UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Northern Natural Gas Company — Docket No. RP00-404-014

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS SUBJECT TO REFUND, CONDITIONS, AND FUTHER REVIEW

(Issued September 24, 2004)

1. On August 26, 2004, Northern Natural Gas Company (Northern) filed revised tariff sheets[1] to clarify certain Field Area segmentation provisions.[2] The majority of Northern's revisions are administrative. Northern also proposes to modify its tariff rate sheets to add the MID 7B segmentation point to its Field Area commodity and fuel rate matrices. Northern requests a September 1, 2004, effective date for its tariff sheets to coincide with the implementation date of its segmentation plan. Virginia Power Energy Marketing, Inc. (VPEM) protests Northern's filing and asks that the Commission reject the proposal.

2. As discussed below, we accept and suspend Northern's tariff sheets to become effective September 1, 2004, subject to refund, conditions, and further review. This order benefits the public by providing shippers and the Commission the opportunity to thoroughly review Northern's proposed MID 7B commodity and fuel rates to ensure that they are just and reasonable.

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[1] See Appendix.

[2] The Commission accepted Northern's Field Area segmentation provisions in its Third Order on Compliance with Order No. 637 and Order on Rehearing and Clarification, issued on August 4, 2004, in Docket Nos. RP00-404-008, *et al*. (108 FERC ¶ 61,124 (2004)).

Background

3. On April 1, 2004, Northern filed its Field Area segmentation proposal in its Order No. 637 compliance proceeding in Docket No. RP00-404-012. Northern's segmentation proposal included two phases. Under Phase 1, Northern proposed to create a segmentation point at the boundary between MID 7 and MID 8 in its Field Area, designating it MID 7/8.[3] Generally, shippers may segment capacity in Northern's Field Area if: (1) they split their existing service agreement into two new contracts created specifically to facilitate segmented transactions; and (2) their existing service agreement has a primary receipt point south of MID 7/8 and a primary delivery point north of MID 7/8, or visa versa. Numerous parties protested various elements of Northern's segmentation proposal. On August 4, 2004, the Commission issued an order[4] in Northern's Order No. 637 compliance proceeding accepting Phase 1 of Northern's Field Area segmentation proposal, and rejecting all protests. Phase 1 went into effect on September 1, 2004.

4. Under Phase 2 of its segmentation proposal, Northern would no longer require shippers who request segmentation to separate their agreement into two individual contracts as in Phase 1, but instead would amend their agreements to have two associated segments within the one contract. Northern would also establish primary paths and points for each of the two segments, along with alternate points and paths for each of the segments. Northern proposes to effectuate Phase 2 of its segmentation plan on October 1, 2005. In its August 4, 2004 order, the Commission said it would not act on Phase 2 of Northern's segmentation plan proposal until after Northern files a one-year of operations report on Phase 1, which is due November 1, 2005.

Details of Filing

5. On August 26, 2004, Northern filed under NGA section 4 to make certain changes to its Field Area segmentation plan that the Commission approved in Northern's Order No. 637 compliance proceeding. Northern states that its tariff revisions clarify certain elements of Phase 1 of its Field Area segmentation plan. The majority of Northern's proposed tariff changes are administrative. They include: (1) designating the segmentation point as MID 7B instead of MID 7/8 for consistency; (2) requiring shippers who segment capacity to specify whether their primary receipt point is north or south of the MID 7B segmentation point; (3) modifying its *pro forma* Segmented Firm Throughput Service Agreement to allow incorporation of receipt and delivery points on

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[3] Northern's Field Area is divided into 17 Mileage Indication Districts (MIDs), each of which is a specific segment of Northern's system.

[4] *Northern Natural Gas Company*, 108 FERC ¶ 61,124 (2004).

Appendix A; and (4) revising its Amendment to Service Agreement to allow incorporation of segmented contract numbers.

