

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

June 2, 2006

In Reply Refer To:
Northern Natural Gas Company
Docket Nos. RP06-353-000
RP06-353-001

Northern Natural Gas Company
1111 South 103rd Street
Omaha, NE 68124-1000

Attention: Mary Kay Miller, Vice President
Regulatory and Government Affairs

Reference: Negotiated Rate Agreement with Tenaska Gas Storage, LLC

Ladies and Gentlemen:

1. On May 8, 2006, Northern Natural Gas Company (Northern) filed revised tariff sheets¹ and a non-conforming preferred interruptible deferred delivery service agreement (PDD) containing a negotiated rate with Tenaska Gas Storage, LLC (Tenaska).² Northern requests that the Commission accept its negotiated rate and tariff sheets no later than June 8, 2006. Northern's negotiated rate agreement and tariff sheets are accepted for filing, to become effective June 8, 2006, as proposed.

¹ 39 Revised Sheet No. 66, 32 Revised Sheet No. 66A and Second Revised Sheet No. 66D to its FERC Gas Tariff, Fifth Revised Volume No. 1.

² On May 19, 2006, Northern filed in Docket No. RP06-353-001, a supplement to the May 8, 2006 filing providing a copy of the negotiated rate agreement with Tenaska that was inadvertently omitted in the original May 8, 2006, filing.

2. Sheet No. 66 provides the requisite information concerning the negotiated rate service agreements. Sheet No. 66A contains the carryover footnotes of Sheet No. 66. Sheet No. 66D updates the list of non-conforming agreements to add Tenaska.

3. On April 28, 2006, Northern and Tenaska executed a Rate Schedule PDD storage agreement which provides Tenaska the ability to draft gas supplies from Northern's storage during December of 2008 and repay the gas supplies during December of 2009. The negotiated rate includes a formula rate based on the difference between certain gas commodity index prices as of December 2008 and December 2009. Northern states that the negotiated PDD service agreement contains the following non-conforming provisions:

- Northern will settle with shipper the net amount from the Formula Rate after the December 2009 production month. Northern reserves the right to allocate the charges between the different rate components. This amount will be settled during the normal commodity billing cycle in January 2010.
- This agreement will be filed with the FERC as a negotiated rate and a non-conforming service agreement and is subject to FERC's approval.

4. Northern's tariff states that each month, a statement and billing shall be submitted to the shipper for actual services rendered during the preceding month. To effectuate the negotiated rate, Northern and Tenaska agreed to a one-time settlement of the amount due between the parties rather than a monthly billing. Northern states that the non-conforming provision is necessary to implement the negotiated rate that was agreed upon by the parties. Northern asserts that these provisions do not affect the quality of service to Tenaska, nor should they be of any interest to other customers. Therefore, Northern requests the Commission accept the contract and the provisions as acceptable material deviations that do not need to be included in Northern's pro forma service agreement or tariff.

5. Northern requests the Commission approve this contract no later than June 8, 2006, even though the drafting of gas supplies from storage will not begin until December 1, 2008. This request provides the shipper with certainty that the Commission has approved this agreement that allows the shipper, Tenaska, to complete the required index pricing arrangements.

6. Notice of Northern's filing was issued on May 11, 2006. Interventions and protests were due May 22, 2006, as provided in section 154.210 of the Commission's Regulations (18 C.F.R. § 154.210 (2005)). Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), all timely motions to

intervene and any motions 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. On May 22, 2006, the Northern Municipal Distributors Group (NMDG) and the Midwest Region Gas Task Force Association (MRGTF) filed comments. Northern filed an answer on May 25, 2006. Under Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, (18 C.F.R. § 385.213(a)(2) (2005)), answers to protests are not accepted unless otherwise ordered by the decisional authority. The Commission will accept Northern's answer because it further clarifies the issues.

7. NMDG/MRGTF states that it understands that Tenaska will receive a single bill for thirteen months of service in January, 2010. NMDG/MRGTF disagrees with Northern's assertion that a provision permitting shippers to remit a single annual payment after the completion of service, rather than monthly payments during the term of the service agreement, would not be of interest to other shippers. NMDG/MRGTF claims that as with other recent Northern filings, there apparently are no standards in Northern's tariff concerning how a shipper could request such a provision in a service agreement or how Northern would evaluate that request. NMDG/MRGTF argues that this provision appears to provide a substantial benefit in terms of billing and payment to one shipper. NMDG/MRGTF requests the Commission direct Northern to: (1) submit tariff language detailing how shippers should make such requests; (2) identify what standards Northern will employ to evaluate them; and, (3) explain how Northern will grant these requests on a non-discriminatory basis.

8. Northern responds in its answer that the alternative billing provision is only applicable to the index-based formula rate that was agreed to between it and Tenaska. Moreover, for reasons given below, Northern does not intend to offer this billing option to other tariff-based transactions that typify the business conducted on Northern's system. Northern emphasizes that the negotiated rate is an index-based formula rate and that it cannot determine the rate calculation until after December 2009 when all the indices used in the formula are final. Northern argues that it is not proposing to allow shippers with recourse based rates to have any other billing schedule than as provided in Northern's tariff. Northern maintains that adding standards to its tariff to provide for billing mechanisms to implement various formula rates is not necessary or appropriate.

9. Northern further argues that the provision in the subject service agreement was negotiated to meet the unique characteristics of the negotiated rate agreed to by the parties and does not affect the quality of service received by Tenaska or others. Northern stresses that the provision is only necessary to implement the negotiated formula rate that

is unique to this transaction and, despite NMDG/MRGTF's assertions, would only be of interest to a similarly situated shipper negotiating an index-based formula rate with Northern similar to the rate negotiated with Tenaska.

10. The Commission finds that Northern's single billing provision is a permissible material deviation. The provision does not affect the quality of service provided either to Tenaska or Northern's other shippers. It is simply a billing provision necessary to implement the particular negotiated formula rate with Tenaska. Northern's recourse rate shippers are not similarly situated, since they do not pay negotiated formula rates that include the use of an index price that will not be known until the end of their service. The Commission's negotiated rate policy authorizes Northern to negotiate rates on a not unduly discriminatory basis.³ Accordingly, Northern should be prepared to offer a similar payment provision to a similarly situated negotiated rate shipper. Therefore, the Commission accepts Northern's negotiated rate agreement and tariff sheets, to become effective June 8, 2006, as proposed.

By direction of the Commission.

Magalie R. Salas,
Secretary.

³ Natural Gas Pipeline Negotiated Rate Policies and Practices, Docket No. PL02-6-000, 104 FERC ¶ 61,134 (2003), as modified on rehearing and clarification, 114 FERC ¶ 61,042 (2006).