

109 FERC ¶ 61,200  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Saltville Gas Storage Company L.L.C.

Docket Nos. CP04-13-001  
CP04-13-002  
CP04-14-002

ORDER ON COMPLIANCE FILING AND AMENDING CERTIFICATE,  
GRANTING, IN PART, AND DENYING, IN PART, REHEARING AND GRANTING  
CLARIFICATION

(Issued November 22, 2004)

1. On July 14, 2004, Saltville Gas Storage Company L.L.C. (Saltville) filed a request for rehearing and clarification of the June 14, 2004 Order in this proceeding authorizing the construction and operation of natural gas storage facilities in Smyth and Washington Counties, Virginia.<sup>1</sup> On August 2, 2004, Saltville submitted, in Docket No. CP04-13-002, its compliance filing as required by the June 14 Order. Saltville's compliance filing contains rates designed as required in the June 14, 2004 Order as well as rates based on a modified *Equitable* rate design method. The filing also reflects revisions of the originally proposed capacity of Saltville's salt storage caverns. Therefore, the Commission is considering Saltville's compliance filing to be, in part, a request in Docket No. CP04-13-002 to amend the certificate of public convenience and necessity issued in Docket No. CP04-13-000.

2. For the reasons discussed below, we are granting, in part, and denying, in part, rehearing, granting clarification, amending the certificate, and accepting certain tariff sheets filed with Saltville's compliance filing and rejecting others. This order is in the public interest because it effectuates Saltville's new tariff so that it can provide service pursuant to the certificate issued in the June 14 Order.

---

<sup>1</sup> *Saltville Gas Storage Co. L.L.C.*, 107 FERC ¶ 61,267 (2004).

## I. Background

3. Saltville is a limited liability company organized in August 2001 under the laws of the Commonwealth of Virginia to develop a natural gas salt cavern storage facility near Saltville, Virginia. Its two members are NUI Saltville Storage, Inc., a wholly-owned subsidiary of NUI Corporation, and Duke Energy Saltville Gas Storage L.L.C., a wholly-owned subsidiary of Duke Energy Gas Transmission. Saltville's storage project includes the conversion of four existing salt caverns for the underground storage of natural gas, compression facilities, and a 6.7-mile, 24-inch pipeline connecting the storage and compression facilities to East Tennessee Natural Gas Company's (East Tennessee) pipeline system. The salt caverns were originally developed by the Olin Mathieson Corporation which removed brine for salt production and use in its chemical plant located in Saltville.

4. Saltville filed its application in this proceeding in compliance with a September 11, 2003 Order on rehearing finding that, since Saltville's anticipated intrastate market had not developed, Saltville did not qualify for the Hinshaw exemption<sup>2</sup> as the Commission had previously determined.<sup>3</sup> The Commission also authorized Saltville to provide service on an interim basis under its section 284.224 certificate until no later than March 1, 2004 and to charge the rates approved by the Commission in an August 29, 2003 letter Order in Docket No. PR03-13-000.<sup>4</sup> Saltville proposed as its initial rates the same rates approved by the Commission in Docket No. PR03-13-000 under section 284.123 of the Commission's regulations.<sup>5</sup>

---

<sup>2</sup> See *Saltville Gas Storage Co.*, 104 FERC ¶ 61,273 (2003) (under NGA section 1(c) a pipeline rendering otherwise jurisdictional service is a Hinshaw pipeline and thus exempt from the provisions of the NGA if it receives natural gas in interstate commerce at or within the boundaries of a state, the gas is ultimately consumed within that state, and the pipeline's rates, service, and facilities are subject to regulation by the state commission).

<sup>3</sup> See *Cargill, Inc. v. Saltville Gas Storage Co. L.L.C.*, 99 FERC ¶ 61,043 (2002).

<sup>4</sup> *Saltville*, 104 FERC ¶ 61,237 (2003). Subsequently, on February 17, 2004, the Commission issued an order in Docket No. CP02-430-004, which extended the interim service to such time as the Commission issued an order in Docket No. CP04-13-000 *et al. Saltville Gas Storage Co.*, 106 FERC ¶ 61,148 (2004).

<sup>5</sup> *Saltville Gas Storage Co.*, 104 FERC ¶ 61,110 (2003) (section 284.123 permits intrastate and Hinshaw pipelines to provide interstate transportation services at cost-based rates that may be discounted to meet market needs).

