

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Northwest Pipeline Corporation

Docket Nos. CP05-32-000
and CP05-32-001

PRELIMINARY DETERMINATION ON NON-ENVIRONMENTAL ISSUES

(Issued May 31, 2005)

1. On November 29, 2004, Northwest Pipeline Corporation (Northwest) filed an application under section 7(b) of the Natural Gas Act (NGA) for permission to abandon 268 miles of 26-inch diameter pipeline between Sumas and Washougal, Washington.¹ In order to partially replace this capacity, Northwest also applies for NGA section 7(c) certificate authorization to construct and operate approximately 79.5 miles of 36-inch diameter pipe and 10,760 horsepower (hp) of compression facilities.
2. In this order we reach a preliminary determination that Northwest's proposed Capacity Replacement Project is consistent with the public interest, as it will ensure that Northwest can comply with current safety and operating standards while maintaining the capability to meet its customer commitments. This order, however, does not consider or evaluate any of the environmental issues in this proceeding. Those issues remain under review and will be addressed in a subsequent order, following completion of our environmental analysis. Nothing in this order limits our actions with respect to that pending environmental analysis. Thus, final authorization for Northwest's Capacity Replacement Project depends on a favorable environmental analysis.

¹ On February 3, 2005, Northwest filed an amendment to its application.

I. Background and Proposal

A. Northwest's System

3. Northwest owns and operates an interstate natural gas transmission system that interconnects with El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern) near Blanco, New Mexico, and extends through the states of New Mexico, Colorado, Utah, Wyoming, Idaho, Oregon, and Washington, terminating at the Canadian border near Sumas, Washington, where it interconnects with the facilities of both Westcoast Energy Inc. (Westcoast) and Terasen Huntingdon, Inc. Northwest is a bi-directional transmission system which is designed to rely on a combination of physical and displacement capacity to serve its firm transportation obligations. Northwest receives Canadian gas supplies at the north end of its system and domestic gas supplies at the south end of its system. Northwest's customers can nominate gas from both domestic and Canadian supply basins, then physically flow gas both north and south.

4. The existing Sumas-Washougal corridor of Northwest's pipeline system consists of: (1) approximately 268 miles of 26-inch diameter pipeline with a maximum allowable operating pressure (MAOP) of 809 psig or less; (2) a parallel 30-inch diameter pipeline with an MAOP of 960 psig; (3) approximately 28 miles of 36-inch diameter pipeline in four loop segments with an MAOP of 960 psig; (4) seven compressor stations with a total of approximately 150,000 hp; and (5) associated lateral facilities and meter stations. The 28 miles of 36-inch diameter loop line, and additional compression, was placed into service in 2003 as part of Northwest's Evergreen Expansion Project.²

5. The currently certificated levels of physical and displacement capacity in the Sumas-Washougal corridor support firm transportation of up to 1,305 MDth/d through the Sumas Compressor Station under south flow design day conditions, and up to 649 MDth/d through the Washougal Compressor Station under north flow design day conditions. The system also provides firm transportation from the Jackson Prairie Storage Project (Jackson Prairie) – located adjacent to Northwest's Chehalis Compressor Station about 195 miles south of Sumas – of up to 252 MDth/d under south flow design day conditions and up to 661 MDth/d under north flow design day conditions.

6. All of Northwest's certificated design capacity south from Sumas and north from Washougal, and most of its design capacity from Jackson Prairie, is reserved under long-

² 99 FERC ¶ 61,365 (2002) (order issuing certificate, approving abandonment, granting in part and denying in part requests for clarification and rehearing) and 98 FERC ¶ 61,352 (2002) (preliminary determination). There are multiple crossover valves at various locations on Northwest's three pipelines, which allow it to reconfigure the flows on its system to provide operational flexibility and reliability.

term, maximum rate, firm transportation contracts.³ Of the 1,305 MDth/d under current contracts through Sumas, 1,028 MDth/d is subject to Northwest's Rate Schedule TF-1 maximum postage stamp, rolled in system rates, while 277 MDth/d is subject to the maximum incremental Evergreen Expansion rate under Rate Schedule TF-1.⁴

B. Pipeline Failures

7. In 2003, Northwest experienced two pipeline ruptures, at locations approximately 70 miles apart, on its 50-year old, 26-inch line, both attributable to near-neutral stress corrosion cracking. The first failure occurred on May 1, 2003, near Lake Tapps in Pierce County, Washington. In response, on May 2, 2003, the Office of Pipeline Safety (OPS) of the United States Department of Transportation (DOT) issued a Corrective Action Order (CAO), which requires Northwest to restrict the operating pressures on its 26-inch pipeline between Sumas and Washougal to 80 percent of its MAOP, and directs Northwest to evaluate the integrity of its pipeline and take remedial actions. On December 13, 2003, while operating in accordance with the CAO, Northwest experienced a second failure near Toledo in Lewis County, Washington. Northwest states that it notified OPS, further reduced pipeline operating pressures, and temporarily idled the 26-inch Sumas-Washougal line.

8. On December 18, 2003, OPS issued an amended CAO requiring Northwest (1) to operate its 26-inch line at a maximum pressure of 100 psig – effectively idling the pipeline – until successful testing justifies removing this pressure restriction; (2) to replace those portions of its 26-inch line in the Sumas-Washougal corridor that are located in Class 3 areas within three years, i.e., by December 18, 2006; (3) to replace those portions of its 26-inch line located in Class 2 areas within five years,⁵ i.e., by December 18, 2008; and (4) to replace the remaining portions of the 26-inch line within 10 years, i.e., by December 18, 2011. OPS amended its CAO on April 9, 2004, clarifying that the pipeline replacement requirement could be satisfied by abandonment and mile-by-mile replacement of the 26-inch line.

³ Approximately 58 MDth/d of southbound capacity and 187 MDth/d of northbound capacity from Jackson Prairie is currently contracted for or available under short-term, firm discounted rates.

⁴ The Evergreen Expansion was designed to use 56 MDth/d of “vintage, rolled-in” capacity and 221 MDth/d of new capacity created by the expansion facilities.

⁵ Class 3 and Class 2, in general, designate areas of a particular population density. See 49 CFR Part 192 (2004).

9. Idling the 26-inch line reduced the south flow capacity through the Sumas Compressor Station by 360 MDth/d and reduced the north flow capacity through the Washougal Compressor Station by 71 MDth/d. In an effort to bring additional capacity on line until permanent replacement facilities can be constructed, Northwest hydrostatically tested critical segments of its 26-inch pipe to identify those portions capable of performing at their certificated maximum operating pressure. Northwest completed its testing in June 2004 and has returned 111 miles of the 26-inch line to full service, thereby temporarily restoring 131 MDth/d of capacity under summer conditions. Northwest states that with the cooperation of its customers and the use of operational storage and balancing flexibility, it has been able to meet the market requirements in the Sumas-Washougal corridor for firm service, although secondary firm service has been cut occasionally.

