122 FERC 61,061
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.

ANR Pipeline Company | Docket No. CP06-464-001

ORDER DENYING REHEARING

(Issued January 25, 2008)

1. On September 21, 2006, ANR Pipeline Company (ANR Pipeline) filed an application in Docket No. CP06-464-000 under section 7(c) of the Natural Gas Act (NGA) and Part 157 of the Commission's regulations seeking a certificate of public convenience and necessity authorizing ANR Pipeline to develop, construct, and operate the Cold Springs Storage Field (Cold Springs field), an underground natural gas storage field and related facilities, and to acquire a partial interest in jurisdictional lateral facilities owned by ANR Storage Company (ANR Storage) located in Kalkaska County, Michigan. ANR Storage sought authority in Docket No. CP06-463-000 under section 7(b) of the NGA to abandon by sale to ANR Pipeline an ownership interest in the Cold Springs 12 Lateral (Cold Springs Lateral).

2. On May 31, 2007, the Commission found that approval of ANR Pipeline's unopposed proposal is required by the public convenience and necessity.[1] Therefore, the Commission issued ANR Pipeline's requested certificate authorization, subject to certain conditions. On rehearing, ANR Pipeline states that the Commission erred by rejecting its proposal to roll in to ANR Pipeline’s existing fuel tracker and electric power cost recovery mechanism (EPC tracker) the natural gas fuel and electric power compression costs associated with the Cold Springs field.

[1] *ANR Pipeline Company*, 119 FERC ¶ 61,220 (2007) (May 31 Order). The Commission also granted ANR Storage's request for authority to abandon by sale to ANR Pipeline an ownership interest in the Cold Springs Lateral.

A. Background

3. ANR Pipeline currently owns four natural gas storage reservoirs and leases five others in the State of Michigan. The combined working gas capacity of these fields is 116.8 Bcf. Additionally, ANR Pipeline holds approximately 75 Bcf of contract storage capacity with two of its affiliated companies, ANR Storage and Blue Lake Gas Storage Company. Development of the Cold Springs field will increase ANR Pipeline's storage capacity and peak deliverability by approximately 14.7 Bcf and 200 MMcf/day, respectively.

4. The Cold Springs field consists of approximately 810 acres, including 155 acres within the reservoir and approximately 655 acres of buffer area. ANR Storage purchased the Cold Springs reservoir and produced gas from the field between 2004 and 2006, but never developed nor operated the reservoir as a jurisdictional storage facility. ANR Pipeline proposes to construct new facilities required for the conversion of the depleted reservoir to storage services.

B. May 31 Order

5. The May 31 Order approved ANR Pipeline's proposal to drill six new injection/withdrawal wells, convert one well from a production well to an observation well, construct a compressor station consisting of one 7,000 horsepower (hp) electric driven reciprocating compressor, construct a 500-foot pipeline system connecting the wellheads to the proposed compressor station, and construct 700 feet of 20-inch pipe from the Cold Springs Lateral to the Cold Springs field. The estimated cost of the facilities is $77.4 million. The Commission also approved ANR Pipeline's proposed incremental recourse rates under Rate Schedule FSS to provide annual and seasonal storage service on the proposed facilities for seven customers (Project Shippers) who elected to pay negotiated rates. However, the Commission rejected ANR Pipeline's proposals that shippers contracting for the project capacity be assessed ANR Pipeline's general system fuel retention and power costs and that the electric power costs associated with the operation of the new electric compressor be rolled into ANR Pipeline's existing EPC Tracker and that gas fuel costs be rolled into its fuel tracker.

