

132 FERC ¶ 61,199
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

Gulf South Pipeline Company, LP

Docket No. RP10-465-000

ORDER FOLLOWING TECHNICAL CONFERENCE

(Issued August 31, 2010)

1. On May 27, 2010, the Commission convened a technical conference to address issues raised in the captioned docket related to tariff sheets modifying the definition of pools on Gulf South Pipeline Company, LP, (Gulf South). The Commission had previously on March 31, 2010, accepted, and suspended for five months, these tariff sheets subject to conditions.¹ As discussed below, based upon the Commission's review of the comments filed in this proceeding, the Commission finds that the tariff sheets containing Gulf South's pooling proposal are just and reasonable.

Background

2. On March 2, 2010, Gulf South filed revised tariff sheets to modify the pooling provisions set forth in its Rate Schedule PS and certain other tariff sections. Gulf South stated that it has eleven pooling areas on its "Legacy System."² Of import here, Pooling Area 7 is located in the north part of Gulf South's system, in Northwest Louisiana, and is the largest pool on Gulf South's system based on gas volumes transported.

¹ *Gulf South Pipeline Co., LP*, 130 FERC ¶ 61,272 (2010) (March 31 Order).

² Gulf South states that the Legacy System includes its historical reticulated pipeline, but does not include certain expansion facilities delineated in section 1 of its General Terms and Conditions (GT&C).

3. Gulf South stated that it is experiencing capacity constraints in Pooling Area 7, at the Hall Summit compressor station, due to increased production in the Haynesville Shale production areas.³ According to Gulf South, this constraint exists because shippers desire to transport more gas through the Hall Summit Compressor Station than can be physically accommodated because of the increased gas production west of the Hall Summit area. Gulf South asserted that between January 2008 and January 2010, gas supplies on the west side of Hall Summit grew from nine percent of the total receipts in current Pooling Area 7 to 65 percent of the total receipts and that it expects this trend to continue.

4. In order to rectify the difficulties in scheduling gas from Pooling Area 7 caused by this constraint, Gulf South proposed to split its existing Pooling Area 7, at the point of the constraint in the Hall Summit area, into two pooling areas that would then be delineated as Pooling Area 7 and Pooling Area 20. Gulf South contended that the use of two pools would better reflect how it operates its system and that it would resolve scheduling problems by placing the constraints on the boundaries of the pooling area instead of in the middle of the pool.

5. Gulf South stated that its proposal was consistent with Commission policies that permit such changes to pooling areas to address operational concerns like system constraints.⁴ It contended that the proposal was also consistent with statements the Commission issued pursuant to Gulf South's original pooling proposal indicating that the Commission would permit Gulf South to revisit its pooling, if after actual operating experience, problems with the location and/or the number of pooling points arose.⁵

6. Several protesters raised numerous concerns with Gulf South's March 2, 2010 filing. In the March 31 Order, the Commission summarized the concerns stating that generally, the protesters argued that:

Gulf South has failed to meet its burden of proof to show that its proposed changes to its pooling provisions are just and reasonable

³ Gulf South states that the Haynesville Shale production area is located in the western portion of Pooling Area 7, and the Hall Summit compressor station is located in the middle of Pooling Area 7, just southeast of the Haynesville Shale production area.

⁴ March 31 Order 130 FERC ¶ 61,272 at P 4 (citing Gulf South Transmittal Letter at 3, citing *El Paso Natural Gas Co.*, 99 FERC ¶ 61,244 (2002)).

⁵ March 31 Order 130 FERC ¶ 61, 272 at P 4, (citing Gulf South Transmittal at 4, citing *Koch Gateway Pipeline Co.*, 75 FERC ¶ 61,283, at 61,906 (1996)).

and not unduly discriminatory. They contend the support Gulf South provides for its proposal consists mostly of generalities that are inadequate to prove that dividing an existing pooling area into two smaller pooling areas is the correct course of action to address the system constraints that Gulf South discusses.⁶

7. The Commission determined, based upon its review of the filings and the protests, that it could not find that Gulf South had shown that the proposed tariff sheets were just and reasonable. Therefore, the Commission accepted the proposed tariff sheets and suspended their effectiveness until September 1, 2010, subject to the outcome of a technical conference, wherein the operational and technical issues raised by the proposal could be examined by the Commission and the parties.⁷

⁶ March 31 Order 130 FERC ¶ 61, 272 at P 7. Specifically, the Commission stated that:

Protesters raised several specific concerns with regard to Gulf South's pooling proposal. In general, protestors asserted that Gulf South failed to: (1) explain why increased flow through Hall Summit would require, from an operational perspective, the bifurcation of an existing pooling area; (2) address the negative impacts its proposal would have on shippers; (3) provide adequate information regarding the long-term gas flows in the existing Pooling Area No. 7, or whether the constraint in question is likely to be a long-term phenomenon; (4) explain what effects its proposal to install additional compression at Hall Summit would have on its pooling proposal; (5) take into account new pipeline capacity being built in the North Louisiana area; (6) discuss the effect its proposal would have on supply diversity; (7) show the effect its proposal would have on the scheduling rights of firm shippers; (8) explain how the creation of Pooling Area 20 would bring greater simplicity, transparency, and efficiency to its pooling service; and (9) estimate the lead time that shippers would need to implement its proposal. Protesters also expressed concerns that the proposal would reduce market liquidity and customer supply options.

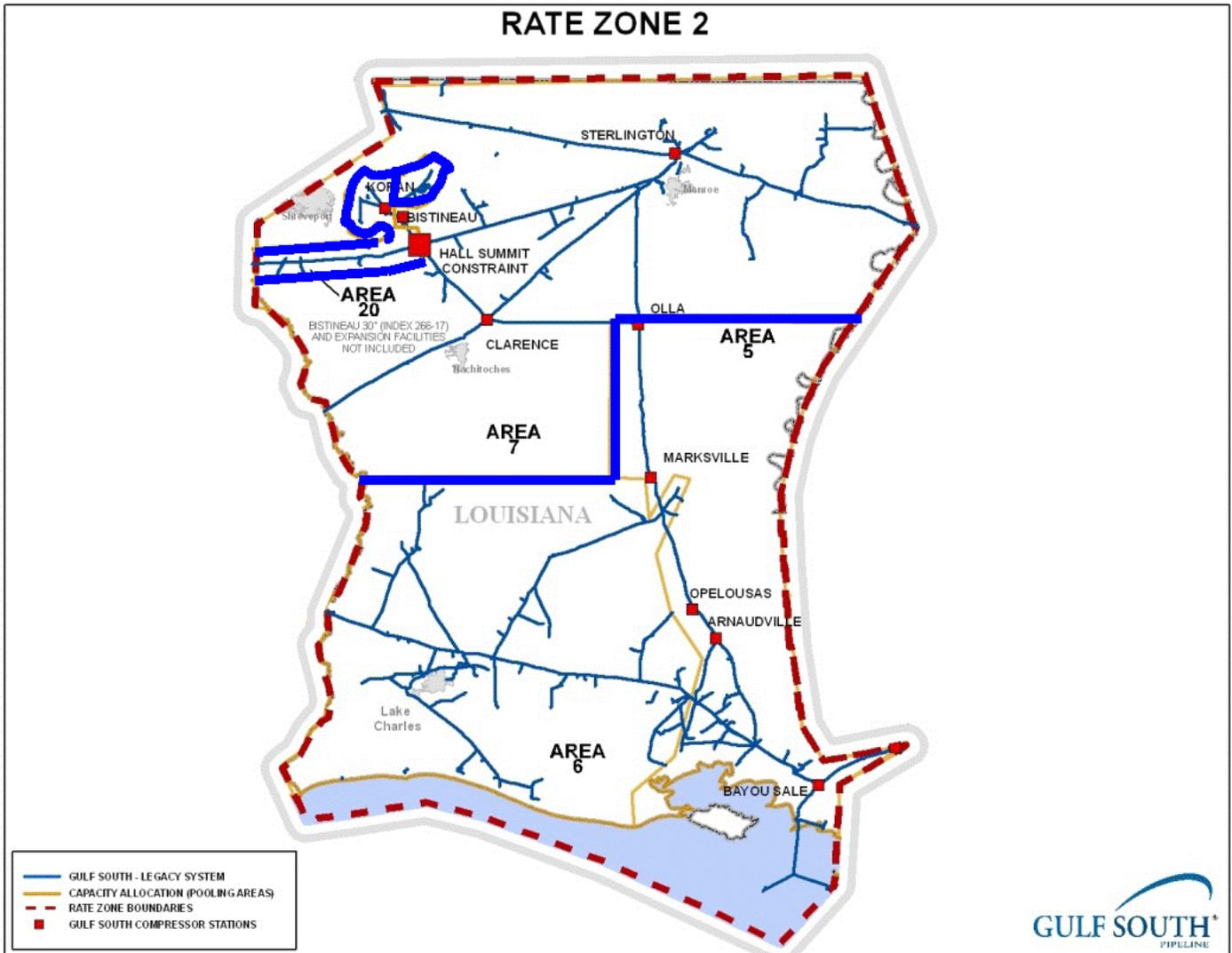
⁷ March 31 Order 130 FERC ¶ 61, 272 at P 14-15.