C. Proposed Replacement Project

10. Northwest states that all of its certificated design capacity southward through Sumas and northward through Washougal is currently reserved under long-term, firm, maximum rate transportation contracts. Northwest points out that it is required by Commission regulations and by customer contracts to replace existing facilities as needed to ensure that Northwest can continue to meet its certificated and contractual service obligations.⁶ Northwest also notes the Commission's expressed aim of promoting the maintenance and development of adequate natural gas transmission infrastructure to meet the nation's energy needs.⁷ Northwest believes that its Sumas-Washougal corridor facilities are critical in meeting the nation's energy needs, in that major natural gas markets in the Pacific Northwest depend upon these facilities.

11. Northwest observes that the OPS CAO applies to more than half of its 268 miles of 26-inch pipe in the Sumas-Washougal corridor, including nearly 100 discrete segments. Northwest believes that undertaking a phased, mile-by-mile, like-kind replacement of each segment would be impractical and uneconomical. Instead, Northwest proposes to abandon all 268 miles of 26-inch pipe, and then restore capacity lost to the abandonment by constructing new facilities and modifying existing facilities.

12. Specifically, Northwest proposes to loop four separate sections of its existing 30-inch pipeline, which runs parallel to the 26-inch line, with a total of 79.5 miles of 36-inch

⁶ *Citing Maritimes and Northeast Pipeline, L.L.C.*, 80 FERC ¶ 61,136 at 61,476 (1997) and *Columbia Gulf Transmission Company*, 80 FERC ¶ 61,220 (1997).

⁷ *Citing the Commission's Conference on Energy Infrastructure in Docket No. AD03-10-000*, held on July 30, 2003 to consider energy infrastructure issues in the western states.

diameter pipe, as follows: the Sumas Loop, 22.68 miles in Whatcom County, Washington; the Mount Vernon Loop, 22.50 miles in Skagit County and Snohomish Counties, Washington; the Snohomish Loop, 11.89 miles in Snohomish and King Counties, Washington; and the Ft. Lewis Loop 22.43 miles in Pierce and Thurston Counties, Washington. In addition, Northwest proposes to disconnect its compressor stations in the Sumas-Washougal corridor from the 26-inch line, then modify, make modifications to these facilities, and add a total of 10,760 hp to its compressor stations. Northwest estimates the total cost of its proposed Capacity Replacement Project will be approximately \$333.1 million.⁸ Northwest attributes approximately \$12.5 million to the removal and retirement of facilities and approximately \$320.6 million to the construction of new facilities.

1. Project Design

13. In 2004, Northwest evaluated the market demand for long-term, firm transportation service through the Sumas-Washougal corridor. For capacity that customers can terminate before the end of 2008 under contractual evergreen provisions,⁹ Northwest reviewed usage on a monthly average load factor basis, and determined that customers relied on these contracts especially during peak months. Through informal discussions with low-load factor customers, Northwest confirmed that there appears to be no intent to terminate contracts, although some customers were considering permanently releasing some or all of their capacity. Northwest developed market projections for the Interstate Highway 5 (I-5) corridor through western Washington and Oregon, which includes the Sumas-Washougal corridor. Assuming 2000-2003 service patterns for the I-5 corridor, Northwest projects a 2.0 percent annual growth rate for historical markets and an increase in incremental Evergreen Expansion power plant load of 176 MDth/d.¹⁰ Based upon these projections, Northwest believes that service constraints will occur before 2011 unless the full capacity of the idled 26-inch line is replaced.

⁸ This total is reduced by \$3.3 million that TransAlta Energy Marketing (TransAlta) has agreed to pay Northwest to permanently release capacity.

⁹ Northwest observes that approximately 30 percent of its transportation capacity from Sumas is reserved under contracts that customers can terminate in 2008, i.e., two years after the anticipated 2006 completion of the replacement facilities. Northwest is concerned that if rates rise, these customers may elect not to renew service beyond 2008.

¹⁰ Northwest does not project market growth for Evergreen Expansion customers Duke Energy Trading and Marketing, L.L.C. (55MDth/d) and Snohomish Public Utility District (Snohomish) (45 MDth/d), since their capacity was intended for gas-fired electric generation plants which have yet to be constructed.

14. Northwest states it has designed its proposed Capacity Replacement Project to ensure it can continue to reliably provide certificated services, while limiting the cost of the project to reduce the impact on customers' rates.¹¹ Northwest points out that its partial looping plus compression proposal will cost significantly less than excavating, removing, and replacing each of the nearly 100 sections of 26-inch pipe identified by OPS, and in addition, will minimize environmental and landowner impacts.

15. Approximately 58 MDth/d of south flow design capacity from Jackson Prairie is not currently under long-term contract, and Northwest claims this 58 MDth/d can be reserved to reduce the amount of capacity needed to replace the idled capacity. Northwest asserts that this capacity has heretofore been acquired under short-term, firm discounted rate contracts, but rarely used. Northwest stresses that the \$0.3 million in revenue generated by these short-term contracts during the 12-month period ending September 2004 is substantially less than the cost savings that can be realized by using this 58 MDth/d to reduce the size of its proposed Capacity Replacement Project. Therefore, Northwest posted this 58 MDth/d as reserved for its proposed Capacity Replacement Project.¹² Northwest estimates that approximately \$3.4 million in annual cost-of-service can be avoided, as the use of this capacity will obviate the need to construct 5.3 miles of 36-inch diameter pipeline loop at a cost of about \$18 million.

16. Northwest conducted a reverse open season¹³ to encourage existing firm customers to permanently release unwanted capacity to allow Northwest to design and size replacement facilities to minimize scope and cost. Five customers executed precedent

¹¹ Northwest presumes that costs to replace facilities will be reflected in its customers' rates, asserting that this would comport with the Commission's policy of rolling in costs for facilities designed to replace or maintain existing services.

¹² Northwest provided initial public notice of its intent to reserve this capacity in its May 10, 2004 reverse open season announcement.

¹³ On July 1, 2004 Northwest submitted a tariff filing in Docket No. RP04-386-000, seeking to add terms to its tariff to govern reverse open seasons. On July 30, 2004, the Commission issued an order accepting and suspending the proposed tariff sheets, subject to the outcome of a technical conference addressing issues raised by the intervenors and protestors. 108 FERC ¶ 61,103 (2004). Following the technical conference, the Commission issued an order rejecting the tariff filing, finding that because of the unique circumstances relating to individual construction projects, reviews of procedures used in conducting reverse open seasons should be done on a case specific basis. 109 FERC ¶ 61,356 (2004). The procedures Northwest presented in its tariff filing are generally the same it employed for its reverse open season in this case; issues and objections raised in the tariff proceeding have been raised and reiterated here.

agreements offering to turn back a total of 217.5 MDth/d of capacity. These offers included one rolled-in rate customer's offer to turn back 9.5 MDth/d and four offers from Evergreen Expansion customers with 15- to 25-year contracts – effective October 2003 – for firm service at an incremental rate. Northwest then calculated a turn back fee to offset the estimated adverse rate impacts of the capacity turn back. Only one customer, TransAlta, elected to pay the turn back fee and relinquish 13 MDth/d. Northwest has not been able to remarket any portion of this capacity.