6. The Commission found ANR Pipeline's proposal to charge the Project Shippers the applicable fuel and EPC Charge Adjustments that apply to all shippers under Rate Schedule FSS to be contrary to Commission policy because, to the extent that fuel use on the project facilities exceeds the system charge, existing customers could subsidize the shippers receiving service under the project. Thus, the Commission required ANR Pipeline to ensure the project fuel use costs are the responsibility of only the shippers receiving service under the project and ANR Pipeline, and that no costs attributable to the proposed expansion be charged to existing shippers. The Commission noted that this requirement does not preclude ANR Pipeline from filing a proposal to assess an

appropriate part of fuel costs to system customers to the extent that ANR Pipeline can demonstrate that system customers benefit from the Cold Springs field.[2]

7. The Commission also required ANR Pipeline to delineate separately the actual fuel use and the lost and unaccounted-for fuel (L&U) associated with the project in its annual fuel tracker filing required by section 37 of the GT&C of its tariff, allowing existing shippers to review the costs included in ANR Pipeline's tracker filings to verify that only expansion shippers are assessed fuel costs attributable to expansion service.[3]

C. ANR Pipeline's Request for Rehearing

8. ANR Pipeline states that the Commission erred by rejecting the proposal to roll in to ANR Pipeline's existing fuel and EPC trackers the natural gas fuel and electric power compression costs associated with the Cold Springs field.[4] ANR Pipeline states that the no-subsidies requirement of the *Certificate Policy Statement* does not preclude rolling in fuel costs to operate the Cold Springs field.[5]

9. ANR Pipeline states that the Commission's requirement for ANR Pipeline to separately track and charge the Project Shippers the incremental fuel used by the Cold Springs storage field is based on the *Certificate Policy Statement's* no-subsidies requirement. Under this policy, if the cost of new facilities to provide new service would increase the rates of existing customers if rolled in to system-wide rates, the facilities must be priced incrementally. ANR Pipeline notes, however, that if a project combines an expansion with improvements for existing customers, existing customers' rates can be increased.[6] ANR Pipeline points out that the *Certificate Policy Statement* states that the no-subsidies policy recognizes that existing customers should pay the costs of projects designed to improve their service, improve reliability or provide additional flexibility.[7]

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[2] May 31 Order at P 23.

[3] *Id.*

[4] Limited gas fuel costs may be used in Cold Springs field facilities appurtenant to the electric driven reciprocating compressor.

[5] *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*).

[6] *Citing Certificate Policy Statement*, 90 FERC at 61,392.

[7] *Citing id.* at 61,393.

ANR Pipeline maintains that the Cold Springs project will provide such benefits to its existing shippers.

1. Benefits to Existing Customers

10. ANR Pipeline states that it will operate the Cold Springs storage field as part of its integrated storage complex.[8] ANR Pipeline states that the Commission did not properly take into account the integrated nature of ANR Pipeline's storage facilities and the benefits that will inure to its existing shippers as a result of the new storage field, including additional injection and withdrawal capacity and flexibility available for existing shippers' use, increased availability of interruptible storage service, and benefits to the environment that result from the use of electric as compared to gas compression. Thus, ANR Pipeline argues, even if the cost of the electric compression installed at the Cold Springs field were to be higher than the cost of gas fuel currently used in ANR Pipeline's existing facilities (which ANR Pipeline states is highly unlikely), these benefits to existing customers justify rolling in the cost of electric compression fuel used by this project.

11. Further, ANR Pipeline states that the electric compression unit’s large compressor cylinders require only one electric motor instead of the three smaller engine compressor units that would be required for a gas-fired unit, and that more capacity and withdrawal/injection capability will be available for interruptible or overrun service, with fewer emissions. ANR Pipeline submits that technologies that reduce environmental impacts should be encouraged.

2. Integrated Operation of Storage Field

12. ANR Pipeline states that it would be difficult, inexact and impractical to track the use of fuel separately by function and by individual storage field. ANR Pipeline states that it currently does not separately track the cost of fuel used to inject and withdraw gas for system balancing by individual storage field.[9] ANR Pipeline states that it does not provide storage service for any shipper from a particular storage field. As shipper nominations, system pressures and load flows vary, ANR Pipeline determines which

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[8] *Citing* Application at 9-10.

