

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Northern Natural Gas Company

Docket No. CP06-461-000

ORDER ISSUING CERTIFICATE

(Issued July 10, 2007)

1. On September 20, 2006, Northern Natural Gas Company (Northern) filed an application pursuant to section 7(c) of the Natural Gas Act (NGA) seeking authorization to increase the certificated storage capacity of its Redfield Storage Field located in Dallas County, Iowa, by 2.102 billion cubic feet (Bcf) to 124.102 Bcf, as more fully described in the application. For the reasons stated below, we will grant the requested authorization.

**Background and Proposal**

2. Northern, a natural gas company engaged in the transportation of natural gas in interstate commerce pursuant to the NGA, is a Delaware corporation having its principal place of business in Omaha, Nebraska. It is authorized to do business in the states of Delaware, Texas, New Mexico, Oklahoma, Kansas, Nebraska, Iowa, Minnesota, Illinois, Michigan, Wisconsin, North Dakota, South Dakota, and Louisiana.

3. Northern's Redfield Storage Field (Redfield) is an aquifer type storage field with three storage reservoirs: St. Peter, Elgin, and Mount Simon. In 2006, the Commission authorized Northern to increase the certificated capacity of the field to 122 Bcf and the certificated withdrawal capability to 460 million cubic feet per day (MMcf/d).<sup>1</sup> Northern states that Redfield currently contains 151 injection/withdrawal (I/W) wells, 44 observation wells, approximately 60 miles of field lines and a compressor station consisting of four compressor units totaling 7,000 horsepower.

4. Northern asserts that shipper interest in additional storage capacity prompted it to initiate a study to determine if it were possible to add additional storage capacity at Redfield. Northern asserts that the study, conducted by Netherland, Sewell &

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<sup>1</sup> *Northern Natural Gas Company*, 114 FERC ¶ 61,308 (2006).

Associates, Inc. (NSAI), indicated potential additional storage capacity of 10 Bcf. The study also indicated that, without the construction of major facilities, the storage field could initially support 2 Bcf of expansion capacity that could be offered on an interruptible basis.

5. Consequently, Northern proposes to increase the certificated capacity of Redfield by 2.0 Bcf. It also proposes to add an additional 0.102 Bcf of base gas.<sup>2</sup> This would increase the certificated capacity of Redfield from 122 to 124.102 Bcf. Northern proposes no change to the certificated withdrawal rate. Northern requests authority to provide this incremental storage capacity on an interruptible basis for injections in the summer of 2007, pending authorization it has requested separately to construct additional facilities to expand Redfield's certificated capacity by 8.0 Bcf.<sup>3</sup>

6. Northern proposes to make the incremental capacity proposed here available for the two types of interruptible storage service it currently provides pursuant to its tariff. Interruptible deferred delivery service (IDD) is a within-the-month or daily interruptible storage service that is used by shippers to balance their loads. Preferred deferred delivery service (PDD) is a higher priority interruptible storage service available on a year-round basis with many options to the terms of service.

7. Northern estimates that the total capital cost of the auxiliary facilities necessary to utilize the incremental capacity and the base gas will be \$1,898,250. Northern initially requested rolled-in rate treatment for these costs. However, in a subsequent data response, Northern clarified that it views this project as an interim step toward the full 8.0 Bcf expansion proposed in Docket No. CP07-108-000. There Northern

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<sup>2</sup> Northern states that it will install auxiliary facilities pursuant to section 2.55(a) of the Commission's regulations to facilitate cycling the additional gas volumes out of Redfield. The auxiliary facilities consist primarily of plant and field tie-overs and filter separators.

<sup>3</sup> After additional field testing and reservoir analysis, Northern filed an application in Docket No. CP07-108-000 (the 8 Bcf Application) on March 16, 2007, requesting authorization to construct additional facilities to: expand Redfield's certificated capacity by 8.0 Bcf, with an additional 0.551 Bcf of base gas; increase the certificated withdrawal rate to 600 MMcf/d; and enable Northern to provide firm storage services. That application is pending Commission action. The Commission has already issued an order finding that market-based rates would be appropriate for the storage services to be provided by the expansion proposed in the 8 Bcf Application. *See Northern Natural Gas Co., Declaratory Order Authorizing Market-Based Rates*, 117 FERC ¶ 61,191 (2006), *reh'g denied*, 119 FERC ¶ 61,072 (2007).

proposes to convert the 2 Bcf of interruptible capacity proposed in this proceeding into 2 Bcf of firm capacity, in addition to expanding its capacity by another 6 Bcf. Northern states that the incremental capital costs of this project will be accounted for as part of its 8.0 Bcf firm expansion.<sup>4</sup>

