

121 FERC ¶ 61,151
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Indicated Shippers

Docket No. RP04-99-003

v.

Tennessee Gas Pipeline Company

ORDER ON CONTESTED SETTLEMENT

(Issued November 15, 2007)

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1. On February 26, 2006, Tennessee Gas Pipeline Company (Tennessee) filed an Offer of Settlement in this proceeding concerning a cricondentherm hydrocarbon dewpoint (CHDP) safe harbor on its system and related provisions.¹ The Settlement was opposed by several parties. Upon examination of the Offer of Settlement, the comments in favor and opposed, and the documents of record in this case, the Commission finds the Settlement is just and reasonable and approves it, except as noted.

Background

2. In 2000 and 2001 there was an increase in the hydrocarbon dewpoint (HDP) levels of the gas Tennessee was transporting. HDP levels are the temperatures and corresponding pressures at which hydrocarbons will condense out of the gas stream and become liquid. As pressure rises from zero, the temperature necessary to maintain the gaseous state rises. However, once the pressure goes above a certain level, the temperature necessary to maintain the gaseous state starts to fall. The highest temperature on this curve is known as the CHDP of the gas stream in question.² The heaviest hydrocarbon drops out first, followed by the others in the order of their weight. Liquids in the gas stream can cause operational and safety problems. The Commission considers hydrocarbon dropout to be an issue of gas quality.³

¹ As discussed later in this order, Tennessee defines hydrocarbon dewpoint, or HDP, as the “cricondentherm, the highest temperature at which the vapor-liquid equilibrium may be present.” Thus, in this order HDP and CHDP both refer to the cricondentherm hydrocarbon dewpoint.

² See *ANR Pipeline Co.*, 116 FERC ¶ 61,002, at P 3-6 (2006), for a fuller explanation.

³ This order uses the term “gas quality” to mean the impact of non-methane hydrocarbons on the safe and efficient operation of pipelines, distribution facilities, and end-user equipment, the meaning adopted in the *Policy Statement on Provisions Governing Natural Gas Quality and Interchangeability in Interstate Natural Gas Pipeline Company Tariffs*, 115 FERC ¶ 61,325 (2006) (*Policy Statement*) at P 5.

3. Historically, producers have processed natural gas and removed the hydrocarbons heavier than methane. They were able to sell the extracted liquid hydrocarbons for a greater profit than that received for natural gas. The HDP issue arose because the price of natural gas increased in 2000 and 2001 to the point where it was more profitable to leave the heavier hydrocarbons in the gas stream to be sold as natural gas than to process the gas, extract the heavier hydrocarbons, and sell them as liquids.

4. In the winter of 2000-2001, producers on Tennessee stopped processing their gas on a continual basis and the processing plants serving the Tennessee system operated only intermittently.⁴ The failure to process gas continually continued for the next two years. The result, according to Tennessee, was that from December 2000 through December 2003, it experienced a series of operational problems on its system with regard to hydrocarbon liquids fallout⁵ and that some of its customers experienced problems from liquids fallout as well.⁶ In January 2001 and thereafter, in an attempt to control liquids dropout, Tennessee posted notices on its website stating that without proof of processing, it would not accept gas with a Btu content greater than, initially 1,050 Btus, after March 2001, 1,100 Btus, and, beginning in April 2001, a maximum dewpoint level of 20° F. These notices applied at times to portions of its system and at times to all supply legs on its system.

5. On December 3, 2003, a group of producers, Indicated Shippers, filed a complaint against Tennessee to obtain an order requiring it to cease and desist from enforcing the maximum Btu limit and the hydrocarbon dewpoint limit the pipeline had established through its notices. Indicated Shippers alleged that Tennessee's tariff does not set a maximum limit on the hydrocarbon dewpoint of gas, that the hydrocarbon dewpoint limit was new gas quality standard, and that the pipeline could only make such a revision to its tariff by filing under section 4 of the Natural Gas Act (NGA). Indicated Shippers also alleged that Tennessee's tariff did not give the pipeline authority to impose the hydrocarbon dewpoint limit.

6. The Commission issued its order on the Indicated Shippers' complaint on January 26, 2004.⁷ The Commission found that the additional specifications Tennessee had adopted did not violate its tariff. The Commission found Tennessee has authority

⁴ Answer and Motion to Dismiss of Tennessee Gas Pipeline Company at 5, Docket No. RP04-99-000 (December 23, 2003) (Answer).

⁵ Answer at 6-7 (fallout incidents given in detail).

⁶ *Id.* at 8-10.

⁷ *Indicated Shippers v. Columbia Gulf Transmission Company and Indicated Shippers v. Tennessee Gas Pipeline*, 106 FERC ¶ 61,040 (2004) (*Indicted Shippers*).

under Article II, section 9 of its General Terms and Conditions (GT&C) to require gas to be processed and so did not require Tennessee to cease and desist from enforcing the gas quality standards in its notices. However, the Commission found that Article II, section's 3(b) and 9 of Tennessee's tariff, gave Tennessee too much discretion to vary gas quality standards for gas to be accepted into its system without processing. The Commission stated that Tennessee's tariff contains no provisions for minimum notice periods to shippers or the provision of information concerning the justification for the limits to shippers. Accordingly, the Commission found these sections unjust and unreasonable under section 5 of the Natural Gas Act (NGA) and required Tennessee to file revised sections. The Commission stated that until Tennessee files new sections that the Commission finds are just and reasonable under section 5 of the NGA, its current sections remain in effect.⁸

7. The Commission stated that if Tennessee believes it is necessary to require processing of gas with a dewpoint in excess of 20° F on a permanent basis, Tennessee must propose to include this limit in its tariff. To the extent it desires flexibility to vary these standards in particular circumstances, the Commission stated Tennessee should include in its tariff a mechanism for doing so, including a dewpoint safe harbor as in *Natural Gas Pipeline Company of America*.⁹ Last, the Commission noted that it had announced a public conference in Docket No. PL04-3-000 to gain more information about the impacts of natural gas quality and interchangeability on the nation's energy customers and the companies regulated by the Commission.

8. On February 3, 2004, the Commission issued notice of a technical conference to discuss the issues in this proceeding before Tennessee filed to comply with the January 26, 2004 Order. The technical conference was held on February 24, 2004. Tennessee provided a presentation concerning its proposal for modifications to the existing gas quality provisions of its tariff. On March 5, 2004, Tennessee filed a compliance filing proposing a CHDP standard and the parties subsequently filed comments on March 25, 2004 and reply comments on April 14, 2004.

⁸ *Citing Regulation of Short-Term Natural Gas Transportation Services, and Regulation of Interstate Natural Gas Transportation Services, Order on Remand*, 101 FERC ¶ 61,127 at P 24, 34-35 (2002).

⁹ *Order After Technical Conference and Rehearing*, 102 FERC ¶ 61,234 (Natural Gas I), *Order on Rehearing and Compliance Filing and Establishing Hearing*, 104 FERC ¶ 61,322 (2003) (Natural Gas II) (together the Natural Gas orders). The Natural Gas orders accepted procedures for posting Btu and HDP limits on the pipeline's website, subject to notice and the provision of information to shippers and provided for an HDP safe harbor limit.

9. However, the Commission had begun to address gas quality issues at an industry-wide level. The Commission held Tennessee's compliance filing in abeyance until the completion of those efforts.

10. On June 15, 2006, the Commission issued its *Policy Statement* on gas quality and interchangeability.¹⁰ The Commission's policy embodies five principles: (1) only natural gas quality and interchangeability specifications contained in a Commission-approved gas tariff can be enforced; (2) pipeline tariff provisions on gas quality and interchangeability need to be flexible to allow pipelines to balance safety and reliability concerns with the importance of maximizing supply, as well as recognizing the evolving nature of the science underlying gas quality and interchangeability specifications; (3) pipelines, their customers, and other interested parties¹¹ should develop gas quality and interchangeability specifications based on technical requirements; (4) in negotiating technically based solutions, pipelines and their customers are strongly encouraged to use the Natural Gas Council Plus (NGC+) interim guidelines filed with the Commission on February 28, 2005¹² as a common reference point for resolving gas quality and interchangeability issues; and (5) to the extent the parties cannot resolve disputes over gas quality and interchangeability, those disputes can be brought before the Commission to be resolved on a case-by-case basis, on a record of fact and technical review.

¹⁰ 115 FERC ¶ 61,325 (2006).

¹¹ See *ANR Pipeline Co.*, 116 FERC ¶ 61,002 at P 110 (2006).

¹² *Report on Liquid Hydrocarbon Drop Out in Natural Gas Infrastructure* (HDP Report or *White Paper*) and *Report on Natural Gas Interchangeability and Non-Combustion End Use* (Interchangeability Report). These reports were prepared as part of a collaborative effort to seek industry consensus on gas quality and interchangeability standards, under the auspices of the Natural Gas Council. That council is an organization made up of the representatives of the trade associations of the different sectors of the natural gas industry. The Natural Gas Council Plus (NGC+), which wrote the reports, included many industry volunteers from the member companies of various trade associations. The associations particularly involved in writing the reports were the Independent Petroleum Association of America (IPAA), representing independent natural gas producers; the Natural Gas Supply Association (NGSA), representing producers and marketers of natural gas; the Interstate Natural Gas Association of America (INGAA), representing interstate pipelines; and the American Gas Association (AGA) representing natural gas utilities (LDCs).

11. In an order issued August 1, 2006,¹³ the Commission addressed Tennessee's March 2004 compliance filing with the guidance provided by the *Policy Statement*. It noted that Tennessee filed its proposal in March 2004, well before the issuance of the NGC+ *White Paper* on liquid dropout and the Commission's *Policy Statement* and that, as a result, neither Tennessee's compliance filing nor the parties' comments addressed all the requirements and concerns of the *Policy Statement*. Consequently, the Commission required Tennessee to update its compliance filing in light of the *Policy Statement*. In addition, the Commission noted that the *Policy Statement* encourages pipelines, customers, and other interested parties to resolve gas quality issues on their own.¹⁴ To this end, the Commission provided sixty days for such discussion for Tennessee to discuss with interested parties technical, engineering, and scientific considerations of its proposal in order to resolve as many issues as possible before Tennessee made its revised filing. In addition, the Commission directed staff to convene a technical conference, after the revised pleadings were filed, to address technical, engineering, and operational issues raised by Tennessee's revised proposal.

12. The Commission stated that in updating its filing, Tennessee should address the relevant procedures and guidelines set forth in the *Policy Statement*, including the following. First, Tennessee should include in its revised compliance filing all the technical, engineering and operational information upon which it relies to support each of its proposed gas quality standards in accordance with the *Policy Statement*.¹⁵

13. Second, the August 1 Order noted several requirements concerning gas quality standards for hydrocarbon liquid dropout. It noted the *Policy Statement* states that jurisdictional tariffs should contain provisions that govern the quality of gas received for transportation¹⁶ when necessary to manage hydrocarbon liquid dropout within acceptable levels. The August 1 Order also noted that the *Policy Statement* describes two valid methods identified in the *White Paper* that might be used to control hydrocarbon liquid dropout--the CHDP method and the C6+ GPM method—and strongly encourages the use of one of these two methods.¹⁷ The *Policy Statement* requires a pipeline that wishes to

¹³ *Indicated Shippers v. Tennessee Gas Pipeline Company*, 116 FERC ¶ 61,113 (2006) (August 1 Order).

¹⁴ *Policy Statement*, at P 31; *ANR Pipeline Co.*, 116 FERC ¶ 61,002 at P 110 (2006).

¹⁵ *Policy Statement*, at P 31.

¹⁶ *Id.* at P 34.

¹⁷ *Id.* For a technical description of these methods, see *White Paper*, especially sections 4 through 6.

propose a different method to explain how the proposed method differs from the CHDP method described in the *White Paper*.¹⁸ The August 1 Order stated that in its March 5 filing, Tennessee proposed to use the CHDP method. The Commission directed Tennessee to explain any differences between its updated proposal and the CHDP method if Tennessee proposed to use a different method in its updated filing.

14. Third, the August 1 Order noted that the *Policy Statement* also requires a pipeline filing to revise its gas quality standards to include a comparison, in equivalent terms, of its proposed gas quality specifications and those of each interconnecting pipeline.¹⁹ It noted that the purpose of this requirement is to enable the Commission to examine the appropriate circumstances in each individual case and give appropriate weight to the gas quality requirements of interconnecting pipelines, as well as the requirements of markets directly served.²⁰ Accordingly, the Commission required that Tennessee include the required information in its revised compliance filing.

15. Fourth, the August 1 Order stated the *Policy Statement* states that a pipeline's tariff should contain the natural gas quality specifications for gas that the pipeline will deliver to its customers.²¹ It noted that there is no statement in Tennessee's proposal concerning existing or proposed gas quality specifications for gas that Tennessee delivers to its customers. Accordingly, the August 1 Order stated Tennessee must explain or propose gas quality specifications for gas to be delivered to customers.

