

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

July 13, 2005

In Reply Refer To:  
Southern Natural Gas Company  
Docket Nos. RP04-523-000 and  
RP04-523-001

Southern Natural Gas Company  
P.O. Box 2563  
Birmingham, AL 35202-2563

Attention: Glenn A. Sheffield  
Director-Rates

Reference: Offer of Settlement

Dear Mr. Sheffield:

1. On April 29, 2005, Southern Natural Gas Company (Southern) filed pursuant to Rule 602 of the Commission's Rules of Practice and Procedure,<sup>1</sup> an uncontested Offer of Settlement, including a Stipulation and Agreement (Settlement), intended to resolve all issues set for hearing in these proceedings, as well as the issues addressed in the technical conference. On May 24, 2005, Southern filed a supplement to the Settlement. The Commission will approve the Settlement. This decision benefits the public because it approves a Settlement that appears to be a fair and reasonable resolution of the issues in this proceeding.

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<sup>1</sup> 18 C.F.R. § 385.602 (2005).

2. Initial comments in support of the Settlement were filed on May 19, 2005.<sup>2</sup> Proliance filed a response on May 24, 2005, to the Presiding Administrative Law Judge's order requiring clarification issued on May 19, 2005, stating that it did not object to certification of the Settlement to the Commission. Proliance's response and Southern's supplemental comment, also filed on May 24, 2005, represent that both agree that Staff's interpretation of these provisions is correct, i.e., that the Settlement does not limit parties' rights to address issues in other non-Southern proceedings provided it is clear that those parties do not advocate a change in the instant settlement during the term of the settlement. On May 24, 2005, the Presiding Administrative Law Judge certified the Settlement to the Commission as uncontested.<sup>3</sup>

3. The major features of the Settlement are as follows:

4. Article I describes the purpose and scope of the Settlement and states that the Settlement is the result of extensive negotiations and represents a delicate compromise of numerous, interrelated issues.

5. Article II describes the procedural history of the proceeding and specifies the rates and charges agreed to as referenced in an attached Appendix.

6. Article III provides that in consideration for entering into the Settlement, shippers entitled to pay the Settlement charges and to receive any other benefit under this Settlement, will extend their contracts for certain transportation services with Southern. This article also describes the shippers that do not have to extend their contracts to receive such benefits and describes the negotiated rate that shippers who are not contesting parties will pay on non-extended contracts or portions thereof.

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<sup>2</sup> Initial comments in support of or not opposing the Settlement were filed by: Alabama Gas Corporation, Atlanta Gas Light Company and Chattanooga Gas Company, Atmos Energy Corporation, Dalton Utilities, the Georgia Industrial Group, PCS Nitrogen Fertilizer, L.P., Peoples Gas System, a Division of Tampa Electric Company, Progress Ventures, Inc., Southern Cities (Cartersville, Cordele, Cuthbert, Dublin, Hawkinsville, LaGrange and Tallapoosa, Georgia, and Tallahassee, Florida), Southern Natural Gas Company, The Board of Water, Gas & Light Commissioners, Albany, Georgia, and Trial Staff. Indicated Shippers (BP, Chevron, ExxonMobil, and Shell Offshore) filed an initial comment indicating no opposition to the Settlement. Proliance Energy, LLC (Proliance) filed an initial comment relating to a concern that Article IV, sections 3(a) and (b) might unreasonably restrict parties' participation in non-Southern proceedings. As stated above, Proliance did not object to certification of the Settlement.

<sup>3</sup> *Southern Natural Gas Co.*, 111 FERC ¶ 63,043 (2005).

7. Article IV establishes a rate moratorium until March 1, 2009, unless certain specified events occur. The rate moratorium prohibits Southern from filing changes to the Settlement rates or tariff provisions considered to be part of the Settlement during the moratorium period, and also prohibits Southern's shippers from initiating an Natural Gas Act (NGA) section 5 proceeding to modify the Settlement rates or Settlement tariff provisions during the moratorium period. This article also provides that Southern must file a NGA section 4 rate case by March 31, 2010, if it has not done so after the end of the rate moratorium.
8. Article V describes additional consideration in the Settlement. Specifically, due to competitive alternatives available to shippers at the time of this Settlement, current discounts will continue or be extended as provided in Article III. This article also allows for eligible industrial plants that extended their contracts pursuant to this Settlement to exercise a turnback right in the event a plant shuts down upon 365 days prior notice to Southern, provided that there are no plans to restart the plant.
9. Article VI provides that consenting parties shall be entitled to interim rates from March 1, 2005, until the earlier of (1) the effective date, or, in the case of South Georgia Shippers, the South Georgia Roll-In Date of the Settlement, if the Settlement becomes effective; or (2) the date the Settlement terminates.
10. Article VII eliminates incremental rates for transportation service provided on the South Georgia facilities and provides that, effective March 1, 2005, the South Georgia facilities will be rolled in to Zone 3 of Southern's system. Such roll-in is incorporated as part of the Settlement rates. The Settlement rates will also include a South Georgia transition surcharge to be effective for three years for service on the South Georgia facilities.
11. Article VIII establishes a Maintenance Capital Surcharge for Southern to recover certain costs associated with capital expenditures for certain facilities placed in service subsequent to February 28, 2005. The Maintenance Capital Surcharge is limited to rate caps by year as agreed to as part of this Settlement. The Settlement provides that the Maintenance Capital Surcharge shall remain in effect until base tariff rates are placed into effect by Southern following the filing of a general NGA section 4 rate case, but no later than September 30, 2010.
12. Article IX establishes a fuel sharing mechanism, pursuant to which Southern's shippers will be entitled to one-half of any positive difference between (a) the value of the amount of gas that Southern retains for fuel, lost and unaccounted for gas and

