122 FERC ¶ 61,050
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Trunkline Gas Company, LLC Docket No. CP06-452-001

ORDER AMENDING CERTIFICATE

(Issued January 23, 2008)

1. On October 2, 2007, Trunkline Gas Company, LLC (Trunkline Gas) filed an application pursuant to section 7(c) of the Natural Gas Act (NGA) and Part 157 of the Commission's rules and regulations seeking amendment of the certificate issued on April 23, 2007, for the Trunkline Field Zone Expansion Project, which includes a North Texas (NTX) Expansion and Henry Hub Lateral.[1] Trunkline Gas seeks to change the certificated maximum capacity of the NTX Expansion and approval of its proposed depreciation and accounting treatment of a contribution-in-aid-of-construction agreed to subsequent to the April 23 Order. The requested certificate amendment is granted, as discussed herein.

I. Background and Proposal

2. As authorized by the Commission's April 23 Order, Trunkline's Field Zone Expansion Project includes approximately 45 miles of pipe to loop its existing Kountze 100-1 line between its Kountze Compressor Station in Jasper County, Texas and its Longville Compressor Station in Beauregard Parish, Louisiana. The project also includes the installation of additional horsepower at the Kountze and Longville compressor stations and three new meter stations between those stations. One of the new meter stations will be at an interconnection with one shipper, Energy Transfer Partners, L.P. (Energy Transfer), an existing, non-NGA jurisdictional Texas intrastate pipeline. Trunkline Gas proposed two options for its interconnection with Energy Transfer: (1) Option A, located on the discharge side of Trunkline Gas' existing Kountze Station property and (2) Option B, located at Gate Valve 43 at the beginning of the NTX

[1] *Trunkline Gas Company, LLC*, 119 FERC ¶ 61,078 (2007) (April 23 Order).

Expansion. The certificate granted by the April 23 Order authorized the Energy Transfer interconnection at either location, subject to the requirement that Trunkline Gas provide notification of the final location of the interconnect.[2]

3. On October 2, 2007, Trunkline Gas made a filing stating that Energy Transfer was unable to acquire right-of-way to the Gate Valve 43 location, and that Trunkline Gas and Energy Transfer had agreed to a new point of interconnection. Consequently, on August 31, 2007, Trunkline Gas filed a Variance Request requesting authorization to locate its meter station for an interconnection with Energy Transfer approximately 12 miles upstream of Gate Valve 43 near Silsbee, Hardin County, Texas. In support of the requested route realignment, Trunkline supplied the information required by Environmental Condition No. 5 of the April 23 Order, including maps, a detailed plot plan, and aerial photographs identifying the proposed new location for the meter station for an interconnection with Energy Transfer; a description of existing land use/cover type and landowner approval; and documentation that no cultural resources or federally listed threatened or endangered species would be affected and that no environmentally sensitive areas are within or abutting the area. On September 14, 2007, the Commission's staff approved Trunkline Gas' Variance Request.

4. Trunkline Gas further states that it will provide Energy Transfer with a contribution-in-aid-of-construction in the amount of $40,000,000 to effectuate deliveries by Energy Transfer to Trunkline Gas. Currently, Energy Transfer is extending its non-jurisdictional intrastate system by constructing 135 miles of 42-inch diameter pipeline and 19 miles of 24-inch diameter pipeline that will end in Hardin County, Texas at the point of interconnection with Trunkline Gas authorized by the September 14, 2007 variance.

5. The Option A interconnection location approved by the April 23 Order would have resulted in total expansion capacity of 510,000 dekatherms per day (Dth/day), and the Option B location had the potential for creating as much as 835,000 Dth/day additional capacity.[3] Trunkline Gas states that as a result of the ultimate agreement on the Hardin County location for the Energy Transfer interconnection, the maximum expansion capacity will be 625,000 Dth/day.[4] Trunkline Gas therefore seeks amended

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[2] *See* April 23 Order at Ordering Paragraph (E).

[3] April 23 Order at P 3.