## II. The June 14 Order

5. The June 14 Order rejected Saltville's proposed rate design in which its capacity charges were based on the number of turns into and out of storage and required Saltville to redesign its rates using the *Equitable* method of storage rate design.<sup>6</sup> Under the *Equitable* method, fifty percent of the fixed costs are collected based on deliverability and fifty percent are collected based on storage capacity to reflect the fact that storage customers are reserving both deliverability and capacity.<sup>7</sup> Neither return on equity nor related taxes is permitted in the variable component<sup>8</sup> and injection and withdrawal charges are designed to recover only variable costs.

6. The June 14 Order also required Saltville to design its interruptible rates based on either one of two methods. The order stated that Saltville may either include the billing units for the interruptible service in designing firm storage rates and then develop interruptible rates using the 100 percent load factor derivative of the firm storage rates or, alternatively, credit interruptible revenues to its firm and interruptible shippers, net of variable costs rather than including projected interruptible billing units in the design of its firm and interruptible rates.

7. Since Saltville's capacity will increase each year from 2004 through 2007, the June 14 Order required Saltville to propose phased rates that reflect the increments of costs and substantial capacity additions expected through 2007. The order required Saltville to recalculate its proposed rates and file its actual tariff within 30 days of the date of issuance of the order, with a proposed effective date no later than 30 days after the date the actual tariff is filed. The order postponed the effective date of the certificates issued in the order to the effective date of the refiled rates and stated that until that time Saltville would continue to operate under its existing interim authority and charge its existing rates for service. The June 14 Order also required Saltville to make a filing at the end of its first three years of operation to justify its recourse rates and stated that Saltville's projected units of service should be no lower than those upon which its initial rates are based.

---

<sup>6</sup> See *Equitable Gas Co.*, 36 FERC ¶ 61,147 (1986).

<sup>7</sup> See *Tennessee Gas Pipeline Co.*, 56 FPC 120 (1976) and *Consolidated Gas Transmission Corp.*, 47 FERC ¶ 61,171 (1989).

<sup>8</sup> See also, 18 C.F.R. §284.7(e) (2004) ("if a reservation fee is charged, it must recover all fixed costs attributable to the firm transportation service, unless the Commission permits the pipeline to recover some of the fixed costs in the volumetric portion of a two-part rate.").

8. The June 14 Order approved Saltville's proposed total capacity of 8.2 Bcf with a working gas capacity of 5.8 Bcf.

### **III. Saltville's Rehearing Request**

9. Saltville asserts that the June 14 Order's rate discussion reflects an inflexible application of Commission policies that do not fit the circumstances of a rapid response salt cavern storage facility such as Saltville's facility. Saltville contends that the Commission must adapt its rate policies to accommodate the different service characteristics of its rapid response salt cavern storage facility and be receptive to innovative rate designs that will achieve fair, rational cost-based rates for Saltville's services.

10. Specifically, Saltville requests the Commission to (1) modify the *Equitable* method of storage service rate design for Saltville's rapid response storage service, (2) permit Saltville to credit only those interruptible revenues that exceed its projected revenue requirements, and (3) allow Saltville to make a rate filing to justify its recourse rates after four rather than three years of operation and (4) take into account actual capacity rather than design capacity in justifying its rates. Saltville also seeks clarification that it may revise its initial rates using updated actual and projected cost data and updated projections of its working design capacity. These requests are addressed below.

### **IV. Notice**

11. Notice of Saltville's compliance filing was published in the *Federal Register* on August 12, 2004 (69 Fed. Reg. 49,886) and notice of Saltville's proposed amendment to its certificate was noticed on September 21, 2004 (69 Fed. Reg. 56,423). No motions to intervene or protests were filed in response to the notices. The Public Service Company of North Carolina, Inc. filed comments in response to the compliance filing reiterating previously filed comments that the Commission's assertion of jurisdiction over Saltville's facility and services should not affect the integrity of its long-term storage service contract with Saltville.

### **V. Discussion**

#### **A. Certificate Amendment**

12. In its rehearing request and in its compliance filing, Saltville noted that its projected design capacities for each of the four development phases of its project have been lowered slightly based on the results of actual development activities and further

testing of the salt caverns. Saltville states that it has no objection to the Commission's amending its certificate authority to revise the maximum gas storage inventory from those stated in the June 14 Order to the maximum design capacities reflected in attachment 2, Schedule 14 of its compliance filing.