17. Northwest updated its base case design day flow studies for its existing system to reflect firm transportation capacity that was either under contract or available for contracting on April 15, 2004.¹⁴ Northwest states that design day flow studies for its proposed project reflect abandonment of the 26-inch line and installation of facilities necessary to replace base case design volumes – minus the 13 MDth/d turned back by TransAlta and the 58 MDth/d reserved by Northwest. Northwest states that the design requirement for its proposed facilities is dictated by the south flow design case, except for the proposed modifications to the Washougal Compressor Station, which are dictated by the north flow design case. Northwest observes that there are no changes to its displacement capacity assumption in its most recently certificated design studies for its Rockies Expansion and Evergreen Expansion. Northwest notes, however, that the proposed replacement facilities required for the south flow design case incidentally create an additional 200 MDth/d of physical north flow capacity from Jackson Prairie to Sumas; Northwest intends to dedicate this capacity to reduce the existing south flow displacement capacity requirement by 200 MDth/d between Sumas and Jackson Prairie.

2. Proposed Rates

18. Northwest requests an up-front determination that costs of its proposed project will qualify for rolled-in rate treatment. Northwest seeks such a determination both for the cost associated with abandonment and new construction and for the cost-of-service attributable to the 13 MDth/d of incremental Evergreen Expansion capacity incorporated into the design of the project. Northwest further requests that this determination cover rolling in a pro rata share of the proposed project's costs attributable to the 56 MDth/d of "vintage, rolled-in" capacity that was incorporated into the design of the incremental Evergreen Expansion rates.

19. Northwest estimates that rolling in its proposed project's costs will increase the currently effective rolled-in system rates by \$0.076 per Dth on a 100 percent load factor

¹⁴ Northwest states that the updated base cases closely approximate the combined post-Rockies Expansion and post-Evergreen Expansion design day flow cases included in Northwest's amended application in its Rockies Expansion in Docket No. CP01-438-001, approved by the Commission on May 7, 2003. 103 FERC ¶ 61,147 (2003).

basis, and that adjusting the value of the 56 MDth/d of “vintage, rolled-in” capacity embedded in the design of the Evergreen Expansion rates will increase the currently effective Evergreen Expansion incremental rates by \$0.016 per Dth on a 100 percent load factor basis. Northwest contends that a predetermination favoring rolled-in rate treatment is consistent with Commission policy because its project is designed to maintain existing services for existing customers.

II. Notice and Interventions

20. Notice of Northwest’s application was published in the *Federal Register* on December 15, 2004; notice of the amendment to the application was published on February 18, 2005.¹⁵ In response to the notices, timely motions to intervene were filed by 16 parties.¹⁶ Untimely motions to intervene were filed by six parties. We will grant these untimely motions to intervene, as we find that to do so will not delay, disrupt, or otherwise prejudice this proceeding or the parties to this proceeding.

III. Request for Technical Conference

21. Duke Energy Trading and Marketing, L.L.C. , Duke Energy Marketing America, L.L.C. (Duke) and Chehalis Power Generating, L.P. (Chehalis) jointly request that the Commission convene a technical conference to examine means to mitigate Northwest’s proposed system-wide rates, costs associated with the proposed project, and the validity of Northwest’s hydraulic flow modeling and capacity turn-back analyses.¹⁷ Northwest submitted a reply, arguing that the Commission should reject the joint request on procedural and substantive grounds.

22. We have reviewed the request by Duke and Chehalis and the studies submitted in conjunction therewith. We conclude that all issues of material fact relating to Northwest’s application, as amended, are capable of resolution on the basis of the written record, which contains a thorough discussion of the positions of Northwest and the parties to this proceeding. Consequently, we find no cause to convene a technical conference.

¹⁵ 69 FR 75,054 (2004) and 70 FR 8,352 (2005).

¹⁶ Timely unopposed motions to intervene are granted by operation of Rule 214.18 of the Commission's Rules of Practice and Procedure. 18 CFR § 385.214 (2004). The parties to this proceeding are listed in the appendix to this order.

¹⁷ See Joint Request of Duke and Chehalis for Technical Conference and Supplement to Protests (April 15, 2005).

IV. Additional Comments

23. But for the parties protesting Northwest's proposal, none of Northwest's customers, nor any other party to this proceeding, question the need for a timely restoration of the capacity lost to the deterioration of the 26-inch line, or question the design of Northwest's plan to replace the lost capacity, or object to the estimated increase in rates that rolling replacement project costs into Northwest's rate base is projected to produce.¹⁸ However, Northwest Industrial Gas Users (Northwest Industrials),¹⁹ Puget Sound Energy, Inc. (Puget Sound),²⁰ and Weyerhaeuser Company (Weyerhaeuser) – all current Northwest customers – ask the Commission to act as needed to ensure that costs associated with the proposed replacement project are not inappropriately shifted to current customers. Weyerhaeuser stresses that because this is an NGA section 7(c) proceeding, not a section 4 rate case, Commission approval of the requested rate treatment in this proceeding would be premature and inappropriate.

24. As discussed below, we find the proposed project will not result in any unwarranted cost shifting. Further, as stated below, when Northwest files under NGA section 4 to recover Capacity Replacement Project costs, this order's predetermination supporting rolled-in rate treatment will not take effect if any person demonstrates in the future rate case that there has been a material change in circumstances that makes rolled-in rate treatment inappropriate.

V. Protests

25. Snohomish,²¹ Chehalis,²² and Duke²³ protest Northwest's proposal, arguing that the reverse open season process was flawed, and in particular, that the fees Northwest

¹⁸ Currently effective rolled-in system rates are expected to increase by \$0.076 per Dth and currently effective Evergreen Expansion incremental rates are expected to increase by \$0.016 per Dth on a 100 percent load-factor basis.

¹⁹ Northwest Industrials is a non-profit association comprised of 32 industrial end users of natural gas in the states of Oregon, Washington, and Idaho.

²⁰ Puget Sound is the largest firm customer on Northwest's system, holding both vintage and Evergreen Expansion capacity.