[4] At the time the Commission issued the April 23 Order, Trunkline Gas had precedent agreements for 510,000 Dth/day of firm expansion capacity. Trunkline Gas asserts another result of relocating the Energy Transfer interconnection has been an increase in the amount of firm capacity under precedent agreements, such that the revised 625,000 Dth/day of expansion capacity is fully subscribed by shippers with contract

(continued…)

certificate authority to reflect that amount as the maximum certificated capacity of its NTX Expansion.

6. The Commission's April 23 Order approved Trunkline Gas' proposal to provide its services using the expansion capacity under its existing Rate Schedule FT and to use its current $3.7001/Dth Field Zone Only reservation rate as its initial recourse rate.[5] However, when the maximum recourse rate of $3.7001/Dth was substituted for the negotiated rates that Trunkline has agreed to, the annual incremental revenue was less than the estimated annual cost of service for the first year that the project will be in service, $29,510,066. Therefore, the April 23 Order denied Trunkline Gas' request for a presumption supporting rolled-in rate treatment for the expansion project's costs.[6]

7. Trunkline Gas estimates that the total cost of its Field Zone Expansion project has increased from $158.9 million to $198.9 million, including Trunkline Gas' contribution-in-aid-of-construction to Energy Transfer. Trunkline Gas proposes to amortize this contribution at the 1.5 percent depreciation rate approved in the April 23 Order, which will increase its annual cost of service to $36,346,465 in Year 1, $35,035,208 in Year 2, and $33,819,165 in Year 3.

8. As a result of the increased capacity under precedent agreements, Trunkline Gas states that estimated annual revenues have increased from $29,519,010 to $33,877,475. Nevertheless, revenues will be less than the revised annual cost of service, and Trunkline Gas does not request that the Commission revisit its decision in the April 23 Order to deny Trunkline Gas' request for a presumption of rolled-in rate treatment for the costs of this expansion project. However, Trunkline Gas emphasizes that it plans to operate the expansion facilities as an integral part of its system to provide service to all customers in the most efficient manner possible, and that it plans to demonstrate in a future rate proceeding that rolled-in rate treatment for the project costs will not increase existing customers' rates.

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terms ranging from three to ten years. At the time Trunkline Gas filed its application for certificate amendment, the quantities and terms of firm service were as follows: ETC Marketing, Ltd. – 325,000 Dth/day for 3 years (years 1-3) and 250,000 Dth/day for 7 years (years 4-10); ProLiance Energy – 110,000 Dth/day for 5 years and 5 months; Enbridge Marketing, L.P. – 40,000 Dth/day for 5 years; Sequent Energy Management, L.P. – 25,000 Dth/day for 5 years; Quicksilver Resources, Inc. – 100,000 Dth/day for 10 years; and Louis Dreyfus Energy Services, L.P. – 25,000 Dth/day for 3 years.

[5] April 23 Order at P 21.

[6] *Id.* at P 23.

II. Notice and Interventions

9. Notice of Trunkline Gas' application for certificate amendment was published in the *Federal Register* on October 24, 2007 (72 Fed. Reg. 60,337). No interventions, comments, or protests to the application were filed.

III. Discussion

A. Certificated Maximum Expansion Capacity

10. As discussed above, the April 23 Order approving Trunkline Gas' expansion project authorized Trunkline Gas to construct a meter station at its interconnection with Energy Transfer. The April 23 Order authorized the meter station to be constructed at either the Option A location on the discharge side of Trunkline Gas' existing Kountze Compressor Station property or at the Option B location at Gate Valve 43 at the beginning of the NTX Expansion, depending on which location Energy Transfer chose. An interconnection at the Option A location would have resulted in total expansion capacity of 510,000 Dth/day, and the Option B location had the potential for creating as much as 835,000 Dth/day additional capacity. However, on September 14, 2007, the Commission's staff granted a variance authorizing placement of the interconnection with Energy Transfer at a third location approximately 12 miles upstream of Gate Valve 43. Trunkline Gas asserts, and Commission staff's engineering analysis supports a finding, that the maximum potential capacity of the NTX Expansion will be 625,000 Dth/day. Accordingly, the Commission will amend Trunkline Gas' certificate to provide for maximum certificated NTX Expansion capacity of approximately 625,000 Dth/day.

