112 FERC ¶ 61,316
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

September 20, 2005

In Reply Refer To:
Northern Natural Gas Company
Docket No. RP00-404-017

Northern Natural Gas Company
P.O. Box 3330
Omaha, NE 68103-0330

Attention: Mary Kay Miller, Vice President
Regulatory and Government Affairs

Reference: Phase 1 Segmentation Plan Report

Ladies and Gentlemen:

1. On July 1, 2005, Northern Natural Gas Company (Northern) filed a segmentation report to comply with the Commission's Third Order on Compliance with Order No. 637 and Order on Rehearing and Clarification,[1] issued on August 4, 2004, in Docket Nos. RP00-404-008, et al. The report summarizes segmentation activity on Northern's system during Phase 1 of its segmentation plan, which Northern implemented on September 1, 2004. According to the report, three shippers segmented five contracts during Phase 1, segmenting a total contract quantity of 80,000 Dt per day into 160,000 Dt per day. Total segmented quantities were about 8.6 Bcf of gas, accounting for about three percent of Northern's Field Area throughput for that period.[2] Northern reports that implementing Phase 1 of its segmentation plan cost about $750,000. In its report, Northern provides data for each case a shipper segmented capacity, and notes that it did not deny any segmentation requests during Phase 1. Northern states that it convened a conference call with interested parties on April 4, 2005, to discuss results of Phase 1 of its segmentation plan and solicit opinions on Phase 2 implementation. Northern said that shippers that segmented under Phase 1 requested Northern proceed with Phase 2.

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[1] 108 FERC ¶ 61,124 (2004).

[2] The Commission did not require Northern to offer physical segmentation in its Market Area due to the reticulated nature of its system.

2. Northern includes with its report certain information regarding Phase 2 of its segmentation plan. According to Northern, under Phase 2, a shipper who segments capacity would not have to separate its contract into two individual contracts as in Phase 1, but would be able to amend its current contract to include the two associated contract segments. Northern also states that, under Phase 2, it would establish primary paths and points for each of the two segments, along with within-the-path and outside-the-path point rights for each of the segments. Northern estimates the costs of implementing Phase 2 of its segmentation plan to be about $2.25 million.

3. The Commission noticed Northern's filing on July 14, 2005, allowing for protests to be filed as provided by section 154.210 of the Commission's regulations. The Commission issued an errata notice on July 19, 2005, extending the protest deadline to August 1, 2005. Duke Energy Trading and Marketing, L.L.C. (Duke Energy), Virginia Power Energy Marketing, Inc. (VPEM), Northern States Power Company – Minnesota and Northern States Power Company – Wisconsin (Northern States), Aquila Networks (Aquila), and CenterPoint Energy Resources Corporation (CenterPoint) filed comments, which we discuss below. Northern filed an answer to the comments.

4. Parties raise four specific concerns with Northern's Phase 1 report and the implementation of Phase 2 of its segmentation plan. First, several parties recommend that the Commission direct Northern not to implement Phase 2. They assert that not enough shippers used segmentation during Phase 1 of the plan to justify the $2.25 million cost of implementing Phase 2. CenterPoint doubts that any additional shippers will use segmentation under Phase 2. Aquila asserts that Phase 2 is not likely to benefit or promote competition. Northern States contends that the costs of implementing Phase 2 of the plan far outweigh the benefits, and wonders if all shippers really do benefit from segmentation on Northern's system. VPEM supports full segmentation on Northern's system, but believes it may be premature at this time to proceed to Phase 2 given what little information Northern obtained from Phase 1 of its plan. VPEM recommends the Commission extend Phase 1 another year to gather more information, and require Northern to file another Phase 1 segmentation report by July 1, 2006.

5. Despite having only three shippers segment on Northern's system under Phase 1, we believe Northern should move forward with Phase 2 of its segmentation plan for several reasons. First, based on responses to the Phase 1 report and comments provided at Northern's customer meeting, most of Northern's shippers either encourage or do not oppose Northern implementing Phase 2 of its segmentation plan. Second, although segmentation use was low during Phase 1, Northern blames this on the unusually low price volatility of gas in its Field Area during that time period, which it states obviated the need for more segmentation. In the future, economic conditions may exist that are more conducive to segmentation. Third, segmentation is required under Order No. 637, and despite claims otherwise by certain shippers, we believe it will continue to benefit all shippers on Northern's system by promoting competition and providing transportation

options. Further, we do not find the estimated Phase 2 costs of $2.25 million excessive given the size of Northern's system and importance of providing segmentation options to shippers. Finally, implementation of Phase 2 should increase the use of segmentation of Northern's system since it would simplify the administrative contracting process for segmented capacity. Accordingly, we direct Northern to file to implement Phase 2 of its segmentation plan within 15 days of the date this order issues. When filing, Northern should provide explicit details of its Phase 2 plan, and a proposed implementation date. Parties at that time will have opportunity to comment on Northern's proposal.