²¹ Snohomish holds 45 MDth/d of Evergreen Expansion firm capacity, intended to supply a proposed gas-fired electric power plant. The plant has not been constructed due to changing conditions in the energy market; as a result, Snohomish states it has never used its Evergreen Expansion capacity. Snohomish styles its comments as "preliminary observations," and states it reserves the right to submit a protest; we find the preliminary observations sufficient to constitute a protest.

charged to turn back capacity were excessive. The protestors hold long-term, firm transportation capacity on the Evergreen Expansion that they seek to permanently release. They ask the Commission to mandate a new reverse open season with a less onerous turn back fee. The protestors' concerns are discussed below.

VI. Discussion

26. Because Northwest's application pertains to facilities to transport natural gas in interstate commerce, the abandonment, construction, and operation of these facilities are subject to the jurisdiction of the Commission and to the requirements of NGA sections 7(b) and 7(c).

27. In order to determine whether a proposed project is required by the public convenience and necessity, we typically consider whether the proposal meets the criteria set forth in our 1999 Policy Statement on New Facilities.²⁴ In this policy statement, we establish criteria for determining whether there is a need for a proposed project, balance the public benefits against potential adverse impacts, and determine whether the proposed project will serve the public interest. Our goal is to give appropriate consideration to the enhancement of competitive transportation alternatives, the possibility of overbuilding, subsidization by existing customers, the applicant's responsibility for unsubscribed capacity, the avoidance of unnecessary disruptions to the environment, and the unneeded exercise of eminent domain in evaluating new pipeline construction.

28. In this case, OPS is requiring Northwest to take corrective action to meet DOT safety standards. Accordingly, in assessing Northwest's proposal to abandon existing facilities and construct new facilities to satisfy the OPS CAO, we do not bring to bear all the criteria of our policy statement that would otherwise apply to a proposal to construct new facilities to transport new gas supplies to a new market. For example, the competitive impacts of Northwest's proposal are not relevant, since Northwest's proposal is limited to restoring its ability to meet existing certificated service requirements. However, issues related to rates, the appropriate scope of the project, and environmental impacts remain relevant. We set environmental issues aside to be addressed in a

²² Chehalis holds 90,000 Dth/d of Evergreen Expansion firm capacity to supply the Chehalis Generating Facility, a 520 MW gas-fired electric power plant.

²³ Duke holds 55,000 Dth/d of Evergreen Expansion firm capacity.

²⁴ Certification of New Interstate Natural Gas Pipeline Facilities (Policy Statement on New Facilities), 88 FERC ¶ 61,227 (1999), *orders clarifying statement of policy*, 90 FERC ¶ 61,128, 92 FERC ¶ 61,094 (2000), and 92 FERC ¶ 61,094 (2000).

subsequent order, and consider the other aspects of Northwest's proposal, including issues raised by parties protesting the proposal.

A. Protests

29. In view of Northwest's plan to reconfigure its system using new looping and compression, rather than merely replace segments of pipe, Snohomish questions whether the end result will be to expand, rather than merely replace, capacity on Northwest's system. Snohomish remarks that the proposed project would create an additional 200 MDth/d of north flow capacity. While Northwest states this will be used to benefit existing customers by reducing reliance on north flow displacement capacity, Snohomish suggests the additional capacity could serve other ends. Snohomish seeks assurance that service reliability and flexibility will not be affected by the reconfiguration of the Northwest system. Noting that 85 percent of the proposed new facilities and costs appear to be located north of the Chehalis Compressor Station, Snohomish questions whether the proposed project is linearly scalable. Snohomish asks the Commission to rationalize the Northwest system in a more efficient and economic manner and to consider project alternatives that would be less environmentally intrusive. Finally, Snohomish objects to Northwest's proposed turn back fee as excessive.

30. Chehalis argues (1) that Northwest's reverse open season process lacked transparency; (2) that Northwest has underestimated the cost of the proposed project's facilities; and (3) that the rolled-in rate impacts were underestimated because Northwest used stale rate factors from a settlement approved by the Commission in 1997.²⁵ Chehalis requests that the Commission either require Northwest to conduct another reverse open season using accurate cost estimates, with realistic projected impacts and more current rate factors, or else place Northwest at risk for all costs exceeding the cost estimates embedded in the reverse open season.

31. Duke complains that Northwest provided an impractically short two weeks for customers to review and evaluate the turn back fees; did not adequately support its calculation of the turn back fees; and did not adequately respond to inquiries from Duke for additional information. Duke faults Northwest for excluding the capacity associated with fuel for Evergreen Expansion volumes in calculating the turn back cost factor; using stale rate factors from the aforementioned 1997 settlement; and failing to make cost-of-service adjustments to reflect system costs allocated specifically to Evergreen Expansion customers. Using different project design scenarios, Duke proposes alternative methods for calculating the capital cost per Dth-mile attributable to turning back capacity. For example, Duke calculates that if Northwest had correlated the path of each turn back

²⁵ 81 FERC ¶ 61,242 (1997) (order approving settlement) and 83 FERC ¶ 61,001 (1998) (order denying rehearing).

offer with the location of the proposed replacement facilities, the turn back cost factor would have increased, which would have significantly reduced the turn back fee.²⁶

32. Duke characterizes Northwest's projection of two percent market growth along the Sumas-Washougal corridor as "largely unexplained and completely unsupported." Duke believes that if such future demand was likely, customers would come forward now to contract for capacity, yet none have done so. Duke dismisses the Northwest Gas Association's projection of three percent growth in demand in the Pacific Northwest as "sheer speculation," and comments that the study applies, in any event, to the Pacific Northwest in general, and not specifically to the Sumas-Washougal corridor.²⁷

33. Duke urges the Commission to reject Northwest's application without prejudice, require a new reverse open season governed by standards and guidelines itemized in Duke's protest, and then have Northwest file an application for a new replacement project, shrunk in scope to reflect the additional capacity turn back offers Duke is sure will be received if Northwest is willing to accept lower turn back fees. Alternatively, Duke asks the Commission to condition preapproval of rolled-in rate treatment on Northwest demonstrating that it has made maximum use of turn back capacity to minimize the construction of new facilities. Duke also asks that Northwest be required to demonstrate that the deterioration of its 26-inch diameter pipeline was not the result of imprudent, negligent, or otherwise improper pipeline maintenance activities.

B. Northwest's Answer to Protests

34. Northwest submitted an answer to the protests, the protesters replied, Northwest again submitted an answer, and the protesters again replied. Section 385.213(a)(2) of our Rules of Practice and Procedure does not permit answers to protests or answers to answers. However, we may waive this rule for good cause shown, and we do so in this instance to help clarify the issues under consideration.

²⁶ Using its own Sumas-to-Tumwater transportation path as an example, Duke Energy Trading and Marketing, L.L.C. points out that over 90 percent of the proposed project's costs, approximately \$300 million, are for facilities, including about half of the proposed additional compression, that lie along the stretch of Northwest's mainline on which Duke has reserved capacity.

