

130 FERC ¶ 61,137
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

February 25, 2010

In Reply Refer To:
Southern LNG, Inc.
Docket No. RP10-304-000

Southern LNG, Inc.
569 Brookwood Village, Suite 501
P.O. Box 2563
Birmingham, Alabama 35202

Attention: Patricia S. Francis, Senior Counsel

Reference: Proposed Revisions to Gross Heating Value Specifications

Dear Ms. Francis:

1. On January 11, 2010, Southern LNG, Inc (Southern LNG) filed a tariff sheet¹ to amend section 3.4 of the General Terms and Conditions (GT&C) in its FERC Gas Tariff. Southern LNG asserts that the purpose of the proposed tariff sheet is to provide clarification of Southern LNG's policy regarding the blending of liquefied natural gas (LNG) at its Elba Island facilities. The Commission accepts the referenced tariff sheet, effective March 1, 2010, as proposed, subject to conditions discussed within this order.
2. In its filing, Southern LNG proposes to grant waivers of its gross heating value (GHV) specifications for incoming cargos of LNG, as long as those cargos meet the GHV specification based on a blending calculation. Southern LNG asserts that the blending calculation takes into account estimated cargo volumes, storage inventory, projected heat content of the LNG in storage and being shipped, and ship arrival dates. Southern LNG also contends that if LNG cargos do not meet the GHV specifications according to its blending calculation, and projected GHV values are higher than the

¹ Second Revised Sheet No. 43 to FERC Gas Tariff, Original Volume No. 1.

specification set forth in section 3.1 of its tariff, send-out nominations may be limited and only parts of LNG cargos may be accepted.

3. Specifically, Southern LNG proposes to add the following language to section 3.4 of its GT&C:

Notwithstanding the above, Southern LNG agrees to grant a waiver of the GHV specification set forth above in section 3.1(a) for cargos of LNG which heating value, when blended with the total projected LNG inventory stored in the tanks at Elba Island at the anticipated time of ship unloading, will achieve a gross heating value of not more than the GHV specification based on a blending calculation. Such blending calculation performed by Southern LNG will take into account estimated cargo volumes, storage inventory, projected heat content of the LNG in storage and being shipped and ship arrival dates. Any deviations or changes in the estimated data points used in the blending calculation which result in a blended LNG with GHV higher than the GHV specification set forth in Section 3.1(a) above, may result in partial acceptance of the cargo and/or limitation of send-out nominations from the Delivery Point until such time that the actual LNG volumes when blended achieve the GHV specification. Customer agrees to assist Southern LNG in updating the blending calculation by providing Southern LNG with the necessary information to arrive at the blending calculation and with any changes from the estimated values up to and through the time the cargo commences deliveries. Notwithstanding the above, nothing contained herein will limit any Customer's right to bring in cargos of LNG that meet the GHV specification without blending or obligate any Customer to in any way alter their shipping schedule, unloading schedule, or send-out schedule to accommodate blending of out-of-spec cargos and all cargos will continue to be scheduled pursuant to section 5 of Rate Schedules LNG-1 and LNG-3 of Southern LNG's Tariff.

4. Public notice of the filing was issued on January 14, 2010. Interventions and protests were due on or before January 25, 2010. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2009)), 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 this proceeding or place additional burdens on existing parties. SCANA Energy Marketing, Inc. (SCANA), South Carolina Electric and Gas Company (SCE&G), Southern Company Services, Inc. (SCS), and Carolina Gas Transmission Corporation (CGT) filed adverse comments in this proceeding.

5. On February 4, 2010, Southern LNG filed an answer to the protests. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2009), prohibits an answer to a protest unless otherwise ordered by the

decisional authority. The Commission will accept Southern LNG's answer because it has provided information that assisted us in our decision-making process.