8. On May 27, 2010 the technical conference directed by the Commission was held and the participants discussed Gulf South's filing. At the conclusion of the technical conference, a comment schedule was adopted in which initial comments were due by June 21, 2010, and reply comments were due July 6, 2010.

Pooling and Scheduling on Gulf South

9. Pooling Area 7 is contained within a much larger Rate Zone (Rate Zone 2). Rate Zone 2 includes two other pooling areas: Area 5 and Area 6. After Pooling Area 7 is split into Pooling Area 7 and Pooling Area 20, both proposed pooling areas will have significantly greater volumes than any other pooling area on the Legacy System. In addition, each pooling area will have more than 400 percent of the volumes that were in current Pooling Area 7 three years ago.⁸ The following shows the relationship between the pooling areas (with Area 20) and Rate Zone 2 (the heavy lines delineate Pooling Area 7).

⁸ Gulf South Initial Comments at p.14; Gulf South Technical Conference at Slide 22.



10. Under Gulf South’s Rate Schedule PS, gas can be pooled from any receipt point within the Pooling Area. Section 4(b) of Rate Schedule PS provides that: “to the extent that a firm transportation Customer nominates receipts from a pool at a level equal to or less than its area receipt point MDQ, then those nominations for scheduling purposes shall be deemed to be primary nominations.” When a shipper nominates gas out of the pool, the priority of that nomination, therefore, is based on the shipper’s point rights anywhere within the pool. Thus, if a shipper has a primary receipt point within the Pooling Area, any gas nominated out of the pool will have primary point rights. On the other hand, if the shipper’s primary receipt point is outside of the pool (in Pooling Areas 5, 6, or 20), then the nomination out of the pool is considered secondary or supplemental.

11. Gulf South schedules service pursuant to section 11 of its GT&C. Under section 11, firm primary to primary service has the highest priority, firm primary to

secondary (or firm secondary to primary) is second in priority, firm secondary to secondary has tertiary priority, and interruptible has quaternary priority. When the constraint occurs at a pool boundary, Gulf South can simply apply the section 11 priorities to schedule service.

12. However, when a constraint occurs within a pool, such as with Hall Summit, Gulf South states it must employ an additional set of scheduling procedures under section 4(c) of Rate Schedule PS using gas rankings to determine the gas that is scheduled through the pool:

If a capacity constraint should arise in the pooling area, capacity shall be scheduled under this Rate Schedule as follows: Pooling nominations that are serving a firm shipper(s) that has primary firm MDQ at receipt point(s) in the constrained area, will be scheduled as primary firm receipts up to the firm shipper(s) MDQ at the receipt point(s) in the constrained area. *Gulf South shall use the Customer Rankings provided by the Pooling Customer, pursuant to Section 2 (d) herein, to determine the priority of the remaining service to the pool. To the extent reductions are necessary, they will be made in accordance with Section 2 (e) and Section 11 of the General Terms and Conditions herein.* Nothing in this section shall affect the scheduling priorities of Customers not using this PS Rate Schedule. (emphasis added).

Rankings refer to information provided both by shippers and pooler to the pipeline designed to manage reductions in supply.⁹ A producer will rank the shippers to whom it is selling gas, thereby telling the pipeline which shipper should not receive gas in the event that it is unable to provide sufficient gas for all shippers buying from the producer. For example, if the producer does not produce the scheduled quantity of gas, the ranking will tell the pipeline which shipper should be cut. Similarly, a buyer will provide a ranking of its suppliers in the event that it suffers a reduction in quantity.

⁹ 18 C.F.R. § 284.12(a)(1)(ii) (2010) Nomination Related Standards 1.3.23 (Pipelines “should use service requester provided rankings when making reductions during the scheduling process when this does not conflict with tariff-based rules”).

Initial Comments

13. Gulf South, BP America Production Company and BP Energy Company (collectively, BP), Shell Energy North America (US), Inc. (Shell), and the Joint Protestors¹⁰ filed initial and reply comments.¹¹

14. In its Initial Comments, Gulf South first sets forth the legal standards set forth by the Commission for the modification of pooling areas. First, Gulf South points out, as a general matter the Commission and courts have long recognized that the Natural Gas Act (NGA) “gives the pipeline the primary initiative to propose the rates, terms, and conditions for its services under NGA section 4.”¹² Gulf South asserts that consequently, “[i]f the rates, terms, and conditions proposed by the pipeline are just and reasonable, the Commission must accept them, regardless of whether other rates, terms, and conditions may be just and reasonable.”¹³

15. Secondly, Gulf South asserts that its actions are consistent with Commission policy as espoused in *El Paso* which permits pipelines to change pooling areas for operational reasons, such as to address capacity constraints.¹⁴ In addition, Gulf South submits that in its original approval of the pooling methodology for the Gulf South system, the Commission acknowledged that the initial pooling areas may need to be adjusted based on changed operating conditions.¹⁵ Gulf South also asserts that that

¹⁰ The Joint Protestors are Chesapeake Energy Marketing, Inc., QEP Energy Co., and the North Louisiana Shippers which consist of Texla Energy Management, Inc., and Petrohawk Energy Corp.

¹¹ On May 27, 2010 and June 1, 2010, respectively, Gulf South and the Joint Protestors filed material related to their presentations at the technical conference.

¹² Gulf South Initial Comments at 2 (citing *Columbia Gas Transmission LLC*, 131 FERC ¶ 61,193, at P 21 (2010)) (citing *Consolidated Edison Co. v. FERC*, 165 F.3d 992, 998, 1002-4 (D.C. Cir. 1999)). See also *Eastern Shore Natural Gas Company*, 114 FERC ¶ 61,011, at P 8 (2006).

¹³ *Id.*

¹⁴ Gulf South Initial Comments at 2 citing *El Paso Natural Gas Co.*, 99 FERC ¶ 61,244 at 62,016 (2002) (*El Paso*)).

¹⁵ Gulf South Initial Comments at 3(citing *Koch Gateway Pipeline Co.*, 75 FERC ¶ 61,283, at 61,906 (1996)).

Commission policy acknowledges that “pipeline operators need reasonable discretion to manage their systems and [the Commission has] generally deferred to a pipeline’s expertise as an operator.”¹⁶ Gulf South argues that it has demonstrated based on its knowledge of its system and operational experience, that its proposed tariff sheets are just and reasonable and should be approved.

16. Next Gulf South addresses the constraint on its system. Gulf South argues that its proposal is needed to manage an unprecedented increase in natural gas volumes flowing into Pooling Area 7 from the Haynesville Shale production area. According to Gulf South, between May 1, 2007, and April 1, 2010, gas receipts in Pooling Area 7 increased from 2 Bcf per month to 24 Bcf per month. Gulf South states this 12-fold growth has resulted in regular capacity constraints at the Hall Summit compressor station. It asserts that Hall Summit’s capacity of 430,000 Dth per day is not sufficient to accommodate all the volumes shippers want to transport from west to east through the Hall Summit compressor station.