electricity used for compression; and (b) the value of the actual quantity of gas consumed and electricity used for such purposes. A new Section 35 of the General Terms and Conditions of Southern's tariff describes the procedures for implementing this sharing mechanism.

13. Article X sets forth the rate design for small shipper rates and provides that Southern will file small shipper rates based upon the load factors specified in this article in its next general NGA section 4 rate case.

14. Article XI provides for other tariff changes, including (1) the withdrawal of the tariff sheet which would have provided that primary receipt points may be added to a shipper's contract only if they were in the same zones for which the shipper had contracted for firm service; (2) provisions governing the construction of facilities, (3) provisions governing operational flow orders, (4) reservation charge credits in certain circumstances, (5) provisions allowing customers to use directly connected third party storage to resolve imbalances, (6) provisions for a proof of processing priority for receipt points upstream of the Toca Processing Plant under an HDP limitation, and (7) changes in the hydrogen sulfide quality specifications.

15. Article XII describes other miscellaneous provisions, including (1) an agreement by Southern that in its next general rate case filing, it will not request a depreciation rate for Onshore Mainline Transmission in excess of two percent; and (2) a provision stating that, unless explicitly provided for otherwise, the terms of this Settlement shall not survive beyond the Rate Moratorium, and nothing in the Settlement shall be deemed to affect or nullify any otherwise surviving provision of any prior settlement of a Southern general rate case.

16. Article XIII provides for procedures for becoming a consenting or contesting party to the Settlement, provides definitions of Consenting Party and Contesting Party, and establishes the rights and obligations of such parties.

17. Article XIV describes the various reservations and limitations of the Settlement, defines the Effective Date of the Settlement, provides the process by which parties, including Southern, may object to a Commission order that contains a modification or condition to the Settlement, and states how the Settlement may terminate.

18. The Commission finds that the Settlement is fair, reasonable and in the public interest. Accordingly, the Commission finds that the Settlement should be approved and become effective as filed. The Commission's approval of the Settlement does not constitute approval of, or precedent regarding, any principle or issue in this proceeding.

The Commission orders:

(A) The Settlement is hereby approved.

(B) The proposed tariff sheets in the Appendix to this order are accepted to become effective as of March 1, 2005. Southern must file actual tariff sheets when it implements the Maintenance Capital Surcharge.

By direction of the Commission. Commissioner Kelly dissenting in part with a separate statement attached.

Magalie R. Salas  
Secretary

Appendix

Southern Natural Gas Company  
Docket Nos. RP04-523-000 and RP04-523-001

Tariff Sheets Accepted Effective on March 1, 2005

FERC Gas Tariff, Seventh Revised Volume No. 1

Fifteenth Revised Sheet No. 2  
Seventh Revised Sheet No. 3  
2nd Sub Eighty-Fifth Rev Sheet No. 15  
3rd Sub Forty-Eighth Rev Sheet No. 18  
Second Revised Sheet No. 26  
First Revised Sheet No. 27  
First Revised Sheet No. 28  
Forty-First Revised Sheet No. 29  
Twenty-Third Revised Sheet No. 30  
Twenty-Second Revised Sheet No. 31  
Second Revised Sheet No. 32  
First Revised Sheet No. 33  
First Revised Sheet No. 34  
Fourth Revised Sheet No. 35  
Ninth Revised Sheet No. 37  
Sixth Revised Sheet No. 38  
Third Revised Sheet No. 39  
Third Revised Sheet No. 39A  
Sixth Revised Sheet No. 40  
Substitute Ninth Revised Sheet No. 41  
Eighth Revised Sheet No. 42  
Third Revised Sheet No. 43  
Fifth Revised Sheet No. 44A  
Sixth Revised Sheet No. 48  
Seventh Revised Sheet No. 49  
Fourth Revised Sheet No. 50  
Fifth Revised Sheet No. 51  
Sixth Revised Sheet No. 51A  
Fourth Revised Sheet No. 52  
Fifth Revised Sheet No. 53A  
Fifth Revised Sheet No. 53B  
Second Revised Sheet No. 58A  
Fourth Revised Sheet No. 59