16. Finally, the August 1 Order stated the *Policy Statement* addresses blending, pairing, and similar strategies. It noted that the *Policy Statement* states these strategies consist of the mixing together of different gas streams and may allow gas with a higher HDP (rich gas) to be received on a pipeline's system because it will be mixed with gas of a lower HDP (lean gas) and will ultimately meet a pipeline's HDP limits. The August 1 Order noted that the *Policy Statement* encourages the use of blending, pairing, and other strategies to combine rich gas supplies with lean gas supplies in order to accommodate more production when these actions can be undertaken on a non-discriminatory basis and in a manner that is consistent with safe and reliable operations.²² The August 1 Order

¹⁸ *Policy Statement* at P 34.

¹⁹ *Id.*

²⁰ *Id.* at P 35.

²¹ *Id.*

²² *Policy Statement* at P 41. The *Policy Statement* states that "safe harbor" provisions and informational posting requirements are means of minimizing the potential for undue discrimination when a pipeline permits blending. *Id.* at P 77 citing *Natural Gas I* at P 43 and 48.

found that, consistent with the *Policy Statement*, Tennessee had proposed a provision in Article II, section 3(b)(ii) that permits accepting gas with a higher CHDP than the posted limit through aggregation or other reasonable means, to the extent operationally practicable. The August 1 Order stated that in its revised proposal, Tennessee should propose specific procedures for aggregation and blending in its tariff.

17. The Commission required Tennessee to make a filing with actual tariff sheets that addresses the requirements and concerns of the *Policy Statement* as discussed in the body of this order within sixty days of the date this order issues. It provided that parties must file any comments on Tennessee's revised compliance filing within twenty days of the date Tennessee makes that filing. It also directed the Commission's staff to convene a technical conference to address the issues raised by Tennessee's filing and the parties' comments and report the results of the conference to the Commission within 180 days of the issuance of this order.

18. On September 28, 2006 the Commission issued an order on rehearing and clarification of the August 1 Order.²³ The Commission granted the request for clarification that the August 1 Order did not require Tennessee to include in its compliance filing a tariff provision setting forth specific HDP gas quality specifications for the gas that it will deliver at its delivery points. The Commission stated that in its revised compliance filing, Tennessee may, instead, provide an explanation concerning the appropriateness of gas quality specifications for gas to be delivered to its customers. The Commission stated that the parties may contest whatever position Tennessee takes in its filing, including raising issues concerning the effect of Tennessee's proposal on the quality of the gas it delivers to customers.

19. The Commission explained that it was granting the clarification requests for the following reasons. It stated that in its January 2004 Order in this proceeding, it held pursuant to NGA section 5, that Article II, sections 3(b) and 9 of Tennessee's existing tariff are unjust and unreasonable because they give Tennessee "too much discretion to vary the gas quality standards that must be satisfied if gas is to be accepted into its system without processing"²⁴ and directed Tennessee to propose revised tariff provisions that would cure this problem, and the August 1, 2006 Order required Tennessee to update its compliance filing to address the concerns of the *Policy Statement*. It stated that the Commission has not yet made any merits determination as to how Tennessee must revise its tariff in order to remedy the fact the current tariff provisions give it too much discretion, so that Tennessee was free to propose any revised tariff provision that it believes is a just and reasonable replacement to the tariff provisions which the

²³ 116 FERC ¶ 61,302 (2006) (September 28 Order).

²⁴ *Indicated Shippers*, 106 FERC ¶ 61,040 at P 39.

Commission had found to be unjust and unreasonable and that other parties may contest Tennessee's proposal and make their own proposals.

20. The Commission stated, in addition, that the *Policy Statement* concerning gas quality is a statement of policy, not a binding rule.²⁵ Consequently, it stated, Tennessee may, if it wishes, seek to explain why it should not come within the *Policy Statement's* requirement that it state the natural gas quality specifications for gas that it delivers to its customers.²⁶ It stated that if Tennessee makes such arguments, the Commission would determine them on the merits, but that other parties may contest whatever position Tennessee takes.

21. In addition, the Commission urged the parties to discuss fully all of the relevant gas quality issues, including specifications at delivery points. The Commission stated it believes that such discussion may lead to a resolution of these issues that would benefit all parties. For that reason, the Commission extended the filing date for Tennessee's revised compliance filing for 90 days from the date of the September 28 Order.

22. Tennessee states that it hosted two informal settlement conferences on September 22, 2006 and October 26, 2006.²⁷ It also states that it filed a motion for an extension of time with the Commission and that the Commission extended the deadline for filing its revised compliance filing to February 26, 2007.

23. On February 26, 2007, Tennessee filed an Offer of Settlement (Settlement) in this docket containing *pro forma* tariff sheets. It also filed a motion requesting the Commission to suspend two requirements in the August 1 Order while the Commission evaluates the Settlement on the merits.²⁸ Those requirements were that Tennessee file a

²⁵ The Policy Statement is a statement of policy issued under the Administrative Procedure Act, 5 U.S.C. § 553(b)(A). A Policy Statement announces to the public the policy which the agency hopes to implement in future rulemakings or adjudications. *Panhandle Eastern Pipe Line Company v. FERC*, 198 F.3d 266, 269-270 (D.C. Cir. 1999) (*Panhandle*). A Policy Statement is not a substantive rule nor a precedent and it does not establish a binding norm or finally determine the issues or rights to which it is addressed. *Id. citing Pacific Gas & Electric Co. v. Federal Power Commission*, 506 F.2d 33, 38-39 (D.C. Cir. 1974).

²⁶ *Policy Statement* at P 35.

²⁷ Offer of Settlement at 5.

²⁸ *Id.* at 1.n.1. Tennessee filed a Revised Appendix C to the Settlement on March 19, 2007, to remove a party who had mistakenly entered their name as a consenting party.

compliance filing with revised tariff language and establish a technical conference to discuss the revised tariff language. Comments on the Settlement were due March 19, 2007 and reply comments were due March 29, 2007.

The Offer of Settlement

24. Tennessee's Offer of Settlement consists of an Explanatory Statement; a Stipulation and Agreement; Appendix A, marked *pro forma* tariff sheets; Appendix B, HDP provisions on interconnecting pipelines; Revised Appendix C, a list of consenting parties; Exhibits A-K which contain factual information; and a motion for the suspension of a compliance filing and a technical conference. Tennessee states it will file tariff sheets implementing the provisions of the Settlement within thirty days after it becomes effective. It also states that Tennessee has committed to the parties of this proceeding to commence discussions regarding natural gas quality and interchangeability on or before March 28, 2007.²⁹ The Settlement provides that the applicable standard of review is whether it is just and reasonable under section 5 of the Natural Gas Act.³⁰ The provisions of the Settlement related to HDP are summarized below.

25. The Settlement HDP provisions are contained in the *pro forma* tariff sheets in Appendix A. As contained in the *pro forma* tariff sheets, those provisions are as follows. First, Tennessee proposes to define HDP as the "cricondentherm, the highest temperature at which the vapor-liquid equilibrium may be present."³¹ Tennessee proposes an HDP safe harbor of 15° F. That is, Tennessee may not refuse to accept delivery of gas with an HDP equal to or less than 15° F provided that the gas satisfies all other applicable provisions of its tariff. Tennessee states it has included material in its Explanatory Statement and factual information that supports its proposed HDP safe harbor.³²

26. Within twenty-four hours of its calculations, Tennessee will post each receipt point HDP value and each blended HDP and blended BTU value for a line segment.³³ Tennessee will calculate the HDP using the Peng-Robinson equation of state and C6+

²⁹ Offer of Settlement, Transmittal Letter at 9.

³⁰ 15 U.S.C. §717d (2000).

³¹ Offer of Settlement, Appendix A, Article I, Section 36; Pro Forma Second Revised Sheet No. 305A.

³² *Id.*, at 11-15 and Exhibits A-K.

³³ *Id.*, Appendix A, Article II, section 3.1(d) and (e), Pro Forma Original Sheet No. 307.04.

assumptions.³⁴ Upon a shipper's request, Tennessee will conduct a C9+ analysis, but no more frequently than once every twelve months.

27. Tennessee proposes to set HDP limits when operationally necessary, no lower than the safe harbor, for receipts on specified HDP Segments to cure or prevent hydrocarbon liquid fallout.³⁵ Tennessee will provide as much notice of a limit as reasonably practicable and will attempt to provide notice at least ten days prior to the effective date of the limitation.³⁶

28. Generally, Tennessee will post HDP limits only to the extent necessary to prevent or cure an HDP Problem and limits shall remain in effect no longer than necessary.³⁷ The posted HDP limit shall not exceed the limits needed to correct the specifically identified or anticipated HDP problem.³⁸ For setting HDP limits, Tennessee proposes fourteen monitoring points on its system. These points define HDP Segments.³⁹

29. Generally, Tennessee will set HDP limits when operational and engineering considerations on its system demonstrate that such limits are needed in order to prevent anticipated fallout, correct problems from actual fallout, or to assure that gas would be accepted for delivery into interconnects, including with interstate or intrastate pipelines, storage facilities, end users, and local distribution companies.⁴⁰ More specifically, Tennessee will post HDP limits when there is an HDP Problem and Tennessee determines that limits are necessary.⁴¹ An HDP Problem is defined as an actual or anticipated operational problem specifically related to actual or anticipated hydrocarbon liquid fallout. The HDP Problem can be either on Tennessee's system or at its interconnects with interstate or intrastate pipelines, storage facilities, end users, and local distribution companies.⁴² For purposes of an HDP Problem, an interconnect is defined as the integrated equipment located within the measurement/delivery complex where

³⁴ *Id.*, section 3.1(f), Pro Forma Original Sheet No. 307.04.

³⁵ *Id.*, section 3.1, Pro Forma First Revised Sheet No. 307.

³⁶ *Id.*, section 3.1(a)(v), Pro Forma Original Sheet No. 307.02.

³⁷ *Id.*, section 3.1(a)(iii), Pro Forma Original Sheet No. 307.01.

³⁸ *Id.*, section 3.1(a)(vi), Pro Forma Original Sheet No. 307.02.

³⁹ *Id.*, section 3.1(b), Pro Forma Original Sheet No. 307.03.

⁴⁰ *Id.*, section 3.1, Pro Forma First Revised Sheet No. 307.

⁴¹ *Id.*, sections 3.1(a) (i) and (ii), Pro Forma Original Sheet No. 307.01.

⁴² *Id.*, Article I, section 38, Pro Forma Second Revised Sheet No. 305A.

Tennessee delivers gas.⁴³ The equipment may be owned by a party other than Tennessee and it may be located after (downstream of) the meter demarcating the change in possession of the gas.

30. For HDP Problems consisting of actual hydrocarbon liquid fallout, Tennessee will post a limit at the point where the liquid fallout occurs and at the receipt points upstream of the fallout point within the same HDP Segment.⁴⁴ If that does not correct the problem, Tennessee will post limits for each HDP Segment immediately upstream up to the nearest monitoring point that satisfies the HDP limit.

31. When an HDP Problem consists of anticipated hydrocarbon liquid fallout, Tennessee will determine whether it is necessary to post an HDP limit based on its analysis of system operating factors.⁴⁵ These factors may include, but are not limited to, anticipated processing plant operation, pressure reduction, flow patterns, flowing gas temperatures, and HDP temperatures. HDP limits shall be applied to all HDP Segments where potential for hydrocarbon liquid fallout is anticipated and which may be required to prevent the anticipated fallout. However, a posting shall not skip over any HDP Segment between the HDP Problem and the furthestmost upstream HDP Segment for which an HDP limit is posted. Tennessee will post an explanation of the basis for the HDP limit, and, upon a shipper's request, it will provide a written detailed explanation within three business days of the anticipated fallout problem, the reasons for its posted HDP limit, and the affected HDP Segment and specific points where it anticipated fallout to occur.

32. Generally, Tennessee will post an HDP limit in the most downstream HDP Segment experiencing or anticipating an HDP problem.⁴⁶ If that does not correct the problem, Tennessee will post an HDP limit in subsequent upstream HDP Segments. The HDP limit in the upstream HDP Segments may be no stricter than the limit in the first downstream HDP Segment. If the HDP of an upstream monitoring point complies with the posted HDP limit, Tennessee will not apply any HDP limit to that point or any other upstream receipt point in the sequential HDP Segment.

33. When Tennessee posts an HDP limit for an HDP Segment, all gas receipts into the affected HDP Segment must meet the posted HDP limit⁴⁷ with the exceptions listed

⁴³ *Id.*

⁴⁴ *Id.*, Article II, section 3.1(a)(i), Pro Forma Original Sheet No. 307.01.

⁴⁵ *Id.*, section 3.1(a)(ii), Pro Forma Original Sheet No. 307.01.

⁴⁶ *Id.*, section 3.1(a)(vii), Pro Forma Original Sheet No. 307.02.