17. Gulf South asserts that the Hall Summit constraint will likely persist into the future, because of the high volumes of gas passing through Pooling Area 7 as a result of the Haynesville Shale production area. Gulf South explains that 60 percent of receipts in Pooling Area 7 are currently on the west side of Hall Summit (as compared to only 12 percent of receipts in May 2007) which will result in large volumes of gas having to pass through the constraint at Hall Summit. It also asserts the favorable physical characteristics and attractive transportation rates of its Legacy System will likely cause ongoing constraints at Hall Summit, despite the availability of new takeaway capacity from the Haynesville Shale. Gulf South explains that its Legacy System operates at a relatively low pressure compared to the new, high-pressure lines. This allows easier access to the Legacy System for those producers lacking the pressure to deliver into the new pipelines. In addition, Gulf South states that the 100 percent load factor rates for service on the Legacy System are lower than comparable rates for newly-built pipeline capacity. Gulf South asserts that such conditions will likely result in continued high usage of the Legacy System to transport gas from the Haynesville Shale, despite the addition of new pipeline capacity. Therefore, Gulf South submits, the Hall Summit constraint will likely persist and Gulf South is acting prudently to modify its pooling boundaries.

18. Gulf South next turns to describe scheduling issues that arise as a result of the constraint. Gulf South asserts that when a constraint occurs on its system, Gulf South is

¹⁶ Gulf South Initial Comments at 3(citing *Rockies Express Pipeline LLC*, 124 FERC ¶ 61,215, at P 19 (2008)).

forced to “schedule down” pooling nominations.¹⁷ According to Gulf South, since January 2009, it had to schedule down pooling nominations in Pooling Area 7 on more than 200 days, which means the Hall Summit constraint has affected pooling operations on about 39 percent of all days during that period. In May 2010, the most recent month for which Gulf South has data, Gulf South states it had to schedule down on nearly 20 percent of the days to address the constraint, and added that it came close to having to schedule down nominations on four other days. Gulf South explains that, during times of constraint at Hall Summit, it is usually required to schedule down firm secondary service and firm supplemental firm service, as well as interruptible service.¹⁸

19. According to Gulf South, when a constraint occurs at the boundary of a pool, Gulf South schedules pooling gas in a straightforward manner pursuant to section 11 of its GT&C. However, when a constraint occurs within a pool, such as with Hall Summit, Gulf South states it must employ an additional set of scheduling procedures under section 4(c) of Rate Schedule PS to determine the gas that is scheduled through the pool. Gulf South asserts that this scheduling process is more complicated, involving the use of “customer rankings” by producers or pooling shippers to determine service priorities, and also introduces a level of uncertainty as to whether shippers will get their gas.

20. Finally, Gulf South delineates benefits that it asserts would result from implementing its pooling proposal. First, the process used to address a Hall Summit constraint will be simplified. Gulf South contends this will provide more shippers with certainty as to whether their gas will be scheduled to move to the pool, and will give a clearer indication of what priority of service their gas will have when it leaves the pool. Gulf South asserts this will reduce administrative burdens and make its system more marketable, because the new simplicity will make the pooling service more accessible and attractive to shippers. Gulf South states its proposal would also level the playing field for shippers by not giving pooling shippers more rights than shippers conducting

¹⁷ Gulf South states that “scheduling down” is the term Gulf South and shippers use to connote the allocation of pooling nominations due to a constraint in the pool.

¹⁸ Under Gulf South’s GT&C, firm secondary service is the scheduling priority for service under firm agreements where one point is a point other than a primary point and the other point is a primary point. Firm supplemental service is the scheduling priority for service under firm agreements where either (1) both points are points that are not primary, (2) both points are primary points without available quantities, or (3) one point is not a primary point and the other is a primary point without available quantities.

point-to-point physical transactions.¹⁹ Gulf South notes its proposal would not change any scheduling provisions set forth in its tariff, and should not raise any issues regarding liquidity since, even when separated, both proposed pooling areas will have significantly greater volumes than any other pooling area on the Legacy System.

21. In its Initial Comments, BP supports Gulf South's proposal. BP contends that because shippers on Gulf South's system rely heavily on pooling, impediments to pooling need to be eliminated. BP notes that the Commission has previously reasoned that pool boundaries should be located at a constraint.²⁰ Further, BP notes that pool boundaries on Gulf South are already based on the constraints that existed when the pools were established (as compared to the new constraint that has emerged at Hall Summit). BP asserts that Gulf South mentioned its practice in establishing the boundary of Pooling Area 5 and existing Pooling Area 7 at the Olla compressor station to reflect the capacity constraint at that location. BP asserts that in its March 2 filing Gulf South noted its:

practice of developing pooling areas based upon locating constraints at the boundaries, rather than in the middle of pooling areas, ensures that, generally, from a scheduling perspective, there should be very few capacity constraints between the physical receipt point and the paper pooling point. This design makes pooling areas manageable both for Gulf South and its customers. [Gulf South's March 2 filing, p. 2]

BP argues that the constraint that has emerged at Hall Summit requires a similar approach of locating the Pooling Area boundary at the constraint location. BP also asserts that because of the Hall Summit constraint, Gulf South has had to rely on a complicated ranking of pooling and takeaway contracts in order to schedule service in Pooling Area 7.

22. BP asserts that a key feature of a pool is that the pipeline can readily aggregate supplies from anywhere within the pool, but it asserts that this could not happen if there

¹⁹ Gulf South states an unintended consequence of the rapid growth of Pooling Area 7 is that it provides greater rights to pooling shippers as a result of the aggregation of two groupings of gas (i.e., gas west of the Hall Summit constraint and gas east of the constraint) within a single pool that are not equivalent since they are separated physically by an operational constraint.

²⁰ BP Initial Comments at PP3-4 (citing *Northwest Pipeline Co.*, 80 FERC ¶ 61,361, at 62,239, *rehearing denied on other issues*, 81 FERC ¶ 61,361 (1997) (*Northwest*)).

are constraints in the pool. BP states that the complex scheduling process required by pooling constraints on Gulf South's system undermines the feasibility, transparency, and simplicity that are the hallmark of pooling. BP argues that Gulf South has correctly proposed to resolve this situation by splitting Pool Area 7 into two pooling areas (new Pooling Area 7 which would be upstream of Hall Summit, and Pooling Area 20, which would be downstream of Hall Summit).

23. The Joint Protestors argue that Gulf South bears the burden of proving that its proposal to reconfigure Pooling Area 7 is just and reasonable and not unduly discriminatory. They argue that Gulf South must show that its changes are required by operational changes on its system, are consistent with the Commission's policy of promoting highly liquid and flexible markets through pooling and flexible points for shippers, and that the proposed change will fairly and reasonably treat shippers and suppliers, many of whom they claim have relied on the existing system in structuring their long-term contracts and operations.²¹ The Joint Protestors argue that because Gulf South's argument is based on its claim that the proposed changes are being undertaken to benefit shippers, it must prove that its shippers will actually benefit.

24. The Joint Protestors argue that changing the pooling areas on a pipeline is a major structural decision having significant impacts on shippers that can only be justified by long-term operational conditions on the pipeline²² and that Gulf South has not shown that there is a lasting operational constraint at the Hall Summit compressor station. The Joint Protestors contend that the constraint at Hall Summit is transient and that it was already in steep decline in early 2010, and effectively disappeared by mid-March 2010. The Joint Protestors argue that since March 15, 2010, Gulf South has scheduled down deliveries at Hall Summit on only four days, and on two of those days, additional gas was nominated into Gulf South because of temporary maintenance outages on a Shell/Encana gathering system.

25. Further, the Joint Protestors assert that Gulf South has not shown (1) when the Hall Summit constraint would likely reoccur, or (2) how long it can be expected to last, because drilling in the Haynesville Shale is down significantly due to low natural gas prices. The Joint Protestors add that more than 5.5 Bcf per day of new Haynesville Shale take-away capacity is now planned or in construction and due to come online later this

²¹ Joint Protestors Filing at p.4 (citing *El Paso Natural Gas Co.*, 99 FERC ¶ 61,244, at 62,016 (2002) (*El Paso*)).