### **Notice and Interventions**

8. Notice of Northern's application in Docket No. CP06-461-000 was published in the *Federal Register* on October 11, 2006 (71 Fed. Reg. 59,761). Mid American Energy Company, Madison Gas and Electric Company, Tenaska Marketing Ventures and Tenaska Gas Storage, LLC, Aquila, Inc. d/b/a Aquila Networks, and the Northern Municipal Distributors Group and the Midwest Region Gas Task Force Association (Municipals), filed timely, unopposed motions to intervene.<sup>5</sup>

9. Additionally, the Municipals filed comments with their intervention in which they seek assurance that existing customers will not subsidize the costs of the project now or in the future. The Municipals seek confirmation that, should there be a significant change in circumstances supporting Northern's request for rolled-in rate treatment, they will be allowed to raise those issues in a subsequent section 4 rate proceeding.

10. The Municipals also commented on the market-based rates which Northern would charge for the services related to its 8 Bcf Application.<sup>6</sup> The Municipals state that while they recognize that Northern's instant application does not seek market-based rates for services associated with the additional 2.102 Bcf of capacity subject to this filing, they nonetheless assert that to the extent that Northern makes any filing concerning market-based rates in the future, they reserve the right to protest, and to file comments with respect to such a filing.

11. As noted above, on March 16, 2007, Northern filed a clarification in the instant docket emphasizing that existing shippers would not subsidize the cost of the proposed

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<sup>4</sup> Northern's March 9, 2007 data response at RE-FERC-003; *see also* Northern's March 16 letter clarifying its proposed treatment of costs in this proceeding.

<sup>5</sup> Timely, unopposed motions to intervene are granted by operation of Rule 214 of the Commission's Rules of Practice and Procedure. 18 CFR § 385.214(d) (2005).

<sup>6</sup> As noted above, the Commission has found that market-based rates will be appropriate for services utilizing the expansion facilities proposed in the 8 Bcf Application. *Supra* at n.3. Natural's proposal to charge market-based rates was protested by the Municipals.

2.0 Bcf interruptible expansion and explaining that the expansion proposed here is an interim step toward the pending 8.0 Bcf firm expansion proposal. Northern stresses that the incremental capital costs associated with the 2.0 Bcf interruptible expansion proposed herein will be accounted for as part of the 8.0 Bcf firm expansion.<sup>7</sup>

12. The Municipals filed additional comments on March 28, 2007, in response to Northern's March 16, 2007 filing asserting that, if Northern plans to offer the 2.0 Bcf on an interim basis as PDD and IDD, it should clearly state so. The Municipals further assert that in the event Northern no longer seeks interim authority to provide the IDD and PDD service contemplated in this proceeding, it should withdraw its application, and deal with all relevant issues in the 8 Bcf Application proceeding.

13. In a response to the Municipals April 2, 2007 filing, Northern explains that it filed its letter of clarification "merely to avoid any misunderstandings regarding cost recovery of this project in light of the application for firm storage expansion Northern made in Docket No. CP07-108-000." Northern asserts that it fully intends to provide 2.0 Bcf of interruptible storage service on an interim basis as PDD or IDD, and that the 8 Bcf Application is not intended to supercede its proposal in this proceeding.

### **Discussion**

14. Since the proposed facilities will be used for the storage of natural gas in interstate commerce subject to the jurisdiction of the Commission, the construction and operation of these facilities is subject to the requirements of subsections (c) and (e) of section 7 of the NGA.

### **Certificate Policy Statement**

15. The Certificate Policy Statement provides guidance as to how we will evaluate proposals for certificating new construction.<sup>8</sup> It 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

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<sup>7</sup> Northern will maintain separate accounting records to record the incremental capital costs associated with the facilities and incremental base gas required for the expansion proposed here.

<sup>8</sup> *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).

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.

16. 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.

17. Northern originally proposed to roll in the costs of the 2.0 Bcf expansion capacity. However, in its March 16, 2007 clarification, Northern states that the incremental capital costs associated with the 2.0 Bcf interruptible expansion project will be included in and accounted for as part of its 8.0 Bcf firm expansion proposal. We find that Northern's proposal adequately protects its existing customers, since Northern will ultimately seek recovery of all the costs associated with this expansion from the market-based rate customers of its 8.0 Bcf expansion project. Should that project not go forward, Northern will not be allowed to recover the costs associated with this 2 Bcf expansion from existing customers. Accordingly, pursuant to section 284.504(a) of the Commission's regulations, we will require Northern to separately account for all costs and revenues associated with the facilities used to provide the proposed interim interruptible services. Northern must maintain books with applicable cross-references as required by section 154.309 of the Commission's regulations. This information must be in sufficient detail so that the data can be identified in Statements G, I, and J in any future NGA section 4 or 5 proceeding.

