UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Natural Gas Pipeline Company of America Docket No. CP07-3-000

ORDER AUTHORIZING ABANDONMENT AND ISSUING CERTIFICATE

(Issued July 2, 2007)

1. On October 10, 2006, Natural Gas Pipeline Company of America (Natural) filed an application[1] pursuant to sections 7(b) and (c) of the Natural Gas Act (NGA) and Subpart A of Part 157 of the Commission's regulations requesting authorization to abandon certain compressor units and meters and to construct and operate: (a) 4.43 miles of 36-inch pipe in Cameron Parish, Louisiana; (b) compressor units, including modifications to existing units and replacement of the units to be abandoned, at four compressor stations in Cameron Parish, Louisiana and Liberty and Montgomery Counties, Texas; and (c) certain metering facilities at the Henry Hub in Vermilion Parish, Louisiana, collectively, the Louisiana Line Expansion Project.[2] For the reasons discussed below, we are authorizing the requested abandonment and granting Natural's request for a certificate of public convenience and necessity.

Background

2. Natural, a Delaware corporation with offices in Lombard, Illinois, is a major transporter of natural gas and provides underground storage facilities in Texas,

[1] Natural filed supplements to the application on December 28, 2006 and February 7, February 21, March 22, and April 20, 2007.

[2] Additionally, in work associated with the new facilities, Natural is installing station piping at compressor station (CS) 304 in Harrison County, Texas, pursuant to section 2.55(a) of the Commission's regulations. Natural states that this work will benefit its existing system operations by facilitating southbound flows of natural gas.

Oklahoma, Iowa, and Illinois. It serves customers along its entire system in New Mexico, Texas, Oklahoma, Kansas, Nebraska, Iowa, Arkansas, Missouri, and Illinois and also delivers gas into Indiana and Wisconsin.

3. Natural's gas transmission system consists of: (1) the Amarillo Line, which extends from the gas producing areas of Texas, New Mexico, and Oklahoma, and terminates near Chicago; (2) the Gulf Coast Line, which extends from offshore and onshore gas producing areas of Louisiana and the gulf coast of Texas, also terminating near Chicago; (3) the A/G line, an interconnection between the Amarillo and Gulf Coast mainlines that runs between Carter County, Oklahoma and Cass County, Texas, and; (4) the Louisiana Line which extends from CS 302 in Montgomery County, Texas to the Henry Hub in Vermilion Parish, Louisiana.

Proposal

4. Natural requests authority to abandon in place four compressor units totaling 10,300 horsepower (hp) at CS 343 in Liberty County, Texas, and to abandon and remove three 12-inch orifice meter tubes and meters at the Henry Hub Plant in Vermilion Parish, Louisiana. Natural states that replacing the four compressor units (three Solar Saturn units and one Cooper Bessemer 16W-330 unit) is appropriate because of their age and the difficulty of obtaining parts. The Solar Saturn units were installed in 1969 and the Cooper Bessemer unit was installed in 1978.[3] Natural states that it is cost effective to replace these units as part of this project because the new units will be more reliable and will supply a portion of the necessary compression (11,000 hp at CS 343) for the expansion.

5. Natural proposes the following: (1) construction of a 4.43 mile, 36-inch diameter pipeline that will become part of Natural's Louisiana Line No. 2 in northeast Cameron Parish, Louisiana; (2) replacement of three 12-inch meter runs and meters at the Sabine Henry Hub plant with three 8-inch turbine meters to deliver an incremental 200,000 Dth/day; (3) installation of one 10,000 hp electric motor compressor unit and appurtenant equipment at Natural's CS 302 in Montgomery County, Texas; (4) addition of one Solar Taurus 60 gas turbine compressor unit (approximately 7,800 hp) and appurtenant equipment (including expanded platform space) and the re-wheeling of one existing 4,200 hp gas unit at Natural's CS 342 in Cameron Parish, Louisiana; (5) replacement of 10,300 hp of gas-fired compression (one16 W-330 Cooper-Bessemer and three Solar

[3] *See Natural Gas Pipeline Co. of America*, 41 FPC 291 (1969) (authorizing the three Solar Saturn units) and *Natural Gas Pipeline Co. of America*, 2 FERC ¶ 61,201 (1978) (authorizing the Cooper Bessemer unit).