13. As certificated, Saltville's project was to consist of four natural gas storage caverns having a total capacity of 8.2 Bcf and a working gas capacity of 5.8 Bcf. Engineering Condition 7 of Appendix A to the June 14, 2004 Order specified the maximum gas storage inventory of each cavern at 14.73 psia and 60°F as follows: Cavern No. 1, 760 MMcf, Cavern No. 2, 560 MMcf, Cavern No. 3, 6,700 MMcf, and Cavern No. 4, 200 MMcf. Saltville states that as a result of testing and operational experience it has determined that the actual capacity of each of the caverns needs to be revised. Specifically, the ultimate capacities of Cavern Nos. 1, 2 and 3 are now estimated to be 790 MMcf, 600 MMcf, and 5,360 MMcf, respectively. In addition, Saltville states that it no longer intends to construct Cavern No. 4 at this time. Therefore the total capacity of Saltville's storage facility when fully developed in 2007 is estimated to be 6.75 Bcf with a working gas capacity of 4.79 Bcf as reflected in attachment 2, Schedule 14 of Saltville's compliance filing. We find that it is in the public convenience and necessity to amend Saltville's certificate issued in Docket No. CP04-13-000 to reflect these revised capacities and the elimination of Cavern No. 4 since it more accurately reflects the capacity of Saltville's facilities. Accordingly, Engineering Condition 7 of Appendix A to the June 14, 2004 Order is amended to reflect the revised capacities.

14. In addition, Saltville has proposed initial rates different from those approved in the June 14 Order. As discussed more fully below, we are approving, with certain conditions, the newly proposed initial rates. Therefore, we will amend Saltville's certificate accordingly.

## **B. Request for Rehearing and Clarification**

### **1. The Equitable Method of Storage Rate Design**

15. Saltville notes that with conventional baseload firm storage service the customer injects and withdraws up to its contract entitlement a single time during the service year and the key differentiated features of the firm service are the capacity to which the customer is entitled and the right to withdraw up to a set maximum amount on a given day. Saltville argues that the *Equitable* method's 50/50 fixed cost classification between these capacity and deliverability components is unfair and unworkable when applied to

its facilities and the three services it proposes to provide because no value is placed on injectability, the third service component Saltville offers. Saltville maintains that injectability, which is the right to inject gas into storage at a specific entitlement level, is a defining characteristic of the rapid response storage service it provides and a necessary and valuable service component for its customers.<sup>9</sup>

16. Saltville asserts that a single modification to the *Equitable* method of storage cost classification and rate design would achieve a more appropriate rate design for its services. Since Saltville's storage service includes three distinct fixed-cost products – capacity, deliverability, and injectability, Saltville argues that it should be permitted to utilize a modified *Equitable* method that features a three-part reservation rate for the development of its firm storage service maximum recourse rates. Citing *Northwest Pipeline Corporation*,<sup>10</sup> Saltville also argues that it should be permitted to apportion equal amounts of its fixed costs to each of three firm service components since, as the Commission found in the case of two-component storage service rates, each component is interrelated and interdependent on the others, and it is at best difficult to determine with accuracy the actual fixed costs attributable to each of the three components.

17. The Commission will accept Saltville's proposal to adopt a modified *Equitable* rate design. As noted above, under *Equitable*, fixed costs are divided equally between the capacity reservation charge and the deliverability reservation charge; there is no separate injection reservation charge. The *Equitable* method is appropriate when the storage service being provided is peak day deliverability (withdrawal capacity) and inventory

18. Saltville proposes to allow customers to contract separately for injection capacity. This service feature makes Saltville's proposed firm storage service different from traditional storage services and requires that appropriate reservation fees for injection capacity be derived. Saltville's approach follows the main thrust of the *Equitable* rate

---

<sup>9</sup> The use of storage has expanded since the natural gas industry was restructured in the early 1990's. The growing use of financial markets for both price risk management and speculative purposes has led to storage being used to facilitate arbitrage, with withdrawals occurring potentially at any time of the year in response to spot market prices. Further, the different daily operating cycles of the natural gas and wholesale electric industries suggest that storage may be able to play a role in meeting quick response start-up needs of electric generators. These different storage uses can require multiple annual storage injection and withdrawal cycles and have led to the greater importance of the ability to inject gas on demand.

<sup>10</sup> 87 FERC ¶ 61,266, at 62,082-83 (1999), *aff'd in relevant part*, 92 FERC ¶ 61,287 (2000).

design by allocating fixed costs equally to the different service components. Accordingly, we will grant Saltville's request for rehearing and accept its modified *Equitable* rate design methodology.

## 2. Interruptible Rates

19. Saltville notes that its storage facility is being developed in phases over the course of several years and that it cannot know with certainty from a geotechnical or engineering standpoint exactly how much capacity will be developed for commercial use. Saltville anticipates that it will be unable to sell up to its design firm service levels in the initial years of operation, either because it has not developed the full design capacity or capacity developed could not be sold, initially, on a firm basis. Therefore, since Saltville expects that it will have to use interruptible service revenues to recover its fixed costs, it requests the Commission to permit it to design its interruptible rates by crediting only interruptible revenues that exceed its projected revenue requirement for each phase.

