FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 25, 2004

In Reply Refer To:
Northern Natural Gas Company
Docket No. RP00-152-003

Northern Natural Gas Company
1111 South 103rd Street
Omaha, NE 68124-1000

Attention: Mary Kay Miller, Vice President
Regulatory and Customer Service

Reference: Revised Discounting Provisions

Dear Ms. Miller:

1. On January 7, 2004, Northern Natural Gas Company (Northern) filed a Seventh Revised Sheet No. 303 to its FERC Gas Tariff, Fifth Revised Volume No. 1, to comply with the Commission's Order on Remand, issued on December 18, 2003, in Docket No. RP00-152-002.[1] Specifically, Northern revises section 54 of its General Terms and Conditions (GT&C) to permit Northern to offer discounted rates based on published index price point differentials or arrived at by formula. Northern also clarifies that "any service agreement containing a basis differential discount will identify what rate component (i.e., reservation charge or usage charge or both) is discounted. Also, to the extent the firm reservation charge is discounted, the index price differential rate formula will produce a rate per unit of contract demand."

2. Northern's revised Sheet No. 303 generally complies with the Commission's December 18, 2003, Order on Remand, and is accepted effective January 1, 2004, as proposed, subject to the condition discussed below. This acceptance benefits the public by promoting transportation and storage service flexibility for Northern's customers and stimulating competition in the marketplace.

3. The Commission noticed Northern's filing on March 5, 2004, permitting comments, protests, or interventions as provided in Section 154.210 of the Commission's

[1] 105 FERC ¶ 61,299 (2003).

regulations. Pursuant to Rule 214 (18 C.F.R. § 385.214) all timely filed motions to intervene and any motions to intervene out-of-time filed before the date this order issues are granted. No party protests or opposes Northern's filing. Nicor Gas and Virginia Power Energy Marketing, Inc. (VPEM) filed comments.

4. Nicor Gas requests the Commission direct Northern to clarify that shippers may release capacity at discount rates based on formulas or basis differential prices. Nicor Gas contends that such clarification will place releasing shippers on a more equal footing with Northern when competing to sell capacity, and will help local distribution companies manage capacity costs, to the benefit of customers.

5. Under Commission policy, the pipeline does not establish the reservation charge paid by the replacement shipper in a capacity release. Rather, such charge is established pursuant to: (1) prearranged deals between the releasing shipper and the replacement shipper; and/or, (2) competitive bidding with the winning bid chosen based upon a bid evaluation method chosen by the releasing shipper.[2] Accordingly, there is no reason for tariff language governing the type of discounts the pipeline may offer to address capacity release transactions. However, since capacity releases compete with the pipeline's sale of its primary capacity, the releasing shipper should be free to offer the same type of pricing arrangements that the pipeline offers. Therefore, at least where the pipeline offers discounts based on gas price indices, the provisions in the GT&C of the pipeline's tariff governing the releasing shipper's posting of capacity for bidding and negotiation of prearranged deals should not prevent the releasing shipper from offering the same type of pricing in a capacity release. Our review of Northern's tariff, in particular the capacity release provisions set forth in section 47 of its GT&C, shows no language barring releasing shippers from offering rates to replacement shippers based on gas indices. Consequently, and consistent with the Commission's findings in Panhandle,[3] Northern's tariff provisions allowing for discounted rates based on index prices may also apply to a replacement shipper.

6. VPEM expresses concerns that Northern has not fully complied with the Commission's requirement that it modify its tariff to provide that any service agreement using a formula-based discount identify the rate component discounted and that any formula produce a reservation rate per unit of contract demand. VPEM points out that, while Northern's tariff permits it to offer discounts based on basis differential and other formula rates, Northern's revised provision addressing these requirements only refers to

[2] El Paso Natural Gas Company, 62 FERC ¶ 61,311 at 62,990-1 (1993). Tenaska Marketing Ventures v. Northern Border Pipeline Company, 99 FERC ¶ 61,182 at 61,709 (2002).

[3] Panhandle Eastern Pipe Line Company, 106 FERC ¶ 61,194 (2004).

basis differential discounts, and not other formula rates. VPEM submits that it is the Commission's intent that Northern apply these provisions to basis differential and other formula discounts. VPEM asks that the Commission direct Northern to correct this omission. We agree with VPEM, and direct Northern to file, within 15 days of the date this order issues, revised tariff sheets clarifying that Northern's discount requirements apply not only to basis differential, but all formula rates.

By direction of the Commission.

Linda Mitry,
Acting Secretary.

Cc: All Parties

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