²² Joint Protestors Filing at p.9 (citing *El Paso* 99 FERC at 62,016).

year or in 2011.²³ They state this is above the 1.4 Bcf per day of new Haynesville takeaway capacity that went into service in February and March of 2010.

26. The Joint Protestors assert that Gulf South's argument that shippers will continue to favor the Legacy System because of the low rates and operating pressures is speculative. They assert that when the Haynesville Shale was first developed, producers did not view Gulf south's Legacy System as a major source of takeaway capacity, and used new pipeline projects to move gas to the markets. They argue that the pressure issues producers once faced with their Haynesville gas have now been resolved with the array of choices afforded by Haynesville gathering infrastructure.

27. The Joint Protestors also assert that Gulf South's proposal would harm existing firm shippers, and will lead to adverse operational and financial consequences for these shippers. They state that if Gulf South is allowed to create a new Pooling Area 20, such action would immediately result in lower scheduling priority and increased costs for many existing firm shippers and transactions. This would also adversely impact flexible point rights for firm shippers with primary receipts on one side of the Hall Summit compressor station who want to pick up receipts from the other side and still flow primary FT from the pool to their primary delivery point. It would also require some shippers to pay pool-to-pool transfer charges between the divided pooling areas while, at present, movement from anywhere within the single pooling area to the pool is free.²⁴ The Joint Protestors assert that, for these reasons, Gulf South's proposal would result in many firm shippers receiving degraded service at higher rates.

28. The Joint Protestors state that section 4(b) of Rate Schedule PS provides that: "To the extent that a firm transportation Customer nominates receipts from a pool at a level equal to or less than its area receipt point MDQ, then those nominations for scheduling purposes shall be deemed to be primary nominations." The Joint Protestors assert that this provision ensures that a shipper may access gas supplies at primary receipt points and the corresponding pooling point on an equal basis, without any loss in scheduling priority. They contend that this provision offers flexibility to producers, aggregators, and shippers. They argue, however, that under the proposal, shippers will not have access to the entire pool, and will have their primary firm rights degraded should they try to access

²³ The Joint Protestors include on Appendix B of its initial comments a list of pipeline projects that would affect the Haynesville Shale.

²⁴ Under section 5 of Gulf South's Rate Schedule PS, shippers transporting gas from one pool to another will pay the applicable transportation charges, plus fuel, based on the underlying service.

certain receipt points they now have access to under primary firm rights. They also argue that since a shipper could not balance receipts among the total existing pooling points, the shipper loses balancing flexibility.

29. Finally, the Joint Protestors assert that the rules for the operation of the pooling areas are delineated in Gulf South's tariff and well-known to shippers and producers that use Pooling Area 7. They assert that there is no real complexity in the scheduling down process because all shippers are well-aware of the rules and much of the process is automated. They also assert that all shippers are currently playing on a level field since they all operate under the same tariff and have access to Gulf South's electronic communications. The Joint Shippers argue that pooling shippers that do not want their gas scheduled down in the event of a Hall Summit constraint have options to decrease or eliminate the likelihood of this happening, and can adjust their appetite for risk accordingly. Lastly, the Joint Protestors assert that Gulf South's proposal lacks shipper support, since the proposal is opposed by shippers with firm contracts representing the majority of the supply upstream of the Hall Summit compressor station and a majority of firm capacity in Pooling Area 7.

30. In its Initial Comments, Shell argues that Gulf South's pooling proposal would impose a condition of service that would inhibit pooling, contrary to Commission policy.²⁵ Moreover, it asserts that the proposal will place impediments into the competitive and liquid gas market that currently exists in the Pooling Area. Shell argues that the Commission should not permit Gulf South to impose restrictions on the abilities of a shipper/pooler to use all receipt points that are currently included in Pooling Area 7.

31. Shell argues that under the currently effective Pooling Area 7, poolers and shippers with primary receipt point rights in Pooling Area 7 have access to all supply within Pooling Area 7 on a primary basis, even when the Pooling Area becomes constrained and, therefore, the shipper may aggregate supplies from various points both

²⁵ Shell Initial Comments at p. 3, (citing *Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation; and Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol*, Order No. 636, FERC Stats. & Regs., Regulations Preambles January 1991 - June 1996 ¶ 30,939, at 30,428; Order No. 636-B, 61 FERC ¶ 61,272, at 62,012 (1992) (prohibiting pipelines from implementing rates or terms and conditions of service that will inhibit pooling)). See also *Transcontinental Gas Pipe Line Corp.*, 86 FERC ¶ 61,175, at 61,613 (1999) (favoring pooling because it creates a more competitive and liquid gas market) and *Kern River Gas Transmission Co.*, 98 FERC ¶ 61,079, at 61,240 (2002) (pooling allows for allows for the aggregation of supplies from multiple receipt points).

upstream and downstream of the Hall Summit Compressor Station without risking a lower scheduling priority or incurring any additional transportation charges. Shell argues the Gulf South's proposal eliminates these benefits for shippers and poolers with primary receipt point rights in Pooling Area 7.

32. Shell maintains that if Pooling Area 7 is bifurcated, shippers on either side of the Hall Summit Compressor Station will lose the option to aggregate supplies from the downstream or upstream side of the Hall Summit Compressor Station. Shell argues that this reduces shipper flexibility. Shell asserts that the pooling proposal eliminates the benefit regarding scheduling priority that a Pooling Area 7 customer currently has when there are constraints on the Gulf South system.

33. Shell argues that under the proposal, a shipper in one new Pooling Area would be required to incur transportation charges to move gas from one new Pooling Area to the other new Pooling Area. Thus, a shipper would be required to pay additional charges for what is currently provided at no additional cost. Shell argues that this violates the Commission's prohibition on charging twice for pooling.²⁶ Finally, Shell argues that under the currently effective Pooling Area 7, all shippers are treated equally, and no shipper in Pooling Area 7 has pathing rights. However, if the proposal were to be accepted, shippers with primary points upstream of the Hall Summit Compressor Station would be granted secondary priority path rights through any constraint that might arise at the Hall Summit Compressor Station. This would occur as a result of the shippers with primary receipt point rights downstream of the Hall Summit Compressor Station being placed in a different pool from those shippers upstream of Hall Summit. Thus, the proposal would unduly discriminate against those shippers with primary receipt point rights downstream of the Hall Summit Compressor Station because it would not provide those shippers with pathing rights through the constraint.

Reply Comments

34. In its Reply Comments, Gulf South argues the protestors have misstated the legal standard that applies to a pipeline's proposal to change the boundaries of a pooling area. Gulf South asserts that the Joint Protestors cite *El Paso* for the proposition that a pipeline may change a pooling area boundary only where daily *pro rata* allocations of nominations are chronic and are likely to continue unabated. Gulf South argues that, instead, the Commission held in *El Paso* that a pipeline is permitted to modify the

²⁶ Shell Initial Comments at p.6 (citing *Transcontinental Gas Pipe Line Corp.*, 127 FERC ¶ 61,206, at P 23 (2009)).

boundaries of its pooling areas upon a “showing of operational need.”²⁷ Gulf South states that the Commission in *El Paso* did not require the pipeline to show that the constraint would “continue unabated,” but instead approved the proposal because the pipeline showed that the constraint and associated *pro rata* allocations “may be likely to continue.”²⁸

35. Gulf South asserts that it has shown the existence of a recurring capacity constraint at Hall Summit and that it has “scheduled down” pooling nominations in current Pooling Area 7 almost 40 percent of the time since January 2009.²⁹ Gulf South also argues that it has shown that this constraint is “likely to continue” as the Haynesville Shale continues to develop. Gulf South argues that, therefore, its proposal meets the legal standard set forth in *El Paso*.