⁴⁷ *Id.*, section 3.1(a)(viii), Pro Forma Original Sheet No. 307.02.

below. Tennessee will allow gas into its system that does not meet a posted HDP limit at a receipt point under the following conditions.⁴⁸ To the extent that it does not create undue risk of an HDP Problem, Tennessee will not apply HDP limits to receipts from storage facilities (the storage exemption) and from meters that are not upstream of a processing plant with available capacity and that flow 500 dth or less per day.⁴⁹ Tennessee will not require processing of gas at receipt points upstream of the tailgate of a straddle plant that meets the posted HDP limit without processing.⁵⁰ Tennessee will not apply an HDP limit if the shipper or a third party provides proof of processing at a plant within the HDP Segment where the gas at the tailgate of the plant satisfies the HDP limit for the HDP Segment.⁵¹

34. Last, to the extent operationally feasible, Tennessee will allow gas that does not meet an HDP limit to continue to flow if it has approved a pairing proposal for the gas under section 3.1(c). Section 3.1(c) contains specific procedures for pairing of gas supplies.⁵² Among other things, shippers may pair with other shippers or self-pair. They must make a written proposal for pairing. Tennessee will notify shippers within two business days whether the proposal can physically occur without creating an undue risk of an HDP Problem and will determine whether the commingled gas stream would satisfy the HDP limitation. Tennessee may terminate the pairing arrangement if there is a material change in its operations so that the arrangement creates an undue risk of an HDP Problem. If Tennessee reduces the HDP limit, pairing arrangements may continue if shippers adjust the affected volumes to meet the new limit or Tennessee may terminate the arrangement.

35. The Settlement also contains revisions concerning HDP to Tennessee's general gas quality standards for gas delivered by Tennessee to its customers and for gas received by Tennessee from its shippers. Article II, section 1 of the General Terms and Conditions of Tennessee's tariff contains Tennessee's gas quality standards for gas delivered by Tennessee to its customers. The Settlement revises section 1(b) to provide that natural gas delivered by the pipeline shall be commercially free from hydrocarbon liquids at the point of delivery. The section is further revised to provide that the obligation in section 1(b) to deliver gas free from objectionable matter does not require

⁴⁸ *Id.*, section 3.1(a)(ix), (a)(x), and (a)(xi), Pro Forma Sheet No. 307.02.

⁴⁹ *Id.*, section 3.1(a)(iv), Pro Forma Original Sheet No. 307.02.

⁵⁰ *Id.*, section 3.1(a)(ix), Pro Forma Original Sheet No. 307.02.

⁵¹ *Id.*, section 3.1(a)(xi), Pro Forma Original Sheet No. 307.02.

⁵² *Id.*, section 3.1(c), Pro Forma Original Sheet Nos. 307.03 and 307.04.

the pipeline to deliver natural gas to the shipper at anything other than the prevailing pressure and temperature in Tennessee's pipeline.⁵³

36. Article II, section 3 and new section 3.1 of Tennessee's General Terms and Conditions contain standards for gas received by Tennessee from its shippers. The Settlement revises section 3(b) by deleting a specific reference to hydrocarbon liquids and adding a provision that natural gas delivered to the pipeline shall be commercially free from "solid or liquid matter that might interfere with its merchantability or cause injury to, or interference with, proper operation of the equipment through which it flows."⁵⁴

37. The Settlement also proposes a new section for Tennessee's Operational Flow Order (OFO) provisions to address HDP limitations.⁵⁵ The new section provides that Tennessee may impose an HDP limitation below the HDP safe harbor by issuing an HDP OFO at a receipt point or monitoring point if the pipeline determines that it is necessary to avoid an event that threatens the operational integrity of its system. There will be a minimum of eight hours' notice prior to the required action. The HDP OFO will be applied in a manner consistent with the procedures in section 3.1(a)⁵⁶ with respect to monitoring points, segments, HDP Problems, and sequential setting of limits. Within three business days, Tennessee will post a notice identifying the operational event giving rise to the HDP OFO with specificity and the points, upstream points, and segments where the operational event threatened its operational integrity. This information will be updated. If a shipper fails to comply with an HDP OFO, it may incur penalties of \$15.00 plus the applicable Regional Daily Spot Price per dekatherm. Last, Tennessee may take unilateral action if there is no or insufficient response to an HDP OFO or there is insufficient time to carry out the procedures with respect to an HDP OFO.

⁵³ *Id.*, section 1(b), Pro Forma Fifth Revised Sheet No. 306.

⁵⁴ *Id.*, section 3(b), Pro Forma Fifth Revised Sheet No. 306. Specifically, section 3(b) is revised as follows to provide that gas delivered to Tennessee:

shall be commercially free ~~(at prevailing pressure and temperature in Transporter's pipeline)~~ from objectionable odors, dust, ~~hydrocarbon liquids, water and~~, any other solid or liquid matter that might interfere with its merchantability or cause injury to, or interference with, proper operation of the equipment through which it flows and any substance that might become separated from the gas in Transporter's facilities, and . . .

⁵⁵ *Id.*, Article VIII, section 6, Original Sheet No. 361B.

⁵⁶ *Id.*, Pro Forma First Revised Sheet No. 307, Pro Forma Original Sheet No. 307.01, and Pro Forma Original Sheet No. 307.02.

38. Pursuant to Article 5.2 of the Stipulation and Agreement, the Settlement will become effective on the first day of the month immediately following the date that a Commission order approving the Stipulation without any material unacceptable modification and with any necessary waivers is no longer subject to rehearing.

Positions and Comments on the Offer of Settlement

39. The following parties consent to the Settlement: Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. (Con Edison); East Tennessee Group;⁵⁷ FPL Energy; the KeySpan LDCs;⁵⁸ Louisville Gas and Electric Company (Louisville); The New England Local Distribution Companies;⁵⁹ NiSource Distribution Companies;⁶⁰ Northern Illinois Gas Company (Northern Illinois); Tennessee Valley Authority (TVA); The Producer Coalition;⁶¹ and The Tennessee Customer Group.⁶²

⁵⁷ East Tennessee Group consists of Athens Utilities Board, Citizens Gas Utility District, Cookeville Gas Department, Elk River Public Utility District, Etowah Utilities Gas Department, Fayetteville Gas System, Gainesboro Gas Systems, Gallatin Natural Gas System, Harriman Utility Board, Hawkins County Gas Utility District, Jamestown Gas System, Jefferson-Cocke County Utility District, Knoxville Utilities Board, Lenoir City Utilities Board, Lewisburg Gas Department, Livingston Gas Department, Loudon Utility Gas Department, Madisonville Gas System, Marion Natural Gas System, Middle Tennessee Natural Gas Utility District, Mt. Pleasant Gas System, Oak Ridge Utility District, Powell Clinch Utility District, Rockwood Water & Gas, Sevier County Utility District, Sweetwater Utilities Board, Unicoi County Gas Utility District.

⁵⁸ The KeySpan LDCs consist of Boston Gas Company d/b/a KeySpan Energy Delivery NE, Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery NY, Colonial Gas Company d/b/a KeySpan Energy Delivery NE, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery NE, Essex Gas Company d/b/a KeySpan Energy Delivery NE, and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery LI.

⁵⁹ The New England Local Distribution Companies consist of Bay State Gas Company; The Berkshire Gas Company; Connecticut National Gas Corporation; Fitchburg Gas and Electric Light Company; City of Holyoke, Massachusetts Gas and Electric Department; New England Gas Company; Northern Utilities, Inc.; NSTAR Gas Company; The Southern Connecticut Gas Company; and Yankee Gas Services Company.

⁶⁰ The NiSource Distribution Companies are Columbia Gas of Kentucky, Inc., Columbia Gas of Ohio, Inc., and Columbia Gas of Pennsylvania, Inc.

⁶¹ The Producer Coalition consists of Dominion Exploration & Production, Inc., Forest Oil Corporation, Hydro Gulf of Mexico, LLC, Kerr-McGee Oil & Gas Corporation, and Newfield Exploration Company.

40. Several local distribution companies (LDCs) filed comments in support of or not opposed to the Settlement. Con Edison and Orange and Rockland Utilities, Inc. (collectively Con Edison) and the KeySpan Delivery Companies filed comments in support of the Settlement. PSEG Energy Resources & Trade LLC (PSEG) and the New Jersey Natural Gas Company filed comments stating that they do not oppose the Settlement. In addition, some producers and marketers supported or did not oppose the Settlement. The Producer Coalition and Duke Energy Trading and Marketing, L.L.C. and Duke Energy Marketing America, L.L.C. filed comments in support of the Settlement. Indicated Shippers⁶³ filed comments stating they do not contest the Settlement.

41. Several parties filed comments opposing the Settlement. LDCs opposing the Settlement were Piedmont Natural Gas Company, Inc. and Atmos Energy Corporation (Piedmont) and National Fuel Gas Distribution Corporation (National Fuel Distribution). Also opposing the Settlement were Central New York Oil and Gas Company, LLC (CNYOG) and Wyckoff Gas Storage Company, LLC (Wyckoff), owners of gas storage facilities; National Fuel Gas Supply Corporation (National Fuel Supply), an interstate pipeline; and Walter Oil & Gas Corporation (Walter Oil), a producer.

42. The following parties filed Reply Comments: Tennessee, The Tennessee Customer Group, the KeySpan Delivery Companies, the Producer Coalition, Indicated Shippers, Con Edison, Walter Oil, CNYOG, and Wyckoff. National Fuel Supply filed a motion for leave to answer and answer to the reply comments of the Producer Coalition.

43. The issues raised by the comments are addressed below.

Procedural Matters

44. A number of parties filed late motions to intervene: Hardeman Fayette Utility District, Henderson Utility Department, Holly Springs Utility Department, Town of Linden, Morehead Utility Plant Board, and Savannah Utilities (Tennessee Municipals) on August 25, 2006; NiSource Distribution Companies on August 30, 2006; the New York

⁶² The Tennessee Customer Group consists of City of Clarksville, Corinth Public Utilities Commission, Greater Dickson Gas Authority, Hardeman Fayette Utility District, Henderson Utility Department, Holly Springs Utility Department, Humphreys County Utility District, Town of Linden, Morehead Utility Plant Board, City of Portland, Savannah Utilities, City of Springfield, City of Waynesboro, and West Tennessee Public Utility District.

⁶³ Indicated Shippers consist of BP America Production Company and BP Energy Company; Chevron U.S.A. Inc.; ConocoPhillips Company; and ExxonMobil Gas & Power Marketing Company, A Division of Exxon Mobil Corporation.

Public Service Commission on August 31, 2006; Central Hudson Electric & Gas Corporation on October 10, 2006; CNYOG on November 28, 2006; National Fuel Supply on December 7, 2006; and Wyckoff on March 19, 2007. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2007), the Commission will grant the late filed motions to intervene of the above-named parties given their interests in the proceeding and the absence of undue prejudice or delay.

45. National Fuel Supply filed a motion for leave to answer and answer to the reply comments of the Producer Coalition. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2007), prohibits an answer to an answer unless otherwise ordered by the decisional authority. We will accept National Fuel Supply's answer because it has provided information that assisted us in our decision-making process.

Discussion

46. Opposing parties object to the 15° F CHDP Safe Harbor, both on factual and on policy grounds; to the Settlement's storage provisions; and to the restriction of HDP-related Operational Flow Orders (OFOs) to Tennessee's facilities. The parties also differ as to the application of the storage exemption in conjunction with an HDP OFO. As discussed below, the Commission finds there is substantial evidence to support Tennessee's 15° F CHDP Safe Harbor and that the objections of the opposing parties are unsupported. It also clarifies the application of HDP OFOs. The Commission finds further that the provisions of the Settlement are just and reasonable and approves the Settlement, except as noted.

A. 15° F CHDP Safe Harbor

47. The Commission first turns to a consideration of whether the Settlement's 15° F CHDP Safe Harbor is supported by evidence in the record. It is undisputed that the CHDP of a gas stream is an appropriate means of determining whether that gas may be accepted onto a system without a significant danger of damaging liquid fallout. The CHDP of a particular gas stream is the maximum temperature at which liquids may condense from that gas stream under the varying pressures to which the gas stream may be subject. So long as the CHDP of gas flowing on a pipeline system is lower than the lowest temperatures that the gas is likely to reach during its transit of the pipeline, liquid fallout should not be a problem.

48. Thus, determining the appropriate CHDP Safe Harbor for Tennessee's system involves, in essence, determining the lowest temperatures that gas flowing on Tennessee's system (and downstream systems) is likely to reach. This requires considering not only ambient temperatures in the ground surrounding Tennessee's

pipeline,⁶⁴ but also the likely pressure drops that may occur, for example when gas is delivered at interconnects. That is because a decrease in pressure of 100 psi results in a decrease in gas temperature of 7° F.⁶⁵ Such pressure drops also reduce the temperature necessary to maintain the gaseous state, *i.e.*, the pressure drops move the gaseous phase to lower point on the HDP curve. The drop in temperature is represented by a straight line called the Joule-Thomson (J-T) line.⁶⁶ The J-T line is drawn tangent to the HDP curve. Volumes with temperature/pressure points to the right of the J-T line will not experience liquid drop out no matter how large the decrease in pressure. Volumes with temperature/pressure points to the left of the J-T line will experience liquid drop out if the pressure decreases far enough and the temperature is low enough.