20. In its compliance filing in Docket No. CP04-14-002, Saltville proposes to credit 90 rather than 100 percent of interruptible revenues to its firm and interruptible shippers only after, and to the extent that, it has met its annual revenue requirement. Saltville states that this proposal is the same revenue crediting methodology the Commission approved in *Discovery Gas Transmission LLC, (Discovery)*.<sup>11</sup>

21. Saltville contends that its proposals are reasonable since they simply permit it to use interruptible revenues to recover its costs, not to overrecover its costs. Further, Saltville asserts, with the rate rejustification requirement and associated cost and revenue information that it must file, the Commission can ensure that Saltville is not overrecovering its costs.

22. Saltville's circumstances are distinguishable from those in *Discovery*. *Discovery's* shippers had agreed to commit quantities of gas for the life of certain leases to firm service on *Discovery* to obtain usage-fee-only rates. As a result, *Discovery* had no reservation charges and thus had no guaranteed revenue since any revenues had to come from usage charges. Furthermore, the Commission accepted *Discovery's* proposal to credit 90 percent of both firm and interruptible transportation revenue to its shippers after it collected its annual cost of service. Conversely, Saltville has reservation charges and has proposed to credit 90 percent of its interruptible revenues, but none of its firm revenues, to its shippers, after it meets its annual revenue requirement. Therefore, we will deny rehearing on this issue and direct Saltville to revise its tariff to credit 100 percent of its interruptible revenues to its firm and interruptible shippers, in accordance with the June 14 Order.

---

<sup>11</sup> 108 FERC ¶ 61,060 (2004).

### **3. Three-Year Rate Review**

23. Saltville contends that the three-year rate rejustification filing required in the June 14 Order is inconsistent with the requirement that Saltville file initial rates reflecting each of the four annual phases of the development of its project. Saltville argues that the rate review filing deadline should be changed to four years after Saltville commences operations under the certificate so that the rate review filing will reflect the full development period.

24. We agree. Given the anticipated changes in its initial rates during the first four years, it is reasonable to defer the rate rejustification requirement until after the last of the initial rates have taken effect in 2007. Under this approach, all of the costs that have been incurred throughout the storage facility's initial development period can be taken into account. A rate review filing after four years of service will better coordinate the rate filing with the four-year phased development period and allow the Commission the benefit of reviewing Saltville's rates based on a fully-developed storage field. Saltville is therefore directed to submit its rate review filing four years after it commences operations under its certificate.<sup>12</sup>

### **4. Rate Review Units of Service**

25. The June 14 Order required Saltville to justify its recourse rates in the now four-year rate review filing using projected units of service no lower than those upon which its initial rates are based. The order also stated that Saltville may make an NGA section 4 filing to propose alternative recourse rates in lieu of the rate filing.

26. Saltville requests rehearing of the requirement that the rate review be based on projected units no lower than those upon which the initial rates were based. Saltville states that its concern is limited to the situation in which design capacity is lower than originally anticipated, given that certain caverns have not demonstrated the ability to perform at projected levels. Saltville argues that a study utilizing updated cost information while ignoring updated capacity information is unfair and unreasonable. Saltville further argues that by giving it the option of either filing an inaccurate, skewed revenue study or a full section 4 rate proceeding, the Commission has effectively required the latter, which is beyond its statutory authority.

---

<sup>12</sup> As requested by Saltville, this clarifies that the rate justification requirement's four year time frame begins on the date service pursuant to the certificate authority issued in the June 14 order commences.

27. We will deny Saltville's request for rehearing on this issue. Contrary to Saltville's assertion, the Commission has not required it to file a section 4 rate proceeding. Saltville's initial phased rates are based on the design capacity and projected cost-of-service for each of the phases, not on actual volumes. The Commission's primary concern is the potential for overrecovery of costs if Saltville bases its rate review filing on volumes that are less than the design volumes on which its initial rates are based. If Saltville were to contract for additional volumes after its rate review filing, then its total revenues might be greater than its cost of service. The updated cost information simply permits the Commission to determine whether or not Saltville is overrecovering its actual cost-of-service. Furthermore, if Saltville's actual design capacity is lower than anticipated, Saltville may seek to amend its certificated capacity to reflect the lower actual design capacity and then use the lower certificated capacity in its rate review filing. The lower certificated volumes would ensure that Saltville would not be able to contract for additional volumes and overrecover its cost of service.