Saturn gas turbines) with one 11,000 hp electric motor compressor unit and appurtenant facilities at Natural's CS 343 in Liberty County, Texas; and (6) addition of one Solar Centaur 50 gas turbine compressor unit (approximately 6,200 hp) and appurtenant equipment, and the re-wheeling of all existing compressor units, at Natural's CS 346 in Cameron Parish, Louisiana.

6. Natural states that the new facilities will enable it to provide 200,000 Dth per day of additional transportation capacity from the major supply basins served by its Gulf Coast Mainline to the end of its Louisiana Line at the Henry Hub. The increase in capacity will allow Natural to move needed gas supplies to the East Coast through its Louisiana Line, which is physically at capacity and currently sold out, and to the Henry Hub.

7. In addition to the facilities described above for which certificate authorization is sought, Natural will also construct, install, or modify, under section 2.55(a) of the Commission's regulations, the following auxiliary facilities: (1) a 300 MMcf cooling unit and an 820 MMcf inlet filter separator at CS 302; (2) a 600 MMcf cooling unit and a 650 MMcf inlet filter separator at CS 343; (3) a 250 MMcf inlet filter separator at CS 346; and (4) station piping at CS 304 to allow for bi-directional flow and more flexibility on Natural's system.[4]

Interventions

8. Notice of the application was published in the *Federal Register* on October 30, 2006 (71 Fed. Reg. 63,295). Nicor Gas, Sempra LNG, North Shore Gas Company, and The Peoples Gas Light & Coke Company filed unopposed motions to intervene.[5]

Discussion

9. Since the proposal involves facilities used to transport natural gas in interstate commerce, subject to the jurisdiction of the Commission, the abandonment, construction,

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[4] Natural states that it is also relocating (due to flooding problems) and expanding the control room at CS 343 under section 2.55(a). Natural states that this work is unrelated to the expansion project but may be occurring at the same time as the project work.

[5] Timely, unopposed motions to intervene are granted by operation of Rule 114 of the Commission's Rules of Practice and Procedure. 18 CFR § 385.214 (2006).

acquisition, and operation of the facilities are subject to the requirements of subsections (b), (c) and (e) of section 7 of the NGA.

10. The Certificate Policy Statement[6] provides guidance as to how we will evaluate proposals for certificating new construction. The Certificate Policy Statement established criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest. The Certificate Policy Statement explains that in deciding whether to authorize the construction of major new pipeline facilities, we balance the public benefits against the potential adverse consequences. Our goal is to give appropriate consideration to the enhancement of competitive transportation alternatives, the possibility of overbuilding, subsidization by existing customers, the applicant's responsibility for unsubscribed capacity, the avoidance of unnecessary disruptions of the environment, and the unneeded exercise of eminent domain in evaluating new pipeline construction.

11. Under this policy, the threshold requirement for pipelines proposing new projects is that the pipeline must be prepared to financially support the project without relying on subsidization from its existing customers. The next step is to determine whether the applicant has made efforts to eliminate or minimize any adverse effects the project might have on the applicant's existing customers, existing pipelines in the market and their captive customers, or landowners and communities affected by the route of the new pipeline. If residual adverse effects on these interest groups are identified after efforts have been made to minimize them, we will evaluate the project by balancing the evidence of public benefits to be achieved against the residual adverse effects. This is essentially an economic test. Only when the benefits outweigh the adverse effects on economic interests will we proceed to complete the environmental analysis where other interests are considered.

12. The threshold requirement is that the pipeline must be prepared to financially support the project without relying on subsidization from its existing customers. As discussed below, the revenues associated with the increased transportation services will more than cover the cost of service associated with the proposed expansion. All of the new capacity has been contracted for on a firm, long-term basis and to the extent that the firm shippers supporting the project do not fully utilize their capacity on any day, this

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

capacity will be available to Natural's other customers on an interruptible basis. Consequently, there will be no subsidization, and Natural's proposal meets the threshold test of the Certificate Policy Statement.