²⁷ See Northwest's Application at 22, n. 25 (Nov. 29, 2004), *citing* the Northwest Gas Association's Northwest Gas Outlook, Natural Gas Demand, Supply and Service Capacity in the Pacific Northwest, (June 2004).

1. Facilities' Integrity

35. Northwest avers that the 26-inch line, installed nearly 50 years ago, has been operated in a responsible and prudent manner, consistent with DOT requirements.²⁸ Northwest describes the near-neutral stress corrosion cracking of this line as a relatively new issue for the domestic pipeline industry. Northwest states that because this type of failure is not yet fully understood, the industry and regulators have yet to reach consensus on appropriate and effective mitigation techniques. Northwest emphasizes that despite extensive review and analysis of its integrity management efforts, OPS has not attributed the stress corrosion cracking on the 26-inch line to any imprudent, negligent, or improper action on Northwest's part.

2. Reverse Open Season

36. Northwest emphasizes that holding a reverse open season for a replacement project, or other non-expansion project, is discretionary, and rejects allegations that its reverse open season was conducted improperly. In response to Duke's complaint regarding the reverse open season's "meager time period," Northwest counters that it provided sufficient time for customers' participation, and cites examples of other recently conducted reverse open seasons with shorter durations.²⁹ Northwest maintains that if there were infirmities in its reverse open season, the proper response would be to invalidate the results, not to revise and repeat the process.

37. Northwest states that all the information necessary for prospective turn back customers to reach a decision was provided in public postings and direct customer communications. Northwest maintains its reverse open season procedures were clearly explained, including: the eligibility criteria, precedent agreement terms and conditions, offer evaluation criteria, deadlines and the implementation schedule. Further, Northwest claims that it provided illustrative turn back fee calculations in the original turn back posting, as well as customer-specific work papers at the start of the final phase of the reverse open season. Finally, Northwest states it followed up these formal communications with interested customers to provide clarifications.

²⁸ See 49 CFR 192 (2003).

²⁹ For instance, Northwest cites a reverse open season held by CenterPoint Energy-Mississippi River Transmission Corporation in conjunction with its proposed abandonment of 300 miles of deteriorated pipeline that was five business days; the Commission commented that "a 5-business day posting is consistent with the provisions in other pipelines' tariffs relating to reverse open seasons." 109 FERC ¶ 61,091 at 61,388 (2004).

38. In answer to Chehalis' allegation that the rationale for turn back fees was not clearly presented in the reverse open season, Northwest contends its underlying rationale was offered in its original open season posting. Northwest adds that at the start of the final phase of the process, it provided Chehalis a customer-specific work paper package demonstrating the specific fees applicable to Chehalis' proposed capacity relinquishment.

39. Snohomish claims it raised a number of questions about the terms of the precedent agreement, but did not receive clarification from Northwest. Northwest counters that although it discussed matters with Snohomish, it was unable to state in advance how it would assess multiple turn back offers, since its assessment was dependent on how the particular terms of each separate offer would impact rates. Northwest contends it resisted Snohomish's request to establish a pro rata allocation of excess turn back offers as the default method because it was committed to accepting those turn back offers that would provide the most beneficial rate impact.

40. Northwest believes it offered sufficient information to the public during the reverse open season, and rejects Duke's assertion that it withheld information relevant to determining the validity of its turn back fee calculation or information on the projected costs of its proposed project. Northwest acknowledges Duke requested certain information during and after the reverse open season, but argues the information was either irrelevant to assessing its turn back fee or the project's estimated costs or was unavailable. With respect to estimated project costs, Northwest notes it only finalized these costs a few weeks prior to filing the application.

41. Northwest observes that its estimated loop line costs (including overhead and the allowance for funds used during construction as shown in Exhibit K of its application) average approximately \$3.7 million per mile, an amount above Northwest's actual cost of \$3.4 million per mile for its recently completed Evergreen Expansion loop lines. With respect to Chehalis' concern that Northwest underestimated steel costs, Northwest points out that its estimate of \$1,000 per ton is above the \$600 per ton cost for its Evergreen Expansion; Northwest predicts that recent prices of \$1,200 per ton will moderate by the time it orders the pipe for its proposed project.³⁰

42. In response to challenges to the calculation of its cost factor, Northwest conducted additional studies involving various turn back scenarios to directly estimate cost savings. Northwest maintains the results of these studies are consistent with the theoretical cost factor approach employed in the reverse open season, and demonstrate estimated cost

³⁰ Northwest comments that if the price of steel remains at \$1,200 per ton, this will up its estimated project cost of \$333.1 million by \$8 million, about 2.5 percent, an amount that "very likely would be offset by cost variances in other project components." Northwest's Answer to Chehalis and Duke, at 9 (February 17, 2005).

factors ranging from \$3.15 to \$3.53 per Dth-mile.³¹ Northwest calculates that the statistical trend line from these cases is equivalent to a linear cost of \$3.26 per Dth-mile, a five percent variance from the theoretical value used in the reverse open season, and declares this validates the linearity of its cost factor. Northwest explains its cost factor of \$3.44 per Dth-mile was derived by dividing the preliminary \$317.6 million cost estimate for a base case replacement project, i.e., a project with no turn back capacity, by the 92.3 million Dth-miles of capacity to be replaced. At the time of the reverse open season, Northwest estimated project costs at approximately \$329.2 million, of which approximately \$317.6 would vary depending on the quantity of capacity turned back. Northwest states that its updated comparable estimates, using information in Exhibit K of its application, yield costs of \$345.4 million and \$318.5 million, respectively, and insists this justifies its original estimate of \$317.6 million as the numerator in determining the cost factor.

43. In answer to Duke's assertion that the "value of the turn back capacity should be increased to account for the fact that associated fuel capacity will no longer be needed," Northwest states that the theoretical cost factor developed for the reverse open season, and its case specific studies,³² do account for fuel impacts. Northwest explains that in referencing capacities, its convention is to use delivered quantities, whether the 360 MDth/d of Sumas-Washougal capacity or Duke's specific 55 MDth/d of capacity. Northwest notes that in its flow studies, associated receipt quantities are grossed up for fuel and reflected in the models.

44. Duke asserts the estimated rolled-in cost-of-service impacts were overstated because Northwest used stale rate factors, failed to adjust the cost-of-service underlying the existing rolled-in rates to eliminate costs allocated to the Evergreen Expansion customers, and failed to recognize cost-of-service reductions associated with the retirement of the 26-inch pipeline. Northwest answers that it based its rolled-in rate impact calculations on the factors underlying its currently effective rates, consistent with Commission policy.³³ Further, Northwest asserts that there is no basis for reducing the rolled-in cost-of-service to reflect the costs allocated to the Evergreen Expansion incremental rate design, because in its next general rate case all cost-of-service components will be updated, with the likely result that any rolled-in cost-of-service

³¹ See Northwest's Answer, Attachment 1 (January 13, 2005).