49. In this section, the Commission finds that Tennessee's method of deriving a CHDP Safe Harbor by using representative temperatures and pressures was reasonable. It also finds Tennessee's 15° F CHDP Safe Harbor is supported by its analyses of unheated interconnects showing that liquid drop out would not occur with a 15° F CHDP Safe Harbor under expected operating conditions. The Commission finds further that the opposing parties have not rebutted Tennessee's evidence. The Commission finds, however, that Tennessee's CHDP Safe Harbor may need to be reevaluated in the future, depending on changing conditions.

1. Initial Comments and Reply Comments

50. In their initial comments Piedmont and Walter Oil assert that Tennessee has not provided sufficient evidence in Exhibits A through K of the Settlement to support its proposed 15° F CHDP Safe Harbor or to meet the evidentiary standards envisioned by the *Policy Statement* and the *White Paper*. Piedmont, and CNYOG in reply comments, ask the Commission to reject Tennessee's proposal for lack of supporting data just as, they assert, the Commission rejected a CHDP proposal for lack of evidence in *Norstar Operating, LLC v. Columbia Gas Transmission Corp (Norstar)*.⁶⁷ CNYOG also asserts that Tennessee offered no facts with respect to storage facilities connected to its system or storage withdrawals and thus that there is no factual basis to conclude that the

⁶⁴ Pipeline facilities are generally underground, making ambient ground temperatures generally more relevant than ambient air temperatures. However, there may be some places where the pipeline is above ground, and this can require some consideration of ambient air temperatures as well.

⁶⁵ "The rule of thumb is that for every 100 pounds of pressure drop the gas temperature will drop by 7° F (applicable up to 1,000 psig)." *White Paper*, at 14, P 2.4.5.

⁶⁶ *Id.*, Appendix B.

⁶⁷ 118 FERC ¶ 61,221 (2007).

Settlement HDP limits, including the 15° F CHDP Safe Harbor, are just and reasonable with respect to withdrawals from storage.

51. Walter Oil asserts that the 15° F CHDP Safe Harbor is unnecessarily low and will unduly burden producers. It points out that 98 of the stations with pressure drops of more than 300 psi have no heaters. It asserts that if there are delivery points at which the potential for liquids fallout could be mitigated by the installation of heaters and other equipment, then it would be less costly for the delivery point owners to install this equipment than for producers to process their gas. Walter Oil asserts that the burden of ensuring that there is no liquids fallout at these points on Tennessee's system should not be disproportionately borne by producers. Walter Oil asserts the Settlement does not sufficiently consider the interest of producers and improperly shifts the burden of ensuring against liquids fallout on Tennessee to producers while these burdens should be shared equally by producers, downstream pipelines, LDCs, and end users.

52. In its reply comments, KeySpan reiterates its support of the proposed 15°F CHDP Safe Harbor. It states it believes the technical, engineering, and scientific data fully support the proposed 15°F CHDP Safe Harbor and is in compliance with the NGC+ *White Paper*. KeySpan states that, in the meetings it attended and participated in, Tennessee explained in meticulous detail how it utilized the *White Paper* process to determine the proposed 15°F CHDP Safe Harbor.⁶⁸

53. In Tennessee's reply comments the pipeline states it believes there is ample evidence in the record, in the Explanatory Statement and supporting Exhibits A-K, for the establishment of the proposed 15°F CHDP Safe Harbor. Tennessee reiterates that its analysis followed the *White Paper* process in that it reviewed flow patterns, storage and processing plant operations, historical temperatures, pressure and HDP for the pipeline and delivery locations. Tennessee states that Piedmont never specified what additional "system data" it required, but gave its support for "establishing a 15°F hydrocarbon dew point requirement."⁶⁹ Tennessee also states that it performed a detailed analysis of each interconnect with Piedmont, the results of which indicated little likelihood of liquid fallout at Tennessee's interconnects with Piedmont, and that it presented Piedmont with the results.⁷⁰

⁶⁸ See KeySpan Reply Comments at 3.

⁶⁹ Tennessee Reply Comments at 8; Piedmont Initial Comments at 3.

⁷⁰ See Tennessee Reply Comments.

54. Tennessee Customer Group states in its Reply Comments that Walter's comments are atypical of the positions of the producer interests participating in the proceeding, and are the only comments from the producer community that oppose the Settlement.⁷¹

2. Commission Decision

a. The Policy Statement and the White Paper

55. The Commission's *Policy Statement* on gas quality and interchangeability contains five principles, which serve as guidelines for tariff provisions governing gas quality.⁷² The principle at issue here is that the gas quality and interchangeability specifications should be developed based on sound science and the NGC+ interim guidelines from the *White Paper* is the method recommended by the Commission. The *Policy Statement* strongly encourages pipelines to use one of the two methods the White Paper found to be valid to develop the CHDP, the CHDP or the C6+ GPM methodologies, or if using a different method, describe how it differs from the CHDP method. Appendix B of the White Paper presents the recommended process for establishing a CHDP limit. The process involves defining the area where the limit is to be applied; reviewing the historical data; selecting a candidate CHDP based on the historical data; developing a phase diagram that represents the gas at the selected CHDP; applying a J-T line; and plotting the lowest temperature and coinciding pressure at each place of pressure reduction. The location of the point, to the left of the J-T line, is an indication of the potential for liquid fallout.

⁷¹ Tennessee Customer Group Reply Comments at 3.

⁷² The *Policy Statement* states five principles. In order for natural gas quality and interchangeability specifications to be enforced, they must be in the pipeline's tariff. Pipeline tariff provisions on natural gas quality and interchangeability should be based upon sound science and should recognize the need to be flexible to enable the pipeline to balance safety and reliability concerns with the importance of maximizing supply. While not setting specific levels for hydrocarbon drop out or interchangeability parameters, the *Policy Statement* strongly encourages pipeline and their customers to use the interim guidelines in the White Paper as a common reference point. To the extent pipelines and their customers cannot reach agreement on gas quality and interchangeability, the Commission will resolve disputes on a case-by-case basis on a record of fact and technical review.

b. Tennessee's Support for the Settlement

56. Tennessee relies on the Stipulation and Agreement, the proposed Settlement tariff sheets, and the Explanatory Statement, including exhibits, to support its proposed 15° F CHDP Safe Harbor.⁷³ Tennessee proposes this Safe Harbor for its entire system.⁷⁴

57. In its Explanatory Statement, Tennessee states that its system is designed and operated as a single (gas only) phase system downstream of four processing plants on the Gulf coast in Louisiana.⁷⁵ It states that over one-half of the gas on its system originates in the Gulf of Mexico and tends to be very rich in hydrocarbon liquefiabiles.⁷⁶ It states that this gas needs to be processed in order to be safely transported to the market area and storage fields on its system. Tennessee states that the HDP temperatures of the Gulf gas prior to processing range from 55° F to 61° F. Tennessee states that, historically, this gas was processed to HDP temperatures well below the proposed 15° F CHDP Safe Harbor.⁷⁷ Tennessee describes the HDP level of gas processed at three processing plants on the Gulf coast as -50° F, -33° F, and 3° F.⁷⁸

58. Tennessee notes that at its typical operating pressures, which range from approximately 450-900 pounds per square inch (psi), the flowing gas temperatures on its system will fall seven degrees for every 100 psi drop in pressure.⁷⁹ It states that there are eight locations on its system where the pressure is reduced an average of 264 psi.⁸⁰ It states that there are also pressure drops at its delivery meter stations. Tennessee states

⁷³ Offer of Settlement at 5. The Explanatory Statement is Part III of the Offer of Settlement.

⁷⁴ *Id.* at 1 and Appendix A, section 3.1(b), Original Sheet No. 307.03; Stipulation and Agreement, Article II, section 2.2 at 4.

⁷⁵ *Id.* at 12. The processing plants are Yscloskey, Sabine, Blue Water, and Grand Chenier. *Id.*, Exhibit C.

⁷⁶ *Id.* at 12 and Exhibit E.

⁷⁷ *Id.* at 12 and 15, and Exhibit D.

⁷⁸ *Id.*, Exhibit D.

⁷⁹ *Id.* at 11 and 13.

⁸⁰ *Id.* at 13 and Exhibit F.

that 381 of its delivery meter stations have pressure regulators and experience an average pressure drop of 376 psi.⁸¹

59. Tennessee states that the flowing gas temperatures on its system in its primary market areas range in average from approximately 44° F to 90° F in the summer and 38° F to 76° F in the winter. Tennessee's market areas consist of six zones extending from the termination of the production zone in Louisiana through the New England states.⁸² Zone 1 is the zone furthest south and Zone 6 is the zone furthest north. Tennessee provides five years' of average monthly flowing gas temperatures from August 2001 through August 2006 for each of its six zones.⁸³ Tennessee states that the lowest average monthly temperature in the past five years was approximately 38° F.⁸⁴

60. Tennessee states that on its system, a flowing gas temperature of 38° F will fall to 17° F when there is a 300 psi pressure drop.⁸⁵ It states that in order to prevent liquid fallout in this situation, HDP temperatures must remain below 17° F. It states that these operational considerations and analysis support an HDP level no greater than 15° F.⁸⁶ It states that setting the CHDP safe harbor at this level allows for a modest safety margin of 2° F.

61. Tennessee states it analyzed the proposed 15° F CHDP Safe Harbor using the *White Paper* method at 98 delivery and four mainline locations that have a potential pressure drop of greater than 300 psi and are not equipped with heaters.⁸⁷ Exhibit J is an example of its testing of a delivery meter station. Exhibit J consists of the phase diagram for the proposed 15° F CHDP Safe Harbor, a Joule-Thomson line tangent at the proposed CHDP, a plot of the temperature and pressure for the meter, and the phase diagram for the historical HDP. The example delivery meter has a lowest historical daily average

⁸¹ *Id.* at 13 and Exhibit G. Tennessee states that it has 465 delivery meter stations on its system, but that only 381 have pressure regulators which protect the lower maximum allowable operating pressure pipelines from being overpressured.

⁸² Maps of Tennessee's system are posted on its website, <http://tebb.epenergy.com>, under Informational Postings/Tariff/System Map, Zone 1, Zone 2, etc.

⁸³ Offer of Settlement, Exhibit H.

⁸⁴ *Id.* at 14. The five-year monthly average low appears to have been in Zone 6 in February 2004. *Id.*, Exhibit H.

⁸⁵ *Id.* at 14.

⁸⁶ *Id.*

⁸⁷ *Id.*

temperature of 48° F and an associated pressure of 672 psi. This point falls to the right of the J-T line. A pressure drop of 592 psi is shown with a resulting temperature of 6.5° F. When plotted, the temperature/pressure line for the delivery station also falls to the right of the J-T line, showing that there is no expected fallout at this location with the proposed 15° F CHDP Safe Harbor.

62. Tennessee states its analysis showed there are four delivery meter stations and four mainline locations with an average flow greater than 375 Mcf/d that could experience higher fallout potential at the five year low historical daily gas temperature in combination with the maximum pressure drop.⁸⁸ In other words, these points fall to the left of the J-T line. But Tennessee concludes that liquid hydrocarbon fallout is not likely at the four delivery meter stations. It states that the five-year low historical daily gas temperature has not occurred in combination with the maximum pressure drop.⁸⁹ It also states that hydrocarbon liquid fallout has historically not been an issue at these delivery stations.⁹⁰

c. The Appropriate CHDP Safe Harbor for Tennessee

63. The Commission finds Tennessee's method for determining a CHDP safe harbor was consistent with the *White Paper*. As can be seen from Tennessee's submissions, Tennessee defined the area to which the CHDP limit will be applied as their entire system, reviewed five years of historical data, selected a candidate CHDP based on historical data, developed a phase diagram and J-T line, and identified the points with the lowest temperature and coinciding pressures. To derive the CHDP Safe Harbor, Tennessee relied on its expertise in operating its system and on historical flowing gas temperatures, pressure drops, and HDP levels. While Tennessee did not present a compositional analysis, it did present historical gas quality data in the form of HDP, which it used to select its candidate CHDP.⁹¹ It then built a safety margin into the resulting CHDP Safe Harbor level. Last Tennessee plotted points on the phase diagram representing the actual lowest temperatures and coincident pressures at the delivery points on its system that have a potential pressure drop greater than 300 psi and are not equipped with heaters. Consequently, the Commission finds that Tennessee's method of

⁸⁸ *Id.* and Exhibit I (delivery meter stations).

⁸⁹ *Id.* at 15.

⁹⁰ *Id.* at 14.

