

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Transcontinental Gas Pipe Line Corporation Docket Nos. RP95-197-050
RP97-71-041

ORDER DENYING REHEARING

(Issued November 26, 2004)

1. This order addresses the request for rehearing filed by the Brooklyn Union Gas Company and Keyspan Gas East Corporation (collectively, Brooklyn Union) of the delegated letter order issued in this proceeding on December 12, 2002 (December 12, 2002 Delegated Letter Order).¹ That order accepted the compliance filing submitted by Transcontinental Gas Pipe Line Corporation (Transco), pursuant to a Commission order issued in this proceeding on September 30, 2002 (September 30, 2002 Order).² The issue is whether the compliance filing improperly reallocated storage costs to the transportation component of Transco's bundled storage services. As discussed below, we will deny Brooklyn Union's rehearing request.
2. This action benefits customers by providing rate certainty with respect to storage and transportation services.

Background

3. In these two consolidated rate cases, the Commission issued orders on April 16, 1999 and March 28, 2001 approving Transco's proposal to roll in the cost of incrementally-priced Leidy Line and Southern expansion projects.³ In the first order, the Commission also remanded the case to the administrative law judge for further consideration of the issue of how it should design the rolled-in rates. In proposing to roll

¹ *Transcontinental Gas Pipe Line Corp.*, Docket Nos. RP95-197-046 and RP97-71-038 (Dec. 12, 2002) (unpublished delegated letter order).

² *Transcontinental Gas Pipe Line Corp.*, 100 FERC ¶ 61,377 (2002).

³ *Transcontinental Gas Pipe Line Corp.*, 87 FERC ¶ 61,087 (1999), *order on reh'g*, 94 FERC ¶ 61,362 (2001).

in the costs of the Leidy Line and Southern expansion projects, Transco generally sought to retain its existing cost allocation and rate design methodology, except that Transco proposed to make changes to its current cost allocation method for its market area storage services, which include a bundled transportation service. These changes affected Rate Schedules LSS (Leidy Line Storage Service), SS-1 (Storage Service 1) and SS-2 (Storage Service 2), which were incrementally-priced services but would become rolled-in as a result of the Commission's approval of the roll-in of the Leidy Line and Southern expansion projects. The changes would also affect Rate Schedule GSS (General Storage Service).

4. As relevant here, Transco proposed to use the Zone 6 rate for firm transportation service under Rate Schedule FT as the starting point for deriving the transportation component of the rate for these bundled storage services, since these services all use Zone 6 transportation. Transco then proposed a downward adjustment to account for the fact that there are restrictions on the bundled storage customers' use of transportation that do not apply to transportation service under Rate Schedule FT.

5. In addition to the changes proposed by Transco to the cost allocation methodology for the bundled storage and transportation services, Brooklyn Union proposed that Transco be required to reallocate 25 percent of the fixed storage costs allocated to the GSS, LSS, WSS (Washington Storage Service) and SS-2 bundled storage to system transportation, in view of the benefits that these storage services provide to system transportation. Transco's allocation at that time was, and still is, 15 percent of the fixed costs of its Washington Storage Field and the Transco-owned portion of the Wharton and Leidy storage fields, as well as a portion of the Eminence and Hester storage facilities.

6. On October 12, 2001, the Commission issued its order on Initial Decision in the remanded proceeding (October 12, 2001 Order).⁴ The Commission generally upheld the Initial Decision and Transco's proposed methodology for implementing the roll-in of the costs of the Leidy Line and Southern expansion projects. As relevant here, with regard to the cost allocation issues related to Transco's bundled storage services, the Commission accepted Transco's proposal to use the Zone 6 FT rate as the starting point for deriving the transportation component of the bundled storage services.⁵ More specifically, the Commission stated:

⁴ *Transcontinental Gas Pipe Line Corp.*, 97 FERC ¶ 61,044 (2001), *reh'g denied*, 99 FERC ¶ 61,002 (2002).

⁵ October 12, 2001 Order at 61,230-31. Zone 6 is in Pennsylvania, and includes the Wharton and Leidy Line storage fields.

