

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
Nora Mead Brownell, Joseph T. Kelliher,  
and Suedeem G. Kelly.

Indicated Shippers v. Columbia Gulf Transmission Company      Docket No.    RP04-98-000

Indicated Shippers v. Tennessee Gas Pipeline Company      Docket No.    RP04-99-000

(not consolidated)

ORDER ON COMPLAINTS

(Issued January 26, 2004)

1. Indicated Shippers<sup>1</sup> filed Complaints against Columbia Gulf Transmission Company (Columbia Gulf) and Tennessee Gas Pipeline Company (Tennessee) alleging the pipelines have improperly revised their gas quality standards by adopting new provisions concerning Btu content and hydrocarbon dewpoint through notices and Critical Notices instead of filings under Section 4 of the Natural Gas Act. They ask the Commission to direct Columbia Gas and Tennessee to cease and desist immediately from enforcing quality standards that are not contained in their tariffs but are announced by notices posted on their websites. The Commission finds the pipelines' tariffs give them too much discretion to change their gas quality standards, and accordingly, pursuant to NGA Section 5 the Commission requires the pipelines to modify their tariffs, as discussed below. The Commission also finds that Section 25.2(a) of the General Terms and Conditions of Columbia Gas's tariff is unjust and unreasonable and requires Columbia Gulf to revise this section. The Commission finds similarly that Article II,

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<sup>1</sup> In Docket No. RP04-98-000, which concerns Columbia Gulf, Indicated Shippers consist of BP America Production Company and BP Energy Company, ChevronTexaco Natural Gas, a division of Chevron U.S.A. Inc., ConocoPhillips Company; and ExxonMobil Gas & Power Marketing Company, a Division of Exxon Mobil Corporation. In Docket No. RP04-99-000, which concerns Tennessee, Indicated Shippers consist of BP America Production Company and BP Energy Company, ChevronTexaco Exploration & Production Company, a division of Chevron U.S.A. Inc., ExxonMobil Gas & Power Marketing Company, a division of Exxon Mobil Corporation, and Shell Offshore, Inc.

Sections 3(b) and 9 of Tennessee's tariff are unjust and unreasonable and requires Tennessee to revise these sections.

2. This order benefits the public by ensuring that the pipelines develop and apply their gas quality standards in a not unduly discriminatory manner.

### **The Complaints**

3. Indicated Shippers, producers of gas, allege that a number of pipelines are changing their gas quality standards without making Section 4 filings. Indicated Shippers are concerned that pipelines are restricting the amount of liquefiable hydrocarbons that enter their systems through improper means. When gas prices increase, it is less profitable to remove these hydrocarbons from the gas stream and sell them as natural gas liquids. Allowing them to remain in the gas stream flowing through the pipeline raises the heat content, or British thermal unit (Btu) level, of the gas. It also means that liquefiable hydrocarbons are conveyed into regions with lower temperatures and may condense out of the gas stream. Each type of liquefiable hydrocarbon, such as propane or butane, condenses out of the gas stream and becomes a liquid at a specific temperature known as a dewpoint.<sup>2</sup> The resulting condensate may damage pipeline equipment through corrosion and obstruction.

4. This order concerns the second two Complaints filed by Indicated Shippers with regard to new pipeline limitations on gas quality through means other than Section 4

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<sup>2</sup> Indicated Shippers state that a hydrocarbon dew point level in a natural gas stream is the temperature at which a liquefiable hydrocarbon in the gas stream will condense at a given pressure. (Complaint at 5, n.4, Docket No. RP04-99-000.) Gas transported in interstate pipelines is rarely pure methane, but rather a composition of methane (CH<sub>4</sub>) and several other heavier hydrocarbons. The heating value of each hydrocarbon constituent is different, with the heavier hydrocarbon molecules containing a higher heating value than the lighter constituents. The heating value of a cubic foot of pipeline "natural gas" is, therefore, a function of the various hydrocarbon constituents of the gas. Dewpoint is a characteristic that varies with the composition of the gas. At a given pressure and as the temperature of the gas drops, heavier hydrocarbons change from a gaseous to liquid phase before lighter hydrocarbons. If, as part of the gas quality standard the dew point temperature is reduced, the heavier hydrocarbon constituents of the gas are the first to change from gaseous to liquid form. The result of a reduction in a dew point standard but retaining the same heating value is to reduce the heavier hydrocarbon constituents' contribution to the heating value in favor of a mix of lighter hydrocarbons.

filings.<sup>3</sup> On December 3, 2003, Indicated Shippers filed a complaint against Columbia Gulf in Docket No. RP04-98-000 and a complaint against Tennessee in Docket No. RP04-99-000.