36. Gulf South argues that the protestors’ reliance on *NorAm*³⁰ and *Kern River* fails to provide a legal basis to deny Gulf South’s proposal. Gulf South argues that in both of these cases, the Commission denied a pipeline’s proposal to change a pooling areas because the pipeline presented no operational evidence for support of its proposal. Therefore, Gulf South asserts that these cases stand only for the proposition that the Commission will not approve a change to a pipeline’s pools absent operational evidence supporting the change. Gulf South argues that it has set forth substantial record evidence demonstrating a sufficient operational rationale for its proposal.

37. Gulf South also points out that Shell’s reliance on *Kern River* does not support Shell’s argument that Gulf South’s proposal inhibits pooling.³¹ Gulf South asserts that the Commission made no such broad holding in *Kern River*, but instead rejected the pipeline’s proposed pools because they “lack[ed] the criteria necessary for the aggregation of gas from multiple receipt points into a pool,” and would eliminate “all of the benefits of aggregating supplies from multiple receipt points.”³² Gulf South argues

²⁷ Gulf South Reply Comments at p.4 (citing *El Paso*, 99 FERC at 61,016).

²⁸ Gulf South Reply Comments at p.5, (citing *El Paso*, 99 FERC at 61,016).

²⁹ Gulf South Reply Comments at p.5 (citing Gulf South Technical Conference Presentation at Slide 25).

³⁰ *Nor Am Gas Transmission Co.*, 85 FERC ¶ 61,039 (1998) (*Nor Am*).

³¹ Gulf South Reply Comments at p.7 (citing Shell Initial Comments at p.3).

³² Gulf South Reply Comments at p.7 (citing *Kern River*, 98 FERC at 61,240).

that its proposal simply divides a pool whose volumes have grown so large that it has developed a capacity constraint within the existing pool. Gulf South asserts that its proposal does not “lack the criteria for aggregation” of gas from multiple receipt points into a pool because pooling customers in revised Pooling Area 7 and new Pooling Area 20 will continue to have the right to aggregate their gas in the smaller, more manageable pools. Gulf South argues that under its proposal, the Hall Summit constraint will no longer cause scheduling uncertainty for pooling customers and its proposal will not eliminate “all of the benefits of aggregating supplies.” Gulf South argues that its proposal will tie those aggregation rights to pools whose boundaries correspond to the operations on Gulf South’s system. Moreover, Gulf South points out that even after splitting Pooling Area 7, Pooling Areas 7 and 20 will still be the two largest pools on the Gulf South Legacy System in terms of volume, which means the pools will remain highly liquid and customers will retain substantial aggregation rights.

38. Gulf South asserts that the protestors have ignored the changed operational circumstances in Pooling Area 7 that will cause the Hall Summit constraint to persist because despite the addition of new takeaway capacity, the constraint at Hall Summit has not “disappeared” as predicted by the Protestors. Since March 24, 2010, Gulf South asserts that it has had to “schedule down” pooling nominations on seven different days.

39. Moreover, Gulf South asserts that the Hall Summit constraint is likely to persist because the overall pooling volumes in Pooling Area 7 have increased by a factor of 12 over the past three years due to the continued development of the Haynesville Shale. Gulf South asserts that these increased volumes mean that Hall Summit is continuously constrained or on the verge of a constraint. Gulf South states that the Hall Summit constraint can reappear when nominations of gas moving east from the Texas shale plays increase and/or when nominations from the Haynesville Shale increase. These increases can be caused by a variety of reasons, including market conditions, operational issues on other pipelines, the price of natural gas, and drilling requirements of the producers.

40. Gulf South expresses concerns that the Joint Protestors diminish the role that the Legacy System plays in transporting gas away from the Haynesville Shale when it called the system a stop-gap. Gulf South maintains that many shippers continue to use the system for take-away capacity from Haynesville Shale despite other available options – including certain of the protestors in this proceeding. Gulf South adds that when capacity is not available on other pipelines in the region, shippers often use its Legacy System and it is reasonable to anticipate that this will occur into the future and that its system will need to be managed accordingly. Gulf South adds that its low costs, lost operating pressures, and direct access to Henry Hub, markets, and other pipelines will provide shippers with incentive for continued use of its Legacy System. Gulf South asserts that it is attempting to manage a capacity constraint that now regularly exists at Hall Summit and that the Joint Protestors’ assertion that there should be adequate capacity in place in 18 months to handle the increased Haynesville Shale production brings little comfort to

Gulf South's current customers. Gulf South argues that it prudent to take steps now to manage a regularly recurring constraint for the benefit of all of its customers.³³

41. Gulf South argues that its proposal will result in no material harm to existing customers on the Gulf South system. It notes that in their Reply Comments, the Joint Protestors claim that the proposal will "eliminate customer choices."³⁴ However, Gulf South states that the Joint Protestors fail to acknowledge that this proposal will not change any of the established scheduling rules and flexible point rights under Gulf South's tariff.

42. Gulf South contends that the Joint Protestors also ignore the fact that many of their concerns will be mitigated when NAESB Version 1.9 is implemented this fall. According to Gulf South, once scheduled through a constraint, Standard 1.3.80 will allow a shipper to redirect scheduled quantities to other receipt points upstream of that constraint or delivery points downstream of that constraint on an intraday basis. Thus, even if a shipper has a lower scheduling priority (e.g., firm secondary or firm supplemental), if the shipper has already been scheduled through a constraint, that shipper can move its receipt and delivery points and the gas will not be considered a new nomination.

43. Further, Gulf South asserts that its proposal is not intended to produce additional revenue. Gulf South states that, while the Commission has authorized Gulf South to charge a transportation rate for pool-to-pool transfers, shippers rarely use this option, due to the fact that a shipper can transport directly from the pool or a physical receipt point to the desired delivery point. Gulf South adds that since pooling is a voluntary service, no

³³ Gulf South states that the Joint Protestors do not represent a majority of the firm service with primary receipts in Pooling Area 7. According to Gulf South, the Joint Protestors hold less than 14 percent of the primary firm receipt capacity (and if Shell, the other protestor, is included, only 20 percent), and only half of the Joint Protestors currently hold primary firm receipt capacity in Pooling Area 7. Gulf South adds that only three of the 29 different firm capacity holders with primary receipt rights in Pooling Area 7 are protestors. Gulf South points out that BP, a supporter of its proposal, holds almost 10 percent of the primary firm receipts in current Pooling Area 7. As a result, Gulf South notes that about 80 percent of the firm customers with primary receipt capacity in Pooling Area 7 either support or do not oppose its proposal, and that none of the local distribution customers that hold firm capacity in the area protested the filing.

³⁴ Gulf South Reply Comments at p.7 (citing Joint Protestors Initial Comments at p.24).

shipper is required to use the pooling service or conduct pool-to-pool transfers. Gulf South maintains that the purpose of the proposal is to manage its scheduling issues involving the pooling constraints, and not generate additional revenues. Moreover, Gulf South asserts that Shell has misread *Transco* because this case does not prevent a pipeline from amending pooling boundaries or charging for pool-to-pool transfers. Instead, Transco bars pipelines from charging a customer twice to use the same pool.

44. Gulf South points out that because of the rapid growth of Pooling Area 7 customers in that pool receive greater rights than those conducting point-to-point transactions because of the aggregation of constrained gas and unconstrained gas within a single pool. Gulf South asserts that by aggregating all gas into one pool, constrained gas was artificially made to be equivalent to unconstrained gas. Gulf South asserts that the flexibility of Gulf South's pooling service allows pooling customers the right to access all gas in a pool as though they are operationally the same, but point-to-point customers cannot. As a result, Pooling Area 7 pooling customers gain an unintended scheduling advantage over point-to-point customers. Gulf South states that its proposal will restore the balance between customers that utilize the pools and customers that nominate on a physical point-to-point basis.

45. Gulf South states that it has demonstrated the complexity and opacity that section 4(c) of the PS Rate Schedule introduces into the pooling scheduling process and it maintains that only by appropriately aligning the pooling areas with actual system operations can Gulf South resolve these issues. Gulf South argues that once pools are properly aligned, with constraints located on the boundary of such pools, section 4(c) will be triggered far less frequently and the complexity will be reduced. Moreover, Gulf South argues that its proposal increases scheduling transparency and reduces scheduling uncertainty because it lessens the scheduling problems and the use of section 4(c). Customers' priorities of service will then be based on the more easily determinable, transparent priorities set forth in the take away transportation contracts. As a result, the proposal will minimize the day-to-day uncertainty that currently exists in the scheduling of Pooling Area 7. Gulf South states that if its pools are less complex and more transparent, more customers will be able to utilize pooling service in a predictable and effective manner.