6. In general, the commenters argue that Southern LNG's proposed revisions lack specificity and do not provide sufficient information for others to fully understand the ramifications of the tariff revisions. Both SCANA and SCE&G object to Southern LNG's limitation of total send-out nominations. They claim that it would be unfair to penalize all of Southern LNG's customers because one importer's gas does not meet its GHV requirements. Instead, they argue that the limitation on send-out nominations should only apply to the specific entity importing the offending LNG cargo. SCANA and SCE&G suggest adding "from such offending cargo" to Southern LNG's proposed tariff amendment to read as follows:

Any deviations or changes in the estimated data points used in the blending calculation which result in a blended LNG with GHV higher than the GHV specification set forth in section 3.1(a) above, may result in partial acceptance of the cargo and/or limitation of send-out nominations *from such offending cargo* from the Delivery Point until such time that the actual LNG volumes when blended achieve the GHV specification.

7. SCS argues that language should be added to make it clear that if a waiver of the GHV specifications is granted, the resulting blend must comply not only with the GHV specifications but also with the other gas quality specifications of section 3 of Southern LNG's GT&C. For this purpose, SCS proposes the following additions to the first sentence of the new tariff language proposed by Southern LNG:

Notwithstanding the above, Southern LNG agrees to grant a waiver of the GHV specification set forth above in section 3.1(a) for cargos of LNG which heating value, when blended with the total projected LNG inventory stored in the tanks at Elba Island at the anticipated time of ship unloading, will *(i)* achieve a gross heating value of not more than the GHV specification based on a blending calculation *and (ii) conform to all of the other specifications provided for in this section 3.*

SCS asserts that it discussed this language with counsel for Southern LNG and is authorized to state that Southern LNG does not oppose the addition of this clarifying language.

8. In addition, SCANA, SCE&G and SCS are concerned that the proposed waiver might extend to the GHV specifications for send-out nominations. They object to any new provisions that would not require send-outs to meet the gas quality specifications currently in Southern LNG's tariff. They propose adding the following language to the revised tariff sheet: "All send-out from Elba Island shall meet the GHV specification.",

and also request that the send-outs be required to meet all of Southern LNG's current gas quality specifications.

9. Finally, all commenters, SCANA, SCE&G, SCS, and CGT maintain that Southern LNG has not provided enough information about how the blending process or the blending calculation will work and request that Southern LNG be required to provide specific information about the mechanics of the blending calculation. CGT also reserved its right to submit comments on any supplemental information submitted by Southern LNG in response to the protests and comments.

10. In its answer, Southern LNG states the purpose of its proposed tariff revision is to address a waiver of GHV for LNG to be received at the Elba Island Terminal in the event that the GHV specification of vaporized LNG delivered from the terminal could be met using a blending calculation based on: a) the estimated cargo volumes; b) storage inventory; c) projected heat content of the LNG in storage; and d) projected heat content of the LNG being shipped; and e) the ship arrival dates. Southern LNG argues that such detailed information is more comprehensive and detailed than Southern LNG's broad right which exists today to grant or deny a waiver under the terms of section 3.4 of its GT&C consistent with the Commission Order issued in Docket No. CP99-578-002, *et al.* in this matter.² Southern LNG asserts that in that order the Commission found that Southern LNG should have the right to grant or deny any waivers, or place conditions on waivers, regarding the acceptance of out-of-specification cargos that could be blended, but that Southern LNG must exercise this discretion on a non-discriminatory basis.³ Moreover, Southern LNG notes that none of the entities directly affected by the proposed changes submitted comments on them.

11. Nevertheless, Southern LNG states that it will modify its initial proposal to provide clarity as suggested by SCANA and SCE&G. Southern LNG proposes the following modification:

Any deviations or changes in the estimated data points used in the blending calculation which result in a blended LNG with GHV higher than the GHV specification set forth in section 3.1(a) above, may result in partial acceptance of the cargo and/or limitation of send-out nominations ***from the cargo causing the deviations or changes from the GHV specification*** from the Delivery Point until such time that the actual LNG volumes when blended achieve the GHV specification.

² See *Southern LNG, Inc.*, 94 FERC ¶ 61,188 (2001); See also *Southern LNG, Inc.*, 96 FERC ¶ 61,083 (2001).