[9] As part of its fuel tracker filing, to determine the fuel charge applicable to storage service, ANR Pipeline subtracts the fuel used for system balancing by calculating a ratio of (1) injections used for system balancing to (2) total injections, and applying that ratio to actual fuel consumed. The calculated fuel used for system balancing is then charged to transportation customers in ANR Pipeline's Northern rate zone.

storage fields, now including the Cold Springs field, can best be used to obtain optimal performance of the entire storage complex.

13. ANR Pipeline argues that since it operates its fields on an integrated basis to provide system balancing and all of its transportation customers benefit from the use of all of its system storage fields, it would be inconsistent with such operation and unreasonable to isolate the cost of fuel used in one particular field to separately serve its customers. ANR Pipeline states that the Commission has recognized that such usage benefits all of ANR Pipeline's customers.[10] ANR Pipeline states also that a requirement to track fuel separately in the Cold Springs field would also needlessly raise the issue of how, and from which shippers, ANR Pipeline should recover the cost of using the Cold Springs field for system balancing.

14. ANR Pipeline argues that in at least two cases involving the addition of compression to storage fields,[11] the Commission approved rolled-in rate treatment without examining the incremental cost of fuel under the no-subsidies test.[12] ANR Pipeline states that the facts here are consistent with a major purpose of the no-subsidies test in the *Certificate Policy Statement*, which is to send proper price signals to the market and to let that market decide financial viability.[13]

3. <u>Unit Electric Compression Costs Lower Than Unit Fuel Costs</u>

15. ANR Pipeline submitted several analyses comparing the cost of fuel used for electric compression in the Cold Springs field to the gas compression fuel cost of ANR Pipeline's existing facilities. ANR Pipeline estimated the usage of the two fuel sources based on both modeling techniques and actual gas usage, and applied gas futures prices and contractual electric rates to calculate fuel costs. ANR Pipeline also performed sensitivity studies at various gas price levels to determine the break-even gas price points at which electric compression would be less costly. ANR Pipeline states that its analyses

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[10] *Citing ANR Pipeline Co.*, 48 FERC ¶ 61,005, at 61,015-16 (1989); *ANR Pipeline Co.*, 62 FERC ¶ 61,079, at 61,525-26, 61,530 (1993).

[11] *Citing Northern Natural Gas Co.*, 114 FERC ¶ 61,308 (2006) (*Northern*); *Texas Gas Transmission, LLC*, 110 FERC ¶ 61,132 (2005) (*Texas Gas*).

[12] ANR Pipeline notes that the only case cited by the Commission in the May 31 Order regarding incremental fuel costs addressed the incremental fuel cost of electric compression as part of a mainline expansion and did not involve the addition of a storage field to an integrated storage complex. *See Texas Eastern Transmission, L.P.*, 101 FERC ¶ 61,120 (2002).

[13] *Citing Certificate Policy Statement*, 88 FERC ¶ 61,227 at 61,746.

show that the cost of electric compression at the Cold Springs field is within the range of fuel costs at ANR Pipeline's existing facilities at every price point.[14]

16. ANR Pipeline argues that the unit cost of fuel for electric compression in the Cold Springs field will likely be less than the unit cost of fuel used in ANR Pipeline's existing facilities, and that rolling in the fuel costs used by the Cold Springs field will therefore likely reduce the cost of fuel used by existing shippers, and should be approved.