⁹¹ While Step 3 in Appendix B of the *White Paper* indicates that the use of a full compositional analysis at least through C6 is preferred, the *Policy Statement* states other methods could be used if justified. Tennessee presented its historical HDP levels.

deriving the 15° F CHDP Safe Harbor was consistent with the *White Paper* as required by the *Policy Statement*.

64. The Commission also finds Tennessee has supported its proposed 15° F CHDP Safe Harbor with substantial evidence, as cited above. Its analysis showed that the lowest flowing gas temperature on its system in five years was 38° F and that the average pressure drop is about 300 psi. It showed that this pressure drop would reduce the gas temperature to 17° F. In order to prevent liquid fallout in this situation, HDP temperatures must remain below 17° F. This data and analysis support setting Tennessee's CHDP Safe Harbor at 15° F, which is below the expected operational conditions and allow for a safety margin of 2° F. In addition, Tennessee identified 98 delivery and four mainline locations with a potential pressure drop greater than 300 psi that do not have heaters. Tennessee plotted the lowest pressure and maximum pressure drops for these points on the phase diagram for the chosen 15° F CHDP Safe Harbor. It found that four delivery meter stations with an average flow greater than 375 Mcf/d and four mainline locations have the potential to experience higher fallout. That is, these points fell to the left of the J-T line. The Commission finds this testing of the 15° F CHDP Safe Harbor level against the actual lowest temperatures and maximum pressure drops at delivery points where the risk of dropout is highest is particularly probative. First, in this worst case scenario, only eight points fall to the left of the J-T line, which represent less than two percent of Tennessee's delivery points. Second, this worst case scenario has not occurred in actual operating conditions. The fact that no liquid fallout would occur at these points under actual operating conditions that have been experienced to date also demonstrates that 15° F is an appropriate level for Tennessee's CHDP Safe Harbor.

65. The Commission finds further that the opposing parties have presented no evidence in rebuttal and so have not rebutted Tennessee's evidence. In addition, the Commission finds that *Norstar* does not require that it reject Tennessee's proposed 15° F CHDP Safe Harbor. In *Norstar*, the Commission rejected the pipeline's proposed CHDP safe harbor because it was based on state and regional data, not on data for the pipeline's system and also because the pipeline had not followed the *White Paper* method for establishing a CHDP safe harbor.⁹² Here, in contrast, Tennessee has presented and relied on data for its own system and has followed the *White Paper* method for establishing its CHDP safe harbor.

66. The Commission rejects Walter Oil's contentions that the 98 stations without heaters determined the 15° F CHDP Safe Harbor that Tennessee proposes. Tennessee's Safe Harbor was the result of analysis consistent with the *White Paper*. Tennessee examined the flowing gas temperatures and pressure drops on its system to derive a level

⁹² *Norstar* at P 33-34.

for the Safe Harbor. Once this level was determined, it then tested conditions as its meters without heaters against the phase envelope associated with the 15° F CHDP Safe Harbor to ascertain whether hydrocarbon liquids dropout would occur.

67. In addition, Walter Oil appears to assume that the Commission can require Tennessee to install heaters at its delivery stations. This is not so. The Commission does not have jurisdiction over “installations which are only for the purpose of obtaining more efficient or more economical operation of the authorized . . . transmission facilities . . .”⁹³ Such installations include heaters. Therefore, the Commission cannot require Tennessee to install heaters at its meters as Walter Oil seems to suggest.

68. The Commission also rejects Walter Oil’s contention that producers disproportionately bear the burdens of ensuring against hydrocarbon liquids fallout on Tennessee’s system under the Settlement. First, this is not a proceeding about apportioning costs between segments of the gas industry. This proceeding is about the establishment of gas quality standards for the safe and reliable operation of Tennessee’s system. Second, neither Tennessee nor any other party to this proceeding, including Walter Oil, claims that Tennessee will be required to incur and recover plant or operating costs to implement the terms of this Settlement. There are no Tennessee costs to identify or recover. Third, the Commission has stated in its *Policy Statement*, in reviewing gas quality standards that the Commission tries to balance the needs and concerns of all segments of the gas industry.⁹⁴ But Walter Oil failed to identify any costs, much less who should incur the costs and why one set of costs was superior to another. Instead it made vague assertions that certain plant investments at some delivery points may be economically superior. Fourth, the *White Paper* indicates that there are at least six (6) industry segments along the value chain with different hydrocarbon liquid fallout concerns: producers, gas processors, pipelines, local distribution companies, direct connect customers, and end users.⁹⁵ Of those listed segments, only the interstate pipeline component of the pipeline industry segment is within the Commission’s jurisdiction. The *White Paper* made no recommendation as to which industry segment or combination thereof should bear primary responsibility for controlling CHDP, nor did the Commission’s *Policy Statement*. To the extent Walter Oil implies that the Commission

⁹³ 18 C.F.R. § 2.55(a) (2007), which identifies pipeline facilities excluded from the Commission’s Section 7(c) of the NGA jurisdiction.

⁹⁴ See *Policy Statement* at P 30.

⁹⁵ *White Paper* at section 1.1.

should apportion non-pipeline costs to non-jurisdictional entities, that the Commission cannot do.⁹⁶

69. The Commission discusses CNYOG's concerns with respect to storage gas at length elsewhere in this order and concludes that Tennessee will manage the CHDP of gas storage injections so that storage gas will meet the CHDP limits that are needed to permit it to be redelivered to Tennessee in the winter.

70. For the reasons discussed above, the Commission concludes Tennessee's proposed 15° F CHDP Safe Harbor is supported by substantial evidence and, therefore, is a just and reasonable gas quality standard for Tennessee's system. The Commission notes, however, that the CHDP Safe Harbor depends on many factors and that these factors may change over time. Thus, the appropriate CHDP Safe Harbor for Tennessee's system may change. In that case, Tennessee may file a revised CHDP Safe Harbor under section 4 of the NGA, or a customer may file a complaint under section 5 of the NGA.⁹⁷

B. Storage Gas and the Storage Exemption

71. The Settlement contains provisions addressing the need to be able to impose CHDP limits on gas injected in the summer so that it can be received into Tennessee's system upon withdrawal in the winter without hydrocarbon liquids fallout.⁹⁸ The Settlement also contains an exemption for gas withdrawn from storage (storage exemption). The storage exemption states that to the extent that it does not create an undue risk of an HDP Problem, the pipeline will not apply HDP limits to receipts from storage facilities.⁹⁹ An undue risk of an HDP Problem is an undue risk of actual or anticipated operational problems on Tennessee's system or at its interconnects that is specifically related to actual or anticipated hydrocarbon liquid fallout.

72. Some parties request additional tariff provisions requiring Tennessee to manage HDP levels for summer injection gas so that the gas can be withdrawn from storage in the

⁹⁶*AES Ocean Express LLC v. Florida Gas Transmission Company*, 119 FERC ¶ 61,075 at P 265-288 (2007).

⁹⁷ See also *Policy Statement* at P 27, wherein the Commission anticipated future changes to gas quality tariff provisions.

⁹⁸ Offer of Settlement, Stipulation and Agreement at 7-8.

⁹⁹ Article II, section 3.1(a)(iv), Pro Forma Original Sheet No. 307.02: "To the extent that it does not create undue risk of an HDP Problem, Transporter will not apply the Hydrocarbon Dewpoint limits of this Section to receipts into Transporter's system from storage facilities"

winter without liquid hydrocarbon fallout. Some parties question the storage exemption as either too broad or too narrow. As discussed below, the Commission rejects these objections and finds that no additional storage provisions are necessary and that the storage exemption is just and reasonable.

Comments

73. Con Edison states that storage withdrawals are crucial for Con Edison to meet its peak day deliveries and that storage withdrawals constitute twenty-five percent of Tennessee's peak day send out. Con Edison supports the storage exemption, stating the exemption reflects the importance of gas sourced from storage, the fact that storage gas meets Tennessee's HDP requirements at the time of injection, and the fact that processing typically is not available downstream of storage. Con Edison states it understands the Settlement and the exemption to provide that HDP limits will not be applied to market area storage withdrawals unless a specific operational concern exists on the Tennessee system and Tennessee has taken all other measures to correct this specific problem. It states that only when it is operationally necessary and withdrawals of storage gas are directly causing or anticipated to cause major impacts will storage gas be subject to a posted limit.

74. Con Edison states that it supports the Settlement with the understanding that Tennessee will actively manage HDP levels during injection months to ensure gas in storage can be safely withdrawn during peak periods. The Tennessee Customer Group asserts that the storage exemption is critical to the Settlement. The Tennessee Customer Group agrees with Con Edison that Tennessee must actively manage HDP levels during the summer and minimize the imposition of HDP limits on storage gas so that storage gas can be withdrawn during the winter months.

75. Walter Oil, a producer, regards the exemption for storage withdrawals as too broad. It opposes the exemption and supports applying HDP limits to gas withdrawn from storage. Walter Oil believes that the likely result of granting the exemption is that gas withdrawn from storage will create liquid fallout as the only instance in which Tennessee would actually apply an HDP limit to storage would be "if the withdrawals are directly causing or anticipated to cause liquid fallout."¹⁰⁰ At the same time, Walter Oil states that Tennessee would rarely apply an HDP limit to storage withdrawals because it could be impossible to identify withdrawals from storage as the actual or potential causal agent of fallout, depending on the location of the storage field and the projected location of any actual or potential liquids fallout. Walter Oil asserts that Tennessee would choose, instead, to correct any actual or potential liquids fallout problem by posting HDP limits at receipt points on its system, even though storage

¹⁰⁰ Walter Oil cites Tennessee's Explanatory Statement at 20.

withdrawals are a significant percentage of gas on the system at any given time. Walter Oil also asserts that the storage exemption will create a preferred class of suppliers on Tennessee consisting of those who use storage as opposed to suppliers who do not first inject their gas into storage.

76. In contrast, two parties, Wyckoff and CNYOG, operators of storage facilities, claim the exemption is too narrow because it is qualified by the existence of undue risk of an HDP Problem and the qualification permits Tennessee to impose HDP limits on storage gas. They oppose applying any HDP limits to gas withdrawn from storage, except, in the case of Wyckoff, for OFOs. CNYOG asserts there is no factual support or information regarding gas withdrawn from storage so there is no reasonable basis for applying HDP limits or the 15° F CHDP Safe Harbor to gas withdrawn from storage. At the same time CNYOG asserts that withdrawals from its Stagecoach Storage Facility have exceeded the Safe Harbor limit in the past and that they will be shut in if they exceed the Safe Harbor limit in the future. Wyckoff asks the Commission to condition its approval of the Settlement on the deletion of the words “[t]o the extent that it does not create undue risk of an HDP Problem” from proposed section 3.1(a)(iv) of Tennessee’s Tariff.¹⁰¹ This revision would remove the qualification from the exemption and section 3.1(a)(iv), as revised, would then provide that “Transporter will not apply the Hydrocarbon Dewpoint limits of [section 3.1] to receipts into Transporter’s system from storage facilities”

77. Wyckoff and CNYOG assert Tennessee should prevent fallout problems by imposing limits on gas receipts instead of on storage withdrawals. They assert that the only reason that gas withdrawn from storage could cause liquid fallout on Tennessee’s system is that gas previously injected into storage during the summer injection season was too rich. Specifically, they assert Tennessee should be required to place limits on gas injected into storage in the summer so that the gas can be withdrawn from storage in the winter. Wyckoff further asks the Commission to condition its approval of the Settlement upon (1) modification of the Stipulation to make clear that Tennessee is obligated to post summer HDP limits on its system that are reasonably necessary to safeguard winter storage withdrawals, and (2) modification of proposed section 3.1 of Tennessee’s Tariff to make clear that Tennessee has the right and the obligation to post summer HDP limits on its system in order to safeguard winter storage withdrawals. CNYOG also asks that section 3.1(a)(ii) be modified to require that when there is an operational concern about anticipated fallout, Tennessee will place HDP limits on initial

¹⁰¹ Pro Forma Original Sheet No. 307.02. As proposed, section 3.1(a)(iv) provides in relevant part: “To the extent that it does not create undue risk of an HDP Problem, Transporter will not apply the Hydrocarbon Dewpoint limits of this section to receipts into Transporter’s system from storage facilities”

receipt points instead of on storage withdrawals and on segments between the storage facilities and the initial receipt points.¹⁰²

78. CNYOG asserts, in response to Walter Oil, that treating storage withdrawals differently from gas at receipt points is justified given the factual differences between the two types of receipts. It states that storage operations are integrated in nature and that the physical gas molecules injected into and withdrawn from storage bear little or no relation to the customer or pipeline on whose behalf that activity is undertaken or their ability to affect or control the quality of the gas associated with that activity. CNYOG states these factual differences support the approval of different tariff standards for the two different factual situations.

