

123 FERC ¶61,319  
FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

June 30, 2008

In Reply Refer To:  
Texas Gas Transmission, LLC  
Docket No. RP08-371-000

Texas Gas Transmission, LLC  
P.O. Box 20008  
Owensboro, KY 42304-0008

Attention: J. Kyle Stephens  
Vice President, Regulatory Affairs and Rates

Reference: Proposed Service under Rate Schedules NNL and SGL

Dear Mr. Stephens:

1. On May 9, 2008, Texas Gas Transmission, LLC (Texas Gas) filed tariff sheets<sup>1</sup> to implement new no-notice transportation services under Rate Schedules NNL and SGL, to be effective on July 1, 2008. The proposed services are operationally similar to Texas Gas' currently effective NNS and SGT no-notice transportation services. However, unlike service under Rate Schedules NNS and SGT, NNL and SGL shippers, not Texas Gas, would own the storage gas withdrawn to balance no-notice transportation deliveries. The Commission accepts the tariff sheets to be effective July 1, 2008, subject to conditions.

2. Texas Gas offers no-notice transportation service under Rate Schedule NNS, and a similar no-notice service for small customers under Rate Schedule SGT. These no-notice services consist of a maximum daily transportation entitlement which the shipper nominates under Rate Schedule FT, plus an unnominated maximum daily storage withdrawal entitlement for adjusting scheduled transportation quantities to peak day delivery requirements. Texas Gas owns the working gas in storage used for its current no-notice service. No-notice shippers replenish their prior winter season storage

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<sup>1</sup> The tariff sheets are listed in the Appendix.

withdrawals primarily during the summer season using a portion of their daily Summer Contract Demand to deliver gas to Texas Gas' storage facilities.

3. NNS customers pay two-part rates consisting of a demand charge and a commodity charge, whereas SGT customers pay one-part volumetric rates. Texas Gas' current rates resulted from an uncontested settlement approved in its last general rate proceeding under section 4 of the Natural Gas Act (2005 Rate Proceeding).<sup>2</sup>

4. Service under proposed Rate Schedules NNL and SGL would be operationally similar to service under Rate Schedules NNS and SGT respectively, except that NNL and SGL shippers, rather than Texas Gas, would own the gas used for unnominated storage withdrawals. Rate Schedule NNL would be available to new shippers and to existing shippers that wish to convert all or part of their NNS service to NNL service. Because SGT service is not available to new customers, SGL service would be available only to SGT shippers converting all or part of their service.

5. A shipper converting to either of the proposed services would purchase a sufficient amount of Texas Gas' storage working gas inventory to satisfy Texas Gas' Unnominated Seasonal Quantity<sup>3</sup> delivery obligation under the conversion contract. An existing shipper is required to give Texas Gas 365 days notice of its intent to convert. Texas Gas and the converting shipper then have 90 days to agree on a purchase price for the storage gas to be used under the conversion contract. If Texas Gas and the converting shipper agree on a price, the conversion would be effective on November 1, immediately after the converting shipper had replenished all storage inventory belonging to Texas Gas that was previously used for no-notice service withdrawals.<sup>4</sup> If a price is not agreed upon, the request to convert is deemed withdrawn.

6. Texas Gas explains that since shippers, not Texas Gas, would own the storage gas used for the proposed services, it derived the NNL and SGL rates by subtracting a cost component embedded in the NNS and SGT rates associated with the carrying costs of Texas Gas' storage working gas used for its existing no-notice services. This cost component is the pretax return on rate base attributed to such working gas volumes.

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<sup>2</sup> *Texas Gas Transmission, LLC*, 115 FERC ¶ 61,092 (2006).

<sup>3</sup> Section 3.14 of proposed Rate Schedules NNL and SGL defines the term "Unnominated Seasonal Quantity" as "the maximum (net) quantity of gas Texas Gas is obligated to deliver to Customer from storage during any Winter Season."

<sup>4</sup> A contract for a non-converting NNL shipper would begin on April 1, rather than November 1, to enable the shipper to inject its own gas into storage prior to the winter season.

