

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 15, 2007

In Reply Refer To:
Columbia Gas Transmission Corporation
Docket No. RP07-171-000

Columbia Gas Transmission Corporation
2603 Augusta, Suite 300
Houston, Texas 77057-5637

Attention: James R. Downs
Directory, Regulatory Affairs

Reference: Revisions to Inventory Transfers Provisions

Dear Mr. Downs:

1. On February 15, 2007, Columbia Gas Transmission Corporation (Columbia) filed revised tariff sheets¹ proposing revisions to Rate Schedule SIT (Storage in Transit). Columbia states that the purpose of the proposal is to close a loophole with respect to inventory transfers involving Rate Schedule SIT. The Commission accepts and suspends Columbia's proposed tariff sheets to be effective March 17, 2007, subject to the condition set forth below.
2. Columbia's Rate Schedule SIT service provides for interruptible storage of gas to balance differences between actual receipts and actual deliveries under a shipper's transportation service agreements under other rate schedules. The SIT service was originally designed as a balancing service for customers with wide swings in daily demand for gas, such as electric power plants.² Under section 3(a) of Rate Schedule SIT, when a SIT shipper's actual daily receipts under its transportation service agreements exceed that shipper's actual daily deliveries, the pipeline will, on an interruptible basis, inject the difference ("Undertendered Balance Quantity") into storage. Similarly, when a SIT shipper's actual daily delivery quantity is less than the actual daily receipt quantity, the pipeline shall, on an interruptible basis, inject the difference ("Overtendered Balance

¹ Seventh Revised Sheet No. 385 and First Revised Sheet No. 385A to FERC Gas Tariff, Second Revised Volume No. 1.

² *Columbia Transmission Corp.*, 64 FERC ¶ 61,060 (1993) (order on compliance filings made in response to Order No. 636).

Quantity”) into storage. Columbia bills a commodity charge on the daily change, if any, in the shipper’s undertendered or overtendered balances. The maximum daily rate is \$0.0412 per Dth of such changes.

3. Pursuant to section 3(b) of Rate Schedule SIT, Columbia also maintains a running net balance of each SIT shipper’s undertendered or overtendered balance quantities. Such net balance is referred to as the Imbalance Quantity. That section provides that, twice during any 30-day period, SIT shippers are required to eliminate any existing Imbalance Quantity, convert any outstanding undertendered balance to an overtendered balance, or convert any outstanding overtendered balance to an undertendered balance. The shipper is required to pay an imbalance penalty of \$0.25 per Dth for each day at the end of a 30-day period in which the shipper does not comply with the tariff requirement to cross zero twice.

4. Section 18 of Columbia’s General Terms and Conditions (GT&C) permits a shipper to transfer inventory in its gas account under either a storage or transportation service agreement to another of its accounts or to the account of another shipper. Section 18.2(e) provides that a SIT customer which has a remaining inventory balance after having twice crossed zero within the prior 30-day period may make a cost-free transfer of the remaining inventory balance to another shipper’s SIT service agreement, provided that the shipper to whom the balance is transferred has also crossed zero twice during the preceding 30-day period. Section 18.3(a) provides that shippers not seeking to make cost free transfers under section 18.2 may nominate such inventory quantities for transportation pursuant to the terms of the service agreement under which such inventory is held in the account of the shipper.

5. Columbia states that these provisions of the GT&C create a loophole, through which SIT Shippers are able to meet the “cross-zero-twice” requirement without physically zeroing out SIT inventory, and thus avoid being penalized. Columbia states that currently two SIT shippers can do this, by engaging in either cost-free transfers under section 18.2(e) or for-cost transfers under section 18.3(a) among themselves. Columbia contends that this loophole also exists in circumstances where a shipper under Rate Schedule FFS (Firm Storage Service), FBS (Firm Balancing Service), or ISS (Interruptible Storage Service) transfers inventory to a SIT shipper’s account. Columbia argues that closing the loophole will ensure that SIT service is used for the purpose for it was designed: a short-term storage service provided out of retained storage capacity.³

