new rate schedule.

67. In its answer, Gulf South states that it will be offering NNS-A service only on available unsubscribed capacity. Gulf South states that Atmos and other firm shippers are not paying any of the costs for Gulf South's unsubscribed capacity that would be utilized to provide NNS-A service. In other words, it states, Gulf South is significantly under-recovering its revenue requirement. Gulf South argues that the Commission rejected similar arguments by protestors seeking sharing of revenues from Gulf South's EFT service, upon which the transportation component of NNS-A service is based.[32] Gulf South further argues that, in a similar case, the Commission recognized that to the extent that quantities sold under a new rate schedule supplant those under an old rate schedule, "there is little opportunity for any incremental revenue to the pipeline,"[33] and thus it is not appropriate to share revenue here.

68. Also in its answer, Gulf South opposes both UMDG's request for clarification and the Mississippi Distributors' request for hearing. Gulf South states that if it seeks to change any rates or the rate design of traditional NNS, it would first file under section 4 of the Natural Gas Act showing that its proposed changes are just and reasonable; therefore no additional clarification is required in this proceeding.

---

[32] *See* EFT Order, 136 FERC ¶ 61,086.

[33] *Great Lakes Gas Transmission L.P.*, 120 FERC ¶ 61,105, at PP 10, 20 (2007) (accepting EFT service without requiring pipeline to credit EFT revenues).

2. **Discussion**

69. In between rate cases, the Commission accepts initial rates for new services if designed properly based on a currently-approved cost-based rate.[34] Issues regarding the levels and allocation of costs can be addressed in the pipeline's next rate case.[35] The Commission has previously approved new rate schedules for innovative services where the rates were derived from the rates for existing firm transportation services rather than via cost allocation methods.[36] Thus, the Commission provides Gulf South flexibility in designing its rates for its new no-notice service, as it furthers the Commission's goal of increasing cooperation between natural gas pipelines and electric generators.[37]

70. It is clear from the record that Gulf South's proposed rate design for NNS-A service has a basis in its existing rate structure and the actual costs of its lease of storage capacity from Petal. Further, it is clear that the storage cost component of the NNS-A rates is derived from the average storages rates paid to Petal by unaffiliated shippers. In this context, we consider this a reasonable method for obtaining a just and reasonable rate.

71. The proposed rate design for NNS-A service in this proceeding does not establish binding precedent for any future rate proceeding; future cases will be adjudicated based on their merits after careful consideration of the facts and circumstances of the application.

72. The Commission's policy is not to require the crediting of revenues obtained from new services which become available between a pipeline's rates cases, particularly when the demand for the service and the level of resulting revenues are uncertain.[38] The

[34] *See Columbia Gas Transmission Corp.*, 122 FERC ¶ 61,239, at P 36 (2008) (citing *Panhandle Eastern Pipeline Co.*, 90 FERC ¶ 61,119 (2000)).

[35] *Id*.

[36] *CenterPoint Energy Gas Transmission Co.*, 125 FERC ¶ 61,334, at PP 14-16 (2008); *Great Lakes Gas Transmission, L.P.*, 120 FERC ¶ 61,105 at PP 8-10.

[37] *Columbia Gas Transmission Corp.*, 122 FERC ¶ 61,239 at P 19 (citing *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, Order No. 698, FERC Stats. & Regs. ¶ 31,251 (2007)).

[38] *See, e.g., Southern Natural Gas Co.*, 94 FERC ¶ 61,394 (2001).

same policy will be applied to this case and Gulf South will not be required to credit revenues from NNS-A service to firm shippers.

73. While the Commission accepts Gulf South's proposed reservation charges, the Commission finds that Gulf South's proposed usage charge rate design is not supported and may result in Gulf South over-recovering its variable costs.