[S]ince the storage fields used to perform GSS service [General Storage Service] are located in Zone 6, all GSS shippers use Zone 6 transportation, and therefore, the rate associated with Zone 6 transportation is an appropriate starting point for deriving the transportation component of the bundled storage rate There are limitations to the use of the transmission component of the bundled storage service that do not exist for FT [firm transportation] service, but these limitations are appropriately addressed by determining an adjustment to the Zone 6 rate to account for the limitations. Transco's proposal is just and reasonable.⁶

7. The Commission also rejected Brooklyn Union's proposal to increase allocation of storage costs to system transportation, finding that it had failed to satisfy its burden, under section 5 of the Natural Gas Act (NGA),⁷ that the current 15 percent allocation of storage costs to bundled storage services, which includes system transportation, was unjustly and unreasonably high and that the current allocation of storage-related costs to system services was unjustly and unreasonably low.⁸ No party sought rehearing of the Commission's holding that the Zone 6 Rate Schedule FT rate should be used as the starting point for deriving the transportation component of the bundled storage services rates. Brooklyn Union did seek rehearing of the Commission's rejection of its proposal to increase the storage costs allocated to system transportation, including Rate Schedule FT. In its April 1, 2002 Order, the Commission rejected Brooklyn Union's rehearing request, noting, among other things, that Transco's firm transportation rates already include a significant portion of storage-related costs.⁹

8. On August 30, 2002, as authorized by the October 12, 2001 and April 1, 2002 Orders, Transco submitted a limited filing under section 4 of the NGA,¹⁰ proposing tariff revisions consistent with these orders to roll in costs of the Transco's Leidy Line and Southern expansion projects.

⁶ *Id.*

⁷ 15 U.S.C. § 717d (2000).

⁸ October 12, 2001 Order at 61,236, *reh'g denied*, 99 FERC ¶ 61,002 at 61,015 (2002) (April 1, 2002 Order).

⁹ April 1, 2002 Order at 61,015.

¹⁰ 15 U.S.C. § 717c (2000).

9. Brooklyn Union protested Transco's filing, to the extent that it allocated any storage costs to the transportation component of the bundled storage services and thereby decreased the storage costs allocated to stand-alone transportation service. Brooklyn Union further argued that Transco sought to allocate the system transportation portion of the costs of the Washington, Hester, Leidy, and Wharton storage fields, to the transportation component of Rate Schedules GSS, LSS, SS-1 and SS-2. Brooklyn Union argued that the net effect of Transco's proposal was to allocate fewer storage costs to system transportation services than had previously been allocated, and that this result was not required or permitted by any Commission order. Brooklyn Union further argued that the issue of whether storage costs should be allocated to the transportation component of bundled storage service was being litigated in Transco's subsequent section 4 rates case in Docket No. RP01-245-000¹¹ and that Transco must be directed to modify its filing to eliminate the allocation of storage costs to bundled storage services, pending the outcome of that proceeding.

10. In its September 30, 2002 Order, the Commission found that it was unable to determine whether Transco's proposed revisions would reallocate storage costs between bundled storage and system transportation, as Brooklyn Union alleged. The Commission noted that changing the allocation of costs would go beyond what was authorized in prior orders. The Commission accepted the tariff sheets reflecting the roll-in of the costs of the Leidy Line and Southern expansion projects, to be effective October 1, 2002, subject to refund, and subject to Transco filing a response to Brooklyn Union's protest and an explanation and justification for its proposed allocation of costs to the bundled storage services.¹² In addition, the Commission found that Transco had improperly combined its limited section 4 filing with a compliance filing making Commission-order changes related to the unbundling of the cost of Emergency Eminence Service and directed Transco to separately file the tariff sheets relating to the roll-in.

11. Transco submitted its compliance filing to the September 30, 2002 Order on October 10, 2002 (October 10, 2002 Compliance Filing), including the directed separate tariff sheets and an answer to Brooklyn Union's protest. Transco stated that, in seeking to roll-in the costs of the Leidy Line and Southern expansion projects into its systemwide rates, it did not propose a change to its current, approved underlying cost allocation methodology. Rather, Transco asserted that, in accordance with the roll-in methodology approved by the Commission,¹³ the transportation component of its bundled storage services, including Rate Schedule GSS, was based on Transco's Zone 6 firm transportation rate. Transco stated that its use of the Zone 6 firm transportation rate as

¹¹ *Transcontinental Gas Pipe Line Corp.*, 94 FERC ¶ 61,360 (2001).

¹² September 30, 2002 Order at P 18.