6. Accordingly, Columbia proposes to revise section 18.2(e) to prohibit a SIT shipper from transferring its SIT inventory to the SIT account of another shipper (or shippers), unless both accounts move closer to (but do not cross) zero as a result of that inventory transfer. Second, Columbia proposes to further revise section 18.2(e) and to revise section 18.3(a) to prohibit SIT shippers from creating a SIT balance where one did not

³ *Id.* at 2.

already exist. Third, Columbia states that revised GT&C section 18.3(a) will prohibit shippers with service agreements under Rate Schedules FSS, FBS, or ISS from transferring inventory under these rate schedules to the account of a SIT shipper unless the SIT shipper's account moves closer to zero as a result. Fourth, Columbia proposes to revise GT&C section 18.5 to authorize the rejection of proposed inventory transfers that do not conform to the revised language in GT&C sections 18.2(e) and 18.3(a).⁴

7. Columbia explains that under its proposed "move closer to zero" concept, if two SIT shippers want to enter into an inventory transfer, one of the customers must have a positive balance and the other Shipper must have a negative balance. As an example, Columbia explains that if the SIT customer with the positive balance has a balance of 100 Dth, and the customer with the negative balance has a balance of -20 Dth, the maximum amount that can be transferred from the SIT customer with the positive balance to the SIT customer with the negative balance is 20 Dth. Under this example, states Columbia, the inventory transfer would improve the SIT shipper's positive balance to 80 Dth, and the SIT shipper with the negative balance would have a balance of zero. Columbia further explains that the SIT shipper with the positive balance will be prohibited from transferring the entire 100 Dth to the SIT shipper with the negative balance because it would create a new positive balance for that customer.⁵

8. Columbia concludes that inventory transfers between SIT customers that are not improving their respective SIT balances by moving them closer to zero should be prohibited. In addition, Columbia concludes that a SIT shipper should not be allowed to satisfy the cross-zero-twice requirement by engaging in for cost inventory transfers with FSS, FBS, or ISS shippers unless the SIT shipper's account moves closer to zero by such inventory transfer; similarly, SIT shippers should not be permitted to create a SIT balance where one did not previously exist by engaging in an inventory transfer. Columbia states that the elimination of this loophole is consistent with the Commission's holding that "by meeting the cross-zero-twice requirement, which requires that SIT shippers reduce their imbalances to zero twice each month, the short-term nature of the SIT service [is] maintained."⁶

9. Public notice of Columbia's filing was issued February 20, 2007. Interventions and protests were due February 27, 2007, as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2006)). Virginia Power Energy Marketing, Inc. (VPEM), Honeywell International, Inc. (Honeywell), and Conectiv

⁴ Columbia Transmittal Letter at 1.

⁵ *Id.*

⁶ Columbia Transmittal Letter at 3 (citing *Columbia Transmission Corp.*, 75 FERC ¶ 61,199, at 61,647-48 (1996)).

Energy Supply, Inc. (CESI) filed motions to intervene and protests. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2006), all timely 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. Columbia filed an answer on March 5, 2007. Under Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 213(a)(2) (2006), answers to protests are not accepted unless otherwise ordered by the decisional authority. The Commission will accept Columbia's answer because it further clarifies the issues.

10. CESI states that Columbia does not provide any explanation why the additional proposed tariff restrictions on Rate Schedule SIT transfers are necessary, pointing out that GT&C section 18.5 provides Columbia the ability to reject a proposed inventory transfer for a variety of operational or other reasons.⁷ First, CESI argues that Columbia's filing does not articulate any operational or reliability rationale that suggests the remedies proposed are warranted.⁸ Second, CESI argues that Columbia's proposal ignores situations where inventory transfers are desirable for reasons other than to avoid a penalty.⁹ Third, CESI objects to the limitations on transfers. To illustrate this issue using the example in Columbia's filing, CESI explains that Shipper A, with a SIT balance of 100, and Shipper B, with a SIT balance of -20, could not engage in an inventory transfer where Shipper A transfers a balance of 30 to Shipper B. CESI claims that Columbia's objective of not creating a new SIT balance where one did not exist previously is somewhat in conflict with its defined objective of moving closer to zero.¹⁰ Fourth, CESI states that it is unsure if the proposed tariff language would allow a SIT shipper to engage in an inventory transfer if its SIT inventory is equal to zero.¹¹

11. VPEM states that it finds Columbia's proposed tariff revisions overly vague and unnecessarily restrictive. VPEM objects to language in section 18.5 which provides that the pipeline "may" reject offending inventory transfers "in its reasonable discretion." VPEM questions whether offensive inventory transfers are banned or whether they are

⁷ See CESI Protest at 4.