7. Public notice of the filing was issued on May 13, 2008. Interventions and protests were due on or before May 21, 2008. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2008)), all timely filed motions to intervene and any 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.

8. Louisville Gas and Electric Company (Louisville), Tennessee Valley Authority (TVA), and Memphis Light, Gas and Water Division (Memphis) filed comments. The Western Tennessee Municipal Group, Jackson Energy Authority, City of Jackson Tennessee, and the Kentucky Cities (together, Cities) filed a request for condition. Texas Gas filed answers in response to the comments. The Commission will accept Texas Gas' answers because Texas Gas clarifies certain issues raised in the comments.

9. Cities are concerned that Texas Gas' rate calculations are based on a significantly understated value of no-notice working gas compared with the current and/or future market value of such volumes, resulting in an understated pretax return allowance to be subtracted from the NNS and SGT rates. Cities assert that the NNL and SGL rates will be too high to be economically appealing to prospective shippers. Cities are concerned that if the new services attract few subscribers, Texas Gas could in the future argue before the Commission that it needs to bolster the attractiveness of the new services by changing the accounting principles by which it determines the book value of its working gas. Cities request that the Commission accept Texas Gas' proposal on the condition that the pipeline will be prohibited from arguing that the value of its working gas should be allowed to float up to market value in order to maintain its NNL/SGL services.

10. Texas Gas responds that the new services will have no impact on the per MMBtu book value of the gas that currently supports NNS and SGT service, and that Texas Gas will continue to value any NNS and SGT gas remaining after an NNL or SGL conversion at historical purchase prices, the accounting method it has used since its implementation of Order No. 581.<sup>5</sup> Texas Gas states that if customers choose not to convert to NNL and SGL services, such services will simply remain unused.

11. The Commission finds that Cities' concern about the possibility of Texas Gas requesting a change in its current gas accounting practice is speculative, and that Texas Gas has provided assurance that the new services will have no impact on the per MMBtu historical value of the gas that supports NNS and SGT service. Therefore, Cities' requested condition is denied.

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<sup>5</sup>*Revisions to Uniform System of Accounts, Forms, Statements, and Reporting Requirements for Natural Gas Companies*, Order No. 581, FERC Stats. and Regs., Regulations Preambles January 1991- June 1996 ¶ 31,026 (1995).

12. Louisville recommends that acceptance of the proposed services be conditioned on Texas Gas not being permitted to require existing customers to convert their no-notice services to service under the new rate schedules. Texas Gas responds that it is committed to offering NNL and SGL services purely on a voluntary basis, as an alternative to NNS and SGT services. The Commission finds that Texas Gas has satisfactorily addressed Louisville's concern, and therefore denies the requested condition.

13. In its comments supporting the proposal, TVA states "that it will give shippers more control over the use of storage for balancing, mirroring TVA's numerous, yet unaddressed, previous requests for third-party swings on storage."<sup>6</sup> Texas Gas reiterates that the storage component of NNL and SGL services will be provided from its own storage facilities, not third-party storage facilities. The Commission notes that the language of Rate Schedules NNL and SGL includes operational parameters only for Texas Gas' storage facilities, not the facilities of third-party storage providers.

14. Memphis does not oppose Texas Gas' proposal, but seeks clarification regarding the requirement in sections 17 and 18 of Rate Schedules SGL and NNL that a customer must withdraw 100 percent of its unominated seasonal quantity before the contract terminates on April 1 of the termination year. Memphis asserts that the ratcheted withdrawal limitations included in both rate schedules may make it difficult for a terminating shipper to withdraw all of its gas by April 1. Memphis requests clarification whether the withdrawal ratchets in sections 12.6 and 11.6 of Rate Schedules NNL and SGL would apply to a terminating shipper.

15. Texas Gas states that the ratcheting provisions are included in its current no-notice rate schedules, and that they are necessary to maintain the operational integrity and reliable deliverability of its storage fields. Texas Gas states that such provisions contain sufficient flexibility to enable shippers to draw down 100 percent of their gas from storage. Therefore, Texas Gas maintains that no revisions to the proposed rate schedules should be required.