79. National Fuel Supply¹⁰³ receives over fifty percent of its throughput from Tennessee. This gas is injected into National Fuel Supply's storage fields during the summer months and is then redelivered, along with other, commingled gas, to Tennessee and other pipelines. National Fuel Supply is concerned that the gas it receives from Tennessee and places in storage in the summer may be too rich to redeliver back to Tennessee and to other pipelines in the winter. It is concerned that Tennessee may see no need to impose any HDP limit during the summer when temperatures are mild and the potential for liquids fallout is low, and that Tennessee may then post a limit on gas deliveries into Tennessee's system in the winter when temperatures are low and the potential for fall out is high, thus prohibiting National Fuel Supply from redelivering to Tennessee (or other pipelines).

80. To address its concern regarding unredeliverable gas, National Fuel Supply urges that storage deliveries should vary from the 15° F CHDP Safe Harbor only with the agreement of the affected pipelines or should otherwise be required to meet the 15° F CHDP Safe Harbor to assure that the gas can be redelivered in the winter. National Fuel Supply also states that it should be able to request Tennessee's assistance in placing limits on CHDP, either establishing the Safe Harbor or, if needed, declaring an OFO.¹⁰⁴ National Fuel Supply states that under Tennessee's proposed Settlement, if National Fuel

¹⁰² CNYOG references section 3.1(a)(ii), Pro Forma Original Sheet No. 307.01.

¹⁰³ National Fuel Supply is an interstate pipeline. It is a reticulated system that is directly interconnected to five interstate pipelines, including Tennessee. It states it receives over fifty percent of its throughput from Tennessee. It redelivers gas to the same interstate pipelines to which it is interconnected and to intrastate pipelines, customers, and its storage fields. National Fuel Supply claims that it has no significant processing facility on its system nor can it blend or pair interstate pipeline gas to any great extent.

¹⁰⁴ HDP-related OFOs are discussed in a later section below.

Supply experiences fallout on National Fuel Supply's system or is restricted by pipelines to which it is delivering, its only option is to refuse to accept gas from Tennessee.

81. In its reply comments, Tennessee urges that the storage exemption be accepted as proposed. Tennessee states that, contrary to the assertions of Walter Oil, the storage exemption provides the pipeline with the ability to take action to ensure the operational integrity of its system. Tennessee states it will not fail to impose HDP limits on storage gas when such action is warranted. In response to Wyckoff and CNYOG, Tennessee states it must have the ability to impose HDP limits or an HDP OFO on redelivered storage withdrawals when such action is necessary to preserve Tennessee's operational integrity. Tennessee also states in answer to these parties that setting hard HDP limits on gas receipts from producers in the summer, regardless of whether they are necessary or reasonable, will discourage supply from being offered to its system and fails to meet the second principle of the *Policy Statement* that gas quality provisions be flexible.

82. Indicated Shippers oppose expanding the storage exception and thereby exempting storage withdrawals from any CHDP limits as Wyckoff and CNYOG propose. Indicated Shippers assert Tennessee cannot insure that gas withdrawals from Wyckoff's or CNYOG's storage facilities will meet Tennessee's requirements because other pipelines tender gas to Wyckoff and CNYOG which will commingle with the gas tendered by Tennessee.¹⁰⁵ Indicated Shippers also assert that the concerns of Wyckoff and CNYOG that their gas would be shut in because it does not meet the 15° F CHDP Safe Harbor or other HDP limits are speculative. Indicated Shippers state Wyckoff has not yet begun operations and that CNYOG has provided no specific incidents of gas being shut in because of HDP limits. Indicated Shippers point out that neither of these parties filed the affidavit required to make the necessary showing to establish any genuine issue of material fact.¹⁰⁶

Commission Decision

83. The Commission finds that the Settlement provisions concerning the imposition of CHDP limits on summer injection gas so that it may be received into Tennessee's system upon withdrawal without liquids fallout in the winter are sufficient and rejects proposals for further requirements. The Commission finds further that the storage exemption and

¹⁰⁵ Indicated Shippers note that Wyckoff will be interconnected initially with Columbia Gas and National Fuel and may subsequently interconnect with Dominion Transmission. They state that the Commission has recently authorized CNYOG's Stagecoach facility to construct a lateral to the planned Millennium Pipeline Company, L.L.C., citing *Central New York Oil & Gas Company, LLC*, 116 FERC ¶ 61,277 (2006).

¹⁰⁶ Indicated Shippers cite 18 C.F.R. § 385.602(f)(4) (2007).

the exception to the storage exemption are just and reasonable and accepts them. It rejects the objections of the parties for the reasons discussed below.

84. The core concerns of National Fuel Supply, Wyckoff and CNYOG are that gas injected into storage in the summer will not be of sufficiently low CHDP to be withdrawn in the winter without hydrocarbon liquids fallout. Con Edison is concerned that it will not be able to access storage gas in the winter. Walter Oil is concerned that parties will be able to deliver gas from storage facilities into Tennessee with a higher CHDP than parties that deliver gas to Tennessee at receipt points. The Commission finds Tennessee adequately addresses these concerns in its Offer of Settlement, Stipulation and Agreement, and Settlement tariff provisions.

85. In its Offer of Settlement, Tennessee states that it has a balanced approach to storage gas consisting of its treatment of gas destined for injection into storage in the summer and the storage exemption.¹⁰⁷ First, Tennessee emphasizes the importance of storage gas for supporting reliable operation of the pipeline and its customers during peak days. It states that Tennessee and its customers require assurance that gas injected into storage fields can be withdrawn without interruption when needed. Tennessee states, “it is critical that gas injected in the summer be of sufficient quality so that when it is withdrawn in the winter months it may be transported and delivered without hydrocarbon liquid fallout.”¹⁰⁸ Tennessee states this can be accomplished, when operationally necessary, through imposition of an HDP limit pursuant to proposed section 3.1 of Article II of its tariff to insure that gas injected into storage facilities during the injection season may be received into Tennessee’s system upon withdrawal during the withdrawal season without creating an HDP Problem.¹⁰⁹ In section 2.8 of the Stipulation and Agreement¹¹⁰ Tennessee reserves the right to post an HDP limitation pursuant to section 3.1 of its tariff when necessary to protect the operational integrity of Tennessee’s system, “including as operationally necessary to insure that gas injected into storage facilities during the injection season may be received into the system upon withdrawal during the withdrawal season without creating an HDP Problem.”¹¹¹

86. Based on these statements in its Offer of Settlement and in section 2.8 of the Stipulation and Agreement and on the provisions in section 3.1 of its tariff, the

¹⁰⁷ Offer of Settlement, Explanatory Statement at 19-20.

¹⁰⁸ *Id.* at 20.

¹⁰⁹ *Id.*

¹¹⁰ Stipulation and Agreement at 7-8.

¹¹¹ *Id.* and Offer of Settlement at 20.

Commission finds that Tennessee is aware of and has made provision for the imposition of CHDP limits on gas to be injected into storage during the injection season so that it can receive gas withdrawn during the withdrawal season without the need to impose further CHDP limits. Thus, the gas delivered for injection into storage will already have met the CHDP limits that are needed to permit it to be redelivered to Tennessee upon withdrawal from storage in the winter without hydrocarbon liquid fallout. The Commission finds that further provisions for assuring that gas injected into storage can be withdrawn in the winter are not necessary.

87. The storage exemption forms the second part of Tennessee's balanced approach to storage gas. The storage exemption provides that storage gas is exempt from CHDP limits, with one exception. Tennessee may impose CHDP limits on storage withdrawals when there is an "undue risk of an HDP Problem."¹¹² An HDP Problem exists when there is an actual or anticipated operational problem specifically related to actual or anticipated hydrocarbon liquid fallout.¹¹³

88. The Commission finds the storage exemption is not too broad. Contrary to Walter Oil's contentions, the Commission finds there should be little need for Tennessee to impose CHDP limits on gas withdrawn from storage. As discussed above, gas delivered by Tennessee to storage will already have been subject to CHDP limits that should allow the gas to be withdrawn in the winter without liquid hydrocarbon fallout. At the same time, however, The Commission also finds that the exception to the storage exemption is justified so that the storage exemption is not too narrow. Contrary to Wyckoff's and CNYOG's assertions, the Commission finds there is a reasonable basis for the exception to the storage exemption. While there should be little need for the pipeline to impose CHDP limits on gas withdrawn from storage, it is possible that HDP Problems may arise that include or stem from redelivered storage gas. As National Fuel Supply, Wyckoff and CNYOG point out, the redelivered storage gas may originate from pipelines other than Tennessee. There may be occasions on which commingled gas withdrawn from storage does not meet the HDP standards on Tennessee. Tennessee must have the flexibility to address such problems if they arise. The exception to the storage exemption provides Tennessee with the ability to address fallout problems associated with storage gas.

89. CNYOG also asks that section 3.1(a)(ii) of the tariff be modified to require that when there is an operational concern with respect to anticipated fallout, Tennessee will place HDP limits on initial receipt points instead of on storage withdrawals and on

¹¹² Offer of Settlement, Appendix A, Article II, section 3.1(a)(iv), Pro Forma Original Sheet No. 307.02.

¹¹³ *Id.*, Article I, section 38, Pro Forma Second Revised Sheet No. 305A.

segments between the storage facilities and the initial receipt points.¹¹⁴ The Commission denies CNYOG's request. Tennessee must be able to impose HDP limits on storage withdrawal points in accordance with proposed Article II, section 3.1(a)(iv) of its tariff, that is, when gas withdrawn from storage creates an undue risk of an HDP Problem. If that is the case, then storage withdrawal points cannot be exempted. Placing limits only on initial receipt points or on segments between the storage withdrawal points and initial receipt points will not be sufficient to address the HDP Problem if undue risk of an HDP Problem is created by receipts from storage facilities.

C. Storage Withdrawal Exemption and the HDP OFO

90. Under proposed Article VIII, section 6.1 of its tariff, Tennessee can issue an OFO that lowers the HDP limit below the 15° F CHDP Safe Harbor if it determines that the HDP OFO is necessary to avoid an event that threatens the operational integrity of its system.¹¹⁵ The parties disagree over whether the storage exemption applies when an HDP OFO is issued. The Commission finds that the storage exemption applies when there is an HDP OFO.

Comments

91. Indicated Shippers, who do not contest the Settlement, state that the storage exemption only applies when it does not create "undue risk" of an HDP Problem. Indicated Shippers state that, therefore, the storage exemption would not apply to

¹¹⁴ Offer of Settlement, Appendix A, Article II, section 3.1(a)(ii), Pro Forma Original Sheet No. 307.01. That section provides, in relevant part:

When Transporter anticipates an HDP Problem under foreseeable operating conditions and Transporter determines that Hydrocarbon Dewpoint limits are necessary, Transporter shall post . . . Hydrocarbon Dewpoint limits (no lower than 15° F) for the HDP Segment(s) of Transporter's System required to prevent the anticipated liquid fallout. . . . Hydrocarbon Dewpoint limitations posted pursuant to this section shall be applied to all HDP Segment(s) where potential for liquid fallout is anticipated absent such Hydrocarbon Dewpoint limitation and to all HDP Segments required to prevent the anticipated liquid fallout under foreseeable operating conditions, provided such posting shall not skip over any HDP Segment between the HDP Problem and the furthestmost upstream HDP Segment to which an HDP limit is posted. . . .

¹¹⁵ Offer of Settlement, Appendix A, Article VIII, section 6.3, Pro Forma Original Sheet No. 361B.

withdrawals from storage if an HDP OFO is in effect for the HDP Segment in which those withdrawals are received into Tennessee's system.¹¹⁶

92. Con Edison states that Indicated Shippers' understanding of the storage exemption when there is an HDP OFO is contrary to section 3.1(a) of Article II¹¹⁷ and section 6.3 of Article VIII,¹¹⁸ of the Settlement tariff. Con Edison states section 6.3 provides that "an HDP OFO that reduces Transporter's Hydrocarbon Dewpoint Safe Harbor shall be applied in a manner consistent with the procedures set forth in Article II, section 3.1(a)." Con Edison asserts that Article VIII, section 6.3 thus incorporates Article II, subsection 3.1(a)(iv) which contains the storage exemption. It argues that, thus, even if Tennessee is required to issue an HDP OFO, it will not apply that OFO to withdrawals from storage "to the extent that [they] do[] not create undue risk of an HDP Problem." Accordingly, Con Edison asserts that the storage exemption would apply when there is an HDP OFO, contrary to Indicated Shippers' interpretation.

Commission Decision

93. The Commission finds that, as Con Edison asserts, the storage exemption applies when there is an HDP OFO. Article VIII, section 6.1 of the Settlement tariff provisions permits Tennessee to issue an OFO reducing the HDP limit below the 15° F CHDP Safe Harbor. However, Article VIII, section 6.3 of the Settlement tariff provisions provides that an HDP OFO shall be applied in accordance with Article II, section 3.1(a) of the Settlement tariff provisions. Article II, section 3.1(a) includes the storage exemption in section 3.1(a)(iv). Thus, Tennessee would apply an HDP OFO in accordance with the storage exemption and thus would only apply an HDP OFO to storage withdrawals to the extent that the storage withdrawals created an undue risk of an HDP Problem.