⁸ *Id.*

⁹ See *id.* As an example, CESI states that a shipper under Rate Schedule SIT anticipates that a change in the short-term weather forecast could cause a change in its delivery obligations, it may be advantageous for the Rate Schedule SIT shipper to flip its storage inventory from a negative to a positive balance. *Id.*

¹⁰ See *id.* at 5.

¹¹ See *id.*

permitted at the pipeline's discretion.¹² As an alternative to Columbia's proposed revisions of GT&C section 18, VPEM proposes to revise section 3(b) of Rate Schedule SIT to prohibit the use of inventory transfers in satisfying the requirement to cross zero twice.¹³ VPEM argues that its proposed tariff language would prevent a shipper from avoiding penalties by crossing zero without physically zeroing out its SIT inventory.¹⁴

12. Honeywell argues that Columbia's proposal will make it more difficult and increase the amount of effort that it will take a shipper to locate another shipper to effectuate an inventory transfer under the SIT rate schedule.¹⁵ Honeywell states that shippers should not be hindered from engaging in portfolio management techniques, and that there is no reason for Columbia to deny a SIT inventory transfer if it moves one of the shippers closer to a zero balance and the other is not in violation of the twice-zero requirement. Honeywell acknowledges that there should be a net benefit to the system, or at least there should be no harm to the system.¹⁶ Honeywell concludes that the Commission should continue to permit inventory transfers under the SIT rate schedule as long as such transfers move one of the shippers closer to a zero balance.¹⁷

13. In response to CESI's first contention that the proposal is not necessary due to other provisions under which Columbia can reject a proposed inventory transfer, and that Columbia did not articulate any operational or reliability rationale that suggests the remedies proposed are warranted, Columbia argues in its answer that it is not required to make such a showing.¹⁸ Columbia also restates the position articulated in its initial filing that the proposed revisions to GT&C section 18 are designed to prevent SIT shippers from using inventory transfers as a means of avoiding having to physically cross zero twice in any 30-day period and evade associated penalties.¹⁹ In response to CESI's second argument that Columbia's proposal ignores situations where inventory transfers are desirable for reasons other than to avoid a penalty, Columbia in its answer states that nothing in the tariff prevents a shipper from engaging in inventory transfers, as long as

¹² VPEM Protest at 4.

¹³ *See id.*

¹⁴ *See id.*

¹⁵ *See* Honeywell Protest at 3.

¹⁶ *See id.* at 4.

¹⁷ *See id.*

¹⁸ Columbia responded to CESI's protest at pages 5-6 of its Answer.

¹⁹ *See* Columbia Answer at 5; Columbia Transmittal Letter at 2.

the transfer is not an attempt to meet the cross-zero-twice requirement and both shippers' accounts move closer to zero as a result. In response to CESI's fourth argument, regarding uncertainty over whether the proposed tariff language would allow a SIT shipper to engage in an inventory transfer if its SIT inventory is equal to zero, Columbia responds that the revised tariff language prohibits a SIT shipper with a zero balance from transferring inventory that it does not possess and does not allow the creation of a negative balance where one did not previously exist.

14. In response to VPEM's protest that the proposed tariff revisions are overly vague due to the phrase "may, in its reasonable discretion" in GT&C section 18.5, Columbia points out that this phrase is in the existing tariff and is not part of the instant proposal.²⁰ Columbia states that notwithstanding any discretion to reject an offending transfer, proposed GT&C sections 18.2(e) and 18.3(a) expressly prohibit offending inventory transfers. Columbia states that it is willing to make further changes to remove ambiguity. In response to VPEM's proposal to revise section 3(b) of Rate Schedule SIT to prohibit the use of inventory transfers in satisfying the requirement to cross zero twice, Columbia states that VPEM's proposal would be more restrictive than Columbia's proposal, that Columbia does not want to prohibit SIT shippers from engaging in inventory transfers per se, but that inventory transfers should be prohibited only where (1) both accounts would not move closer to zero as a result of that inventory transfer, and (2) a SIT balance would be created where one did not already exist. Columbia also notes that VPEM's proposal is not sufficiently supported.