### **5. Request for Clarification**

28. Saltville requests clarification that it may submit updated actual and projected cost data as the basis for its compliance rates rather than rely on the projected cost and operational data developed in 2001 that it used to develop its settlement rates in Docket No. PR03-13-000. Saltville also requests clarification that it may use updated projections as to its total and working design capacity in the recalculation of its initial phased rates.

29. The Commission clarifies that Saltville is permitted to use updated cost and design volume information and 100 percent of its total design working capacity in calculating its initial rates.

### **C. Compliance Filing – Docket No. CP04-14-002**

#### **1. Storage Rate Design**

30. Saltville included two methods of rate design in its compliance filing. One method is the *Equitable* method (which assigns 50 percent of the fixed costs to capacity, 50 percent of the fixed costs to withdrawals and assigns the variable costs to injections and withdrawals). The other method reflects its rehearing request proposal by assigning 33 percent of the fixed costs to capacity, 33 percent of the fixed costs to withdrawals, 33 percent of the fixed costs to injections and which assigns the variable costs to injections and withdrawals. For the reasons discussed above, we are granting Saltville's request for rehearing on this issue and accepting its modified *Equitable* rate design method.

31. Under Saltville's proposal, customers will pay separate charges every month for the capacity, deliverability and injectability components, unlike the *Equitable* method. The following table illustrates Saltville's calculation of the differences in the reservation rates for firm storage service under the alternative methods:

**Phase I Initial Rates<sup>13</sup>**

	<b><u>Equitable Rate Design</u></b> (\$/MMBtu/Month)	<b><u>Saltville's Proposal</u></b> (\$/MMBtu/Month)
Space (Capacity) Reservation Charge	\$2.208	\$1.472
Withdrawal Reservation Charge	\$1.842	\$1.228
Injection Reservation Charge	Not applicable (\$0.000)	\$2.443

32. The injection and withdrawal usage charges are based on the variable operation and maintenance expenses. Saltville states that it will file revised rate sheets annually, not less than 30 days prior to September 1, 2005, September 1, 2006, and September 1, 2007, to update the rates on file to reflect subsequent phases.

**2. Service Nomination Limitations**

33. Saltville proposes to place language in section 3.1(b) of its General Terms and Conditions (GT&C) limiting firm service quantities awarded during an open season to levels that “retain the relationship that is proportional to the design parameters of Saltville’s facilities with respect to Maximum Storage Quantity, Maximum Daily Withdrawal Quantity and Maximum Daily Injection Quantity, unless otherwise agreed by Saltville.” Saltville further proposes, in section 3.2 of its GT&C, that for any other requests for service (including firm service), the quantities to be awarded “retain the relationship that is proportional to the design parameters of Saltville’s facilities with respect to Maximum Storage Quantity, Maximum Daily Withdrawal Quantity, Maximum Daily Injection Quantity, Maximum Park Quantity and Maximum Loan Quantity, as applicable, unless otherwise agreed by Saltville.” Saltville maintains that these provisions will enable it to maintain consistency with the overall design parameters of the storage facility in order to meet its full obligations on the most efficient basis.

34. The phrase “retain the relationship that is proportional to the design parameter” in both sections 3.1(b) and 3.2 is too vague. Also, the phrase “unless otherwise agreed by Saltville,” contained in both sections 3.1(b) and 3.2 makes those sections unduly discriminatory, as well. Saltville is therefore directed to revise its tariff to state the

---

<sup>13</sup> Rates are those shown on Original Sheet No. 11 (Saltville’s Proposal) and Alt Original Sheet No. 11 (Equitable Method) to Saltville’s FERC Gas Tariff included in its compliance filing. These are the rates which Saltville proposes to be effective during Phase I from September 1, 2004 through August 31, 2005.

proportional storage facility design parameters and to delete the phrase “unless otherwise agreed to by Saltville” from the revised tariff. Saltville must state clearly in its tariff the degree of flexibility it is offering its potential customers and the limits on that flexibility. To the extent Saltville’s exercise of commercial or operational judgment is a factor in a customer’s choice of flexibility in choosing different quantities of service for the three components of service, the tariff must specify how that will be done in a not unduly discriminatory fashion.

35. Furthermore, the Maximum Park and Loan Quantities referred to in section 3.2 represent interruptible service. It is not appropriate to factor them into a decision as to whether firm service is available, since it would give the interruptible quantities preference over requested firm service. Therefore, Saltville is directed to revise its tariff to remove the Maximum Daily Park and Loan Quantities from consideration when deciding the quantities available to be awarded for firm service requests.