³ *Id.*

Southern LNG further states that it will also accept the amendment to section 3.4 proposed by the SCANA: “All send-out from Elba Island shall meet the GHV specification.” Finally, Southern LNG states that it will accept the addition of the phrase “and (ii) conform to all of the other specifications provided for in this section 3” to section 3.4 suggested by SCS. Southern LNG believes that these modifications will address the concerns expressed by the parties.

12. With regard to the commenters’ request for information about the exact method of the blending calculation, Southern LNG states that although it lists the factors that would go into the blending calculation, the blending calculation itself is a complex algorithm that will vary greatly on a case by case basis and thus should not be included in its tariff. Southern LNG also argues that as long as it insures that the overall send-out will meet the GHV specification in the tariff (as well as the other Southern LNG quality specifications); the precise formula of how such a calculation is derived for each specific cargo is irrelevant.

13. Southern LNG further argues that in the past with respect to other tariff provisions, the Commission has accepted “guidelines” or “standards” that are flexible to anticipate particular operating conditions as being adequate to allow action by the transmission provider rather than requiring rigid standards.⁴ Southern LNG asserts the factors listed in its proposed amendment comply with the Commission’s test set forth in Order No. 637 because they are objective standards based on Southern LNG’s “reasonable expectation of potential operating conditions.”⁵

14. The Commission accepts the proposed tariff sheet, subject to the condition that Southern LNG file a revised tariff sheet including the revisions agreed to by Southern LNG in its answer. Specifically, Southern LNG agreed to modify its proposed tariff language to ensure that: 1) the limitation on send-out nominations shall apply only to the specific entity importing the offending cargo; 2) All send-out from Elba Island will meet

⁴ See *Regulation of Short-Term Natural Gas Transportation Services and Regulation of Interstate Natural Gas Transportation Services*, Order No. 637, FERC Stats. & Regs. ¶ 31,091, *clarified*, Order No. 637-A, FERC Stats. & Regs. ¶ 31,099, *reh’g denied*, Order No. 637-B, 92 FERC ¶ 61,062 (2000), *aff’d in part and remanded in part sub nom. Interstate Natural Gas Ass’n of America v. FERC*, 285 F.3d 18 (D.C. Cir. 2002), *order on remand*, 101 FERC ¶ 61,127 (2002), *order on reh’g*, 106 FERC ¶ 61,088 (2004), *aff’d sub nom. American Gas Ass’n v. FERC*, 428 F.3d 255 (D.C. Cir. 2005). (Order No. 637-A).

⁵ *Order No. 637-A*, FERC Stats & Regs. ¶ 31,099 at P. 160 (2000).

the GHV specification; and 3) all gas leaving the Elba Island Terminal will be blended so that the vaporized, blended gas complies with all Southern LNG's gas quality standards and specifications. These changes are essentially those requested by the commenters and thus should address their concerns.

15. The Commission notes that with the exception of CGT, none of the commenting parties are direct customers of Southern LNG nor are they directly connected to Southern LNG. The majority of the commenters state that they are firm transportation customers of Southern Natural Gas Company (Southern). Southern has its own existing tariff gas quality specifications for receipts and deliveries on its system with which it must comply. The protection afforded by these standards should further allay commenters' concerns.

16. The Commission also finds that Southern LNG's proposal to list in its tariff the factors that will go into the blending calculation is just and reasonable, and thus we deny protesters' request that Southern LNG place further specific information regarding the mechanics of its blending calculation in its tariff. As noted by Southern LNG, the blending calculation is a complex algorithm that will vary on a case-by-case basis. Given that the tariff provisions approved in this order will require that Southern LNG ensure that the overall send-out will meet the GHV specification in the tariff, as well as the other Southern LNG tariff gas quality specifications, we find no reason to require Southern LNG to place the blending formula in its tariff.

17. Therefore, the Commission will accept Southern LNG's proposed tariff sheet, to be effective on March 1, 2010, as proposed, subject to Southern LNG filing a revised tariff sheet within 15 days of the issuance of this order to reflect the changes discussed above.

By direction of the Commission.

Kimberly D. Bose,
Secretary.