13. Since this project only involves the expansion of an existing pipeline system there will be little or no impact on other pipeline companies. Since the new facilities will be in or adjacent to an existing pipeline corridor and compressor station sites, the impact on the environment will be minimal. Finally, there is no landowner opposition to the proposed project[7] and Natural anticipates that it will negotiate to acquire rights-of-way whenever possible and will seek to minimize the use of eminent domain procedures. Thus, we find that any adverse impacts on landowners and communities along the pipeline route will be minimal.

14. The proposed project will provide incremental transportation service for reserves currently being developed in major supply areas served by Natural's Gulf Coast line and the market response to Natural's open season demonstrates the need for additional take away capacity from these areas. Approval of this project will enable Natural to provide an additional 200,000 Dth/d of capacity that can access numerous markets through its interconnects with many East Coast pipelines as well as the Henry Hub. Additionally, the proposed expansion could accommodate Canadian production through Natural's existing interconnection with Alliance Pipeline, and Rocky Mountain production through the proposed Rockies Express Pipeline.

15. We conclude that Natural's facility will further the development of the interstate natural gas infrastructure. We also find no identified adverse effect on existing customers, other pipelines, landowners, or communities. For these reasons, we find, consistent with the Certificate Policy Statement and section 7(c) of the NGA, that the public convenience and necessity requires approval of Natural's proposal.

Rates and Tariff

16. Natural proposes to provide firm transportation service for the Louisiana Line Expansion Project pursuant to its existing Rate Schedule FTS. Shippers who have executed precedent agreements supporting the expansion have agreed to pay either negotiated rates or the maximum recourse rate during the term of their contracts. Natural

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[7] Although one landowner filed comments opposing any pipeline on her property, Natural's proposal does not affect her property. Natural informed the landowner of this in a letter filed with the Commission on December 18, 2006. The environmental assessment prepared for this proposal also addresses the landowner's comments.

has signed five binding precedent agreements with three non-affiliated shippers for firm service, all for terms of five years. Three of the precedent agreements are at negotiated rates and two are at recourse rates. All of the expansion capacity has been committed under these contracts. Natural proposes to charge the existing FTS fuel retention factor applicable to all receipt volumes tendered for transportation by these shippers.

17. Natural requests that the Commission make a predetermination that rolled-in rate treatment is appropriate for the proposed facilities. In support of this request, Natural provided a rolled-in rate analysis in Exhibit P of its application, which shows that annual incremental revenues of $34,552,953 generated by the expansion facilities will exceed the incremental cost of service of $28,201,216 by $6,351,737.[8] Accordingly, Natural asserts that rolled-in rate treatment will not cause any increase in costs to existing shippers and rolled-in rate treatment is appropriate for this project.

18. Because two of the negotiated rates to be charged for the capacity created by the project are less than the recourse rates for the service, and because they are negotiated rates, Natural is at risk for any revenue shortfall in its next rate case.[9] Thus, in the next rate case, the revenue associated with the services rendered under this project should be based on the recourse rates rather than the negotiated rates. When substituting Natural's recourse rates[10] in place of the negotiated rates, our analysis shows that the project will generate $37,902,453 in annual incremental revenue. Natural's estimated cost of service for the project is $28,201,216. Thus, use of the recourse rates results in incremental revenue for the Louisiana Line Expansion Project which will exceed the incremental cost of service by $9,701,237.

19. Natural's rolled-in rate analysis includes estimated incremental fuel revenue and fuel costs that Natural expects as a result of the expansion. Based on a market price for

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[8] *See* Exhibit P at 2.

[9] *See Trunkline Gas Co.*, 119 FERC ¶ 61,078 (2007); *Texas Eastern Transmission, LP*, 101 FERC ¶ 61,120 (2002).