¹³ *See Transcontinental Gas Pipe Line Corp.*, 77 FERC ¶ 61,118 (1996) (order approving settlement), *order on reh'g*, 78 FERC ¶ 61,102 (1997).

the starting point for deriving the transportation component of the rolled-in bundled storage services automatically included an allocation of storage costs that have been allocated to Transco's system transportation rates, effective since September 1, 1995, including 15 percent of the GSS and WSS storage costs and a portion of the Hester storage costs.¹⁴ Transco further argued that in Brooklyn Union's protest, Brooklyn Union improperly sought an adjustment to the Zone 6 firm transportation rate used as the starting point for deriving the transportation component of the bundled storage services to eliminate the storage costs that are included in that rate. Transco argued that Brooklyn Union's protest constituted a collateral attack on the October 12, 2001 Order, in which the Commission approved use of the Zone 6 firm transportation rate as the starting point for deriving the transportation component of the bundled storage rate, without any adjustment to remove storage costs.

12. Brooklyn Union protested Transco's October 10, 2002 Compliance Filing, stating that there was no record evidence supporting the contention that Hester storage costs previously had been allocated to the transportation component of Rate Schedule GSS. Brooklyn Union further argued that, while the Commission did approve the use of the Zone 6 rate as the starting point for deriving the rates for the transportation component of bundled storage, there is no explicit discussion in the Commission's previous orders supporting the inclusion of storage costs in the Zone 6 rate when deriving the transportation component of bundled storage service.

13. In its answer to Brooklyn Union's protest, Transco asserted that the basic concept of its proposal for Leidy Line services was that the portion of those using Zone 6 transportation would bear the same reservation charge that applies to all other firm transportation service in Zone 6. Transco stated that the roll-in should attempt to establish, where possible, a uniform rate for all shippers who utilize the same or similar services in a particular zone, such that if the Leidy Line facilities are rolled-in it would be appropriate that all transportation service in Zone 6, whether it occurs on the Leidy Line or on the mainline, be subject to the generally applicable Zone 6 rates.¹⁵

14. Transco further noted that, in the Initial Decision in the remand proceeding, the judge found that "there is no credible opposition to the Transco proposal and that its adoption will result in a just and reasonable rate, provided that the Zone 6 rate is adjusted [by an appropriate factor related to restrictions on the use of the transportation

¹⁴ See *id.* See also, *Transcontinental Gas Pipe Line Corp.*, 70 FERC ¶ 61,384 (1995).

¹⁵ Transco referred to testimony of its witness, Scott C. Turkington at 4-5, submitted at hearing. Exhibit No. 1381 at 9.

component of the bundled storage services].”¹⁶ Transco argued that Brooklyn Union did not take exception to this ruling, and that, in the October 12, 2001 Order, the Commission expressly affirmed the judge’s finding.

15. Brooklyn Union filed a response to Transco’s answer, largely reiterating the arguments in its protest.

16. The December 12, 2002 Delegated Letter Order addressed Transco’s October 10, 2002 Compliance Filing. That order accepted for filing Transco’s revised tariff sheets and response to Brooklyn Union’s protest, as in compliance with the September 30, 2002 Order. The December 12, 2002 Delegated Letter Order noted Transco’s explanation that it was not proposing to change its current, approved cost allocation methodology and Transco’s assertion that it effectuated the roll-in of its Leidy Line and Southern expansion projects in a manner that fully complies with the Commission’s orders in this proceeding.

Brooklyn Union’s Rehearing Request

17. On rehearing, Brooklyn Union argues that the December 12, 2002 Delegated Letter Order failed to meaningfully address the storage cost allocation issues raised in Brooklyn Union’s protest and acknowledged by the Commission in the September 30, 2002 Order. Brooklyn Union asserts that, although the December 12, 2002 Delegated Letter Order noted Transco’s assertion that its proposal would not result in a reallocation of costs, Transco failed to: (1) reference specific record evidence in support of its claim that the Commission had approved a change to Transco’s methodology for allocating storage costs; (2) assess the magnitude of the cost shift associated with allocating storage costs to the transportation component of bundled storage service; or (3) explain how Transco’s proposal to allocate prospectively storage costs to the transportation component of bundled storage service could be reconciled with its own witness’ testimony indicating that the absence of an allocation of storage costs to the transportation component of bundled storage service provided a basis to reduce the allocation of storage costs to transportation services.