46. In its Reply Comments, BP maintains that removing the constraint from within a pool will facilitate more pooling. BP also explains that the Joint Protestors' objections to the pool division relates primarily to their concerns that the zone split will mean that a firm shipper with a primary receipt point and gas supplies in Pooling Area 7 that are both upstream of Hall Summit will have a higher scheduling priority than a firm shipper with gas supplies upstream of Hall Summit but a primary receipt point that is downstream of Hall Summit but within the pool. BP contends that this priority is justified for the upstream shipper since that shipper has a primary receipt/delivery point combination that encompasses the Hall Summit constraint with gas flowing east through the constraint.

BP states that the latter shipper will still be able to flow gas through the constraint, but only as firm supplemental.

47. In their Reply Comments, the Joint Protestors maintain their position that Gulf South's proposal should be rejected since Gulf South has not proved that there is a lasting constraint at Hall Summit. The Joint Protestors argue that the fact that nominations through the Hall Summit Compressor Station were scheduled down in the past does not prove there is an ongoing constraint at Hall Summit today that can reasonably be expected to continue into the future. Moreover, they argue that Gulf South has not proven whether and for how long nominations through the Hall Summit Compressor Station will need to be "scheduled down" in the future, let alone that such constraints will occur on a persistent basis. The Joint Protestors argue that if the Hall Summit constraint were to recur, experience shows that it would again be transient, and would again disappear as soon as the next increment of new Haynesville primary firm take-away capacity came online.

48. Secondly, the Joint Protestors argue that the pooling proposal would result in significant harm to shippers in existing Pooling Area 7. They assert that this harm would result from the loss of primary nomination rights for certain transactions involving the bifurcated pool and the accompanying increase in rates for pool-to-pool transactions that incur no charges under Gulf South's existing tariff and pool structure. The Joint Protestors argue that Gulf South makes an unsubstantiated claim that the shift in boundaries for Pooling Area 7 "will level the playing field" by correcting an unintended consequence of the rapid growth of Pooling Area 7 that provides greater rights to those using pools than those conducting point-to-point transactions. But they argue that Gulf South does not explain these greater rights.

49. The Joint Protestors argue that this proposal will not reduce complexity, as Gulf South asserts, since shippers still need to submit buy/sell rankings and all tariff procedures would remain unchanged. They also dismiss Gulf South's contention that no harm will result from its proposal since both new pools will be so large. The Joint Protestors assert that they made long-term contracting decisions based on the single pool's existence. The Joint Protestors include with their Reply Comments an exhibit showing days when Gulf South had to schedule down gas in Hall Summit nominated in the timely nomination cycle, with data ranging from January 1, 2010, through July 7, 2010.

50. In its Reply Comments, Shell explains that the existence of a constraint at Hall Summit is not an operational justification for the pooling proposal since the pooling proposal would not eliminate the constraint, and that Gulf South's explicitly stated that its proposal would not resolve the Hall Summit constraint. It also asserts that the proposal would not resolve the scheduling complexity problem that Gulf South discusses because there have been no tariff changes to the scheduling procedures. It continues that if Gulf

South's scheduling procedures were so complex that it needed to be remedied, it would have provided evidence that shippers have experienced problems with scheduling and the ranking system, which it has not done. It also counters BP's argument that the proposal is justified because shippers with primary receipt points upstream of Hall Summit purchased capacity through the Hall Summit constraint, arguing that Gulf South does not have pathing rights on its Legacy System. On the contrary, Shell contends that if the proposal is approved, it would give shippers with primary receipt point rights upstream of Hall Summit preferential pathing rights that no other shippers on the Legacy System have.

Discussion

51. The Commission finds that Gulf South has provided sufficient justification for redefining its Pooling Area 7 and finds, therefore, that its proposal, as set forth in its March 2, 2010 filing, is just and reasonable.

52. Pooling refers to the aggregation of gas from multiple physical and/or logical points to a single physical or logical point.³⁵ The advantage of pooling to both shippers and producers is that pooling permits a producer to aggregate gas from receipt points that have similar characteristics to a single pool and then sell to customers out of the pool. This allows the customer to submit a single nomination to the producer's pool for the gas it requires rather than having to submit individual nominations to particular receipt points within the production area. Pooling, therefore, eliminates the need for a shipper to nominate different amounts of gas from individual receipt points. Under the Commission regulations, pooling points also can be used to transfer gas title.³⁶

53. For a pool to work efficiently, the receipt points feeding the pool need to be operationally similar, so that there is no scheduling difference between scheduling gas from a particular receipt point and scheduling the gas from the pool. In a pool without constraints, a pipeline is operationally indifferent to the source of gas, as well as scheduling priority, because all gas can reach the pool and the pipeline has no reason to prioritize gas from different receipt points. While the Commission prefers that pools be as large as possible to permit the most efficient nomination and scheduling, the Commission recognizes that to be effective pooling must accommodate the operational

³⁵ 18 C.F.R. § 284.12(a)(1)(ii) (2010) Nomination Related Standards 1.2.3.

³⁶ 18 C.F.R. § 284.12(a)(1)(ii) (2010), Nomination Related Standards 1.3.64 ("the Transportation Service Providers (TSP) should be responsible for accommodating Title Transfer Tracking (TTT) services at all points identified by the TSP as pooling points, where TTT services are requested").

limitations of the system. Pooling is not intended to provide transportation across operational constraints.³⁷

54. The Commission's determination in *El Paso* recognizes the need for pools to reflect operational considerations. *El Paso* proposed to change the number of pools on its system by replacing the two existing San Juan pools (Bondad and Blanco) with four pools (Bondad Station, Bondad Mainline, Blanco, and Rio Vista). The existing Anadarko pool would be replaced with three pools and the three Permian basin pools would be replaced with thirteen pools.³⁸ *El Paso* stated that its proposal "to move from six to twenty pools is an attempt to achieve a compromise between service reliability and liquidity, preserving some of each."

55. In examining *El Paso*'s proposal, the Commission stated that "[o]nce physical pools are established, the Commission has determined that a showing of operational need is necessary prior to allowing modification to pooling areas."³⁹ Based upon this principle, the Commission found sufficient evidence to support *El Paso*'s proposal to increase the number of physical pools in the San Juan Basin from two to four. The Commission relied upon data showing constraints in the current San Juan pools and stated that "[i]t appears that if specific receipt rights are not assigned at the four proposed San Juan pools, daily pro-rata allocations of nominations may be likely to continue."⁴⁰ The Commission did, however, find insufficient operational evidence to more than triple the Permian and Anadarko pools from four to fourteen. The Commission stated that even the pipeline conceded that no pro-rata allocations had been needed for the Permian pool over the past winter.⁴¹ Indeed, in the Commission's order accepting the existing configuration of Gulf South's (then named Koch Gateway Pipeline Company) pools, the Commission

³⁷ See *Northwest Pipeline Co.*, 80 FERC ¶ 61,361 (1997) ("poolers nominating from non-associated receipt points should not have, in effect, free transportation across the system").

³⁸ *El Paso*, 99 FERC at 62,014.

³⁹ *Id.* at 62,016, (citing *NorAm*, 85 FERC at 61,118 (finding little evidence that new pools were needed for operational purposes), *reh'g denied*, 86 FERC ¶ 61,162 (1999)).