[10] Natural's currently effective maximum FTS reservation rate from the Iowa-Illinois receipt zone to the Louisiana delivery zone is $11.05/Dth (the transportation path chosen by all of the expansion shippers). See *Natural Gas Pipeline Co. of America*, Tariff, Sixth Revised Volume No. 1, Sixth Revised Sheet No. 7.

natural gas of $7.69/Dth,[11] Natural estimates $11,002,853 in project revenues[12] from fuel collection and $4,235,537 in fuel expenses[13] based on Natural's current fuel rate.[14] The Commission has previously declared that the cost of fuel should be included in the rolled-in rate analysis to fully evaluate the project's impact on existing customers.[15] Therefore, it is appropriate to include the additional revenue Natural will have as a result of its over recovery of fuel costs in the rolled-in rate analysis. Natural has no separate fuel tracking mechanism; its fuel retainage percentage is expressed along with other components of the rate as set forth in Natural's tariff. Natural's fuel retainage percentage was proposed and accepted as part of a previous general rate proceeding. Therefore, shippers will continue to pay the same fuel rate regardless of the impact of the expansion. Parties can examine the impact of fuel costs when Natural files its next general rate case.

20. Natural's cost of service includes $11,158,514 of operation and maintenance expenses, of which $10,915,316 are estimated incremental electric power costs associated with the electric compression being installed.[16] While these variable costs are more appropriately recovered as part of a tracker, Natural has the right to recover them as an

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[11] Natural calculated this price using a twelve month average based on the mid-month average prices for NGPL-Texok for the period ending August 2006 as reported in *Platts Gas Daily Price Guide.*

[12] [[200,000 Dth/d *365]*1.96% fuel rate]*$7.69 = $11,002,853. *See* Exhibit P at 5.

[13] Natural's calculations show that only 1,509 MMBtu/d will be required for fuel. Therefore, Natural's estimated fuel costs are [1,509 MMBtu/d *365]*$7.69 = $4,235,537. *See* Exhibit P at 4.

[14] Natural's April 2, 2007 data response states that under Natural's tariff a shipper pays the fuel retention factor associated with the path of the gas it actually nominates. Natural used its Texok receipt zone to the Louisiana delivery zone fuel retention factor of 1.96 percent in its rolled-in rate analysis because Natural considered it likely that shippers would nominate the majority of their gas supply from that receipt zone given the extent of new supply developments available in the Texok zone.

[15] *See, e.g., Iroquois Gas Transmission System, L.P.*, 95 FERC ¶ 61,335 (2001) (requiring expansion shippers to pay for the incremental fuel used to operate the compressor stations to provide the proposed service).

[16] *See* Exhibit P at 4.

expense in a future rate case. However, if Natural's incremental electric power costs change significantly for the Louisiana Line Expansion Project and result in the expansion's revenues not exceeding its incremental cost of service, Natural will not be entitled to rolled-in rate treatment in its next rate case.

21. Since rolled-in rate treatment will not result in subsidization of the proposed facilities by existing customers, Natural's request for a pre-determination of rolled-in rate treatment in its next rate proceeding for the Louisiana Line Expansion Project is appropriate, absent significantly changed circumstances.

22. Natural indicated that three of the shippers who submitted winning bids in the open season executed fixed-rate contracts and that these agreements constitute negotiated rates pursuant to section 49 of the General Terms and Conditions (GT&C) of Natural's Tariff, Sixth Revised No. 1 (Tariff).[17] However, we will not approve the negotiated rates in this order. Rather, the Commission authorizes the applicable initial recourse rates in the certificate proceeding, which, in this case, will be Natural's currently effective Part 284 rates,[18] and addresses issues regarding the allocation of costs and revenues between recourse rate and negotiated rate shippers in the context of a general NGA section 4 rate proceeding.[19]

23. Since Natural proposes to charge several shippers negotiated rates, Natural must file either its negotiated rate contracts or numbered tariff sheets not less than 30 days and no more than 60 days prior to the commencement of service on the expansion facilities.[20] The tariff filing must state for each shipper the negotiated rate, all applicable charges, the applicable receipt and delivery points, the volume to be transported, the applicable rate

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[17] Natural states it will file with the Commission either a tariff sheet setting forth the pertinent terms of the negotiated rate agreements or the agreements themselves, as required by section 49 of the GT&C of Natural's Tariff.

[18] *See ANR Pipeline Co.,* 108 FERC ¶ 61,042 at P 21 (2004); *Gulfstream Natural Gas System, LLC,* 105 FERC ¶ 61,052 at P 37 (2003); *Tennessee Gas Pipeline,* 101 FERC ¶ 61,360 at n. 19 (2002).