5. In Docket No. RP04-98-000, Indicated Shippers allege, among other things, that Columbia Gulf's tariff does not set a maximum limit on the heat content of gas.<sup>4</sup> They allege Columbia Gulf has imposed a 1,050 Btu per cubic foot maximum limit on gas entering portions of its system by means of Critical Notices posted on its website. They allege Columbia Gulf posted the first Critical Notice on January 19, 2001 and has continued this notice in effect by posting subsequent notices, with the most recent notice effective until July 27, 2004 or until a contrary notice is posted.

6. In Docket No. RP04-99-000, Indicated Shippers allege, *inter alia*, that Tennessee's tariff sets no hydrocarbon dewpoint limits.<sup>5</sup> They assert Tennessee has limited the dewpoint of gas received on portions of its system to 20 degrees Fahrenheit or below through Critical Notices that have been posted on its website since October, 2001, with the most recent notice remaining in effect until further notice by Tennessee.<sup>6</sup>

7. Indicated Shippers assert that these new gas quality standards are revisions to the pipelines' tariff provisions and that the pipelines may only make such revisions by filing under Section 4 of the NGA to change those provisions. They also assert that the Commission's regulations require these new gas quality limitations to be included in the general terms and conditions of the pipelines' tariffs.<sup>7</sup>

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<sup>3</sup> On November 21, 2003, Indicated Shippers filed the first two Complaints, one against Trunkline Gas Company, LLC, in Docket No. RP04-64-000 and the other against ANR Pipeline Company in Docket No. RP04-65-000. See *Indicated Shippers v. Trunkline Gas Co., LLC*, 105 FERC ¶ 61,394 (2003).

<sup>4</sup> Columbia Gulf's FERC Gas Tariff, Second Revised Volume No. 1, Section 25.1, Original Sheet No. 235.

<sup>5</sup> Tennessee's FERC Gas Tariff, Fifth Revised Volume No. 1, GT&C, Article II, Original Sheet No. 305A, Second Revised Sheet No. 306, Original Sheet No. 307, Second Revised Sheet No. 308.

<sup>6</sup> Tennessee accepts gas with a temperature up to 120 degrees Fahrenheit. (GT&C, Article II, 3(f), Original Sheet No. 307.)

<sup>7</sup> Indicated Shippers cite the Commission's regulations at 18 C.F.R. §§ 154.1; 154.109(a); 154.204; and 284.7(c).

8. Indicated Shippers allege that Columbia Gulf's gas quality provision in Section 25.2(a) of its General Terms and Conditions (GT&C)<sup>8</sup> does not set forth specific quality specifications and does not constitute a grant of authority to impose and maintain Btu content limit for several years. They similarly contend that Tennessee's gas quality provisions in Sections 3, 6, and 9 of Article II of its GT&C<sup>9</sup> do not establish specific hydrocarbon dewpoints and do not contain objective criteria for Tennessee to use in deciding whether gas needs processing to remove liquid and liquefiable hydrocarbons so that they cannot be used as authority for imposing hydrocarbon dewpoint limits through Critical Notices. Indicated Shippers also allege that the restrictions the pipelines have placed on Btu content and the hydrocarbon dewpoint of gas through Critical Notices on their websites encourage interconnecting pipelines to adopt similar restrictions.

9. Indicated Shippers argue that the pipelines are improperly using Critical Notices. They assert the purpose of a Critical Notice is to function as an advance warning that a pipeline may need to issue an OFO and OFOs are intended only to address emergency situations, not situations that last for a period of years.<sup>10</sup> They contend the pipelines are improperly using Critical Notices to implement new, permanent quality standards on their systems.

10. Indicated Shippers ask the Commission to direct Columbia Gas and Tennessee to cease and desist immediately from enforcing gas quality standards that are not contained in their tariffs but are announced by Critical Notices posted on their websites.

## Notice

11. Public notice of the Complaints was issued on December 4, 2003, with interventions and comments due on or before December 23, 2003. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2003)), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted.

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<sup>8</sup> This provision is quoted in full below.

<sup>9</sup> These provisions are described more fully below.

<sup>10</sup> Citing Order No. 637, FERC Stats. & Regs., Regulations Preambles ¶ 31,091 at 31,313; Order No. 637-A, FERC Stats. & Regs., Regulations Preambles ¶ 31,091 at 31,598-99 and 31,603-606; 18 C.F.R. § 284.12(c)(iv) (2003); Texas Gas Transmission Corp., 100 FERC ¶ 61,218 at P 118 (2002).