18. Brooklyn Union further argues that the December 12, 2002 Delegated Letter Order, in effect, unlawfully authorizes a decrease in the allocation of storage costs to Transco’s stand-alone transportation services and an increase in the allocation of such costs to the transportation component of Transco’s bundled storage services. On this

¹⁶ *Transcontinental Gas Pipe Line Corp.*, 91 FERC ¶ 63,001 at 65,015 (2000).

point, Brooklyn Union states that Commission orders in rate proceedings must be based on substantial evidence and that there is no record evidence or prior Commission order in this proceeding supporting a reallocation of storage costs.

Discussion

19. We will deny Brooklyn Union's rehearing request. As an initial matter, we note that the only issue properly before us at this stage of the proceeding is whether Transco's filing was consistent with prior Commission orders in this case, in which the merits of the cost allocation were decided; we reaffirm our finding that Transco's filing was consistent with those orders. In the October 12, 2001 Order, the Commission approved Transco's proposal to use its Zone 6 FT firm transportation rate as the starting point for allocating costs to the transportation component of its bundled storage services.¹⁷ No party sought rehearing of that ruling. Transco's only proposed adjustment was the downward adjustment to account for the fact that there are restrictions on the bundled storage customers use of transportation that do not apply to transportation service under the firm transportation rate schedule.¹⁸ Use of the Zone 6 transportation storage rate as the starting point for deriving the transportation component of the bundled storage rate necessarily means that all costs in the firm transportation rate, including storage costs, will be reflected in the bundled storage rate, unless a special adjustment is made to remove those costs. If Brooklyn Union wanted the costs excluded from the transportation component of the bundled storage services, it could have proposed a further adjustment; it did not.

20. In addition, the Commission has stated several times in this case that, pursuant to the Zone 6 firm transportation rate (which has been in effect since September 1, 1995¹⁹), Transco allocates 15 percent of the fixed storage costs of its Washington Storage Field and the Transco-owned portion of the Wharton and Leidy Fields and a portion of the Hester costs to system transportation services.²⁰ As evidenced by Brooklyn Union's previous attempt to increase the allocation of storage costs to system transportation (which, as stated above, the Commission rejected²¹), Brooklyn Union was aware that storage costs have been included in the system rate to be used as the starting point for deriving the transportation component of Transco's bundled storage services throughout these proceedings.

¹⁷ See October 12, 2001 Order at 61,230-31; September 30, 2002 Order at P 18.

¹⁸ The Commission required Transco to make a somewhat greater downward adjustment than Transco proposed for this purpose.

¹⁹ See *Transcontinental Gas Pipe Line Corp.*, 70 FERC ¶ 61,384 (1995).

²⁰ See October 12, 2001 Order at 61,236; April 1, 2002 Order at 61,014.

²¹ October 12, 2001 Order at 61,237.

21. The Commission further notes that it has had several opportunities in Transco's general section 4 rate proceedings to examine and evaluate the justness and reasonableness of allocating storage costs to Transco's Zone 6 transportation service. In every instance, we have determined that Transco's proposed allocation is just and reasonable and that the 15 percent allocation is appropriate.²² Further, subsequent to Brooklyn Union filing its rehearing request in this case, the Commission again found in Transco's most recent rate proceeding in Docket No. RP01-245-000, that Transco's method for allocating storage costs to transportation services remains just and reasonable.²³ Since the bundled storage services include Zone 6 transportation service, it is appropriate that the bundled storage service reflect the same costs as are allocated to other Zone 6 transportation services. Consistent with previous Commission orders, we will deny Brooklyn Union's rehearing request and reaffirm our finding that Transco has properly allocated the transportation component of its bundled storage services.

The Commission orders:

Brooklyn Union's rehearing request is hereby denied.

By the Commission. Commissioner Kelly not participating.

(S E A L)

Linda Mitry,
Deputy Secretary.

²² See *id.* at 61,228-29; April 1, 2002 Order at 61,014-15 (2002).

²³ *Transcontinental Gas Pipe Line Corp.*, 106 FERC ¶ 61,299 at P 135 (2004).
See also, *Transcontinental Gas Pipe Line Corp.*, 101 FERC ¶ 63,022 at P 208 (2002).