[19] *See Alternatives to Traditional Cost of Service Ratemaking for Natural Gas Pipelines, Regulation of Negotiated Transportation Service of Natural Gas Pipelines,* 74 FERC ¶ 61,076 at 61,242 (1996) (Rate Policy Statement).

[20] *Id.* at 61,241. *See also NorAm Gas Transmission Company*, 77 FERC ¶ 61,011 (1996).

schedule for the service, and a statement affirming that the affected service agreements do not deviate in any significant aspect from the form of service agreement in Natural's FERC Gas Tariff. Natural must also disclose any other agreement, understanding, negotiation, or consideration associated with the negotiated agreements.

24. Finally, Natural must maintain separate and identifiable accounts for volumes transported, billing determinants, rate components, surcharges and revenues associated with its negotiated rates in sufficient detail such that in any future NGA section 4 rate cases the negotiated rate revenues can be identified in Statements G, I, and, J as provided in section 154.312.[21] Any future NGA section 4 rate cases must also include a separate cost and revenue study for the proposed expansion as outlined in section 154.309 of the Commission's regulations, and should include an update on the cost of service for the proposed expansion facilities based on operational data, including the actual cost of the expansion.

Environmental Analysis

25. On November 8, 2006, we issued a Notice of Intent to Prepare an Environmental Assessment for the Proposed Louisiana Line Expansion Project and Request for Comments on Environmental Issues (NOI). We received responses to the NOI from the U.S. Fish and Wildlife Service and one private landowner, and our staff addressed all substantive comments in the environmental assessment (EA).

26. Our staff prepared an EA for Natural's proposal. It addresses: geology; soils; vegetation; water resources, wetlands and alternative methods; wildlife; land use; cultural resources; air quality and noise; reliability and safety; and alternatives.

27. Any state or local permits issued with respect to the jurisdictional facilities authorized herein must be consistent with the conditions of this certificate. The Commission encourages cooperation between interstate pipelines and local authorities. However, this does not mean that state and local agencies, through application of state or local laws, may prohibit or unreasonably delay the construction of facilities approved by this Commission.[22] Natural shall notify the Commission's environmental staff by telephone, email, or facsimile of any environmental noncompliance identified by other

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[21] *See, e.g., Transwestern Pipeline Co.*, 108 FERC ¶ 61,157 at P 30 (2004).

[22] *See, e.g., Schneidewind v. ANR Pipeline Co.*, 485 U.S. 293 (1988); *National Fuel Gas Supply v. Public Service Comm.*, 894 F.2d 571 (2d Cir. 1990); and *Iroquois Gas Transmission System, L.P.*, 52 FERC ¶ 61,091 (1990) and 59 FERC ¶ 61,094 (1992).

federal, state, or local agencies on the same day that such agency notifies Natural. Natural shall file written confirmation of such notification with the Secretary of the Commission within 24 hours.

28. Based on the discussion in the EA, we conclude that if constructed in accordance with Natural's application and supplements filed on December 28, 2006 and February 7, February 21, March 22, and April 20, 2007, approval of this proposal would not constitute a major federal action significantly affecting the quality of the human environment.

29. The Commission on its own motion, received and made 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,

The Commission orders:

(A) Natural is given permission and approval, pursuant to NGA section 7(b), to abandon certain facilities as discussed above.

(B) A certificate of public convenience and necessity under NGA section 7(c) is issued, authorizing Natural to construct and operate the proposed facilities, as discussed more fully above and in the application.

(C) The authorization issued in Ordering Paragraph (B) is conditioned on Natural's compliance with the environmental conditions listed in the Appendix to this order and all relevant parts of the Commission's regulations, in particular with Part 154 and paragraphs (a), (c), (e), and (f) of section 157.20.

(D) Natural's Louisiana Line Expansion Project will receive rolled-in rate treatment, absent a significant change in circumstances at the time Natural makes its next section 4 rate filing after the facilities have been placed in service, in accordance with the discussion in this order.

(E) Natural must execute firm service agreements equal to the level of service represented in its precedent agreements before the start of construction.