## Answers of Respondents

### A. Columbia Gulf, Docket No. RP04-98-000

12. On December 23, 2003, Columbia Gulf filed an Answer and a Motion to Dismiss the Complaint in Docket No. RP04-98-000. Columbia Gulf asserts that it posted its Critical Notices setting limits on the Btu content of gas that it will accept pursuant to the authority in Section 25.2(a) of its tariff. It relies particularly on the provision of that section that states:

Transporter may refuse to accept gas or may impose additional gas quality specifications and restrictions if Transporter, in its reasonable judgment, determines that harm to Transporter's facilities or operations could reasonably be expected to occur if it receives gas that fails to meet such additional specifications and restrictions.<sup>11</sup>

13. Columbia Gulf asserts that the imposition of the 1,050 Btu limit was necessary because in the winter of 2000 to 2001, shippers left significant quantities of hydrocarbon

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<sup>11</sup> Columbia Gulf Transmission Company's FERC Gas Tariff, Second Revised Volume No. 1, Original Sheet No. 235. The remainder of Section 25.2(a) provides:

Transporter reserves the right to refuse to execute any agreement which does not contain the gas quality specifications and restrictions deemed reasonable and necessary by Transporter, and Transporter reserves the right to refuse to accept or continue to accept gas that fails to meet such additional specifications and restrictions. Such additional specifications and restrictions may be imposed to limit the concentrations of elements or compounds that Transporter determines, in its reasonable judgment, may be corrosive or toxic in nature, may represent an environmental hazard, may interfere with the merchantability of the gas, or may cause injury to or interference with proper operation of the lines, regulators, meters and other equipment of Transporter.

Section 25.2(b) provides:

Transporter may impose restrictions on the temperature of the flowing gas and/or the utilization factor of the gas that it receives if Transporter determines, in its reasonable judgment, that these restrictions are necessary to insure the merchantability of the gas, or to prevent injury to or interference with proper operation of the lines, regulators, meters and other equipment of Transporter.

liquids in the gas stream instead of processing them and these liquids damaged Columbia Gulf's equipment.<sup>12</sup> Columbia Gulf states it has applied the 1,050 Btu limit in a uniform and non-discriminatory manner. Columbia Gulf asserts that Section 4(e) of the NGA does not require that all gas quality standards be expressly stated in a pipeline's tariff. Columbia Gulf objects to a fixed Btu limit because conditions change over time.

14. Columbia Gulf also asserts there are no limits in its tariff on the type and duration of Critical Notices it may issue and that it has used Critical Notices appropriately. It states its Critical Notices are not OFOs nor are they necessarily precursors to OFOs as Indicated Shippers claim. Columbia Gulf states that, in any event, its notices provide the information required in the OFO provisions in its tariff.<sup>13</sup>

15. Columbia Gulf asserts that its method of establishing maximum Btu limits is acceptable because it is very much like the system the Commission recently approved for Natural Gas Pipeline Company of America (NGPL) as part of NGPL's tariff.<sup>14</sup> It asserts NGPL's method consists of posting maximum acceptable Btu and/or dewpoint limits for gas on its website 10 days prior to the beginning of each month and stating the expected duration of the posted limit. Columbia Gulf states that its method is comparable to that of Natural Gas because NGPL has discretion to vary quality specifications unilaterally and the specifications themselves are not included in NGPL's tariff.

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<sup>12</sup> Heating value of gas is an indirect measurement of heavier hydrocarbons entrained in the gas. Pure natural gas, methane (CH<sub>4</sub>) has 909 Btu per cubic foot at standard pressure and temperature, and measured on a water saturated basis. The heavier hydrocarbons such as ethane (C<sub>2</sub>H<sub>6</sub>), propane (C<sub>3</sub>H<sub>8</sub>) and butane (C<sub>4</sub>H<sub>10</sub>) have higher heat content (1,618 Btu, 2,315 Btu, and 3,000 Btu, respectively at the same standard pressure, temperature and water saturation base). (Gas Processors Supply Association's *Engineering Data Book*, Vol. II, Section 23, Revised 10<sup>th</sup> Edition (1994).) The use of a Btu standard such as imposed by Columbia Gulf permits any mix of the various hydrocarbons so long as the sum of the individual hydrocarbon's heat content contribution does not exceed 1,050 Btu.

<sup>13</sup> Columbia Gulf's FERC Gas Tariff, Second Revised Volume No. 1, GT&C, Section 17.1(b). Columbia Gulf asserts that OFOs may have unlimited duration and notes that its tariff provides that an OFO will remain in effect until further notice if no termination date is specified for the OFO.

<sup>14</sup> 102 FERC ¶ 61,234 at P5, *reh'g*, 104 FERC ¶ 61,322 at P 7 and 8 (2003); Natural Gas Pipeline Company of America's FERC Gas Tariff, Sixth Revised Volume No. 1, Section 26.1(h), Third Revised Sheet No. 343 and First Revised Sheet No. 343A.

16. Columbia Gulf asserts it has used its procedures for controlling liquids and liquefiable hydrocarbons only for the reasons specified in its tariff and has not imposed a more stringent standard so that it has not applied its procedures in an unduly discriminatory and preferential manner.<sup>15</sup> Columbia Gulf asserts that, consequently, Indicated Shippers cannot show that its existing tariff is unjust and unreasonable under Section 5 of the Natural Gas Act.