6. One of Northern's proposed tariff revisions is more substantive. Northern proposes to modify its rate sheets to add the MID 7B segmentation point to its Field Area commodity and fuel rate matrices. Northern's current tariff includes matrices that set forth distance-based commodity rates for certain firm and interruptible transportation services from each MID to each of the other MIDs. Other matrices set forth fuel charges for the MID combinations. Northern does not propose to modify any of the existing commodity rates or fuel charges. However, Northern proposes to add a new row and/or column to applicable matrices to reflect the addition of MID 7B, which is the paper receipt and delivery point through which all segmented capacity must pass. Northern then incorporates its proposed MID 7B commodity rates and fuel charges into the respective matrices. Northern states that it incorporates the MID 7B rates into its tariff to provide transparency of the commodity and mainline fuel rates applicable to deliveries to MID 7B and receipts at MID 7B.

7. In its transmittal, Northern explains how it calculated its new MID 7B rates:

> The commodity rates for flows from the south to the MID 7B point represent the mileage from receipt points in MIDs 1-7 to MID 7 plus the weighted average mileage from MID 7 to MID 7B. The weighted average miles from MID 7 to MID 7B were derived on Exhibit 1 attached hereto. Weighted average miles represent the MID to MID mileages weighted by the MID to MID volumes utilized in the 2004 PRA filing in Docket No. RP04-284-000, approved on May 28, 2004.[5] To compute the weighted average miles, Northern multiplied the volume for the path from the south receipt point MID to the north delivery point MID by the difference between (1) the sum of the mileage from the south receipt point MIDs 1-7 to MID 7 and the mileage from MID 7 to the north delivery point MIDs 7-16B and (2) the total MID mileage from the south receipt point MID to the north delivery point MID. For volumes from the south the weighted average mileage from MID 7 to MID 7B is 81 miles. Similarly, the commodity rates for flows from the north to the MID 7B point represent the mileage from receipt points in MIDs 8-16B to MID 7 minus a weighted average mileage from MID 7B to MID 7. The weighted average miles to ship from MID 7B to MID 7 were derived on Exhibit 2 and equal 89 miles.

8. Northern includes with its filing worksheets showing how it derived its weighted average miles. Northern states that calculating the mileages to and from MID 7B in this

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[5] *Northern Natural Gas Company*, 108 FERC ¶ 61,124 (2004).

manner puts shippers in the same position, on average, whether they ship gas on a long-haul basis across the MID 7B segmentation point or whether they move to and away from the point.

9. Regarding its revised fuel charge matrices, Northern states that the addition of MID 7B merely recognizes that flows from the south to MID 7B or flows from MID 7B to the south are assessed Section 1 mainline fuel charges and flows from MID 7B to the north or flows from the north to MID 7B are assessed Section 2 fuel charges.

Public Notice and Protests

10. The Commission issued notice of Northern's filing on August 31, 2004. Interventions, comments, and protests were due as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2004)). Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214 (2003)), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties.

11. VPEM filed a protest and request for rejection of Northern's proposal. VPEM's concerns focus on two elements of Northern's proposal. First, VPEM questions why Northern proposes to establish commodity and fuel rates for service to and from MID 7B in the instant filing. It asserts that Northern should have established these rates either earlier in its Order No. 637 proceeding, or in its ongoing consolidated rate case in Docket Nos. RP04-155-000, *et al*. VPEM also questions Northern's explanation of how it calculated its new commodity and fuel rates, calling it "impenetrable" and asserting its offers little rationale for the derived rates. VPEM argues that the Commission typically rejects filings where the pipeline fails to provide sufficient supporting documentation or a sufficient basis to support its proposed tariff changes, citing *ANR Pipeline Company*[6] and *Northern Natural Gas Company*.[7]

12. In its protest, VPEM uses an example to delineate a concern it has with Northern's proposed commodity and fuel rates for MID 7B. Specifically, VPEM looks at the FT rates for shippers receiving gas at MID 1 and delivering gas to MID 16B. According to Northern's currently effective rates, the cost of such service for unsegmented capacity is 11.86 cents per MMBtu. However, when a shipper segments capacity along that path, to calculate the cost of service, it must add the cost of firm transportation from MID 1 to MID 7B (5.19 cents per MMBtu, in this example) with the cost of firm transportation from MID 7B to MID 16B (7.13 cents per MMBtu). Therefore, the total cost of firm

[6] *ANR Pipeline Company*, 107 FERC ¶ 61,094 (2004).