B. Contribution-in-Aid-of-Construction

11. Subsequent to issuance of the April 23 Order, Trunkline Gas agreed to provide a $40,000,000 contribution-in-aid-of-construction toward Energy Transfer's cost of constructing facilities to effectuate deliveries to Trunkline Gas. Trunkline Gas proposes to amortize the contribution-in-aid-of-construction at a 1.5 percent depreciation rate, which will increase its annual cost of service to $36,346,465 in Year 1, $35,035,208 in Year 2, and $33,819,165 in Year 3. Trunkline Gas proposes for accounting purposes to record the contribution in Account 303, Miscellaneous Intangible Plant, and amortize it by debiting Account 404.3, Amortization of Other Limited-Term Gas Plant, and crediting Account 111, Accumulated Provision for Amortization and Depletion of Gas Utility Plant.

12. The proposed 1.5 percent amortization rate for the contribution-in-aid-of-construction is the same as the depreciation rate approved by the April 23 Order. The proposed accounting treatment is consistent with the Commission's Uniform System of

Accounts. Therefore, the Commission will approve these proposals for accounting purposes only.[7] As stated above, the April 23 Order denied Trunkline Gas' request for a predetermination supporting rolled-in rate treatment for this project's costs. Further, while Trunkline Gas may, indeed, still seek to justify the roll in of the project's costs, including the contribution-in-aid-of-construction, in a future rate case, we note that the Commission has previously expressed concern regarding recovery of contributions-in-aid-of-construction related to facilities that would not be operated under the Commission's open-access policies and regulations.[8] Therefore, Trunkline Gas is advised that any proposal to include the contribution-in-aid-of-construction in its rate base will not be automatic, but will be subject to scrutiny in a future rate case, just like any other cost. In other words, Trunkline Gas will be required to show that the contribution-in-aid-of-construction was reasonable and prudent.[9]

13. None of this order's changes to Trunkline Gas' certificate authorization granted by the April 23 Order modify Trunkline Gas' construction authority granted in the April 23 Order, as modified by the variance granted by Commission staff on September 14, 2007. Accordingly, the Commission's action herein qualifies for the categorical exclusion from the need for environmental review set forth in section 380.4(a)(27) of the Commission's regulations.[10]

14. The Commission, on its own motion, received and made a part of the record in this proceeding all evidence, including the application and exhibits thereto, as supplemented, submitted in support of the authorizations sought herein. Upon consideration of the record,

The Commission orders:

(A) Trunkline Gas' certificate of public convenience and necessity, issued April 23, 2007, is amended as described more fully in the application and in the body of this order. In all other respects, the certificate and conditions thereon are unchanged.

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[7] *See, e.g., Kern River Gas Transmission Co.*, 99 FERC ¶ 61,085 (2002); *Georgia Strait Crossing Pipeline LP*, 98 FERC ¶ 61,271 (2002); *Kern River Gas Transmission Co.*, 98 FERC ¶ 61,205 (2002); and *Horizon Pipeline Co., L.L.C.*, 92 FERC ¶ 61,205 (2000).

[8] *See Southern Natural Gas Company* (*Southern*), 82 FERC ¶ 61,249 (1998), *reh'g denied*, 85 FERC ¶ 61,330 at 62,297 (1998).

[9] *Southern*, 85 FERC at 62,298.

[10] 18 C.F.R. § 380.4(a)(27) (2007).

(B) The April 23 Order's denial of a predetermination supporting rolled-in rate treatment for expansion project costs is affirmed, without prejudice to Trunkline Gas demonstrating in a future NGA section 4 filing that rolled-in rate treatment for such costs will not result in subsidization of the expansion capacity by existing shippers.

(C) Trunkline Gas's proposed amortization rate and accounting treatment for its contribution-in-aid-of-construction are approved for accounting purposes only.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.