74. Gulf South states that the usage rates applicable to Rate Schedule NNS-A are derived using the approved underlying usage rates from Rate Schedule EFT (applicable to both the nominated and unnominated portion of service), as well as the volumetric injection and withdrawal charges reflected in the Petal lease for the applicable unnominated portion of the service.[39] However, Gulf South's proposed rate summary tariff record[40] does not reflect this proposal. Rather than proposing two usage charges, one for nominated transportation that does not utilize storage and a second usage charge for unnominated volumes that does use storage, Gulf South proposes only one usage charge applicable to all volumes transported under Rate Schedule NNS-A. Gulf South's usage rate design assumes that a shipper will use 100 percent of its nominated and 100 percent of its no-notice, unnominated contract quantities. However, there is no requirement for shippers to use Rate Schedule NNS-A in such a fashion. To the extent that a shipper only receives nominated volumes (volumes that do not require withdrawal of supplies located in storage), it will pay for variable storage costs Gulf South does not incur. For example, the Zone 1 to Zone 3 Rate Schedule EFT usage rate is $0.0086 per Dth. However, under Gulf South's Rate Schedule NNS-A proposal, the applicable usage rate for transportation-only service would be $0.0161 per Dth. Gulf South's proposal would result in it recovering $0.0075 per Dth in variable costs that were not incurred by Gulf South. As Gulf South's proposed usage rate design does not follow the Commission's cost causation principles, the Commission rejects these rates.

75. If Gulf South accepts the certificate, the Commission requires Gulf South to revise Rate Schedule NNS-A's usage rate[41] to be the same as Rate Schedule EFT's usage rate for all volumes delivered to the shipper, and an additional usage rate equal to

---

[39] Gulf South's application, Appendix A, section 2.

[40] Gulf South Pipeline Company, LP, FERC NGA Gas Tariff, Tariffs, Section 4.7, Currently Effective Rates - NNS-A, 3.0.0.

[41] If Gulf South revises its usage rates, it should also remove the word "monthly" from the term "monthly usage charge" located at Gulf South Pipeline Company, LP, FERC NGA Gas Tariff, Tariffs, Section 5.5, Rate Schedules - NNS-A, 3.0.0 at Rate Schedule NNS-A, Section 5(a).

the Petal usage rates for injection and withdrawal ($0.01 per Dth each, thus $0.02 per Dth in total) for each un-nominated Dth delivered to the shipper.[42]

D. Comparison to NNS Service

1. Comments

76. UMDG raises additional questions about the tariff language implementing the new NNS-A service. UMDG notes that Gulf South's existing GT&C sections 6.2, 6.7(2), 6.7(3), and 6.7(5) expressly exempt Rate Schedule NNS from certain provisions of Gulf South's tariff regarding hourly flow limits. UMDG notes that Gulf South is not proposing to modify these sections to include Rate Schedule NNS-A, and argues that this leads to a contradiction that, at minimum, Gulf South should be required to explain.

77. In addition, UMDG states that for its existing no-notice service, Gulf South offers a volumetric rate option for small customers, the Small Customer Rate Option (SCRO), as referenced in section 6.2 of the GT&C. UMDG states that Gulf South has not offered an SCRO rate option for its new NNS-A service. UMDG argues that Gulf South should be required to explain why it is treating the two no-notice services differently and why it is withholding the SCRO rate option for the new service.

78. In its answer, Gulf South contends that it should not be required to explain why it is not offering a small customer option. Gulf South argues that the Commission has never required pipelines to offer a small customer option for every new service, and did not require Gulf South to offer such a small customer option when the Commission approved Gulf South's EFT service.

79. However, as suggested by UMDG, Gulf South agrees to add language to Sections 6.2, 6.7(3), and 6.7(5) of the GT&C to clarify that NNS-A customers are not subject to the Uniform Hourly Rate of Flow requirements set forth in Gulf South's tariff, just as traditional NNS customers are not required to comply with this requirement. Gulf South proposes to add specific language to Sections 6.2, 6.7(3), and 6.7(5) of the GT&C stating that NNS-A customers are not subject to the *uniform* hourly flow provisions (i.e., 1/24 hourly takes), but are instead subject to hourly takes up to 1/16 of the customers' MDQ. Gulf South further requests that the Commission permit it to add similar language that will apply to EFT service, which is also not subject to the uniform hourly flow requirements, but like NNS-A service, allows customers to receive delivery of gas quantities on a firm basis at a 1/16 hourly rate of flow. Gulf South argues that these clarifying changes are fully consistent with the intent and character of the proposed NNS-A service and the previously-approved EFT service.

---

[42] *E.g.*, *High Point Gas Transmission*, 140 FERC ¶ 61,259 at P 10.