¹¹⁶ *Id.* Article VIII, section 6.3 provides:

Notwithstanding the above [sections 6.1 and 6.2 imposing and noticing an HDP OFO to avoid an event that threatens the operational integrity of the system], an HDP OFO that reduces Transporter's Hydrocarbon Dewpoint Safe Harbor shall be applied in a manner consistent with the procedures set forth in Article II, section 3.1(a).

¹¹⁷ *Id.*, Article II, section 3.1(a), Pro Forma First Revised Sheet No. 307, Pro Forma Original Sheet Nos. 301.01 and 307.02.

¹¹⁸ *Id.*, Article VIII, section 6.3, Pro Forma Original Sheet No. 361B.

D. Facilities to Which a Tennessee HDP OFO Can Apply

94. Tennessee's Settlement tariff provisions provide that the pipeline can issue an OFO to reduce the CHDP level below the CHDP Safe Harbor at a receipt point or a Monitoring Point. Some parties assert the Settlement tariff provisions should be modified to give Tennessee the authority to issue an HDP OFO to ensure that gas will be accepted for delivery at downstream interconnects or to address a problem on a downstream pipeline. The Commission finds that the proposed HDP OFO tariff provision is just and reasonable and accepts it.

Comments

95. Indicated Shippers assert Tennessee can only issue an HDP-related OFO on facilities owned by Tennessee as proposed section 6.1 provides.¹¹⁹ Indicated Shippers also request clarification that (a) the HDP Problem is limited to the interconnect facilities as defined in Article I, section 1.38¹²⁰ of the Settlement tariff so that downstream conditions or tariff requirements are not the basis for establishment of HDP limits on Tennessee's system, and (b) Tennessee must make its own assessment of the HDP Problem rather than relying upon another party, including owners of those facilities.

96. National Fuel Supply seems to assert that downstream pipelines should have the opportunity to request that Tennessee issue an HDP OFO to address problems being encountered on the downstream system.¹²¹ Its affiliate, National Fuel Distribution,¹²² asserts that Tennessee should be able to issue HDP OFOs to ensure that gas will be accepted for delivery into downstream interconnects of Commission-regulated pipelines. It asserts that such authority would enable Tennessee to meet the HDP OFO specifications of Commission-regulated downstream pipelines and would advance the

¹¹⁹ *Id.*, Article VIII, section 6.1, Pro Forma Original Sheet No. 361B. Section 6.1 provides: "Transporter shall impose a Hydrocarbon Dewpoint limitation below the Hydrocarbon Dewpoint Safe Harbor (by issuing an HDP OFO) at a receipt point or Monitoring Point if Transporter determines that such HDP OFO is necessary to avoid an event that threatens the operational integrity of Transporter's System."

¹²⁰ *Id.*, Article I, section 1.38, Pro Forma Second Revised Sheet No. 305A.

¹²¹ National Fuel Supply Comments at 6 (March 19, 2007).

¹²² National Fuel Distribution states that it is not directly connected to Tennessee but purchases gas transported on Tennessee and delivered to CNYOG, Columbia Gas Transmission Corp., Dominion Transmission, Inc., Honeoye Storage Corp., and National Fuel Supply.

Commission's goal of encouraging the development of a seamless interstate pipeline grid.¹²³

97. The Tennessee Customer Group, in its reply comments to National Fuel Distribution's arguments, states that under the terms of the Settlement an OFO cannot be imposed to prevent a hydrocarbon fallout problem at the delivery interconnects, but must be associated with an operational problem on Tennessee.¹²⁴ The Tennessee Customer Group also took exception to the Indicated Shippers' request for clarification that implied the Settlement only applied to *delivery* points. The Tennessee Customer Group contends that the Settlement applies to *all* interconnections.

98. The Producer Coalition asserts that Tennessee is not required to have authority to issue OFOs setting HDP limits below the 15° F CHDP Safe Harbor whenever a downstream pipeline issues an OFO setting an HDP limit below 15° F. It states that in *ANR Pipeline Company*¹²⁵ the Commission determined that a pipeline is not responsible for operating conditions on downstream systems in setting HDP limits for gas the pipeline receives. Instead, the Producer Coalition argues, *ANR* holds that downstream parties like LDCs and end-users are responsible for the operating conditions on their systems.¹²⁶ It asserts that *ANR* specifically rejected tariff provisions that would have allowed the pipeline to issue an OFO reducing the CHDP limit below the CHDP Safe Harbor to avoid an event that threatens the operational integrity of end-users, local distribution companies, and others.¹²⁷ It states the HDP-related OFO provision in Tennessee's proposed settlement is identical to the HDP-related OFO provision in

¹²³ National Fuel Distribution cites *Natural Gas Pipeline Company of America*, 104 FERC ¶ 61,322, at P 48-50 (2003) in support of its position.

¹²⁴ The Tennessee Customer Group cites section 2.5 of the Stipulation which states: "HDP OFO's [*sic*] may not be used to address conditions at interconnects involving facilities other than those owned by Tennessee. Thus, liquid fallout at pressure reduction equipment owned by local distribution companies at interconnects is outside Tennessee's OFO authority, and must be addressed by the owners of such facilities."

¹²⁵ 116 FERC ¶ 61,002, at P 62, *reh'g denied*, 117 FERC ¶ 61,286 (2006) (*ANR*).

¹²⁶ *ANR*, 116 FERC ¶ 61,002 at P 58-59, 117 FERC ¶ 61,286 at P 22-23 and P 27.

¹²⁷ *Id.*, 116 FERC ¶ 61,002 at P 64.

ANR.¹²⁸ The Producer Coalition also states that the 2003 order in *Natural Gas Pipeline* on which Natural Fuel Distribution relies was significantly limited by ANR.¹²⁹

99. National Fuel Supply filed an Answer to the Producer Coalition's Reply Comments. National Fuel Supply states that its reliance on the 2003 *Natural Gas* case was affirmed in the Commission's 2007 ruling in the *Natural Gas* proceeding.¹³⁰ It states that in the 2007 *Natural Gas* order, the Commission stated:

. . . the permanent safe harbor dewpoint provides an outer limit to the flexibility the Commission has permitted Natural to vary its gas quality standards ensuring that no liquids dropout [*sic*] in the gas stream and enabling Natural to meet downstream gas quality requirements while giving shippers some degree of certainty that Natural will accept their gas.¹³¹

100. National Fuel Supply also asserts that ANR itself provides for consideration of downstream interconnects, citing the statement that "[t]he Commission . . . finds that in setting a Safe Harbor CHDP, ANR must choose a level that assures that it can make deliveries to downstream customers and that gas will be accepted for delivery at the interconnects with those customers."¹³² National Fuel Supply states that this is all that it is seeking in advocating that Tennessee's tariff must provide the ability to respond to downstream pipelines' restrictions. It asserts that the 2007 *Natural Gas* ruling affirms that pipelines may consider the impact on downstream entities in designing their gas quality provisions.

Commission Decision

101. The Commission denies National Fuel Distribution and National Fuel Supply's proposal to modify the Settlement so that Tennessee can issue HDP OFOs to ensure that gas will be accepted for delivery into downstream interconnects of Commission-regulated pipelines. These parties are applying the Commission's holding that pipelines should set the CHDP Safe Harbor with a range that will permit delivery at downstream

¹²⁸ ANR Pipeline Company, Second Revised Volume No. 1, General Terms and Conditions, section 8.2(e).

¹²⁹ *Id.*, 116 FERC ¶ 61,002 at P 57-62, 117 FERC ¶ 61,286 at P 21-27. Also *citing Natural Gas Pipeline Company of America*, 116 FERC ¶ 61,262 at P 32, n. 26 (2006).

¹³⁰ *Natural Gas Supply Company of America*, 118 FERC ¶ 61,219 (2007).

¹³¹ *Id.* at P 73.

¹³² ANR, 116 FERC ¶ 61,002 at P 62.

interconnects to the issuance of HDP-related OFOs. However, the application of OFOs is different from the setting of a CHDP Safe Harbor. The CHDP Safe Harbor applies to ordinary pipeline operations. OFOs, however, are not issued as part of ordinary pipeline operations, but only in emergency situations.¹³³

102. In *ANR*, the Commission refused to require the pipeline to have a tariff provision that would allow it to issue an OFO reducing the CHDP limit below the CHDP Safe Harbor to avoid an event that threatened the operational integrity of end-users, local distribution companies, and others. The Commission stated the pipeline is responsible only for the operational integrity of its own system, not for the operational integrity of downstream systems.¹³⁴ HDP OFOs address operating conditions on the pipeline that threaten the integrity of the pipeline. They are not intended to address operating conditions on other entities. When Tennessee issues an HDP OFO, the purpose of that HDP OFO is to protect the operational integrity of Tennessee's system; it is not to permit delivery of gas downstream of Tennessee's facilities. Consequently, the Commission finds that Tennessee's HDP OFO provision in Article VIII, section 6.1, which provides for the issuance of an HDP OFO only at a receipt point or Monitoring Point, is just and reasonable. These findings also address Walter Oil's concerns and the Indicated Shippers' request for clarification.

E. Issues Related to Downstream Entities

Comments

103. Piedmont argues that, under the terms of the Settlement, the status quo will not be maintained, and Tennessee will be permitted to receive and deliver gas with higher CHDP than historical levels. This, Piedmont contends, will increase the economic risks of Btus delivered as liquids and the operational risks that downstream LDCs and end-users face who typically have no facilities to deal with higher CHDP level gas. Further, Piedmont notes that its pressure reduction facilities, where the potential for liquid drop out is greatest, are far downstream of Tennessee's points of delivery. Under the terms of the Settlement, Piedmont notes that it would not benefit from Tennessee's assumption of responsibility for hydrocarbon liquid drop out at points of interconnection. Piedmont believes the increased risks are the result of economic decisions of suppliers not to process the gas, and that Tennessee is shifting the risks downstream to entities such as itself. Piedmont believes that gas satisfying the Settlement's proposed gas quality standards may interfere with its merchantability. Piedmont notes that it has recently experienced problems with liquid oils on its system. Piedmont is concerned that the

¹³³ *Indicated Shippers v. ANR Pipeline Company*, 105 FERC ¶ 61,394, at P 18 (2003).

¹³⁴ *ANR*, 116 FERC ¶ 61,002, at P 64.

proposed gas quality standard gives Tennessee the appearance that it is maintaining merchantable gas because the only obligation is limited to performance on its system, which is meaningless for downstream systems with different operational characteristics. Piedmont claims that, under the terms of the proposed gas quality standards, it will have to spend millions of dollars on mitigation equipment, and suffer economic losses from increased liquid Btu deliveries. Further, Piedmont argues the Settlement's HDP OFO penalty is not sufficient to protect against potential damages that downstream companies may experience. While it may provide some deterrent, Piedmont argues that the penalty does not provide compensation to downstream shippers as the result of non-compliance. Further, Piedmont notes, Tennessee is not offering to provide compensation. Piedmont recommends that either Tennessee adopt a CHDP Safe Harbor mechanism that ensures the safety of downstream facilities, or accept responsibility for the mitigation measures needed to provide Tennessee the flexibility to allow higher HDP gas onto its system.

104. Walter Oil asserts that the proposed Settlement tariff provisions and the Stipulation and Agreement permit Tennessee to impose HDP limits on its own system in order to ensure that liquids fallout will not occur on the facilities of downstream entities. First, Walter Oil asserts that the definition of Interconnect in proposed Article I, section 38 of the Settlement tariff¹³⁵ and as described in section 2.3 of the Stipulation and Agreement is very broad and could include significant facilities operated by third parties that are downstream of Tennessee's own facilities,¹³⁶ thus permitting Tennessee to impose HDP limits based on the operating conditions of the third party facilities.

105. Walter Oil also asserts that in section 2.4 of the Stipulation and Agreement Tennessee states that under section 3.1 of the Settlement tariff¹³⁷ it can post HDP limits to

¹³⁵ *Id.*, Appendix A, Pro Forma Second Revised Sheet No. 305A.

¹³⁶ Walter Oil cites the following statement from section 2.3 of the Stipulation and Agreement at 5-6, Offer of Settlement:

As used in the definition [in Article I, section 38 of the Settlement tariff], the term "interconnect(s)" is intended to refer to the specific integrated facilities that make up an interconnect. Those facilities may vary from place to place, depending on the interconnects [*sic*] configuration, and may be owned and operated by parties other than Tennessee as allowed by Tennessee's FERC-approved tariff.