18. Maintaining these separate records will enable the Commission to ensure that existing customers will not subsidize the costs of the interim expansion and will allow interested parties to examine such costs and revenues in any future rate case. Specifically, such records will ensure the parties that Northern will include the \$1.9 million costs associated with the interim 2 Bcf expansion capacity in its market-based rate expansion pending in Docket No. CP07-108-000.

19. Additionally, since the proposed project affects only Northern’s system and will involve only interruptible storage services on an interim basis, there will be no adverse impact on other pipelines or their customers. Finally, since the proposal will not require expansion of existing storage boundaries or additional right-of-way easements, there will be no impact on landowners and communities. Consistent with the Policy Statement, since Northern has demonstrated that the proposal will result in benefits without adverse impacts, the proposal is required by the public convenience and necessity.

**Engineering**

20. Staff reviewed and analyzed Northern’s proposal and data responses and determined that Northern’s proposal to increase certificated capacity at Redfield by 2.102 Bcf is sound, subject to certain conditions. Typically, Commission orders authorizing storage reservoirs certificate maximum reservoir pressures at either the wellhead or the bottom hole location. However, currently, the St. Peter, Elgin and Mt. Simon reservoirs do not have certificated maximum pressures. The NSAI data and staff analysis supports Northern’s proposed capacity increase, and provides a reasonable basis for establishing a maximum bottom hole pressure (BHP) for the reservoirs.<sup>9</sup> The reservoir pressures required to meet the proposed capacity increase to 124.102 Bcf are near or below the historical high pressures recorded for the reservoirs. Therefore, we will authorize the following BHPs and capacity limits for the subject reservoirs:

<u>Reservoir</u>	<u>Maximum BHP (psi)</u>	<u>Maximum Capacity</u>
Elgin	708	withdrawal only
St. Peter	901 <sup>10</sup>	51.1 Bcf
Mt. Simon	1,350	72.9 Bcf

21. These maximum BHPs are equivalent to the reservoir pressures indicated in Figure 2-1 of the March 9, 2007 data response, plus a buffer to allow for a level of operational flexibility, yet are still near or below historical high pressures for the subject

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<sup>9</sup> See Figures 2-1 and 2-2 of Northern’s March 9, 2007 data response.

<sup>10</sup> Equivalent to the maximum BHP recorded on October 22, 2003.

reservoirs.<sup>11</sup> These pressure limitations will ensure that Northern can increase the reservoir capacities while protecting against gas loss to the aquifer.

### **Environment**

22. Northern's proposal qualifies as a categorical exclusion under section 380.4(a)(27) of the Commission's regulations.

23. The Commission on its own motion, received and made a part of the record all evidence, including the application submitted in support of the authorization sought in this proceeding. Upon consideration of this record,

#### **The Commission orders:**

(A) A certificate of public convenience and necessity pursuant to NGA section 7(c) is issued to Northern authorizing it to increase the maximum certificated storage capacity at Redfield by 2.102 Bcf to 124.102 Bcf, as conditioned herein and as more fully described in Northern's application and the body of this order.

(B) Northern shall report to the Commission the dates, BHPs and the capacities present in the Mt. Simon, St. Peter, and Elgin reservoirs when total capacity at Redfield reaches 122.0 Bcf, 123.4 Bcf and 124.102 Bcf during the injection season, as well as during the withdrawal season.

(C) The certificate issued in Ordering Paragraph (A) is conditioned on Northern's:

- (1) implementing the Redfield Storage capacity increase and making the capacity available for service to the facilities described herein within 12 months of the date of the order in this proceeding as required by section 157.20(b) of the Commission's regulations;
- (2) complying with all regulations under the NGA including, but not limited to, paragraphs (a), (c), (e) and (f) of section 157.20 of the Commission's regulations;

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<sup>11</sup> Figure 2-1 provides the reservoir pressure required to meet a capacity of 124.102 Bcf.

- (3) making tariff compliance filings to reflect the increases in IDD and PDD services on an interim basis at Redfield.
- (4) The maximum amount of working gas to be injected into the St. Peter formation shall not exceed 51.1 Bcf. The maximum amount of working gas to be injected into the Mt. Simon formation shall not exceed 72.9 Bcf.
- (5) At no time shall gas be injected into the Elgin formation. The maximum BHP in the Elgin formation shall not exceed 708 psi.
- (6) Northern must separately account for all costs and revenues associated with the facilities used to provide the proposed interim interruptible services.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.