D. Discussion

17. The Commission's *Certificate Policy Statement* states that "a pipeline must be prepared to financially support the project without relying on subsidization from its existing customers. This does not mean that the project sponsor has to bear all the financial risk of the project . . . but it cannot be shifted to existing customers."[15] The Commission is concerned for two reasons that the roll in of the electric compressor costs may cause existing customers to subsidize the new shippers by paying for costs to operate the electric compressor. First, with regard to its claims that existing customers will receive benefits from the integrated operation of the Cold Springs field, there is currently no operational experience on which to rely. We note that the cases cited by ANR Pipeline in support of its argument that the Commission has already recognized the system benefits accruing to all of its customers from its integrated operation of its storage fields[16] involved circumstances including substantial pre-restructuring operational history of all system storage fields both for sales and transportation. Substantial evidence showed that those facilities had been in existence for some time and had been operated by ANR Pipeline to provide various services to all such customers.

18. Here, ANR Pipeline is proposing an incremental expansion and has yet to begin its operation of the Cold Springs field as part of its system. Consequently the advantages to which ANR Pipeline refers – additional injection and withdrawal capacity and flexibility, increased availability of interruptible storage service, and benefits to the environment – may or may not occur with respect to existing customers. The Commission is not persuaded that ANR Pipeline has adequately demonstrated that the addition of the Cold Springs field will provide system-wide benefits that would justify the roll in of electric compressor costs to existing customers. The Cold Springs field is a fully subscribed facility. ANR Pipeline's subscribers to the Cold Springs field agreed to an incremental rate in order to obtain the storage capacity, therefore, the subscribers should also pay the incremental cost to operate the electric compressor to inject and remove the storage gas.

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[14] Request for Rehearing at 15.

[15] *See Certificate Policy Statement*, 88 FERC at p. 61,746.

[16] *See* n. 10, *supra*.

19. Further, ANR Pipeline has not satisfactorily shown that tracking the electricity costs of the electric compressor would create an additional burden sufficient to justify granting ANR Pipeline's request. ANR Pipeline used a contractual electric rate in developing its fuel price projection analyses,[17] which suggests that the electric compressor costs can be tracked. We note also that the *Northern* and *Texas Gas* cases that ANR Pipeline cites to do not involve incremental rates, but instead involved proposals to roll in the costs of the proposed facilities into the companies' current rates. In both cases, the Commission found that the resulting rates did not result in subsidization by existing customers since expansion revenues would exceed the incremental costs of the project -- a showing that ANR Pipeline has not made here with respect to fuel costs. Furthermore, because *Northern* and *Texas Gas* were proposing to roll in the costs of facilities into the existing rates, there was no need for fuel costs to be examined on an incremental basis.

20. The second reason for concern is that ANR Pipeline has not submitted sufficient information to demonstrate that fuel usage costs for existing customers will not rise and thus, that subsidization will not occur. For example, ANR Pipeline's analysis submitted in its request for rehearing stipulates that the unit cost of electric compression at the Cold Springs field will only be cheaper when the system-wide unit cost of gas to operate ANR Pipeline's existing storage facilities is $8.00/Mcf or higher.[18] Given the volatility of natural gas (and electric) prices, the analyses ANR Pipeline submits raise more questions than answers. The Commission's *Certificate Policy Statement* is not meant "to preclude existing shippers from paying a share of expansion costs to the extent that existing shippers benefit from expansion facilities."[19] Thus, ANR Pipeline is not precluded from making a showing in an annual fuel tracker filing regarding the benefits of the Cold Springs electric compressor to existing shippers, and demonstrating that the electric fuel costs associated with the electric compressor should be rolled into the EPC Tracker. At this point, ANR Pipeline's information is speculative and is not sufficient for the Commission to make a finding at this time that the electric cost should be rolled in to system fuel rates.

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[17] Request for Rehearing at 12.

[18] Request for Rehearing at 15 and Exhibit B at Page 1 of 5.

[19] *See Millennium State Pipeline and Empire, Inc.,* 119 FERC ¶ 61,173, at P 29 (2007); *Iroquois Gas Transmission System*, 102 FERC ¶ 61,129, at P 12 (2003) ("Therefore, all parties, whether new or existing shippers, that utilize the Eastchester expansion are required to pay the fuel costs.").