16. The Commission clarifies that the withdrawal ratchets in Rate Schedules NNL and SGL will apply to terminating contracts. Such provisions ensure that the integrity and reliability of Texas Gas' storage facilities are maintained for all shippers. Moreover, the same operational justifications support the requirement in Rate Schedules NNL and SGL that a terminating shipper remove all storage quantities by April 1. However, the proposed rate schedules also include a tiered cash-out mechanism under which Texas Gas would purchase any quantities left on the system after April 1. Since shippers could incur penalties under such circumstances, it is necessary that the tariff states how shippers can avoid the penalties.

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<sup>6</sup> TVA Comments at 3.

17. Since withdrawals from storage are not nominated under the proposed rate schedules, it is possible that a shipper needing to withdraw its gas due to contract termination, but not requiring withdrawals for the purpose of no-notice peaking, would have to resort to options other than no-notice service as currently proposed in order to assure full removal of its gas by April 1. Such alternative options should be stated in the rate schedules, so that shippers are clearly informed on how they could avoid cash-out penalties. Therefore, the Commission directs Texas Gas, within 20 days of the date of this order, to file tariff revisions to address this issue, or file an explanation why such revisions are unnecessary.

18. Memphis states that while it does not take exception to Texas Gas' use of an illustrative pretax return to develop initial rates for the proposed services, it requests clarification that in any future rate case to establish NNL and SGL rates prospectively, Texas Gas retains the burden of proof to demonstrate that its rate design methodology is just and reasonable. The Commission clarifies that Texas Gas would be required to meet such burden in a future rate case.

By direction of the Commission.

Kimberly D. Bose,  
Secretary.

## Appendix

Texas Gas Transmission, LLC  
 Tariff Sheets Accepted to Be Effective  
 July 1, 2008, Subject to Conditions

FERC Gas Tariff, Second Revised Volume No. 1

Fourth Revised Sheet No. 1	Original Sheet No. 87M
Seventh Revised Sheet No. 2	Original Sheet No. 87N
Original Sheet No. 20A	First Revised Sheet No. 96
Original Sheet No. 21A	First Revised Sheet No. 162
Seventh Revised Sheet No. 36	First Revised Sheet No. 167
Fifth Revised Sheet No. 36A	First Revised Sheet No. 170
First Revised Sheet No. 36B	First Revised Sheet No. 175
Fourth Revised Sheet No. 37	First Revised Sheet No. 177
Original Sheet No. 74A	First Revised Sheet No. 178
Original Sheet No. 74B	First Revised Sheet No. 193
Original Sheet No. 74C	First Revised Sheet No. 204
Original Sheet No. 74D	First Revised Sheet No. 227A
Original Sheet No. 74E	Second Revised Sheet No. 228
Original Sheet No. 74F	Second Revised Sheet No. 229
Original Sheet No. 74G	Second Revised Sheet No. 230
Original Sheet No. 74H	Second Revised Sheet No. 232
Original Sheet No. 74I	Third Revised Sheet No. 233
Original Sheet No. 74J	Third Revised Sheet No. 240
Original Sheet No. 74K	Second Revised Sheet No. 243
Original Sheet No. 74L	Second Revised Sheet No. 247
Original Sheet No. 74M	First Revised Sheet No. 262
Original Sheet No. 74N	First Revised Sheet No. 263
Original Sheet No. 74O	Second Revised Sheet No. 282
Original Sheet No. 87A	Second Revised Sheet No. 295
Original Sheet No. 87B	Third Revised Sheet No. 404
Original Sheet No. 87C	First Revised Sheet No. 405
Original Sheet No. 87D	Second Revised Sheet No. 406
Original Sheet No. 87E	Sheet Nos. 407 - 416
Original Sheet No. 87F	Second Revised Sheet No. 434
Original Sheet No. 87G	Second Revised Sheet No. 435
Original Sheet No. 87H	Second Revised Sheet No. 436
Original Sheet No. 87I	First Revised Sheet No. 437
Original Sheet No. 87J	Sheet Nos. 438 – 443
Original Sheet No. 87K	
Original Sheet No. 87L	