2. Discussion

80. The Commission does not require new rate schedules to contain a small customer service option. As Gulf South notes, the Commission did not require Gulf South to offer such a small customer option when the Commission approved Gulf South's EFT service.[43] Therefore, we decline to require Gulf South to offer a small customer rate option of its new NNS-A.

81. We find that Gulf South's answer fully addresses the concerns regarding hourly flow limits. Therefore, we will approve Gulf South's proposed revisions to sections 6.2 and 6.7 of the GT&C of its tariff to reflect the rate schedules excepted from the general rule of hourly ratable flow requirements. If Gulf South accepts the certificate, Gulf South is directed to file a revised tariff record reflecting the revisions to section 6.2, 6.7(3), and 6.7(5) proposed in Gulf South's answer in the compliance filing discussed below.

E. Reporting Obligations

82. Gulf South requests waiver of section 154.202(a)(1)(viii) of the Commission's Regulations, which requires a pipeline seeking to initiate a new service under its blanket authority, to include in the filing, among other things, workpapers projecting the estimated effect on revenue and costs over the twelve-month period commencing on the proposed effective date of this filing. Gulf South asserts that the NNS-A service proposed by Gulf South is a new, optional service. No open season for the service was held. Therefore, Gulf South states that it cannot precisely forecast the revenues it may receive from implementing the NNS-A service.

1. Comments

83. The parties generally oppose a waiver of section 154.202(a)(1)(viii). Indicated Shippers state that Gulf South has not justified its request for waiver because the language of the section specifically relates to new services and the fact that NNS-A is a new service cannot be relied upon to justify waiver of the requirement. UMDG requests a report after a year of NNS-A service as an alternative to requiring the study. Atmos states the request for waiver implies that there is insufficient information supporting the filings and questions the appropriateness of the waiver.

84. Gulf South answers that NNS-A service is a new optional service and that it cannot precisely forecast the revenues it may receive from implementing the NNS-A service. Gulf South states that the Commission has regularly granted waivers of the

---

[43] *See* EFT Order, 136 FERC ¶ 61,086 at PP 20-24.

revenue projection regulation for new services such as NNS-A, including when Gulf South's own Rate Schedule EFT service was.

85. Protesting shippers state that Gulf South should be required to file a report at the end of twelve months of operations setting forth the costs and revenues associated with the new NNS-A service. Specifically, they recommend the reporting requirements were imposed on Gulf South upon introducing its EFT or ENS services. Indicated Shippers also recommends including the designation of firm variable hourly deliveries, injection and withdrawal periods, the un-nominated withdrawal percentage of MDQ, and the days of withdrawal service.

86. Gulf South answers that it agrees to file an activity report 45 days after the end of the first year after the commencement of NNS-A Service, as requested by UMDG and Indicated Shippers. Gulf South states it will provide the same information in the report that the Commission required in the EFT Order, but Gulf South opposes additional information requested by Indicated Shippers, i.e., "the designation of firm variable hourly deliveries, injection and withdrawal periods, the un-nominated withdrawal percentage of MDQ, and the days of withdrawal service," because it is more detailed and would impose an unnecessary burden.

2. Discussion

87. We grant Gulf South's request for waiver of the requirement in section 154.202(a)(1)(viii) for the same reasons we gave when we reviewed Gulf South's Rate Schedule EFT.[44] Further, the Commission will require Gulf South to file an activity report containing that information within 45 days after the conclusion of one year of providing service under Rate Schedule NNS-A. The Commission requires Gulf South to report the same data as it required in the EFT Order. The Indicated Shippers have not identified why the additional data is required.

F. Forming NNS-A Service from Existing Services

88. SCS requests that Gulf South let existing customers create NNS-A capacity by combining EFT capacity with a capacity release of their firm storage service on Petal to Gulf South. SCS asks the Commission to direct Gulf South to modify its tariff provisions to provide that, subject to capacity availability, Gulf South will provide NNS-A service to an EFT shipper that releases a corresponding quantity of Petal or other third-party storage service to Gulf South.

---

[44] EFT Order, 136 FERC ¶ 61,086 at P 23.