<u>The Commission orders</u>:

ANR Pipeline's rehearing request is denied, as discussed in the body of the order.

By the Commission. Commissioner Wellinghoff concurring with a
separate statement attached.

(S E A L)

Kimberly D. Bose,
Secretary.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

ANR Pipeline Company   Docket No. CP06-464-001

(Issued January 25, 2008)

WELLINGHOFF, Commissioner, concurring:

In its original application in this proceeding, ANR proposed to use its fuel cost tracking mechanisms to collect from both new and existing customers the electric power costs associated with the operation of a new electric compressor included as part of a new storage facility. ANR reasoned that the new storage facility will operate as part of its integrated storage system and provide existing customers increased flexibility. In the underlying order, we rejected ANR's proposal. We found that, to the extent the fuel use on the project facilities exceed the system charge, the existing customers could be subsidizing the project shippers.

In its rehearing request, ANR provides a more detailed explanation with supporting data to justify rolled-in pricing for this project. ANR explains that it does not provide storage service for any shipper from a particular storage field. As shipper nominations, system pressures, and load flows vary, ANR determines which storage fields can best be used to obtain optimal performance of the entire storage complex. Further, ANR states that the electric compressor's large compressor cylinders require only one electric motor instead of three smaller engine compressor units that would be required for a gas-fired unit, and that more capacity and withdrawal/injection capability will be available for interruptible or overrun service, with fewer emissions. ANR submits that technologies that reduce environmental impacts should be encouraged. Finally, on rehearing, ANR submitted several analyses purporting to demonstrate that the fuel cost for electric compression is likely to be less than the average fuel cost of its existing gas-fired compressors.

In today's order, the Commission denies rehearing, stating that there is currently no operational experience on which to rely. Further, the Commission notes that ANR's comparative fuel cost studies raises more questions than answers. However, the Commission points out that ANR is not precluded from raising the issue again in an annual fuel tracker filing, presumably after sufficient operational experience.

As the Commission has previously recognized, pipelines consume tremendous energy to compress gas in order to move it through the interstate system. In our recently issued NOI into pipeline fuel retention practices, the Commission concluded that pipelines' fuel charges now make up a significantly greater percentage of the overall cost of transporting gas. To illustrate that point, the Commission provided a comparison between 2002 and 2006 data showing that the fuel component of the total transportation rate on one pipeline rose from 28 percent in 2002 to 45 percent in 2006.[1]

Particularly in light of such trends, it is important that we wring every ounce of efficiency out of the gas delivery systems. Toward that end, we must look for ways to benefit customers by improving the efficiency of pipeline operations, while maintaining reliability of service. For example, it has been estimated that there are between 10 and 15 gigawatts of energy that could be recovered from our natural gas pipeline system through waste heat recovery at compressor stations and pressure recovery at pressure let down points.

It appears that ANR devoted attention to possible efficiency gains in the design and operation of its new storage facility. I commend ANR for its efforts to date and I encourage ANR to continue to work with its customers to explore ways to economically gain efficiencies, reduce costs and become more competitive and profitable. For example, it may be possible for ANR to schedule injections during off-peak periods and provide a demand response resource to the local electric utility. Corresponding compensation could reduce the level of costs flowed-through to its customers. I am interested in seeing the results of its continuing efforts if ANR returns to the issue of rolled-in pricing in an annual fuel tracker filing.

More generally, I am concerned that we may be missing opportunities and increasing costs when efficiency considerations are addressed on an ad hoc basis. It is worth considering whether efficiency measures can and should be considered at an earlier stage and reviewed in a comprehensive and systematic manner.

For these reasons, I respectfully concur with today's order.

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Jon Wellinghoff
Commissioner

[1] Fuel Retention Practices of Natural Gas Companies, Notice of Inquiry, 72 Fed. Reg. 55762 (October 1, 2007), FERC Stats. & Regs. ¶ 35,556 (2007).