17. Last, Columbia Gulf asserts that it must maintain the integrity of its pipeline system. It asserts that the cost of processing gas so that harmful liquids and liquefiable carbons are removed is properly placed on the shippers and producers that are causing the problem. It asserts the Commission has recognized that shippers and producers are responsible for these costs.<sup>16</sup>

### **B. Tennessee, Docket No. RP04-99-000**

18. On December 23, 2003, Tennessee filed an Answer and a Motion to Dismiss the complaint in Docket No. RP04-99-000. Tennessee describes incidents occurring from the winter of 2000 to 2001 to the present in which hydrocarbons condensed out of the gas stream and damaged its equipment. Tennessee states that when gas prices are high, it is not profitable for producers to process their gas.<sup>17</sup> When shippers do not process their gas, Tennessee states that the processing plants that serve its system close down. Tennessee states that it is then in jeopardy of receiving gas with liquids and liquefiable hydrocarbons in its system that will damage its equipment and threaten its operations.

19. Tennessee asserts that its tariff provides both standards for gas quality and the authority to require shippers to take action to meet those standards. Tennessee cites Article II, Section 3(b) of its GT&C which provides that gas entering its system must be

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<sup>15</sup> Natural Gas Pipeline Company of America, 102 FERC at P 29.

<sup>16</sup> Citing Northwest Pipeline Co., 74 FERC ¶ 61,256 at 61,843 (1996).

<sup>17</sup> Tennessee states that the monthly average natural gas prices for December 2000 and January 2001 were \$8.0625 and \$8.7120. Tennessee's Answer at 6, n.9. It claims these prices were high enough relative to the net profit of processing gas and selling the liquids to discourage producers from processing their gas.

commercially free from hydrocarbon liquids.<sup>18</sup> It also cites Article II, Section 9, GT&C, which provides that:

Transporter at its reasonable discretion may require that some or all of the gas to be transported be processed to remove liquid and liquefiable hydrocarbons prior to delivery to Transporter or may require evidence that satisfactory arrangements have been made for the removal of liquid and liquefiable hydrocarbons at a separation and dehydration and/or processing plant on Transporter's system.

20. Tennessee asserts that it issued Critical Notices at times stating that without proof of processing, it would not accept gas that had a Btu content over 1,050 Btu or a dewpoint in excess of 20 degrees Fahrenheit in order to protect the operational reliability of its system. It asserts the notices were not OFOs and so, need not meet the requirements for OFOs, but, in any case, were carefully tailored to apply to the areas where problems occurred. Tennessee also asserts that the problems it faced were exactly the type that could be addressed by Internet postings or an OFO. Tennessee contends the postings were not indefinite postings meant to change Tennessee's tariff quality specifications. It states it monitored and analyzed operational conditions on a monthly basis to determine whether the restrictions were still required.

21. Tennessee states it has discussed gas quality issues with Indicated Shippers several times. If the Commission requires the pipeline to address operational concerns in its tariff, Tennessee asks for the opportunity to meet with all interested parties prior to making a filing proposing new gas quality provisions so that it might reach a resolution of the parameters for the proposals with its customers. In addition, Tennessee requests that the Commission postpone the implementation of any new provisions until at least the end of the current winter heating season.

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<sup>18</sup> Article II, Section 3(b) provides that all gas delivered to Tennessee "shall be commercially free (at prevailing pressure and temperature in Transporter's pipeline) from . . . hydrocarbon liquids . . . and any other substance that might become separated from the gas in Transporter's facilities . . ." Tennessee's FERC Gas Tariff, Fifth Revised Volume No. 1, Second Revised Sheet No. 306.

## Comments

22. Two intervenors filed comments in both proceedings. The Producer Coalition<sup>19</sup> filed comments supporting the Indicated Shippers' Complaints and the relief requested. Dynegy Midstream Services, L.P. (DMS), a processor as well as a shipper, supports the Indicated Shippers' Complaints, but also believes that the natural gas industry must reach a consensus on interstate pipeline merchantability standards for natural gas. DMS requests that the Commission direct all parties to develop such a standard for inclusion in the pipelines' tariffs.

23. The Cities of Charlottesville and Richmond, Virginia (Cities), filed comments in Docket No. RP04-98-000 concerning Columbia Gulf. The Cities assert Columbia Gulf has authority to impose Btu limits under Section 25.2 of its tariff and thus was not required to make a Section 4 filing to limit the Btu content of gas. They assert that Columbia Gulf's Btu limits need not be specific.<sup>20</sup> They ask the Commission to provide sufficient time for exchange of information and discussion by all interested parties, not just producers and the pipeline, if the Commission requires the pipeline to adopt a specific standard for gas quality. The Cities also ask that the Commission continue the existing limits Columbia Gulf has placed on gas quality while any filing Columbia Gulf must make is pending before the Commission. Without such limits, they assert consumers are exposed to dangerous conditions. Cities ask the Commission to dismiss the Complaint. The American Public Gas Association<sup>21</sup> (APGA) adopts the comments filed by Cities in this docket.