### **3. Request for Limited Waiver of EDI/EDM and FF/EDM Requirements**

36. Saltville requests limited waiver of the EDI/EDM and FF/EDM requirements related to the North American Energy Standards Board’s (NAESB) WGQ Version 1.6 standards until requested by a Part 284 customer. Saltville states that it has received no requests to send information via EDI/EDM and FF/EDM and does not anticipate any such requests. Saltville proposes to implement any of the Version 1.6 data sets within 90 days following the receipt of such a request. Saltville states that the Commission has granted similar requests.<sup>14</sup>

37. Consistent with our ruling in *Tennessee Gas Pipeline Company*,<sup>15</sup> the Commission will grant Saltville an extension of time, subject to condition. The Commission notes that the NAESB data sets are to be used by more persons than just a pipeline's customers. Agents, third party service providers, other pipelines and the Commission can require the use of the NAESB data sets for their communication with and access to information from Saltville. Further, the Commission requires certain capacity release information to be available to the public. Therefore, the Commission will require Saltville to implement the capacity release data sets for publicly available information. As for the remaining

---

<sup>14</sup> *Citing Standards for Business Practices of Interstate Natural Gas Pipelines, Order No. 587-M, 95 FERC ¶ 61,127 at 61,401 (2001) (granting a limited waiver for Dauphin Island Gathering Partners); see Texas Eastern Transmission. LP, Order on Order No. 587-0 Compliance Filing, Letter Order, Docket No. RP02-.494-000 (Sept. 27, 2002); see also Egan Hub Partners, L.P., Letter Order, Docket No. RP02-43-000 (Dec. 5, 2001).*

<sup>15</sup> 100 FERC ¶ 61, 340 (2002).

data sets, the Commission will grant Saltville an extension of time to comply with a NAESB data set for up to 90 days from the date any person first requests use of a NAESB data set that Saltville does not currently support.

#### **4. Netting and Trading Standards**

38. Saltville states that it did not incorporate the Netting and Trading standards into its tariff, either verbatim or by reference, because its tariff does not contain imbalance penalty provisions. Saltville asserts that the Commission has previously found that those standards are not applicable to a pipeline or a storage facility on which customers do not incur imbalances and are not subject to imbalance penalties.<sup>16</sup>

39. In its order issued September 28, 2000,<sup>17</sup> the Commission clarified that pipelines on which shippers do not incur imbalances and are not subject to imbalance penalties need not implement imbalance trading on their systems. Since Saltville's tariff does not contain any imbalance penalty provisions, it qualifies for the exemption. However, if Saltville seeks to implement imbalance penalty provisions in the future, it must implement imbalance netting and trading as required by Order Nos. 587-G and 587-L.

#### **5. Natural Gas Price Indices**

40. The June 14 Order directed Saltville to address how the indices which it proposes to use meet each criterion in the *Policy Statement, Price Discovery in Natural Gas and Electric Markets (Policy Statement)*<sup>18</sup> when Saltville filed its actual tariff.

41. Section 6.5(2) of Saltville's GT&C provides that OFO penalties will be calculated based on an "applicable daily *Gas Daily* posting for the Transporter on whose pipeline the deviation occurred." However, Saltville states, *Gas Daily* does not provide an index for East Tennessee, the pipeline currently transporting gas to Saltville. Saltville therefore proposes to modify section 6.5(2) to base OFO penalties on the Gas Daily Columbia App. Midpoint Price Index.

42. Saltville provides justification, in compliance with the June 14 Order, for the Gas Daily Columbia App. Midpoint Index. Saltville contends that the Gas Daily Columbia App. Midpoint Index meets all of the criteria set forth in the Policy Statement. Saltville

---

<sup>16</sup> Citing *Algonquin LNG, Inc.*, 93 FERC ¶ 61,150 (2000) and *Egan Hub Partners, L.P.*, 93 FERC ¶ 61,150 (2000).

<sup>17</sup> *Standards For Business Practices Of Interstate Natural Gas Pipelines*, 92 FERC ¶ 61,266 (2000).

<sup>18</sup> 104 FERC ¶ 61,190 (2003).

argues that the publisher of *Gas Daily*, Platts, conducts surveys to collect the data underlying the indices in *Gas Daily*. Saltville states that Platts has provided information to the Commission regarding the manner in which its surveys are conducted and its compliance with the Policy Statement in its comments filed June 14, 2004 in FERC Docket No. ADO3-7-000. Saltville further states that the Commission staff's report of May 5, 2004 in Docket Nos. PL-3-004 and A03-7-004 urges the Commission to find that Platts is in "substantial compliance with the Standards of the Policy Statement," if Platts agrees, in the future, to publish certain additional index data. Saltville states that Platts agreed to the conditions contained in the Staff report in its June 14 filing.