[7] *Northern Natural Gas Company*, 70 FERC ¶ 61,371 (1995).

transportation service from MID 1 to MID 16B when a shipper segments the capacity is 12.32 cents per MMBtu according to Northern's proposed rates. VPEM notes that this figure represents an increase of 0.46 cents per MMBtu as compared to the same service for unsegmented capacity. VPEM notes that a similar inconsistency occurs throughout Northern's proposed rate matrices. VPEM argues that since shippers who segment capacity will pay more for transportation services under the proposal, Northern's rate structure is inconsistent with distance-based rate design and can discourage shippers from segmenting capacity. VPEM also asserts that Northern is essentially penalizing shippers who segment their capacity by requiring them to pay higher rates for similar service. By doing so, VPEM asserts that Northern is discriminating against certain similarly situated shippers.

13. VPEM has one additional concern with Northern's proposed changes to its segmentation plan. It notes that section 56(B)(2)(a) of Northern's General Terms and Conditions, which the Commission approved as part of Phase 1 of Northern's Field Area segmentation plan, requires Northern to establish a segmentation point for shippers using deferred delivery services. VPEM asserts that Northern has made no attempt to establish such a point in the instant filing. VPEM requests the Commission to direct Northern to establish a deferred delivery point at MID 7B as Northern's tariff requires.

14. VPEM requests that as an alternative to rejecting Northern's filing, the Commission set the filing for hearing, possibly consolidating it with Northern's ongoing section 4 rate proceeding in Docket Nos. RP04-155-000, et al.

Discussion

15. The Commission acknowledges that Northern attempts to explain how it derived its MID 7B commodity and fuel rates and provides supporting documentation. Accordingly, we will not reject Northern's filing as VPEM requests. However, we share VPEM's concerns about whether the proposed rates are just and reasonable. Based on our review of the filing, the Commission finds that the proposed tariff sheets have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission will accept the tariff sheets listed in the Appendix for filing and suspend their effectiveness for the period set forth below, subject to refund, conditions, and further review. In order to determine whether Northern's proposed rates are just and reasonable, and to address concerns that VPEM raises, the Commission directs Northern to file additional information. Specifically, we direct Northern to: (1) explain why it cannot implement its Field Area segmentation plan utilizing its currently effective commodity and fuel rate matrices; (2) explain why commodity rates are needed for the MID 7B point, which is a paper point and not a discrete delivery or receipt point where gas is taken off of or put onto its system; (3) explain why, under its proposal, shippers who segment capacity should pay higher rates over certain mainline distances than shippers who do not segment

their capacity; and (4) provide a more thorough explanation and justification for how it calculated its proposed MID 7B commodity rates and fuel charges, including detailed calculation examples.

Suspension

16. The Commission's policy regarding rate suspensions is that rate filings generally should be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards.[8] It is recognized, however, that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to harsh and inequitable results.[9] Such circumstances exist here, where Northern seeks to clarify the operation of its Field Area segmentation plan as of the date that plan went into effect. Accordingly, the Commission will exercise its discretion to suspend the tariff sheets listed in the Appendix for the nominal period and permit the tariff sheets to become effective September 1, 2004, subject to refund, conditions, and further investigation as set forth in the body of this order and the ordering paragraphs below.

The Commission orders:

(A) We accept and suspend the revised tariff sheets listed in the Appendix to become effective September 1, 2004, subject to refund, conditions, and further review.

(B) We direct Northern to file the information discussed above within 15 days of the date this order issues.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

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[8] *See Great Lakes Gas Transmission Company*, 12 FERC ¶ 61,293 (1980) (five-month suspension).

[9] *See Valley Gas Transmission, Inc.*, 12 FERC ¶ 61,197 (1980) (one-day suspension).

Appendix

Northern Natural Gas Company
Fifth Revised Volume No. 1

Tariff Sheets Accepted and Suspended Effective September 1, 2004

24 Revised Sheet No. 59
Eighth Revised Sheet No. 59A
27 Revised Sheet No. 60
17 Revised Sheet No. 61
17 Revised Sheet No. 62
17 Revised Sheet No. 63
Fourth Revised Sheet No. 256
Third Revised Sheet No. 305A
Second Revised Sheet No. 403
Second Revised Sheet No. 406
Original Sheet No. 406A
Second Revised Sheet No. 408
Original Sheet No. 408A
Second Revised Sheet No. 409
Original Sheet No. 409A