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<sup>19</sup> The Producer Coalition consists of Devon Energy Corp., Dominion Exploration & Production, Inc., Forest Oil Corp., The Houston Exploration Co., Hunt Oil Co., Newfield Exploration Co., Spinnaker Exploration Co., TOTAL E&P U.S.A., INC., and Westport Resources Corp.

<sup>20</sup> Citing *Natural Gas Pipeline Co. of America*, 102 FERC ¶ 61,234 at P 25-31 (2003) and *Toca Producers v. Southern Natural Gas Co.*, 104 FERC ¶ 61,300 at P 36 and P 38 (2003) (in which Cities states the Commission rejected requests by producers for a specific safe harbor standard (a specific dewpoint) for heavy hydrocarbons).

<sup>21</sup> The AGPA is a national, not-for-profit association of over 570 municipal and other publicly owned local distribution systems in thirty-six states.

24. The Tennessee Municipal Group<sup>22</sup> filed comments in Docket No. RP04-99-000 concerning Tennessee. It asserts that Article II, Sections 1, 3, 6, and 9, GT&C, of Tennessee's tariff permit Tennessee to impose hydrocarbon dewpoints and that Tennessee had no need to make a Section 4 filing for this purpose. The Tennessee Municipal Group states the Commission has already recognized that gas quality standards in pipeline tariffs need not be specific<sup>23</sup> but should provide flexibility and that Tennessee's tariff provisions conform to these principles.

25. The Tennessee Municipal Group asks that if the Commission requires Tennessee to submit a Section 4 filing to impose a specific gas quality standard, that the Commission provide sufficient time for exchange of relevant information and discussion by all parties, not just producers and pipeline. The Tennessee Municipal Group also asks that the Commission continue the existing limits Tennessee has placed on gas quality while any filing that Tennessee must make is pending before the Commission. Without such limits, it asserts consumers are exposed to dangerous conditions. The Tennessee Municipal Group asks the Commission to dismiss the Complaint. The APGA adopts the comments filed by the Tennessee Municipal Group in this docket.

26. The Keyspan Delivery Companies also intervened in Docket No. RP04-99-000.<sup>24</sup> They assert Tennessee has the authority in its tariff to issue notices to impose dewpoint limits. KeySpan Delivery Companies ask the Commission to use this proceeding to establish an appropriate dewpoint limit to be included in Tennessee's tariff and to

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<sup>22</sup> The Tennessee Municipal Group consists of the Cities of Clarksville, Springfield, Portland, and Waynesboro, Tennessee, The Corinth Public Utilities Commission, Mississippi, The West Tennessee Public Utility District, The Greater Dickson Gas Authority, and The Humphreys County Utility District.

<sup>23</sup> Citing Natural Gas Pipeline Co. of America, 102 FERC ¶ 61,234 at P 25-31 (2003) and Toca Producers v. Southern Natural Gas Co., 104 FERC ¶ 61,300 at P 36 and P 38 (2003) (in which Cities states the Commission rejected requests by producers for a specific safe harbor standard (a specific dewpoint) for heavy hydrocarbons).

<sup>24</sup> The Keyspan Delivery Companies consist of The Brooklyn Union Gas company d/b/a KeySpan Energy Delivery New York; KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island; and Boston Gas Company, Colonial Gas Company, EnergyNorth Natural Gas, Inc., and Essex Gas Company (collectively KeySpan Energy NE), all subsidiaries of KeySpan Corporation.

continue the current dewpoint limits in force until the conclusion of such an effort. KeySpan Delivery Companies also ask the Commission to dismiss the Complaint.<sup>25</sup>

### **Answers to Motions to Dismiss**

27. On January 7, 2004, the Producer Coalition filed Answers to the motions to dismiss the Complaints in both Docket No. RP04-98-000 and Docket No. RP04-99-000. The Producer Coalition opposes the motions to dismiss. It argues that the pipelines' notices and Critical Notices are OFOs under NAESB Standard 1.2.6<sup>26</sup> and that the pipelines have not complied either with the information and notice requirements for OFOs under Order No. 637 or with Order No. 637's requirement to minimize the adverse impact of OFOs.<sup>27</sup> The Producer Coalition reiterates that the appropriate means for the pipelines to change their gas quality standards is through filings under Section 4 of the NGA. It states that a delay of one month for the removal of the notices may be justified to allow the pipelines to meet with customers regarding appropriate tariff changes.