³² *Id.*

³³ *Citing Northwest*, 98 FERC ¶ 61,353 at 62,499 (2002). Northwest acknowledges that its currently effective rolled-in rates are the product of a 1996 settlement, but asserts that this does not render them stale until its rolled-in cost-of-service is updated in a future NGA section 4 or 5 proceeding.

reductions due to Evergreen Expansion allocations will be offset by cost-of-service increases for other reasons. Finally, Northwest comments that Exhibit N of its application shows that the retirement of the 26-inch pipe will result in a small cost-of-service increase. In any event, Northwest insists that such retirement impacts are not relevant to turn back fee calculations because they are included in both the capacity-turn-back scenario and in the no-capacity-turn-back scenario.

3. Project Scope

45. As evidence that its proposed Capacity Replacement Project is properly sized, Northwest states: (1) the certificated design capacity for Sumas southward is fully subscribed under long-term, maximum rate contracts; (2) 85 percent of the rolled-in rate contract capacity from Sumas was used at an 80 percent load factor or higher on a peak month basis; (3) informal discussions with customers holding the lower load factor contracts that could terminate in 2008 confirmed the customers currently have no intention to let their contracts expire; (4) no significant interest was expressed in turning back capacity in the reverse open season process, except for certain Evergreen Expansion customers; (5) the Evergreen Expansion customers offered a total of 208 MDth/d of capacity along the Sumas-Washougal corridor representing less than 16 percent of the capacity from Sumas; (6) since the reverse open season, several customers holding unwanted capacity from Sumas, including Duke, have arranged for permanent releases to other customers at maximum rates; (7) market studies indicate that more, not less, transmission capacity will be required in Northwest's market area in the foreseeable future. Northwest believes the above shows that the public interest will be served by replacing most of Sumas-Washougal capacity lost by the abandonment of the 26-inch diameter line.

46. Northwest dismisses speculation that if it had accepted lower turn back fees, additional capacity would have been relinquished, reducing the need for new facilities, and thus diminishing environmental impacts. Northwest comments that even if lower turn back fees would have resulted in additional offers to relinquish, it retained the right to reject offers in excess of the capacity it deemed consistent with its best estimate of future market demand. Northwest suggests that its single-project proposal is environmentally preferable to the cumulative impacts that would be incurred by a series of phased replacements. Northwest observes, and we affirm, that the Commission and interested participants will have the opportunity to address appropriate mitigation measures for any significant environmental impacts, and hypothetical alternatives to the Capacity Replacement Project proposal, in the context of the pending environmental review.

4. Market Studies

47. Duke dismisses the market studies of Northwest and the Northwest Gas Association as speculative and unsupported, insisting that “the only reliable indication of market demand is the willingness of customers to contract for (or in this case, to decontract) firm capacity on Northwest’s system.”³⁴ Northwest disagrees, pointing to the studies as a valid means of predicting future demand, and thus predicting the capacity required on its system to meet that future demand. Northwest states that the results of the two market studies were available to and discussed with its major customers. Northwest observes that its projection of market demand in 2007 along the I-5 corridor roughly matches the capacity included in its reverse open season procedures.

48. Northwest adds that it did not rely on market studies as a basis to reject turn back offers, and in fact accepted all turn back offers tendered in the final phase of its reverse open season. Northwest emphasizes that even if it had accepted additional turn back capacity, while this would decrease construction costs, it would not provide any financial benefit to its remaining customers. Northwest reiterates that its turn back fees are designed to exactly offset the estimated adverse rolled-in rate impact that would otherwise result.

C. Commission Response

49. We find nothing in the record to indicate that Northwest might be at fault for the two ruptures on the nearly 50-year old, 26-inch line. We find Northwest’s proposal to reconfigure its existing system’s facilities to be a reasonable response to the OPS CAO affecting its 26-inch line. We believe the proposed Capacity Replacement Project will not compromise Northwest’s capability to reliably fulfill its customer commitments. We find that although Northwest was not required to hold a reverse open season in conjunction with its replacement project, its procedure for soliciting capacity relinquishments – including the requirement of the payment of a turn back fee – was conducted in an appropriate and non-discriminatory manner. We accept Northwest’s derivation of its estimated project costs and we reach a predetermination that these costs will be eligible for rolled-in rate treatment. Accordingly, we will deny the protests.

1. Reverse Open Season

50. For an expansion project, we require a pipeline to hold a reverse open season to solicit current capacity that existing customers are willing to turn back before going forward and building additional capacity. In this case, Northwest is proposing only to replace, not add, capacity; consequently, Northwest was not required to hold a reverse

³⁴ Duke’s Protest, at 12 (Dec. 29, 2005).

open season. Therefore, we find no basis to require Northwest to hold another reverse open season. It is a guiding assumption for replacement projects that the replaced facilities will duplicate the certificated capacity that existed on the system prior to the project. In other words, unless a replacement project sponsor can show that its system should be downsized due to declining market demand or because of other factors, we expect a pipeline company, upon completion of a replacement project, to restore and retain its full pre-project capacity to reliably fulfill its existing customer commitments.

51. Here, Northwest elected to hold a reverse open season.³⁵ However, in opting to do so, Northwest did not place itself under any obligation to accept offers to turn back capacity. Although the protesters express frustration with the terms under which Northwest agreed to accept offers to turn back capacity, there is no allegation of, and we find no indication of Northwest acting in a discriminatory manner in requesting, accepting, or rejecting offers to turn back capacity. Accordingly, we find no fault with Northwest's approach.

2. Notice Periods

52. The protestors claim that Northwest provided insufficient notice periods, particularly for deciding whether to accept a turn back fee. We find that the notice periods employed by Northwest were reasonable. On April 9, 2004, Northwest notified its customers of its plans to hold a reverse open season for the project. The reverse open season was held from May 10 through May 28, 2004, followed by an open season to remarket any turned back capacity. On June 8, 2004, Northwest sent precedent agreements to those customers who had offered to relinquish capacity in the reverse open season, specifying the turn back fee for the relinquished capacity. Those customers had until June 25 to accept the precedent agreement and turn back fee.

