128 FERC ¶ 61,150
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Transcontinental Gas Pipe Line Company, LLC Docket No. CP08-430-001

ORDER DENYING REHEARING

(Issued August 10, 2009)

1. On February 27, 2009, the Commission issued an order authorizing Transcontinental Gas Pipe Line Company, LLC (Transco) to install an additional compression unit at its existing Eminence Salt Dome Storage Field (Eminence facility) that will provide subscribing customers with enhanced storage injection rights (February 27 Order).[1] The February 27 Order, however, rejected Transco's proposed cost allocation method and required Transco to allocate all costs of the project to a single injection reservation charge. On March 30, 2009, Transco filed a timely request for rehearing of the February 27 Order's rejection of its cost allocation method. For the reasons set forth below, we are denying Transco's request for rehearing.

Background

2. In an application filed June 23, 2008, Transco requested authorization to install a reciprocating compressor unit and related facilities at the Eminence facility to add 44.6 MMcf per day of incremental injection capacity. The purpose of the additional compression is to enable participating Eminence customers to increase their injection and withdrawal cycles from two to six cycles per year. After an open season, nine existing Eminence facility storage customers executed binding precedent agreements for 100 percent of the incremental injection rights under Rate Schedule ESS. Transco stated that the project will not create any additional storage capacity or withdrawal capability.

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[1] *Transcontinental Pipe Line Company, LLC*, 126 FERC ¶ 61,189 (2009) (*Equitable)*.

3. Transco proposed an incremental recourse surcharge, to be applied on top of the existing Rate Schedule ESS rates, to recover the incremental injection service costs. Transco stated that, consistent with the *Equitable* method of storage rate design,[2] it proposed to allocate 50 percent of the incremental fixed costs to deliverability and 50 percent to capacity. The resulting proposed rates were $0.01282 per dekatherms (Dth) per day for the Demand Charge and $0.00128 per Dth per day for the Storage Capacity Charge. All other Rate Schedule ESS charges, including the currently effective ESS Quantity Injected Charge and Quantity Withdrawal Charge, and all surcharges including fuel, if applicable, would apply. Transco stated that if it charges negotiated rates for this service, it will file the amended Rate Schedule ESS service agreements reflecting any negotiated rates at least one day prior to the in-service date of the Eminence Enhancement Project.

4. The Commission found that Transco's proposal to provide for more injection and withdrawal cycles per year will provide subscribing customers with greater flexibility and more effective use of their storage service without any adverse impacts on existing customers, other pipelines, landowners, or communities, and approved the project.

5. The Commission, however, rejected Transco's proposed cost allocation method for calculating the incremental rate for the enhanced injection service. The Commission found that the *Equitable* method of cost classification and cost recovery, which assigns fixed costs equally between deliverability and capacity, was not appropriate for the injection-only service proposed by Transco, citing, among other cases the Commission's order in the *Saltville* proceeding.[3] The Commission noted that, as described by Transco, the sole purpose of the proposed facilities and service is to increase injection capacity, and that increased injection capacity is what Transco marketed and sold. The Commission found that the proposed enhanced injection service would be separately contracted for, and that Transco did not show any direct relationship between contract injection levels and contract deliverability or capacity levels. Moreover, the Commission noted, as a firm service, injection quantities may be separately posted for capacity release. Such releases, the Commission observed, could lead to a further divergence of contract injection quantities from contract deliverability and capacity quantities. To provide for a better match between cost recovery and the stated purpose of these facilities and the manner in which the injection service was marketed and contracted, the Commission required Transco to allocate 100 percent of the incremental fixed injection costs to a single injection reservation charge and to use the injection contract quantities as the billing determinants. The Commission explained that this will eliminate the possible

[2] *See Equitable Gas Company*, 36 FERC ¶ 61,147, at 61,367 (1986).

[3] *Saltville Gas Storage Co. L.L.C.*, 109 FERC ¶ 61,200, at P 17-18 (2004) (*Saltville*)

misallocation of costs among customers and will better facilitate the pricing of capacity release quantities.

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6. Transco states that its proposed cost allocation, following the *Equitable* method, is consistent with the allocation it uses for the underlying Rate Schedule ESS storage service at the Eminence facility. Transco contends that it is not proposing a separate injection service, but instead, is offering its existing storage customers an enhancement of their already existing injection rights associated with their current Rate Schedule ESS service. Transco states that the injection rights created by this project are not intended to be a stand-alone service, and customers cannot contract separately for the enhanced injection rights apart from existing storage service. Transco asserts that the existing injection rights under Rate Schedule ESS are not separately releasable and that the new injection rights created by this project should likewise not be required to be releasable.

7. Transco contends that under its proposal the project customers will continue to pay the currently-effective two-part Rate Schedule ESS rates for their underlying storage service[4] and, in addition, an incremental rate with the same two-part deliverability and capacity components as the underlying rate.[5] Transco contends that its proposed rate design will not result in any misallocation of costs because the revenue responsibility for each project customer would be virtually the same under its proposed rate design or under the rate design required by the Commission in the February 27 Order. Moreover, Transco contends that implementing the one-part injection reservation charge required by the Commission, particularly with respect to the capacity release functionality, will require computer reprogramming, which will add to the cost of the project and delay its in-service date, to the detriment of the project's customers. Transco states that none of the project customers agree with the Commission's requirement that Transco modify its proposed cost allocation.

[4] ESS Shippers currently pay a four-part charge consisting of (1) a maximum daily reservation demand rate of $0.01441 per Dt, (2) a maximum daily reservation Storage Capacity quantity charge of $0.00056 per Dt, (3) a maximum injection charge of $0.02505 per Dt, and (4) a withdrawal charge of $0.02505 per Dt for two cycles per year (Fourth Revised Volume No. 1, Original Sheet No. 22).