28. Indicated Shippers also filed Answers to the motions to dismiss the Complaints in both Docket No. RP04-98-000 and Docket No. RP04-99-000. They ask the Commission to deny the motions to dismiss the Complaints. Indicated Shippers contends that the pipelines have not substantiated the need for their Btu and dewpoint limits and also that Section 4(c) and 4(e) of the Natural Gas Act require that these limits be included in their tariffs. They contend that the Btu and dewpoint limits are comparable to the pipelines' other quality requirements and should be included in tariff filings so that customers can comment on them and the Commission can review them. Indicated Shippers assert Columbia Gulf's and Tennessee's methods of posting Btu and dewpoint limit notices are not like the measures the Commission approved for NGPL.<sup>28</sup> Indicated Shippers assert

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<sup>25</sup> Several commenters objected to fast track processing for the Complaints. Since the Commission is not using fast track processing procedures for the Complaints, it will not address these objections.

<sup>26</sup> It states that section defines an OFO as "an order issued to alleviate conditions . . . which threaten or could threaten the safe operations or system integrity, of the transportation service provider's system or to maintain operations required to provide efficient and reliable firm service. Whenever a Transportation Service Provider experiences these conditions, any pertinent order should be referred to as an Operational Flow Order." The Producer Coalition cites NAESB 1.2.6, Version 1.6 (July 31, 2002).

<sup>27</sup> Citing 18 C.F.R. § 284.12(c)(2)(iv) (2003).

<sup>28</sup> Natural Gas Pipeline Company of America, 102 FERC ¶ 61,234, reh'g, 104 FERC ¶ 61,322 (2003).

the Commission required NGPL to establish a safe harbor dewpoint value in its tariff which would remain constant and made this value subject to a hearing. They assert the Commission allowed NGPL to post dewpoint levels which could vary but which must remain equal to or above the safe harbor dewpoint and required NGPL to provide information to shippers concerning Btu and dewpoint values. Indicated Shippers assert the Commission required NGPL to include these standards and procedures in its tariff.

## **Discussion**

### **A. Notices and Critical Notices Limiting Btu Content and the Hydrocarbon Dewpoint**

29. Both Columbia Gulf and Tennessee have gas quality provisions in their tariffs. Columbia Gulf's tariff provides that the shippers' gas must satisfy both the quality standards of Section 25.1 of its General Terms and Conditions, and the quality specifications and restriction as provided in individual transportation contracts.<sup>29</sup> Section 25.2(a) of its GT&C provides that Columbia Gulf may impose additional gas quality specifications and restrictions if, in its judgment, harm could occur to its facilities.

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<sup>29</sup> Section 25.2(a) of the GT&C at Columbia Gulf's FERC Gas Tariff, Second Revised Volume No. 1, Original Sheet No. 235, provides as follows:

Transporter may refuse to accept gas or may impose additional gas quality specifications and restrictions if Transporter, in its reasonable judgment, determines that harm to Transporter's facilities or operations could reasonably be expected to occur if it receives gas that fails to meet such additional specifications and restrictions. Transporter reserves the right to *refuse to execute any agreement which does not contain the gas quality specifications and restrictions deemed reasonable and necessary by Transporter, and Transporter reserves the right to refuse to accept or continue to accept gas that fails to meet such additional specifications and restrictions.* Such additional specifications and restrictions may be imposed to limit the concentrations of elements or compounds that Transporter determines, in its reasonable judgment, may be corrosive or toxic in nature, may represent an environmental hazard, may interfere with the merchantability of the gas, or may cause injury to or interference with proper operation of the lines, regulators, meters and other equipment of Transporter. (Emphasis added.)

30. Tennessee's tariff provides that the heating value of gas cannot exceed 1,100 Btu per cubic foot.<sup>30</sup> Tennessee's tariff provides that it will use a chromatographic analysis or other mutually agreeable method to determine heating value.<sup>31</sup> Tennessee reserves the right to reject gas that does not meet tariff standards.<sup>32</sup> Tennessee's tariff also provides that gas to be transported shall be commercially free from substances that might become separated from the gas stream in its facilities.<sup>33</sup> In addition, Tennessee's tariff provides that the pipeline may require gas to be processed to remove liquefiable hydrocarbons prior to delivery to the pipeline.<sup>34</sup>

31. Both pipelines have imposed additional gas quality requirements on the gas they will accept into their system through notices on their websites since January 2001.<sup>35</sup> Columbia Gulf has specified the exact maximum amount of Btu content that Columbia Gulf will accept--1,050 Btus. This requirement is not expressly set forth in Columbia Gulf's tariff.<sup>36</sup> Tennessee has imposed requirements that shippers on certain portions of its system process their gas if the gas has a heating value in excess of certain limits,

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<sup>30</sup> Section II.3(a) of the GT&C at Tennessee's Fifth Revised Volume No. 1, Second Revised Sheet No. 306.

<sup>31</sup> Section III.2 of the GT&C at Tennessee's Fifth Revised Volume No. 1, First Revised Sheet No. 309.

<sup>32</sup> Section II.6 of the GT&C at Tennessee's Fifth Revised Volume No. 1, Second Revised Sheet No. 308.