⁴⁰ *Id.*

⁴¹ *Id.*

recognized that changes to these pools might be needed in light of operational experience.⁴²

56. We find that Gulf South has included sufficient evidence to justify the division of a single pool, particularly when even after the establishment of Pooling Area 20, Pooling Area 7 and 20 will still be the two largest pools on the Gulf South Legacy System in terms of volume.⁴³

57. Gulf South has produced sufficient evidence showing the existence of an ongoing constraint at Hall Summit. Gulf South includes an Exhibit B in its Reply Comments providing data on every day it had to schedule down nominations through Hall Summit from April 21, 2009, through May 27, 2010. The table provides, for each day nominations were scheduled down (cut due to a constraint), a total gas volume that was scheduled down, and a breakdown of the transportation service for the gas -- discounted interruptible (IT), maximum rate IT, firm supplemental, firm secondary, and primary

⁴² *Koch Gateway Pipeline Company*, 75 FERC ¶ 61,283 at 61,906 (1996) (because the pipeline would propose “a new service, it is premature to determine precisely the most favorable location of the pooling points or to assess the future cost impact to Koch's customers. Therefore, if after actual operating experience, Koch or its customers experience problems with the location and/or the number of the pooling points, the Commission may revisit the issue in response to an appropriate filing.”). The Commission approved the current pooling system in *Koch Gateway Pipeline Co.*, 76 FERC ¶ 61,342 (1996), *order accepting tariff sheets subject to conditions*, 78 FERC ¶ 61,100 (1997), *order on reh'g and clarification*, 79 FERC ¶ 61,444 (1997). Subsequently, a modification of Gulf South's Pooling Area 7 was accepted by the Commission to reflect operating conditions. The Commission stated:

On October 2, 1996, Koch Gateway Pipeline Company (Koch) filed a tariff sheet to modify slightly the location of existing boundaries of the pooling areas on Koch's Pooling Area map to reflect actual operating conditions. Three pooling areas are affected by the change. Pooling Area 8 will reflect the inclusion of segments 211 and 212, which are currently displayed in Pooling Area 7. Also, the Olla compressor station will be a component of Pooling Area 5, instead of Pooling Area 7.

Koch Gateway Pipeline Co., 77 FERC ¶ 61,104, at 61,975 (1996).

⁴³ Gulf South Initial Comments at 4; Gulf South Technical Conference Presentation at Slide 22.

firm.⁴⁴ Gulf South has shown that since January 2009, it had to schedule down pooling nominations in Pooling Area 7 on more than 200 days, or approximately 40 percent of the time. Gulf South asserts that in May 2010, it had to schedule down on nearly 20 percent of the days to address the Hall Summit constraint. Since March 24, 2010 Gulf South has had to schedule down pooling nominations on seven different days. Gulf South states the Hall Summit constraint is likely to persist because the overall pooling volumes in Pooling Area 7 have increased by a factor of 12 over the past three years due to the continued development of the Haynesville Shale.

58. The constraints at Hall Summit have operational effects both for the pipeline and for shippers. While section 4(c) of Gulf South's tariff is designed to provide a means for scheduling pooling gas, it was intended only to be used in those rare circumstances when a constraint is present, not as a continuous means of managing constraints.⁴⁵ As Gulf South points out, section 4(c) relies on a complex computer algorithm that uses rankings by the shipper and the pooler to determine the priority of gas coming through the pool.⁴⁶ One example provided at the technical conference shows that a small change in rankings could have serious effects on the gas scheduled,⁴⁷ and that on one day (May 18, 2010),

⁴⁴ Over the time period provided in Exhibit B, Gulf South did not schedule down firm primary capacity.

⁴⁵ Section 4(c) applies only "[i]f a capacity constraint should arise in the pooling area"

⁴⁶ As Gulf South explains it:

Pooling customers assign "sell" ranks to transportation customers, i.e., customers who have takeaway capacity from the pool, and transportation customers assign "buy" ranks to pooling customers. The interplay between these "sell" and "buy" rankings determines the ultimate scheduling priorities of pooling nominations. Gulf South Initial Comments at p.7.

⁴⁷ Gulf South Technical Conference Presentation at Slides 45-50. Subsequently, Gulf South asserted, "[A]s demonstrated, the combination of buy-sell rankings can result in myriad outcomes for constrained pooling gas," and that "[i]n some circumstances, mismatched rankings can even result in a transport customer's first choice seller not receiving that transport customer's higher-priority gas." *Id.* at Slide 53.

scheduling the constraint at Hall Summit resulted in a 41 page print out assigning gas priorities to the constrained gas.⁴⁸

59. When this system is used, shippers on Gulf South facing a constraint cannot be certain whether their gas will be scheduled or to accurately gauge potential reductions in scheduled quantities. Moreover, rankings, in essence, permit a pooling party other than the shipper (such as a producer or marketer) to affect the allocation of capacity used to supply the shipper with gas.⁴⁹ As Gulf South points out, when it did use this methodology to allocate constrained gas on May 18, 2010, it received inquiries from multiple customers, including some of the protesters in this case, about the reasons for the cuts and resulting allocations.⁵⁰ While Gulf South's proposal does not eliminate the use of customer rankings when needed for sporadic constraints, we agree that the acceptance of this proposal will reduce the utilization of Section 4(c) and the associated use of rankings in the assignment of priorities of service, thereby reducing complexity.⁵¹

60. The Joint Protestors and the other protestors in the instant proceeding argue that they do not believe the constraint at Hall Summit will continue. They argue that beginning March 2010, the constraint was no longer significant. They provided data showing that from March 15, 2010 to July 7, 2010, Gulf South was required to schedule

⁴⁸ *Id.* at Slide 41.

⁴⁹ Gulf South Initial Comments at p.7. Poolers also may rank shippers for reasons other than their priority of service through a potential constraint. For example, a pooler may have a contract that requires it to rank a shipper with secondary point priority upstream of Hall Summit higher than a shipper with primary point priority upstream of Hall Summit, or the shipper with secondary point priority may have agreed to a higher price for gas, so the producer ranks the secondary point shipper higher.

⁵⁰ Gulf South states that when it invokes this process it receives numerous telephone calls from shippers when it has to schedule down Pooling Area 7 due to a Hall Summit constraint, including calls from certain of the protestors in the instant proceeding, but receives few calls when it schedules down under section 11 of its GT&C. Gulf South Initial Comments at p.8.

⁵¹ Gulf South Reply Comments p.17.

down timely cycle nominations at Hall Summit only on four days for nominations made during the Timely Nomination Cycle.⁵²

61. However, we do not find these data are sufficient to show that the constraint no longer exists. First, the period of time chosen since is relatively short and cannot be assumed to be representative of the future. As Gulf South points out, using a longer time period starting January 2009, it has had to schedule down pooling nominations in Pooling Area 7 on more than 200 days. Indeed, even if one were to consider data after March 2010, in May 2010, constraints occurred 20 percent of the time. On May 18, 2010 nominations exceeded capacity by 125,000 Dth, an amount the Commission considers to be significant in this context.⁵³

62. Further, parties argue that an influx of proposed pipeline projects in the Haynesville Shale region may eliminate the Hall Summit constraint.⁵⁴ Gulf South, however, states it experienced a twelve-fold increase in gas receipts in Pooling Area 7 from May 1, 2007, through April 1, 2010. Gulf South attributes this increase to increase production in Haynesville Shale. Whether these projects will be sufficient to alleviate the Hall Summit constraint remains speculative. For instance, according to the exhibit, the Enbridge LaCrosse Pipeline Project has been cancelled, and several other proposed projects do not have in-service dates. We do not find that Gulf South needs to wait to implement a pooling approach to see whether such projects will come to fruition or will be sufficient to alleviate the constraint.

63. As Gulf South points out, the Commission gives deference to pipelines' operational experience and provides pipelines with reasonable discretion to manage their own systems.⁵⁵ This is particularly true when the change will not result in significant increased revenue to the pipeline. Gulf South has presented evidence that the constraint exists and evidence supporting its assertion that the constraint will continue to cause disruption to its system. The Commission finds that in this instance, the pipeline's

⁵² The days are April 27, May 18, May 21, and May 27. The Joint Protestors note that on two of these days, additional gas was nominated into Gulf South because of temporary maintenance outages on a Shell/Encana gathering system.

⁵³ Gulf South Technical Conference Presentation, Slide 51.