89. Gulf South argues it can only provide NNS-A service if it has operational control of the storage capacity from which it provides the service, and Gulf South has operational control only of the Petal storage capacity that is subject to the Petal lease. Gulf South states that SCS's proposal to simply release its Petal capacity to Gulf South and then require Gulf South to allow SCS to take NNS-A service is not operationally possible and should not be required by the Commission. However, Gulf South states that it would allow its customers that hold both Petal FSS storage capacity and Gulf South EFT transportation services to convert to NNS-A service provided the shippers permanently release their Petal capacity to Gulf South, the Commission permits Gulf South to roll the released Petal storage capacity into its certificated leased storage capacity from Petal, and certain additional term of service and rate conditions are met.

90. SCS, in its answer, argues that the conditions Gulf South would seek to impose are not just and reasonable.

91. The Commission rejects SCS's requests that the Commission require Gulf South to permit its customers to create a new service that offers features of Rate Schedule NNS-A but utilizing the customer's own assets. Gulf South has indicated that it is willing to consider such service options. However, there is no formal proposal by Gulf South for the Commission to review. The Commission encourages SCS and Gulf South to discuss further this concept. Gulf South is free to make such a proposal at any time in a separate proceeding.

G. <u>Miscellaneous Tariff Provisions</u>

92. Gulf South's proposed Rate Schedule NNS-A section 2(j) provides:

> Customer has the right to transfer its storage balance to or from another NNS-A Customer if gas remains physically located in the same storage field.[45]

Gulf South clarified that the requirement that gas remain physically in the same storage field is not intended in any way to inhibit the development of a market center, but rather reflects the operational reality that Gulf South will only be able to provide NNS-A service if the Commission approves the proposed storage capacity lease utilizing the storage capacity of Petal. Gulf South will consider all storage capacity leased from Petal

---

[45] Gulf South Pipeline Company, LP, FERC NGA Gas Tariff, Tariffs, <u>Section 5.5, Rate Schedules - NNS-A, 3.0.0</u>.

as being in the same storage field for the purposes of storage transfers under Rate Schedule NNS-A.[46]

93. The Commission rejects Gulf South's proposed tariff language as contrary to the Commission's regulations which prohibit tariff provisions that inhibit the creation of market centers.[47] Market centers, as described in Order No. 636, are places where sellers or buyers of gas can make or take deliveries of gas supplies. These centers are likely to develop in areas where several pipelines come together, or where a storage field is shared by more than one pipeline, such as will be the situation here between Petal and Gulf South. In Order No. 636, the Commission sought to foster centers at pipeline interconnects in order to form market centers wherein various production areas and marketing areas could form a competitive natural gas market.[48] Accordingly, the regulations promulgated in Order No. 636 prohibit any provision of a pipeline's tariff that inhibits the development of market centers. Gulf South's proposal limits NNS-A customers to a market of only other NNS-A customers in the Petal field. As Gulf South will be sharing storage capacity with Petal, Gulf South must permit its NNS-A customers to either sell or purchase gas supplies from either other NNS-A customers or customers in the shared storage facility.[49]

94. This same tariff record also references Sections 6.6[3], 6.13 and 6.19, which do not exist in Rate Schedule NNS-A. In addition, the proposed rate schedule contained duplicative language at Sections 5(d) and 6. Gulf South subsequently stated that the references should be to its General Terms and Conditions, and that the duplicative

---

[46] Gulf South January 17, 2014 response to Staff January 7, 2014, Data Request No. 6.a.iii.

[47] 18 C.F.R. ¶ 284.7(b)(3) (2013): An interstate pipeline that offers transportation service on a firm basis under subpart B or G of this part may not include in its tariff any provision that inhibits the development of market centers.

[48] *Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation; and Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol*, Order No. 636, FERC Stats. & Regs. ¶ 30,939, at 30,427-30,428, *order on reh'g*, Order No. 636-A, FERC Stats. & Regs. ¶ 30,950, *order on reh'g*, Order No. 636-B, 61 FERC ¶ 61,272 (1992), *order on reh'g*, 62 FERC ¶ 61,007 (1993), *aff'd in part and remanded in part sub nom. United Distribution Cos. v. FERC*, 88 F.3d 1105 (D.C. Cir. 1996), *order on remand*, Order No. 636-C, 78 FERC ¶ 61,186, at 62,012 (1997).