[5] The incremental surcharge for the participating Eminence Enhancement Shippers was proposed to be (1) a maximum daily reservation of $0.01282 per Dt per day for the Demand Charge, and (2) a maximum daily reservation $0.00128 per Dt per day for the Storage Capacity Charge (Exhibit P of its application).

Discussion

8. We affirm our conclusion in the February 27 Order that allocating all costs of the project to a single injection reservation rate is more appropriate than assigning costs based on factors that are not related to injection. Under the terms of Rate Schedule ESS and its pro forma service agreement, shippers agree to a storage service with a set of quantified obligations and rights for injections, storage capacity, and withdrawals. Here, Transco is proposing an additional injection service, for which existing ESS shippers will have to separately contract and pay. Transco's proposed service purports to provide only enhanced injection rights; it provides no additional storage capacity or withdrawal rights. Further, under the terms of Transco's Rate Schedule ESS pro forma service agreement, injection quantities are not a derivative of any other quantity – such as storage or withdrawal capacity. The pro forma service agreement provides a separate blank for the parties to enter their agreed-upon maximum injection quantity on any particular day.[6] Thus, we believe it is reasonable that the costs of the incremental injection service be recovered completely through a one-part incremental injection reservation charge.

9. We also affirm our position that the new injection capacity rights must be releasable. The Commission's regulations require that an open-access pipeline such as Transco include in its tariff a mechanism for firm shippers to release firm capacity to the pipeline, and firm shippers must be permitted to release their capacity, in whole or in part, on a permanent or short-term basis without restriction on the terms or conditions of the release.[7] This requirement is reflected in Transco's Rate Schedule ESS, which specifically allows for capacity release under section 1.2. Transco's argument that the enhanced injection rights provided project customers are not subject to partial capacity release is contrary to the rights specifically provided for under section 1.2 of its Rate Schedule ESS and the Commission's regulations.[8]

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[6] Article I of Rate Schedule ESS' form of service agreement, inTransco's Fourth Revised Volume No. 1, Original Sheet No. 572, states:

> To inject into storage a maximum quantity on any day of ___ dt, which quantity shall be Buyer's Storage Injection Quantity, or such greater daily quantity, as applicable from time to time, pursuant to the terms and conditions of Seller's Rate Schedule ESS. [Shaded emphasis added.]

[7] 18 C.F.R. § 284.8 (2009).

[8] *See also Promotion of a More Efficient Capacity Release Market*, Order No. 712, 73 Fed. Reg. 37,058 (June 30, 2008), FERC Stats. & Regs. ¶ 31,271 (2008) at P 153, o*rder on reh'g*, Order No. 712-A, 73 Fed. Reg. 72,692 (December 1, 2008), FERC Stats. & Regs. ¶ 31,284 (2008), *order on reh'g*, Order No. 712-B, 127 FERC ¶ 61,051 (2009).

10. Transco further contends that its computer program – 1Line business system – for calculating billings is not capable of managing the injection rate releases, that programming the 1Line system to handle such releases would delay the in-service date of the new injection services, and that the programming would add to the cost of the project. Our February 27 Order simply requires that Transco employ a one-part incremental charge instead of the more complicated two-part charge proposed by Transco and that Transco use contract billing determinants – a standard feature for reservation charges under both *Equitable* and straight fixed variable rate designs. Transco has provided no explanation why the modification we are requiring to its proposed rate design would require extensive reprogramming of its computer system, nor has it submitted any cost data associated with that modification. In any event, we do not accept the general concept that software programming should control rate design, and Transco has offered no reason for us to allow it to do so here.

11. Transco contends that the Commission's reference in the February 27 Order to the *Saltville* proceeding is misplaced, alleging that *Saltville* permitted customers to contract separately for injection capacity, which is not the case for Rate Schedule ESS. We referred to *Saltville* to emphasize that under some circumstances it may be appropriate to classify costs to reflect distinct service features. That is the situation here. Upon completion of the enhanced injection facilities, Rate Schedule ESS customers will be able to decide which injection service they wish – the standard injection service that permits up to two cycles, or the enhanced injection service add-on that permits up to six cycles. Each Rate Schedule ESS injection service has its own service definition and its own rate.

12. Transco contends that its rate design will not result in misallocation of costs because the Commission's rate allocation method results in the same (except for rounding) shipper revenue responsibility. Transco states that the revenue is the same because all Rate Schedule ESS contracts provide for the same number of days of deliverability. However, the purpose of Transco's enhanced injection service is to increase the number of cycles to six, whereas those shippers with regular injection service can only cycle storage capacity twice. Neither the Eminence facility's capacity nor deliverability will change as the result of the new injection facilities.[9] The Commission found that allocating revenue responsibility utilizing only the two factors that did not change as the result of the changed facilities is not appropriate. The fact that revenue responsibility on a customer basis is not significantly different between Transco's proposed method and the Commission's is not determinative of appropriate rate design. Now that Transco has altered the existing relationship between injection quantities and capacity cycles at the Eminence facility, the traditional service's method of cost allocation should not control how the new injection service's costs should be allocated.

[9] Transco's application at 3.

13. The fact that no shipper objects to Transco's proposed rate design is not determinative. All the shippers that are contracting for injection service using the new facilities will do so under negotiated rates to which they have already agreed.[10] Those rates will not be affected by the initial open-access recourse rates to be established in this proceeding.

The Commission orders:

Transco's request for rehearing is denied.

By the Commission.

Kimberly D. Bose,
Secretary.

[10] *See* Exhibit A in each of the precedent agreements in Exhibit I of Transco's application, wherein the project shippers agreed to rates higher than Transco's proposed initial rates.