<sup>33</sup> Article II, Section 3(b), Tennessee's FERC Gas Tariff, Fifth Revised Volume No. 1.

<sup>34</sup> Article II, Section 9, Tennessee's FERC Gas Tariff, Fifth Revised Volume No. 1.

<sup>35</sup> Columbia Gulf's notices are attached to the Complaint in Docket No. RP04-98-000. Tennessee's notices are attached to Tennessee's Answer in Docket No. RP04-99-000.

<sup>36</sup> The Commission notes that Columbia Gulf's *pro forma* transportation service agreements do not provide a space, location or appendix for individually negotiated gas quality standards. To the extent Columbia Gulf has negotiated contracts with such terms with its customers, those contracts would have to be filed with the Commission as non-conforming service agreements. 18 C.F.R. § 154.110. See also Modification Of Negotiated Rate Policy, 104 FERC ¶ 61,134 at PP 31-33 (2003).

initially, 1,050 Btus, then, after March 2001, 1,100 Btus.<sup>37</sup> Beginning in April 2001, Tennessee has also imposed a requirement that shippers process their gas if it has a hydrocarbon dewpoint greater than 20 degrees Fahrenheit.<sup>38</sup> The dewpoint change adds a measure of the hydrocarbon constituents in the gas stream that is not provided for in Tennessee's currently effective tariff.

32. In the last three years, both pipelines have repeated their notices several times. They have also included in them additional requirements and information. Columbia Gulf has included provisions that some shippers may be required to provide evidence that gas was processed and that the pipeline will refuse to accept gas from shippers who do not comply with the Btu and evidence of processing requirements. Tennessee has included provisions and information concerning blending, dewpoint methodology, and waivers.

33. Both pipelines contend that their tariffs provide them with the authority to adopt additional gas quality specifications. Columbia Gulf cites Section 25.2(a) of its GT&C that states it may impose additional gas quality specifications. Tennessee cites Article II, Sections 3 and 9 of its tariff that provide that gas must be commercially free from hydrocarbon liquids and that the pipeline may require gas to be processed.

34. The Commission finds the additional specifications that Columbia Gulf and Tennessee have adopted do not violate their existing tariffs. In both cases, the pipelines have authority in their tariffs that permits their actions. Columbia Gulf has authority in its tariff in Section 25.2(a) GT&C to impose additional gas quality specifications. Tennessee has authority in its tariff in Article II, Section 9 GT&C to require gas to be processed. Columbia Gas's notices concerning Btu content and Tennessee's notices

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<sup>37</sup> Initially, Tennessee required processing for gas with a heat content in excess of 1,050 Btus. This restriction was effective from January 25, 2001 until March 2, 2001. Exhibits A and B, Answer of Tennessee. This restriction was in violation of Tennessee's tariff which provides that the maximum heating content for gas is 1,100 Btus. After March, 2001, Tennessee issued a notice limiting Btu content to 1,100 Btus on a portion of its system until a particular processing plant returned to normal processing mode. See Notice of April 2, 2001, Exhibit C, Answer of Tennessee.

<sup>38</sup> One of Tennessee's notices provided for a dewpoint of 30 degrees Fahrenheit from July 1, 2001 to October 1, 2001. Exhibit H, Notice of June 22, 2001, Tennessee's Answer (December 23, 2003). However, Tennessee has otherwise specified 20 degrees Fahrenheit as its preferred hydrocarbon dewpoint limit. In two notices, it also described 20 degrees Fahrenheit as the dewpoint at which gas is commercially free from hydrocarbons. Exhibit C, Notice of April 2, 2001; Exhibit F, Notice of May 7, 2001, Tennessee's Answer (December 23, 2003).

concerning processing based on Btu content of 1,100 Btus (issued after March, 2001) or on a hydrocarbon dewpoint of 20 degrees Fahrenheit do not contravene their respective tariff provisions concerning gas quality. Therefore, the Commission will not require the pipelines to cease and desist immediately from enforcing gas quality standards in their notices and critical notices.

35. The Commission recognizes that the gas quality standards in a tariff must provide sufficient flexibility for the pipeline to act in a timely manner to protect its operational integrity and minimize equipment damage. However, the Commission is concerned that the tariff provisions of Columbia Gulf and Tennessee give them too much discretion to vary gas quality standards with inadequate notice and explanation to customers.

36. The Commission has considered Section 25.2(a) of Columbia Gulf's tariff which gives the pipeline the authority to impose additional gas quality specifications and restrictions and related provisions. It is too broad and too vague and gives the pipeline too much discretion to change its gas quality standards, without adequate protections for its shippers. Section 25.2(a) gives shippers too little notice of the practices with regard to gas quality on Columbia Gulf. It provides no specific restrictions or procedures.