43. The May 5 staff report made a number of recommendations concerning compliance by price index publishers, including Platts, with Policy Statement standards, as well as recommendations concerning the information that should be provided by price index publications and minimum criteria to demonstrate adequate liquidity at price index locations. A staff technical conference was held on June 25, 2004 in Docket No. PL03-3-005, *et al.*, to discuss these recommendations and get further input from the industry, including price index developers, on the progress made to date on price formation issues. In addition, thirteen open tariff dockets were noticed in conjunction with the conference. These are cases in which the Commission accepted tariff sheets with changes in price indices without imposing a refund obligation, but made the tariff sheets subject to further orders as a result of the Commission's price index initiative.

44. On November 19, 2004, the Commission is issued an order in Docket No. PL03-3-005, *et al.*, discussing, *inter alia*, the use of price indices in jurisdictional tariffs.<sup>19</sup> In that order the Commission adopted criteria for price index locations when they are used in tariffs for cashout valuations, penalties, and the like. The Commission determined to implement these criteria on a prospective basis when future tariff changes are filed, and closed the thirteen pending tariff dockets that were subject to further order. In light of the decision to apply the newly adopted criteria only to tariff changes filed in the future, the Commission accepts the tariff sheets filed by Saltville to use the Gas Daily Columbia App. Midpoint Index. If Saltville files changes in this index location in the future, Saltville must at that time demonstrate that the index and the specific location chosen meet the criteria adopted in Docket No. PL03-3-005, *et al.*

---

<sup>19</sup> *Order Regarding Future Monitoring of Voluntary Price Formation, Use of Price Indices in Jurisdictional Tariffs, and Closing Certain Tariff Dockets*, Docket No. PL03-3-005, issued November 19, 2004.

## 6. Other Tariff Issues

45. Original Sheet No. 11 and Alt Original Sheet No. 11 to Saltville's tariff do not state what the monthly space reservation charge is multiplied by to determine the monthly bill. Saltville is directed to specify this quantity.

46. Saltville states that its tariff reflects an effective date of September 1, 2004, which, it argues, is a date consistent with the June 14 Order's requirement that Saltville's compliance filing reflect "a proposed effective date no later than 30 days after the date the actual tariff is filed." However, Saltville states, the effective date is dependent on the Commission's issuance of an order accepting its compliance filing on or before September 1, 2004, given that the June 14 Order specifies that Saltville's certificate authority granted by that order shall not become effective until the effective date of its initial rates. Accordingly, Saltville submits that, to the extent the Commission does not act on its compliance filing by September 1, 2004, its tariff should be made effective on a date no earlier than the date that the Commission issues its order on the compliance filing. In the interim, Saltville states, it shall continue to operate under its existing interim authority and charge its existing rates for service.

47. Saltville's certificate authority granted in the June 14 Order is not effective until the effective date of Saltville's initial rates. Therefore, Saltville's tariff is effective on a date no earlier than the date this order on Saltville's compliance filing issues.

48. Section 2.1(a) of Rate Schedule FSS (Original Sheet No. 31) provides that, in the event of storage field system constraints, Saltville, at its sole discretion, may limit a customer to 70 percent of its MDIQ once the customer's storage capacity reaches 70 percent of the customer's Maximum Storage Quantity. Saltville is directed to revise its tariff to: (a) specify the field system constraints to which this provision applies; and (b) specify all ratcheting provisions which apply to injection rights.

49. Saltville uses the phrase "sole discretion" on Original Sheet No. 31 and on Original Sheet No. 108. Saltville is directed to replace the phrase "sole discretion" with the phrase "reasonable and nondiscriminatory discretion."

50. Section 2.1(c) of Rate Schedule FSS (Original Sheet No. 31) provides that a customer can withdraw its MDWQ provided that the customer has sufficient gas stored in customer's firm Storage Inventory. Saltville is directed to revise its tariff to define sufficient and to state all ratcheting provisions which apply to withdrawal rights.

### The Commission orders:

(A) The certificate of public convenience and necessity issued to Saltville in Docket No. CP04-13-000 is amended to reflect a revision of the maximum gas storage inventory for its facility and the initial rates as discussed above and in Saltville's request for rehearing and its compliance filing.

(B) Saltville's request for rehearing is granted, in part, and denied, in part, as discussed in the body of this order.

(C) Saltville's request for clarification is granted as discussed in the body of this order.

(D) The tariff sheets in Appendix A are accepted, to be effective on the date this order issues, subject to Saltville's revising its tariff in accordance with the conditions discussed in the body of the order. The tariff sheets in Appendix B are rejected.