⁵⁴ For example, the Joint Protestors offer a list of the proposed pipeline projects as Exhibit B to its Reply Comments.

⁵⁵ *Rockies Express Pipeline LLC*, 124 FERC ¶ 61,215, at P 19 (2008); *Natural Gas Pipeline Co. of America*, 41 FERC ¶ 61,164, at 61,412 (1987).

reaction to scheduling concerns as a result of constraint on the pipeline's system easily falls within the allowable discretion.

64. The protesters also argue that section 4(c) of Gulf South's scheduling system is computerized and that all parties understand the schedule down process. However, as pointed out above, the system is complex and even the protesting parties call Gulf South because the scheduling process is opaque. In any event, given the Commission's review of the process, the Commission will not gainsay Gulf South's assertion that its proposal is less administratively burdensome than its current system and that shippers have a better understanding of the schedule down process under section 11 of Gulf South's GT&C than under section 4(c).

65. The protesters maintain that the establishment of new pool will reduce their flexibility. They maintain that a shipper which originally had access to the entire pool for collecting receipts on a primary basis during unconstrained periods will now be limited to the boundaries of the new pool for obtaining primary firm service.⁵⁶ The Joint Protestors argue that, in effect, Gulf South's proposal would reduce the primary firm service that Pooling Area 7 shippers bought, often under very long-term contracts, by making 60 percent of the potentially accessible supplies only available on a secondary or supplementary basis.⁵⁷ As Shell argues:

under the Pooling Proposal, if a firm shipper with primary receipt point rights downstream of the Hall Summit Compressor Station seeks to source gas from the upstream side of the Hall Summit Compressor Station, it would need to use a secondary receipt point upstream of the Hall Summit Compressor Station because no primary firm receipt point capacity is available upstream of the Hall Summit Compressor Station. This would immediately make the firm shipper's nomination "Firm Secondary," thereby giving the shipper a reduced priority through a constraint on the system.

⁵⁶ As the Joint Protestors put it, under Gulf South's tariff, "if a firm transportation customer has primary receipt points in the existing Pooling Area 7, it can access gas from any receipt point in Pooling Area 7 (up to its total Pooling Area 7 MDQ) as a "Primary nomination," and move it to the pooling point without any incremental charge. From the pooling point, the gas is then Primary FT to the shipper's Primary delivery point." The Joint Protestors Initial Comments at p.16-17.

⁵⁷ Joint Protestors Initial Comments at p.15-21, Reply Comments at p.8.

Further, if that firm shipper is also using a secondary delivery point, the firm shipper's priority through any constraint would be reduced from "Firm Secondary" to "Firm Supplemental," a lower priority. []Thus, the Pooling Proposal would have the effect of reducing the currently effective scheduling priority levels of firm shippers in the current Pooling Area 7.⁵⁸

66. It is true that some transactions that might have received primary service, will now receive secondary service. But we do not find that this change is sufficient to warrant rejection of this proposal. First, shippers are entitled to firm primary service only to their primary receipt points.⁵⁹ The shippers chose their primary receipt points when they elected service and knew that the pooling areas were subject to change for operation reasons. Shippers also have the right to move their primary points to the constrained area subject to capacity availability.⁶⁰

67. Second, shippers in Pooling Area 7 received primary service at the pool only because all the receipts feeding the pool are considered operationally identical, so that there would be no operational difference between scheduling to a primary receipt point and scheduling to the pool.⁶¹ Put another way, a pooler would be no less likely to have its gas supplies cut if it pooled gas from a primary or secondary point. In fact, Gulf South's proposal treats shippers with primary points in Pooling Areas 5 and 6 similarly with those with primary points only in Pooling Area 7. If shippers from any of these pooling areas try to schedule gas from the new Pooling Area 20, all such nominations will be on a secondary basis, because the shippers do not have primary points in Pooling Area 20.

⁵⁸ Shell Initial Comments at p.5. (footnote omitted).

⁵⁹ *Tennessee Gas Pipeline Co.*, 128 FERC ¶ 61,032, at P 48 (2009) (finding "a shipper has no right to any particular secondary point priority," in permitting a revision to a pooling system); *Transcontinental Gas Pipe Line Corp.*, 104 FERC ¶ 61,171, at P 25 (2003), *order on reh'g*, 107 FERC ¶ 61,156, at P 11 (2004) ("the shipper has no guaranteed firm right to use these secondary points, however, since shippers using their primary firm capacity have priority.").

⁶⁰ *Tennessee Gas Pipeline Co.*, 91 FERC ¶ 61,053, at 61,192 (2000), *aff'd*, 94 FERC ¶ 61,097 (2001), *aff'd*, *Process Gas Consumers Group v. FERC*, 292 F.3d 831 (D.C. Cir. 2002).

⁶¹ Gulf South Initial Comments at p.10.

68. Pooling is not designed to enhance the scheduling rights of shippers when there are constraints; it is to facilitate the aggregation of gas in areas where there are few, if any, constraints. As Gulf South points out Pooling Area 7 was originally designed on capacity constraints that existed, and still exist, at its Olla compressor station.⁶² Therefore, Gulf South's action in modifying its pooling areas to account for the constraint that has arisen at Hall Summit merely restores the pool to its original design, with constraints on the boundaries of the pool instead of in the pool.

69. Also, as Gulf South notes, the concerns raised by the parties on this issue are also mitigated by Version 1.9 of NAESB Standard 1.3.80, which is expected to be implemented in the fall of 2010. This standard provides that a pipeline is required to "support the ability of a Service Requester to redirect scheduled quantities to other receipt points upstream of a constraint point or delivery points downstream of a constraint point at any of the [pipeline's] subsequent nomination cycle(s) for the subject gas day, at least under the same contract, without a requirement that the quantities be rescheduled through the point of constraint." This standard means that once a shipper has gas scheduled from the New Pooling Area 20 and seeks to redirect that gas to a secondary point, it will be able to do so without having to reschedule that transaction, with the possible reduction in nomination priority.

70. Shell asserts that Gulf South's proposal would require that a shipper in one new Pooling Area would be required to incur transportation charges to move gas from one new Pooling Area to the other new Pooling Area. Thus, a shipper would be required to pay additional charges for what is currently provided at no additional cost due to the fact that all the points are included in the current Pooling Area 7. Shell asserts that violates the Commission's prohibition on charging twice for pooling as discussed in *Transcontinental Gas Pipe Line Corp. (Transco)*.⁶³ The Commission finds this argument to be without merit. Transco uses physical pooling in which the shipper must pay transportation charges to move gas to the pool. In that context, the Commission found that the pipeline cannot charge for transportation both into the pool and out of the pool. Gulf South, in contrast, uses virtual pooling in which it does not charge for transporting gas from a receipt point in the Pooling Area to the pool in that area. Moreover, in the rehearing order in *Transco*, the Commission made clear that when there are operational

⁶² See, *Koch Gateway Pipeline Co.*, 77 FERC ¶ 61,104, at 61,975 (1996); Gulf South March 2, 2010 filing at p.2; Gulf South Initial Comments at p.11.

⁶³ Shell Initial Comments at p.6, (citing *Transcontinental Gas Pipe Line Corp.*, 127 FERC ¶ 61,206 (2009) (*Transco*)).

differences between pools, pipelines can impose a charge for transporting from one pool to another.⁶⁴

The Commission orders:

Gulf South's revised tariff sheets, set forth in the Appendix, are just and reasonable.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

⁶⁴ *Transcontinental Gas Pipe Line Corp.*, 132 FERC ¶ 61,034, at P 38 (2010) (“shippers will be permitted to transfer gas between these pools upon payment of the usage rates and fuel for the appropriate rate zone in which the pool is located”).

Appendix

Gulf South Pipeline Company, LP
FERC Gas Tariff, Sixth Revised Volume No. 1

Tariff Sheets accepted effective September 1, 2010, or an Earlier Date Set by
Commission order

Third Revised Sheet No. 11
Second Revised Sheet No. 13
First Revised Sheet No. 17
Fourth Revised Sheet No. 716
First Revised Sheet No. 1500
First Revised Sheet No. 2709A