53. Thus, customers were on notice of the upcoming reverse open season as early as April 9, 2004. The May 10, 2004 notice of reverse open season detailed how Northwest would calculate the turn back fees and included examples of turn back fees for hypothetical relinquished capacity. On June 8, 2004, Northwest provided notice of how

³⁵ There are no provisions governing reverse open seasons in Northwest's tariff, which is not atypical, other pipelines' tariffs also do not contain any specification of reverse open season procedures. Last year, Northwest proposed to include such provisions, but we rejected the request, finding the proposed procedures to be vague and holding that the details of a reverse open season are best addressed in the context a specific certificate proceeding. 109 FERC ¶ 61,356 (2004). In this proceeding, while we find the particular reverse open season procedures Northwest employed to be acceptable and non-discriminatory, alternative approaches to conducting reverse open seasons may also be deemed proper.

much the customer-specific turn back fees would be. Customers were given 17 days to decide whether to accept those turn back fees. We will accept this procedure, and these notice periods, as reasonable.³⁶

3. Turn Back Fee

54. If Northwest determines that it is feasible to accept a certain level of turn back and reduce overall capacity available on its system, it must ensure that doing so will not adversely impact its existing customers' rates or certificated services. If one customer's offer to permanently relinquish capacity would result in a negative rate impact on the remaining customers, that customer can pay a turn back fee to offset the negative rate impact. Thus, it is appropriate for a pipeline to require a turn back fee in return for allowing a customer to prematurely terminate or reduce its service contract, because such a fee acts to protect existing customers from shouldering the costs attributable to the relinquished capacity.³⁷

55. Our concern here is whether there is a possibility that turning back capacity could create the potential for cost shifting; if so, we seek to ensure that turn back fees are sufficient to preclude this. Because Northwest is under no obligation to release a customer from its contractual obligation, a turn back fee is essentially a mutually agreed upon contract termination charge. We find Northwest's reliance on its underlying rate case cost factors to derive a turn back fee to be appropriate and consistent with our past practices. Pending the outcome of a future section 4 rate proceeding, these factors are codified and reflect the basis for the existing rates.

56. Northwest received turn back offers from Evergreen Expansion customers with contracts for long-term, firm service. While accepting these offers to turn back capacity could have reduced the scope of the new facilities, and thus reduced construction costs of the proposed replacement project, Northwest's acceptance would have caused it to forego future revenues from firm service using the relinquished capacity; in which case, Northwest's existing customers would ultimately bear the financial responsibility for the cost of the revenue lost to the relinquished capacity through the payment of higher rolled-

³⁶ See note 29, citing an order accepting a five-day notice period.

³⁷ Having committed, only two years ago, to 15 to 25 years of firm Evergreen Expansion service in the expectation of greater future demand for gas to fuel electric generation plants, the protesters now find this expectation, as yet, unfulfilled. While this may indicate buyer's remorse and an imperfect projection of market demand on the protesters' part, this does not constitute a reason to allow these customers to abrogate their incremental rate expansion service contracts to the detriment of Northwest's remaining customers.

in rates.³⁸ In assessing the viability of offers to turn back capacity, Northwest calculated a turn back fee sufficient to protect remaining customers from the impact of the loss of the Evergreen Expansion's incremental rate revenues. We find that Northwest's turn back fee was adequate to guard against cost shifting and find that Northwest solicited and responded to turn-back offers on a non-discriminatory basis. Accordingly, we reject the protesters' objections to the turn back fee.

57. TransAlta was the only customer to accept the fee, agreeing to permanently relinquish 13 MDth/d of incremental Evergreen Expansion capacity and pay lump sum fees totaling approximately \$4.3 million, plus an associated income tax gross-up of approximately \$0.9 million. Northwest requests approval for the agreed to turn back fee for TransAlta's relinquished capacity. Given our finding that the turn back fee is sufficient to prevent cost shifting, but for stipulating how Northwest is to account for this fee, we have no further role in approving or otherwise conditioning the payment or collection of this fee.

4. Market Studies

58. We have reviewed the studies Northwest submitted, and while we cannot warrant the validity of the conclusions, we find no cause to question the validity of the studies' methodology. Further, in our informal and continual assessment of the gas market, we find no signs of long-term gas demand trending down, either regionally or nationally.³⁹ However, such studies do not dictate the outcome in this case. Here, our concern is to ensure that the proposed system reconfiguration will leave Northwest able to meet its customers' demands with the same reliability and flexibility as before, and we conclude that the proposed project will do so.

5. Abandonment

59. We find that the future public convenience and necessity merit the proposed abandonment of facilities and services. We concur with Northwest's assessment regarding the impracticality of excavating, replacing, and reburying the nearly 100

³⁸ Avista Corporation, Cascade Natural Gas Corporation, Intermountain Gas Company, Northwest Industrials, and Puget Sound – local distribution companies representing over half of the long-term, firm service on Northwest's system – submitted comments in support of the scope of the proposed Capacity Replacement Project.

³⁹ See, e.g., Annual Energy Outlook 2005, in which the Energy Information Administration of the Department of Energy projects energy usage increasing out to 2025.

segments of pipe subject to the OPS CAO, and thus approve Northwest's request to abandon its 268-mile long, 26-inch diameter pipeline. In addition, we will permit the requested abandonment of service. TransAlta's willingness to permanently relinquish 13 MDth/d of firm service on the Evergreen Expansion, and Northwest's inability to remarket it, indicate there is not a current need for this service. We also approve Northwest's request to abandon 58 MDth/d of south flow design capacity from Jackson Prairie. The revenue currently derived from service on this segment is less than \$0.3 million. Incorporating this capacity into the design of the proposed project precludes the need to build a 5.3-mile, 36-inch diameter loop at an estimated cost of \$18 million, thus, the abandonment results in an annual cost-of-service savings of approximately \$3.4.

D. Predetermination of Rolled-in Rate Treatment

60. Northwest requests that the Commission make a predetermination that the costs associated with its proposed Capacity Replacement Project will qualify for rolled-in rate treatment, both for the project facility costs and the cost-of-service attributable to the 13 MDth/d of incremental Evergreen Expansion capacity that TransAlta is permanently relinquishing for use in the proposed project. Northwest further requests that the Commission's predetermination include rolling a pro rata share of the proposed project costs into the 56 MDth/d of "vintage, rolled in" capacity that was incorporated into the design of the incremental Evergreen Expansion project rates. Northwest contends this approach is consistent with the Commission's policy statement on new facilities, which accords rolled-in rate treatment to projects designed to replace existing capacity for the benefit of existing customers.⁴⁰

61. We have reviewed the assumptions and projections Northwest relied on in deriving its estimated project costs and have considered the alternative approaches put forth by the protesters. We find Northwest's has presented sufficient justification for the methodology employed and will therefore accept its resulting calculations. We note that to the extent that actual project costs diverge from the cost estimate of \$333.1 million, these actual costs will be open to challenge at the time Northwest seeks rolled-in rate treatment for such costs.