First Revised Sheet No. 60A  
Eighth Revised Sheet No. 60  
Substitute Sixth Revised Sheet No. 61  
Eighth Revised Sheet No. 62  
Seventh Revised Sheet No. 63  
Fourth Revised Sheet No. 64  
Third Revised Sheet No. 65  
Fifth Revised Sheet No. 71  
Seventh Revised Sheet No. 72  
Sixth Revised Sheet No. 85  
Eighth Revised Sheet No. 86  
First Revised Sheet No. 95F  
Fourth Revised Sheet No. 97  
Sixth Revised Sheet No. 101  
Fourth Revised Sheet No. 107  
Third Revised Sheet No. 108  
First Revised Sheet No. 108A  
Original Sheet No. 108B  
Seventh Revised Sheet No. 117  
Ninth Revised Sheet No. 136  
Fifth Revised Sheet No. 142A  
First Revised Sheet No. 158  
Sixth Revised Sheet No. 188  
Third Revised Sheet No. 188A  
Fourth Revised Sheet No. 196  
Second Revised Sheet No. 198  
Fourth Revised Sheet No. 199  
Fifth Revised Sheet No. 200  
Fifth Revised Sheet No. 204  
First Revised Sheet No. 210  
Third Revised Sheet No. 211  
First Revised Sheet No. 212A  
Second Revised Sheet No. 212I.06  
Second Revised Sheet No. 212I.07  
Original Sheet No. 212I.07a  
First Revised Sheet No. 212I.08  
Fifth Revised Sheet No. 213  
Fourth Revised Sheet No. 398  
Eighth Revised Sheet No. 404  
Sixth Revised Sheet No. 405  
Eighth Revised Sheet No. 406  
Sixth Revised Sheet No. 407  
Fifth Revised Sheet No. 407A

Seventh Revised Sheet No. 408  
Fourth Revised Sheet No. 409  
Fifth Revised Sheet No. 410  
Fourth Revised Sheet No. 411  
Third Revised Sheet No. 412  
Third Revised Sheet No. 413  
First Revised Sheet No. 413A  
Third Revised Sheet No. 415  
Second Revised Sheet No. 416  
Third Revised Sheet No. 417  
Third Revised Sheet No. 418  
Third Revised Sheet No. 419  
Second Revised Sheet No. 420  
First Revised Sheet No. 421  
First Revised Sheet No. 422  
First Revised Sheet No. 423  
First Revised Sheet No. 423A

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Southern Natural Gas Company

Docket Nos. RP04-523-000  
RP04-523-001

(Issued July 13, 2005)

KELLY, Commissioner, *dissenting in part*:

This order approves a settlement which provides, in Article IV section 2, that “[t]o the extent the Commission considers during the Rate Moratorium any change to the terms of the Settlement, notwithstanding the terms of the Settlement, the standard of review for any such proposed change shall be the ‘public interest’ standard for review set forth” under the “Mobile-Sierra doctrine.” This language appears to require the Commission to satisfy the public interest standard whether acting *sua sponte* or pursuant to a complaint by a non-party when acting under NGA section 5.

I believe that approval of this settlement provision is inconsistent with the Commission’s precedent set forth in *Columbia Gas Transmission Corp.*<sup>4</sup> In that case, the Commission addressed a proposed settlement provision whereby the settlement would become effective if the Commission signified that it intended to permit the settlement to remain in effect for its term, “without limitation, however, on the Commission’s exercise of its jurisdiction under section 5 of the NGA in the event of supervening changes in law or Commission policy of broad sweep that may occur subsequent to such approval.” In the order approving Columbia Gas’ settlement, the Commission stated that, while it intended at that time to allow Columbia’s settlement to run its course, “the Commission will not limit the circumstances in which it might take section 5 action in the future to the particular circumstances specifically identified in” the settlement provisions.<sup>5</sup> The Commission also clarified that approval of the settlement would not preclude new non-party customers from filing a complaint under NGA section 5, nor would the Commission be barred from taking NGA section 5 action in response to any such complaint.<sup>6</sup> I believe that the Commission should preserve its right to take NGA section 5 action under the just and reasonable standard when acting *sua sponte* or

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<sup>4</sup> 79 FERC ¶ 61,044 (1997).

<sup>5</sup> *Id.* at 61,203.

<sup>6</sup> *Id.* at 61,203-204.

pursuant to a complaint on behalf of a non-party. Therefore, I dissent in part from this order.

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Sudeen G. Kelly