15. As for Honeywell's protest, Columbia responds that Honeywell's position is untenable.²¹ Columbia states that Honeywell's claim that by requiring only one shipper's balance to move closer to zero, SIT shippers could continue playing "musical chairs" with their SIT balances through inventory transfers. Columbia states that Honeywell's claim that its scenario would result in a net benefit to the system, or at least no harm, is erroneous.

16. The Commission finds that Columbia's proposal is generally acceptable, but as discussed below the Commission requires Columbia to further explain one aspect of its proposal.

17. As the Commission has previously recognized, Columbia's SIT service is intended as a short-term imbalance management service for shippers with wide swings in their daily demands for gas.²² The cross-zero-twice requirement is intended to maintain the short-term nature of the service. Accordingly, the Commission has previously

²⁰ Columbia responded to VPEM's protest at pages 3-4 of its Answer.

²¹ Columbia responded to Honeywell's protest at pages 4-5 of its Answer.

²² *Columbia Gas Transmission Corp.*, 75 FERC ¶ 61,199 at 61,647 (1996).

recognized that SIT shippers should not be permitted to use the inventory transfer provisions of GT&C section 18 to avoid physically crossing zero twice during any thirty day period.²³ Columbia's proposed tariff revisions to prohibit SIT shippers from transferring SIT inventory unless both accounts move closer to zero are generally consistent with the goal of minimizing the use of inventory transfers to avoid the cross-zero-twice requirement.

18. The Commission finds, however, that neither Columbia's proposal nor its answer address why a shipper's account should be prohibited from crossing zero after a transfer, when such a transfer takes a shipper closer to zero. CESI's scenario,²⁴ which is based on the hypothetical posed by Columbia in its initial filing,²⁵ is that of a transaction in which Shipper A, with a balance of positive 100, desires to transfer 30 Dth to Shipper B, who has a balance of negative 20. Under this scenario, there would be a net imbalance of 80 Dth among the shippers. Columbia's proposal would limit the quantity of gas that Shipper A could transfer to Shipper B to the amount which would bring Shipper B to zero, in this case 20 Dth. As with the first example, this would result in a net imbalance of 80 Dth, though here the entire 80 Dth would be with one shipper. Under both scenarios, both shippers would be closer to zero. Columbia has not explained why, using the above example, Shipper B should not be permitted to accept up to 39 Dth (resulting in an imbalance of positive 19, closer to zero than negative 20). Columbia is directed to fully explain and provide support for why a transfer that would move a Shipper closer to zero but may leave them with a balance on the other side of zero, should not be permitted.

19. Based upon a 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 accepts certain of the tariff sheets for filing, subject to refund, and suspends their effectiveness for the period set forth below, subject to the conditions set forth in this order.

20. It is the Commission's policy generally to suspend rate filings for the maximum period permitted by statute if preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards. *See Great Lakes Gas Transmission Co.*, 12 FERC ¶ 61,293 (1980) (five-month suspension). It is also recognized however, that shorter suspensions may be warranted under circumstances in which suspension for the maximum period may lead to harsh and inequitable results. *See Valley Gas Transmission, Inc.*, 12 FERC ¶ 61,197

²³ *Id.*

²⁴ *See* CESI Protest at 5.

²⁵ *See* Columbia Transmittal Letter at 2.

(1980) (one-day suspension). Such circumstances exist. Accordingly, the Commission will exercise its discretion to suspend the rates for a shorter period and permit the tariff changes to take effect on March 17, 2007, subject to the condition set forth in the body of this order.

21. The revised tariff sheets listed in Footnote No. 1 are accepted and suspended to be effective March 17, 2007 subject to condition, as discussed in the body of this order.

22. Within fifteen days of the date this order issues, Columbia is directed to file information and explanation with adequate support concerning inventory transfers, as discussed in the body of this order.

By direction of the Commission.

Philis J. Posey,
Acting Secretary.