(F) Natural shall maintain separate books, accounts, and records for transportation services provided at negotiated rates and for transportation services provided at recourse rates in accordance with section 154.309 of the Commission's regulations.

(G) As discussed in the body of the order, Natural will file with the Commission prior to commencement of service either its negotiated rate contracts or numbered tariff sheets reflecting the negotiated rate, volume, rate schedule, and applicable receipt and delivery points not less than 30 days and no more than 60 days prior to the commencement of service on the expansion facilities.

(H) Natural shall notify the Commission's environmental staff by telephone, email or facsimile of any environmental noncompliance identified by other federal, state, or local agencies on the same day that such agency notifies Natural. Natural shall file written confirmation of such notification with the Secretary of the Commission within 24 hours.

(I) The project shall be completed and placed into service within one year of the date of this order in accordance with section 157.20(b) of the Commission’s regulations.

(J) Natural shall notify the Commission within ten days of the effective date of the abandonment of facilities authorized in Ordering Paragraph (A).

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

APPENDIX
Natural Gas Pipeline Company of America
Docket No. CP07-3-000

ENVIRONMENTAL CONDITIONS

As recommended in the EA, this authorization includes the following condition(s):

1. Natural shall follow the construction procedures and mitigation measures described in its application and as identified in the environmental assessment (EA), unless modified by this Order. Natural must:

   a. request any modification to these procedures, measures, or conditions in a filing with the Secretary of the Commission (Secretary);
   b. justify each modification relative to site-specific conditions;
   c. explain how that modification provides an equal or greater level of environmental protection than the original measure; and
   d. receive approval in writing from the Director of the Office of Energy Projects (OEP) before using that modification.

2. The Director of OEP has delegated authority to take whatever steps are necessary to ensure the protection of all environmental resources during construction activities associated with the Project. This authority shall allow:

   a. the modification of conditions of this Order; and
   b. the design and implementation of any additional measures deemed necessary (including stop work authority) to assure continued compliance with the intent of the environmental conditions as well as the avoidance or mitigation of adverse environmental impact resulting from Project construction.

3. Natural shall limit vegetation removal above horizontal directional drill (HDD) paths to the maximum extent practicable, except for clearing of brush and saplings using hand tools to facilitate the use of HDD tracking systems and installation of pipeline markers. No vegetation shall be removed with power tools or construction equipment without prior written approval by the Director of OEP.

4. Natural shall limit annual vegetation maintenance to a 10-foot-wide corridor centered on the pipeline in wetland areas. The 10-foot-wide corridor may be maintained in an herbaceous state, and any trees within 15 feet of the pipeline that are greater than 15 feet in height may be selectively cut and removed from the permanent right-of-way.

5. Natural shall make all reasonable efforts to assure its predicted noise levels from Compressor Stations 343 and 346 are not exceeded at nearby noise-sensitive areas (NSA) and file noise surveys showing this with the Secretary no later than 60 days after placing Compressor Stations 343 and 346 in service. However, if the noise attributable to the operation of Compressor Stations 343 and 346 at full load exceeds an L_{dn} of 55 dBA at any nearby NSAs, Natural shall file a report on what changes are needed and shall install additional noise controls to meet the level within 1 year of the in-service date. Natural shall confirm compliance with this requirement by filing a second noise survey for each Compressor Station with the Secretary no later than 60 days after it installs the additional noise controls.

6. Natural shall conduct a noise survey at Compressor Stations 302 and 342 to verify that: (a) the noise from all the equipment operated at full capacity does not exceed the previously existing noise levels that are at or above an L_{dn} of 55 dBA at any nearby NSAs; and (b) the noise contribution from the proposed units does not exceed an L_{dn} of 55 dBA at any NSA. The results of these noise surveys shall be filed with the Secretary no later than 60 days after placing the authorized units in service. If any of these noise levels are exceeded, Natural shall, within 1 year of the in-service date, implement additional noise control measures to reduce the operating noise level at the NSAs to or below the previously existing noise level and reduce the noise contribution from the proposed units to an L_{dn} of 55 dBA or below. Natural shall confirm compliance with this requirement by filing a second noise survey with the Secretary no later than 60 days after it installs the additional noise controls.