¹³⁷ Offer of Settlement, Appendix A, Article II section 3.1, Pro Forma First Revised Sheet No. 307.

assure that gas will be accepted for downstream deliveries at all interconnects.¹³⁸ Walter Oil argues that section 2.4 thus provides Tennessee with the authority to impose HDP limits to ensure that gas delivered to a downstream entity will not result in liquids fallout on the facilities of the downstream entity. Walter Oil also asserts section 2.4 of the Stipulation and Agreement states that Tennessee would post limits on its system to prevent liquids fallout on the systems of downstream pipelines and storage facilities, but would not post limits on its system to prevent liquids fallout on the systems of downstream end users and local distribution companies.¹³⁹ But Walter Oil insists, nonetheless, that Tennessee would use its tariff authority to post HDP limits to prevent hydrocarbon liquids fallout on all of these downstream systems.

106. The Producer Coalition and Tennessee, in reply to Piedmont, argue that the proposed Settlement is consistent with *ANR*, wherein the Commission found that pipelines are not responsible for the operating conditions on downstream facilities.¹⁴⁰ Further, Tennessee states that it has reviewed the data with regard to Piedmont's claim that it has experienced hydrocarbon dropout, and found the potential that it could have

¹³⁸ *Id.*, section 2.4 at 5-6.

Tennessee shall have the authority as operationally necessary to post HDP limits at or above the Hydrocarbon Dewpoint Safe Harbor . . . in order to cure or prevent hydrocarbon liquid fallout or to assure that gas will be accepted for downstream deliveries, including interconnects with interstate and intrastate pipeline, storage facilities, end users, and local distribution companies.

¹³⁹ Walter Oil is referring to the following language in section 2.4 of the Stipulation and Agreement at 6, Offer of Settlement:

[T]his right [to post HDP limits] is intended to allow Tennessee to impose an[] HDP limit on its system to the extent operationally necessary to prevent or cure an HDP Problem or to enable Tennessee to deliver gas to a downstream interstate or intrastate pipeline, or storage facility that meets the downstream entity's established HDP limitation. This language is not intended to require Tennessee to meet an HDP limitation imposed by an end user or local distribution company, nor may it be relied upon by Tennessee to correct liquid fallout on a downstream end user's or local distribution company's facilities, barring an HDP Problem at the Interconnect.

¹⁴⁰ *Citing ANR Pipeline Company*, 116 FERC ¶ 61,002 at P 62 (2006) and *order on reh'g*, 117 FERC ¶ 61,286 (2006).

occurred extremely low. Tennessee also notes that liquid oils are not the same as liquid hydrocarbons, and liquid oils are not at issue in this proceeding.

Commission Decision

107. Piedmont ignores the fact that this proceeding started because gas tendered Tennessee by its shippers, while meeting tariff standards, did not meet historic gas quality standards and resulted in Tennessee experiencing liquid dropout related operational problems.¹⁴¹ Thus the change from historic gas quality levels is already a fact that must be dealt with by all segments of the natural gas industry. Piedmont claims that Tennessee is shifting the economic risk of gas tendered with high levels of heavier hydrocarbons to entities such as itself. The Commission does not agree. Tennessee is an open access transporter. It does not own any of the gas transported on its system other than fuel and line pack. It is not a party to the gas purchase contracts, and it is not claiming that there are any Tennessee related costs, nor is it proposing to allocate any costs. This Settlement addresses Tennessee's needs to set HDP levels to minimize liquid dropout related operational problems on its system, yet retain flexibility to receive shippers' gas above the Safe Harbor under either actual or anticipated operational conditions.

108. The Settlement provides that, when Tennessee evaluates a HDP Problem, Interconnecting Equipment:

...shall mean the integrated metering, measurement, **pressure regulation** and gas handling facilities and other equipment ("Interconnect Equipment") located within the measurement/delivery complex where Transporter delivers gas to an interstate or intrastate pipeline, end user, storage facility or local distribution company, typically contained within a fenced or other secure enclosure. Interconnect Equipment may or may not be owned by Transporter and may or may not be located before the meter demarcating the change in possession of the gas. (Emphasis added.)¹⁴²

Piedmont argues that, because its pressure reduction facilities are located far from Tennessee's delivery points to Piedmont, its delivery points will not receive the same consideration Tennessee will give to others with pressure reduction within the Settlement defined interconnection points. The Commission disagrees. How a facility downstream of Tennessee was designed and constructed was a function of business and regulatory

¹⁴¹ The Commission agrees with Tennessee that Piedmont's liquid oil example is not germane to this proceeding.

¹⁴² Offer of Settlement, Appendix A, Article I, section 38, Pro Forma Second Revised Sheet No. 305A.

decisions of downstream entities, not Tennessee. As we have found previously, the pipeline is responsible only for the operational integrity of its own system, not for the operational integrity of downstream systems.¹⁴³ Further, even though some limited equipment that is not Tennessee-owned may be included as part of its determination of an HDP Problem, the explicit focus of the tariff language is to identify actual or potential problems on Tennessee's system or its interconnects, not anything downstream. The Explanatory Statement states that "[t]he definition of interconnect in the Settlement Sheets is intended to ensure that, regardless of the actual configuration or ownership of the specific integrated facilities at an interconnect point, Tennessee will meet its obligation to deliver gas free of liquids at that interconnect, and no further."¹⁴⁴ The proposed tariff's focus on Tennessee's obligation to deliver gas free of liquids at that interconnect does not treat Piedmont any differently.

109. Piedmont also argues that Tennessee's HDP OFO penalties are not sufficient to protect it from damage or compensate it for damage. OFO penalties are designed to prevent the impairment of reliable service on Tennessee's system.¹⁴⁵ Penalties are not designed to compensate Tennessee or others for damages as the result of not following instructions.¹⁴⁶ The focus of the proposed HDP OFO penalties is on Tennessee's operations and deterrence. This is consistent with the Commission's regulations. Penalty revenue generated by interstate pipelines is not meant to compensate parties or industry segments upstream or down stream of the interstate pipeline for any alleged damages.¹⁴⁷

110. The Commission rejects Walter Oil's assertions concerning the proposed definition of Interconnect in Article I, section 38.¹⁴⁸ Section 38 states that for purposes of HDP problems and thus of setting HDP limits on Tennessee, Interconnect facilities and

¹⁴³ ANR, 116 FERC ¶ 61,002 at P 64.

¹⁴⁴ Offer of Settlement, Explanatory Statement at 21.

¹⁴⁵ Section 284.12(b)(2)(v) of the Commission's regulations, 18 C.F.R. § 284.12(b)(2)(v) (2007).

¹⁴⁶ Tennessee is not permitted to retain penalty revenues. It must credit these revenues to its shippers. Tennessee's FERC Gas Tariff, Article XXXVII (Penalty Crediting) of its General Terms and Conditions.

¹⁴⁷ See, in accord, *AES Ocean Express LLC v. Florida Gas Transmission Company*, 119 FERC ¶ 61,075 at P 281-288 (2007), wherein the Commission discusses its jurisdiction when considering claims that upstream or downstream entities' gas interchangeability mitigation costs are recoverable from NGA interstate pipelines.

¹⁴⁸ Offer of Settlement, Appendix A, Pro Forma Second Revised Sheet No. 305A.

equipment “located within the measurement/delivery complex” where Tennessee delivers gas to a downstream entity. The definition of Interconnect in section 38 specifically describes the delivery points at which Tennessee delivers gas. The tariff definition does not include facilities downstream of Tennessee’s delivery points. Nothing in section 2.4 of the Stipulation and Agreement enlarges this definition. Thus, section 38 does not give Tennessee the authority to set HDP limits for facilities located downstream of Tennessee that are owned by third parties.

111. The Commission also rejects Walter Oil’s contention that section 2.4 of the Stipulation and Agreement provides Tennessee with the authority to impose HDP limits to ensure that gas delivered to a downstream entity will not result in liquids fallout on the facilities of the downstream entity. The tariff section which this portion of the Stipulation and Agreement addresses, Article II, section 3.1, only gives Tennessee the authority to set HDP limits to address hydrocarbon liquids problems on its system and to ensure that deliveries can be made at interconnects. It does not contain authority for Tennessee to impose HDP limits that address operating conditions on downstream systems.

112. With respect to these provisions, the Commission agrees with Walter Oil that the interpretation of section 2.4 of the Stipulation and Agreement of Tennessee’s authority in Article II, section 3.1 of its Settlement tariff¹⁴⁹ to post HDP limits to meet HDP limits set by downstream interstate and intrastate pipelines and storage facilities is overbroad. Thus far, the Commission has recognized the necessity for pipelines to set HDP limits down to the Safe Harbor limit in order to make deliveries at interconnects in the physical sense. Up to this point, the Commission has not addressed a pipeline’s ability to set posted HDP limits to match HDP limits set by an interstate or intrastate downstream pipeline or by a storage facility. Tennessee has included a list of the gas quality standards of interconnecting pipelines to support its interpretation that it may post HDP limits that meet a downstream pipeline’s or storage facility’s established HDP limitation.¹⁵⁰ However, Tennessee did not present any instances in which it has been unable to deliver gas because of an HDP limit on a downstream pipeline or storage facility or any instances in which it had difficulty in delivering gas to a downstream pipeline or storage facility because of an HDP limit on the downstream entity. Further, no party identified physical and operational changes to Tennessee’s pipeline system or the interconnecting pipelines’ systems that would lead to the rejection of deliveries from Tennessee by the interconnecting pipelines. Accordingly, the Commission finds that the need to apply

¹⁴⁹ *Id.*, Pro Forma First Revised Sheet No. 307.

¹⁵⁰ For the most part, as shown in Tennessee’s Offer of Settlement, Appendix B, these standards are qualitative standards (*e.g.*, shall be commercially free from liquid hydrocarbons, often at pipeline temperature and pressures). For those with a numerical safe harbor, one is 25° F, two are 15° F, one is 10° F and one is -10° F.

HDP limits to Tennessee's system to match HDP limits on downstream pipelines and storage facilities is speculative. The Commission's policy is to encourage the maximum availability of gas supplies. Permitting the lowest possible gas quality standard or safe harbor to roll up (or back) downstream to the source of gas supplies would discourage producers from tendering gas to pipelines and would result in a reduction of gas supplies, contrary to Commission policy. The Commission notes that Tennessee's Settlement tariff states only that it may post HDP limits to, among other things, "assure that gas would be accepted for delivery into interconnects."¹⁵¹ It does not state that Tennessee may post HDP limits to match limits set by downstream entities. Thus, the Commission accepts Article II, section 3.1 of Tennessee's tariff, but strikes the portion of section 2.4 of its Stipulation and Agreement stating that it may impose HDP limits on its system "to enable Tennessee to deliver gas to a downstream interstate or intrastate pipeline, or storage facility that meets the downstream entity's established HDP limitation."

F. Follow up Report

113. Walter Oil requests that, if the Commission approves the Settlement without modifications, it require Tennessee to file a report within 15 months of the effective date of the Settlement setting forth the actual operating history under the new gas quality provisions and to allow interested parties to comment.

114. The Commission denies Walter Oil's request. All of Tennessee's CHDP and OFO postings will be available on Tennessee's public informational web site. If any party believes that Tennessee is not following the terms of its tariff, or believes that Tennessee's tariff is no longer just and reasonable, they may make a filing pursuant to Rule 206 of the Commission's regulations.¹⁵²

G. Remaining Policy Statement Concerns

115. In its August 1 Order, the Commission noted that Tennessee's CHDP gas quality standard should meet the requirements and concerns of the *Policy Statement*. The Commission finds that Tennessee has also satisfied the aspects of the *Policy Statement* that were not challenged by opposing parties and have not yet been addressed in this order. Specifically, Tennessee has provided a comparison, in equivalent terms, of its proposed gas quality specifications and those of each interconnecting pipeline.¹⁵³ It has also provided natural gas quality specifications for gas that it will deliver to its

¹⁵¹ Offer of Settlement, Appendix A, Article II, section 3.1, Pro Forma First Revised Sheet No. 307.

¹⁵² 18 CFR § 385.206 (2006).

¹⁵³ Offer of Settlement, Appendix B.

customers.¹⁵⁴ In addition, Tennessee has included a proposal for the blending and pairing of gas supplies that may allow gas with a higher HDP to be received on its system because it will be mixed with gas of a lower HDP and will ultimately meet the pipeline's HDP limits.¹⁵⁵ It has also provided specific procedures for the aggregation and blending of supplies as required in the August 1 Order.¹⁵⁶

The Commission orders:

(A) The Offer of Settlement filed by Tennessee on February 26, 2007 is approved, except as noted. Tennessee is required to file actual tariff sheets within 30 days of the date of the final order in this proceeding to be effective on the date provided in the Stipulation.

(B) The objections of the opposing parties are denied.

(C) Tennessee's motion for suspension of the requirements of the August 1 Order for a compliance filing and technical conference during the period the Commission considered its Offer of Settlement is granted. In addition, the Commission vacates these requirements as moot.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

¹⁵⁴ *Id.*, Appendix A, Article II, section 1(b), Pro Forma Fifth Revised Sheet No. 306.

¹⁵⁵ *Id.*, Article II, section 3.1(c), Pro Forma Original Sheet Nos. 307.03 and 307.04.

¹⁵⁶ *Id.*