[49] *Texas Eastern Transmission Corporation*, 62 FERC ¶ 61,015, at 61,095 (1993).

language should be removed from Section 6.[50] Gulf South is directed, if Gulf South accepts the certificate, to file to correct this tariff language when it makes its compliance filing in this proceeding.[51]

95. With the exceptions of the rejected tariff language and usage rates, and if Gulf South accepts the certificate, the Commission accepts the proposed tariff records, subject to refund and subject to the condition that Gulf South refiling tariff records that reflect the usage rate described above and correcting the section references.[52] If Gulf South accepts the certificate, Gulf South is required to file a compliance filing contemporaneous with its acceptance. Gulf South is required to report to the Commission the effective date of Rate Schedule NNS-A no later than the date Gulf South first offers the service to shippers.

96. The Commission on its own motion, received and made a part of the record all evidence, including the application (s), as supplemented, and exhibits thereto, submitted in this proceeding and upon consideration of the record,

<u>The Commission orders</u>:

(A) Petal's is granted permission and approval to abandon, by lease, the subject capacity to Gulf South as more fully described in the application and this order.

(B) A certificate of public convenience and necessity is issued to Gulf South authorizing it to lease the subject capacity from Petal, as more fully described in the application and this order.

(C) The authorizations issued in Ordering Paragraphs (A) and (B) are conditioned on Petal and Gulf South complying with all applicable Commission regulations under the NGA, particularly Part 154 and paragraphs (a), (d), and (e) of section 157.20 of the Commission's regulations.

(D) Petal shall notify the Commission within 10 days of the date of abandonment of the capacity leased to Gulf South.

---

[50] Gulf South January 17, 2014 response to Staff January 7, 2014, Data Request No. 6.a.i and .ii.

[51] Gulf South should, in the same filing, correct the typographical error in the tariff record section title of Section 4.14, Currently Efffective Rates - ENS, 1.0.0.

[52] *E.g., High Point Gas Transmission*, 140 FERC ¶ 61,259 at P 10.

(E) Gulf South must record the lease payments in Account 858, Transmission and Compression of Gas by Others. Petal must record the monthly receipts in Account 489.2, Revenues from Transportation of Gas of Others Through Transmission Facilities.

(F) All of Gulf South's tariff records implementing Rate Schedule NNS-A listed in the Appendix are accepted effective on the date that Gulf South first offers the service to shippers, subject to refund, and subject to the condition that contemporaneous with its acceptance of the certificate, Gulf South must file revised tariff records to reflect the holdings of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Appendix

Gulf South Pipeline Company, LP
FERC NGA Gas Tariff
Tariffs
Accepted, subject to conditions, effective date to be determined

Section 1, Table of Contents, 6.1.2
Section 4.7, Currently Effective Rates - NNS-A, 3.0.0
Section 4.14, Currently Efffective Rates - ENS, 1.0.0
Section 5.5, Rate Schedules - NNS-A, 3.0.0
Section 5.13, Rate Schedules - ENS, 1.0.0
Section 6.2, GT&C - Definitions, 7.0.1
Section 6.5, GT&C - Creditworthiness, 3.0.0
Section 6.6, GT&C - Primary, Secondary, Comprehensive, and Pooling Points, 5.0.0
Section 6.7, GT&C - Operating Conditions, 4.0.0
Section 6.8, GT&C - Requests for Service, 7.0.3
Section 6.10, GT&C - Right of First Refusal, 6.0.2
Section 6.12, GT&C - Nominations, Confirmations, & Scheduling, 4.0.1
Section 6.13, GT&C - Allocation Procedure, 6.0.0
Section 6.14, GT&C - Imbalance Resolution Procedures, 7.0.0
Section 6.16, GT&C - Capacity Release, 3.0.0
Section 6.16.6, GT&C - Capacity Release - Additional Information, 3.0.0
Section 6.17, GT&C - Segmentation of Capacity, 3.0.0
Section 6.18, GT&C - Operational Plans/Emergency Procedures, 3.0.0
Section 6.19, GT&C - Penalties, 2.0.0
Section 6.23, GT&C - Sale of Excess Storage Inventory, 3.0.0
Section 7.1, Form(s) of Service Agreements - FTS/EFT/NNS/NNS-A, 4.1.1
Section 7.8, Form(s) of Agmts-NNS/NNS-A/FTS/EFT/ENS Disc Rates Ltr Agmt, 4.0.1
Section 7.10, Form(s) of Agmts - NNS/NNS-A/FTS/EFT Neg Rate Letter Agmt, 3.0.1