62. Northwest's proposed project will replace capacity for the benefit of existing customers, and as such, consistent with our policy statement on new facilities, is eligible for rolled-in rate treatment. We also find that the cost-of-service attributable to the TransAlta turn back capacity qualifies for rolled-in rate treatment, since the TransAlta capacity can be used in lieu of constructing additional facilities to provide additional capacity at an additional cost. With regard to the Evergreen Expansion incremental rates, it is appropriate to adjust these rates to reflect the new rolled-in rate once the rolled-in

⁴⁰ 88 FERC ¶ 61,277 at 61,746 (1999).

rates have been adjusted to reflect the cost of the proposed Capacity Replacement Project. Therefore, we reach a preliminary determination that, absent a material change in circumstances, the costs associated with Northwest's proposed Capacity Replacement Project will qualify for rolled-in rate treatment when Northwest makes its next general section 4 rate filing.

E. Accounting

63. Northwest states that the levelized incremental rates for the Evergreen Expansion include the creation of regulatory assets for the difference between straight line depreciation and the depreciation reflected in the levelized incremental rates and for certain deferred compression costs. Northwest states that TransAlta's turn back fee includes components to reimburse Northwest for the pro rata share of such regulatory assets attributable to the 13 MDth/d of turn back capacity as of November 1, 2006. Upon receipt of the turn back fee Northwest proposes to account for the regulatory asset reimbursements by crediting Account No. 182.3, Other Regulatory Assets, and debiting Account No. 407.4, Regulatory Debits.

64. We will approve Northwest's proposed accounting treatment for the regulatory asset reimbursement components of the agreed upon turn back fees from TransAlta. However, we direct Northwest, upon receipt of the turn back fee, to extinguish or amortize the regulatory asset by crediting Account 182.3, and debiting Account 407.3, Regulatory Debits, in accordance with the Commission's Uniform System of Accounts.

F. Engineering

65. In its application, as amended and supplemented, Northwest includes flow diagrams and engineering data in support of its proposed reconfiguration of its system's facilities. Duke and Chehalis question Northwest's analysis, and present a capacity turn back cost analysis and hydraulic flow modeling study of Northwest's system which they contend demonstrates that the proposed replacement is in fact an expansion, as it will provide Northwest with significantly more capacity than is needed to replace the capacity lost to the abandonment of the 26-inch line.⁴¹ Northwest characterizes the Duke and Chehalis studies as "irredeemably flawed," arguing they are based on assumptions inconsistent with Northwest's steady-state design conditions, and result in model facilities that do not afford Northwest the same level of operational flexibility and reliability to manage that it has under its proposed replacement project.⁴²

⁴¹ Joint Request of Duke and Chehalis for Technical Conference and Supplement to Protests (April 15, 2004).

⁴² Northwest's Answer to Joint Request of Duke and Chehalis, at 1 (April 25, 2005).

66. Given the incompatible outcomes of the studies presented by Northwest and by Duke and Chehalis, we conducted our own analysis of the dueling design scenarios. We find that the alternatives presented by Duke and Chehalis would not meet Northwest's design requirements; consequently, we find that Northwest's proposal to add loop line and compression is a reasonable means to replace capacity lost as a result of the constraints imposed by the OPS CAO on the 26-inch line.

67. Based on our analysis of the flow diagrams and engineering data supplied by Northwest, and the results of engineering studies conducted by the Commission, we conclude that Northwest has properly designed its proposed Capacity Replacement Project to replace the 360 MDth/d of capacity that will be lost if the existing 26-inch line is abandoned. We also conclude that the proposed project will allow Northwest to maintain system design pressures and delivery obligations throughout the Sumas-Washougal corridor.

VII. Summary

68. For the reasons discussed above, we reach a preliminary determination, subject to completion of our environmental review: (1) that the benefits of the proposed Capacity Replacement Project will outweigh any potential adverse effects, consistent with our Policy Statement on New Facilities, and that the proposed project should satisfy the requirements of the OPS CAO and is required by the public convenience and necessity; (2) that Northwest's proposed abandonment of 268 miles of 26-inch pipe and 13 MDth/d of service is permitted by the public convenience and necessity, and (3) that absent a material change in circumstances, the costs associated with Northwest's proposed Capacity Replacement Project will qualify for rolled-in rate treatment when Northwest makes its next general section 4 rate filing.

69. At a hearing held on May 25, 2005, the Commission, on its own motion, received and made a part of the record all evidence, including the application, as amended and supplemented, and exhibits thereto, submitted in this proceeding. Upon consideration of this record,

The Commission orders:

(A) A preliminary determination is made that the issuance of a certificate to Northwest under NGA section 7(c), authorizing the construction and operation of the natural gas facilities, as described and conditioned herein and in the application as amended, would on the basis of all pertinent non-environmental issues, be required by the public convenience and necessity.

(B) A preliminary determination is made, pursuant to NGA section 7(b), to grant Northwest permission and approval to abandon (1) 268 miles of 26-inch diameter

pipeline between Sumas and Washougal, Washington, (2) 13 MDth/d of Evergreen Expansion capacity, and (3) 58 MDth/d of south flow design capacity from Jackson Prairie, as described herein and in the application as amended.

(C) The preliminary determination made in Ordering Paragraphs (A) and (B) contemplates issuance, after completion of a pending review of all environmental matters, of a final order by the Commission determining that the proposal is required by the public convenience and necessity, in accordance with the National Environmental Policy Act and NGA section 7(c).

(D) Any certificate, authority, or approval issued in a final order in this proceeding will be conditioned on the following:

(1) Northwest's constructing and making available for service the facilities described herein within two years of a final order in this proceeding, pursuant to paragraph (b) of section 157.20 of the Commission's regulations;

(2) Northwest's compliance with all regulations under the NGA including, but not limited to, Parts 154 and 284, and paragraphs(a), (c), (e), and (f) of section 157.20 of the Commission's regulations; and

(3) Northwest's notifying the Commission within 10 days of the date of the abandonment of facilities and services.

(E) The protests of Duke, Chehalis, and Snohomish are denied, for the reasons discussed herein.

(F) The motions to intervene out-of-time are granted.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.

APPENDIX

**Northwest Pipeline Corporation
Docket Nos. CP05-32-000 and CP05-32-001**

Parties filing timely motions to intervene:

Avista Corporation, Cascade Natural Gas Corp., and Intermountain Gas Company
Canadian Association of Petroleum Producers
Chehalis Power Generating, L.P.
Jerry L. Collins
Duke Energy Trading and Marketing, L.L.C and Duke Energy Marketing
America, L.L.C.
Gas Transportation Northwest Corporation
IGI Resources, Inc. and BP Energy Company
King County, Washington
Northwest Industrial Gas Users
Northwest Natural Gas Company
Puget Sound Energy, Inc.
William Scott and Michelle Ballantine
Snohomish County Public Utility District
Southwest Gas Corporation
Weyerhaeuser Company

Parties filing untimely motions to intervene:

Rick and Debra Benner
Barbara Joyce Brown and Rhiannon Family Trust
Raymond A. Foley
Tim Gray and the Tim Gray Family
Julian Mart, the Julian Mart Family, and Premier Gentle Care, LLC
Saddleback Subdivision Residents