37. The Commission does not agree that Columbia Gulf's method of establishing maximum Btu limits is like the system the Commission has approved for NGPL.<sup>39</sup> In the NGPL proceeding, the pipeline filed revised tariffs to establish methods of changing its Btu and dewpoint limits. The tariff provisions that the Commission accepted for NGPL contain flexibility for the pipeline, since they allow the pipeline to change limits by posting them on its website, but they also contain protections for shippers. NGPL must give shippers a specified amount of notice before it changes a limit and it must provide shippers with information concerning its calculations of Btu and dewpoint at receipt points.<sup>40</sup> With respect to the dewpoint limits, the Commission required NGPL to specify a safe harbor dewpoint. In contrast, Columbia Gulf has made no tariff filing so that shippers have been unable to comment on its Btu limits. Columbia Gulf has no protections for shippers in its tariff. Its posted Btu limits are effective with little indication in advance, often the same day or only a few days later. There are no requirements that Columbia Gulf provide shippers with information on its Btu calculations nor does it appear that Columbia Gulf has provided shippers with this

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<sup>39</sup> Natural Gas Pipeline Company of America, Order After Technical Conference and Rehearing, 102 FERC ¶ 61,234, Order on Rehearing and Compliance Filing and Establishing Hearing, 104 FERC ¶ 61,322 (2003).

<sup>40</sup> The Commission required Natural Gas to post within 24 hours of calculation (1) every receipt point dewpoint value and the method of calculation and (2) every blended dewpoint and blended Btu value for a line segment

information. If Columbia Gulf were to adopt a dewpoint restriction, there would be no requirement for a safe harbor dewpoint. Thus, in comparison to NGPL, Columbia Gulf has too much discretion to impose gas quality restrictions on its shippers.

38. For the reasons discussed above, that is, Section 25.2(a) is too broad, too vague, and gives the pipeline too much discretion, the Commission finds under Section 5 of the Natural Gas Act that Section 25.2(a) is unjust and unreasonable<sup>41</sup> and requires Columbia Gulf to file a revised section that is consistent with this discussion. However, until Columbia Gulf files a new section that the Commission finds is just and reasonable under Section 5 of the Natural Gas Act, its current Section 25.2(a) will remain in effect.<sup>42</sup>

39. The Commission finds that Article II, Sections 3(b) and 9 of Tennessee's tariff, similarly provides it too much discretion to vary the gas quality standards that must be satisfied if gas is to be accepted into its system without processing. Similarly to Columbia's tariff, Tennessee's tariff contains no provisions for minimum notice periods to shippers or the provision of information concerning the justification for the limits to shippers. Accordingly, the Commission finds under Section 5 of the Natural Gas Act that Article II, Sections 3(b) and 9 are unjust and unreasonable, and requires Tennessee to file revised sections that are consistent with the discussion in this order. Until Tennessee files new sections that the Commission finds are just and reasonable under Section 5 of the Natural Gas Act, its current sections will remain in effect.

40. Further, pipelines must not use the flexibility afforded them under their tariffs to impose what are, in effect, permanent gas quality standards without including those standards in their tariffs. If Columbia Gulf believes it is necessary to limit the maximum Btu content of gas received on its system to 1,050 Btus per cubic foot on a permanent basis, it must propose to include this limit in its tariff. To the extent it desires flexibility to vary this standard in particular circumstances, then it should include in its tariff a specific mechanism for doing so, similar to the NGPL tariff discussed above.

41. Similarly, if Tennessee believes it is necessary to require processing of gas with a dewpoint in excess of 20 degrees Fahrenheit on a permanent basis, Tennessee must propose to include these limits in its tariff. To the extent it desires flexibility to vary these standards in particular circumstances, then it should include in its tariff a mechanism for doing so, including a dewpoint safe harbor as in NGPL.

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<sup>41</sup> See Northern Border Pipeline Co., 104 FERC ¶ 61,264 at P 23 (2003) (procedures for awarding capacity unreasonably vague, and, therefore, unjust and unreasonable); Northern Natural Gas Co., 103 FERC ¶ 61,276 at P 40 (2003) (credit information requirements vague and therefore unjust and unreasonable).

<sup>42</sup> Order on Remand, 101 FERC ¶ 61,127 at P 24, 34-35 (2002).

**B. Other Matters**

42. The Commission will not address the issue of industrywide standards for gas quality in this order. The Commission recognizes the importance of this issue and has announced a public conference in Docket No. PL04-3-000 to gain more information about the impacts of natural gas quality and interchangeability on the nation's energy customers and the companies regulated by the Commission.

The Commission orders:

(A) Columbia Gulf is required to make a compliance filing within 30 days of the date of this order to revise Section 25.2(a) of its GT&C consistent with the discussion in this order.

(B) Tennessee is directed to make a compliance filing within 30 days of the date of this order to revise Article II of its GT&C consistent with the discussion in this order.

(C) The motions to dismiss the Complaints are denied.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.