By the Commission.

( S E A L )

Linda Mitry,  
Deputy Secretary.

**APPENDIX A**

Saltville Gas Storage Company, L.L.C.  
Docket No. CP04-14-002  
FERC Gas Tariff, Original Volume No. 1  
Tariff Sheets Accepted the Date this Order Issues

Original Sheet No. 0	Sheet Nos. 65 - 99
Original Sheet No. 1	Original Sheet No. 100
Original Sheet No. 2	Original Sheet No. 101
Original Sheet No. 3	Original Sheet No. 102
Sheet Nos. 4 - 10	Original Sheet No. 103
Original Sheet No. 11	Original Sheet No. 104
Original Sheet No. 12	Original Sheet No. 105
Original Sheet No. 13	Original Sheet No. 106
Original Sheet No. 14	Original Sheet No. 107
Sheet Nos. 15 - 30	Original Sheet No. 108
Original Sheet No. 31	Original Sheet No. 109
Original Sheet No. 32	Original Sheet No. 110
Original Sheet No. 33	Original Sheet No. 111
Original Sheet No. 34	Original Sheet No. 112
Original Sheet No. 35	Original Sheet No. 113
Sheet Nos. 36 - 40	Original Sheet No. 114
Original Sheet No. 41	Original Sheet No. 115
Original Sheet No. 42	Original Sheet No. 116
Original Sheet No. 43	Original Sheet No. 117
Original Sheet No. 44	Original Sheet No. 118
Original Sheet No. 45	Original Sheet No. 119
Sheet Nos. 46 - 50	Original Sheet No. 120
Original Sheet No. 51	Original Sheet No. 121
Original Sheet No. 52	Original Sheet No. 122
Original Sheet No. 53	Original Sheet No. 123
Original Sheet No. 54	Original Sheet No. 124
Original Sheet No. 55	Original Sheet No. 125
Sheet Nos. 56 - 60	Original Sheet No. 126
Original Sheet No. 61	Original Sheet No. 127
Original Sheet No. 62	Original Sheet No. 128
Original Sheet No. 63	Original Sheet No. 129
Original Sheet No. 64	Original Sheet No. 130
	Original Sheet No. 131
	Original Sheet No. 132

**APPENDIX A**

Saltville Gas Storage Company, L.L.C.  
Docket No. CP04-14-002  
FERC Gas Tariff, Original Volume No. 1

Sheet No. 133	Original Sheet No. 212
Original Sheet No. 134	Original Sheet No. 213
Original Sheet No. 135	Original Sheet No. 214
Original Sheet No. 136	Sheet Nos. 215 - 220
Original Sheet No. 137	Original Sheet No. 221
Original Sheet No. 138	Original Sheet No. 222
Original Sheet No. 139	Original Sheet No. 223
Original Sheet No. 140	Original Sheet No. 224
Original Sheet No. 141	Original Sheet No. 225
Original Sheet No. 142	Original Sheet No. 226
Original Sheet No. 143	Sheet Nos. 227 - 230
Original Sheet No. 144	Original Sheet No. 231
Original Sheet No. 145	Original Sheet No. 232
Original Sheet No. 146	Sheet Nos. 233 - 240
Original Sheet No. 147	Original Sheet No. 241
Original Sheet No. 148	Original Sheet No. 242
Original Sheet No. 149	Original Sheet No. 243
Original Sheet No. 150	Sheet Nos. 244 - 250
Original Sheet No. 151	Original Sheet No. 251
Original Sheet No. 152	Sheet Nos. 252 – 300
Original Sheet No. 153	
Original Sheet No. 154	
Original Sheet No. 155	
Original Sheet No. 156	
Original Sheet No. 157	
Original Sheet No. 158	
Original Sheet No. 159	
Original Sheet No. 160	
Original Sheet No. 161	
Sheet Nos. 162 - 199	
Original Sheet No. 200	
Original Sheet No. 201	
Original Sheet No. 202	
Original Sheet No. 203	
Original Sheet No. 204	
Sheet Nos. 205 - 210	
Original Sheet No. 211	

**APPENDIX B**

Saltville Gas Storage Company, L.L.C.  
Docket No. CP04-14-002  
FERC Gas Tariff, Original Volume No. 1  
(Equitable Method Tariff Sheets)

Alt Original Sheet No. 11  
Alt Original Sheet No. 12  
Alt Original Sheet No. 13  
Alt Original Sheet No. 14  
Alt Original Sheet No. 32  
Alt Original Sheet No. 201  
Alt Original Sheet No. 225