6. Second, several parties recommend that, should the Commission direct Northern to implement Phase 2 of its segmentation, only shippers who segment in Northern's Field Area should pay for the service. CenterPoint and Aquila assert that parties not benefiting from Field Area segmentation should not be forced to subsidize the unused option of segmentation in the Field Area during Northern's next rate case. Duke Energy, on the other hand, asserts the Commission does not have to address the recovery of alleged segmentation costs at this time. It contends that actual segmentation costs are not known, and they are generally system costs that benefit all shippers by making greater competition possible. It states that Northern may propose to recover such costs in its next general section 4 rate case. Duke Energy adds that the Commission should not permit Northern to make a special filing to recover alleged segmentation-related expenses, since such costs are simply the consequence of Northern's obligation to comply with the Commission's Order No. 637 rulemaking.

7. We generally agree with Duke Energy's comments. Northern's costs of administering segmentation are not included in its current rates. Northern may propose to recover such costs in its next general section 4 rate case. At that time, the Commission will consider all issues concerning the level of those costs and to what service the costs may be allocated.

8. Third, Duke Energy asserts that the Commission should not permit Northern to operate under the two-phase segmentation plan since it contravenes Commission policy. It argues that Northern's plan: (1) impermissibly denies shippers the opportunity to self-segment by nomination; (2) impermissibly forces shippers who desire to self-segment to create and administer new contracts; (3) prohibits shippers from making multiple segmented nominations along each shipper's capacity path throughout the Field Area, by limiting a shipper's transactions to its maximum daily quantity within each segmentation zone; and, (4) unlawfully excludes from segmenting shippers whose contracts do not span the MID 7/8 segmentation point.[3] Duke Energy argues that Northern's current

[3] Under Northern's two-phase segmentation plan, for a shipper to segment in the Field Area, its existing service agreement must have a receipt point south of the MID 7/8 segmentation point, and a delivery point north of the MID 7/8 segmentation point, or vise versa.

segmentation plan precludes commercially viable and operationally feasible segmented transactions from happening. It believes there is no operational basis for restricting segmentation rights of Field Area shippers. It asserts the Commission should direct Northern to implement full segmentation rights throughout its Field Area.

9. We reject Duke Energy's recommendation that the Commission eliminate Northern's current two-phase segmentation plan and implement a different segmentation scheme. In its August 4, 2004, order, the Commission found Northern's two-phased segmentation approach to be just and reasonable and in compliance with the segmentation mandates of Order No. 637. In that order, the Commission approved Phase 1 of Northern's segmentation plan. The Commission acknowledged in that order the difficult nature of providing segmentation in Northern's Field Area, but determined that "while Northern's Field Area is not fully reticulated, certain segments of Northern's Field Area do exhibit bi-directional flows and Northern must satisfy its gas processing obligations. Therefore, the Commission has held that Northern may include in its Field Area segmentation proposal an appropriate mechanism to insure operational stability."[4] The Commission found that Northern's current two-phased approach to segmentation struck a balance between providing segmentation rights to shippers, and allowing Northern to maintain operational stability. For the reasons cited in the August 4, 2004, order, the Commission will allow Northern to continue with its two-phased segmentation plan.

10. Finally, Duke Energy asserts the Commission should order Northern to implement path and pathing scheduling priorities, as the Commission required in Order No. 637. Duke Energy contends that Northern previously stated it would implement such scheduling priorities with Phase 2 of its segmentation plan, but does not mention them in its Phase 1 report. We agree with Duke Energy. In Order No. 637-A, the Commission held that each pipeline must afford a higher priority over mainline capacity to a shipper seeking to use secondary points within its capacity path than a shipper seeking to use mainline capacity outside its path, unless the pipeline can demonstrate that such an approach is operationally infeasible or leads to anti-competitive outcomes on its system.[5] Northern's currently effective tariff does not reflect such scheduling priorities.

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[4] 108 FERC ¶ 61,125 at 61,614 (2004).

[5] Order No. 637-A, FERC Stats. & Regs. Regulation Preambles (July 1996 – December 2000) ¶ 31,099 at 31, 596-98.

Accordingly, we direct Northern to incorporate these scheduling priorities when it implements Phase 2 of its segmentation plan, consistent with Northern's prior statements that it would do so.

By direction of the Commission.

Magalie R. Salas,
Secretary.

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