UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Chandeleur Pipe Line Company — Docket No. CP04-371-000

ORDER ISSUING CERTIFICATE

(Issued November 3, 2004)

1. On July 1, 2004, Chandeleur Pipe Line Company (Chandeleur) filed an application for authorization under section 7(c) of the Natural Gas Act (NGA) to acquire volumes of natural gas necessary to replace system line pack lost as the result of an accident. Chandeleur also seeks a finding supporting rolled-in rate treatment for the costs of the line pack when it seeks to recover such costs in a filing under section 4 of the NGA.

2. The public interest requires assurance that Chandeleur's system has adequate line pack to operate at design capacity. Chandeleur's ownership of its line pack also will serve the public interest by avoiding the need for reallocation of shippers' responsibilities to provide line pack. Accordingly, we will grant Chandeleur's requests for certificate authority to acquire line pack and for a finding supporting rolled-in rate treatment for its line pack costs.

Background and Proposal

3. Chandeleur is an interstate pipeline providing open access transportation service in accordance with its tariff on file with the Commission. Chandeleur's system originates in the Outer Continental Shelf, passes through both Louisiana and Mississippi state waters, and terminates onshore near Pascagoula, Mississippi. Its system transports offshore production to a Pascagoula refinery and to three downstream interstate pipelines, Destin Pipeline Company, L.L.C., Texas Eastern Transmission, LP, and Gulf South Pipeline Company, LP. Chandeleur transports up to 321,000 Dth/d and operates at pressures up to 1,200 psi.

4. Chandeleur's system includes its original 12-inch line placed in service in 1964; a 16-inch loop line placed in service in 1968; and a 12-inch lateral placed in service in

1985. Since the time at which each line was commissioned, various entities have provided the gas volumes constituting the line pack necessary to maintain Chandeleur's system at its designed operating capacity. Consequently, Chandeleur has not to date placed line pack on its books. This became evident to Chandeleur when a barge pierced its pipeline on January 9, 2004, resulting in its losing a substantial portion of its line pack. During the replacement process, Chandeleur decided it would be advisable to own its line pack.

5. Chandeleur does not propose any rate increase to its shippers at this time or any changes to its tariff. It does, however, request a finding supporting rolled-in rate treatment for its costs in acquiring line pack when it files under section 4 of the NGA to recover such costs.

6. Chandeleur has determined that it will need total line pack of 71,710 Mcf of natural gas to ensure maintenance of its certificated pressure of 1,200 psi at standard conditions. Since 22,110 Mcf of line pack remained in Chandeleur's system following the barge accident on January 9, 2004, Chandeleur only needs to purchase 49,600 Mcf of natural gas to replace the lost line pack. Chandeleur states the value of the 49,600 Mcf of line pack as $318,432.

7. Chandeleur proposes a zero valuation for the 22,110 Mcf of line pack retained in its system following the January 9, 2004 accident. Chandeleur explains that this preexisting line pack was obtained from various sources at the time its facilities were commissioned, and that no value is available for attribution to these volumes.

8. Chandeleur states that to manage line pack supplies it will need, from time to time, to engage in periodic sales of volumes in excess of line pack requirements. Chandeleur requests waiver of the disclosure and standards of conduct requirements in sections 284.286 and 358.4 of the Commission's regulations.

9. Notice of Chandeleur's request was published in the *Federal Register* on July 21, 2004 (69 *Fed. Reg*. 43570). There were no interventions or protests filed.

Discussion

10. Line pack gas is the quantity of gas that must be introduced into a pipeline system to bring the system up to its designed operating capacity and sustain such capacity. Historically, Chandeleur's line pack gas has consisted of gas volumes provided by third parties. Now, in view of the accident on January 9, 2004 that resulted in the loss of a substantial portion of Chandeleur's line pack, Chandeleur has determined that it is advisable that it own its system line pack.

11. Chandeleur's proposal to acquire and own its line pack is consistent with standard industry practice. Since Chandeleur has lost a substantial portion of its line pack, acquiring line pack at this time will avoid the need in the future for frequent reallocation of shippers' responsibilities for providing line pack volumes. In view of these considerations, we find that it is in the public interest to grant Chandeleur's request for certificate authority to acquire and own the line pack necessary to operate its system at its design capacity.

12. Since Chandeleur's proposal to replace lost line pack will allow it to maintain its full operational design capacity without the need for its shippers to provide line pack volumes, Chandeleur's proposal will have system-wide benefits. Under these circumstances, rolled-in rate treatment for Chandeleur's costs in acquiring line pack will not result in inappropriate subsidization of any shippers' rates. Therefore, we find that it is in the public interest to grant Chandeleur's request that we find, absent a material change in circumstances, that there will be a presumption supporting approval of rolled-in treatment of its line pack costs when it files under section 4 of the NGA to recover such costs.[1]

13. As Chandeleur states in its application, the Commission's regulations historically have recognized the cost of line pack as a component of construction costs [2] and as a capital cost of installing transmission system mainlines.[3] While Chandeleur's present application does not involve the construction of new facilities and the approval of initial section 7 rates, we find that it will be appropriate for Chandeleur to seek approval in a future rate filing under section 4 of the NGA to capitalize its line pack costs. However, it is unclear from Chandeleur's application whether it has agreements in place for the purchase of line pack at the price on which its estimated costs are based.

14. As stated above, Chandeleur states the value of the 49,600 Mcf of line pack that it needs to purchase as \$318,432. In its application, Chandeleur explains that it calculated its costs by multiplying 49,600 Mcf by a replacement price of \$6.42 per MMBtu. Chandeleur states that this replacement price is the index price published by Gas Daily under the posting of Gulf South, S. Louisiana/East Side, for January 9, 2004, the date of

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[1] On April 16, 2004, we issued a letter order in Docket No. RP03-625-000 which requires that Chandeleur make and support a general rate filing under section 4(e) of the NGA proposing rates to be effective no later than April 1, 2009. 107 FERC ¶ 61,049 (2004).

[2] *See* 18 C.F.R. Part 201, Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act, *Gas Plant Instruction 3, Components*, Paragraph 20.

[3] *Id.*; Account No. 367, Line Item No. 11, "Line pack gas."

the accident. Chandeleur explains that the Gulf South index is the posting that most accurately captures Chandeleur's geographic location and patterns of operation, as well as the cost of transportation from production receipt points that was paid by producers providing the line pack.

15. Based on the above-described information in Chandeleur's application, it is not clear that Chandeleur knows with certainty at this time what its actual costs will be to acquire replacement line pack volumes. Therefore, Chandeleur is required to include on its books its actual costs of purchasing line pack.

16. As stated above, Chandeleur states that it will need to make periodic sales of excess line pack gas from time to time when it has excess line pack and requests waiver of the disclosure and standards of conduct requirements of sections 284.286 and 358.4 of the Commission's regulations. Given the limited nature of the sales involved, we believe that it would be unduly burdensome to require Chandeleur to comply with the requirements of those regulations. Therefore, we will grant Chandeleur's waiver request, consistent with our action in other proceedings involving similar circumstances.[4]

17. Since Chandeleur's proposal involves no construction of facilities, the proposal qualifies as a categorical exclusion from environmental review under section 380.4(a)(27) the Commission's regulations.

18. At a hearing held on October 27, 2004, the Commission on its own motion received and made part of the record in these proceedings all evidence, including the application and exhibits thereto, submitted in support of the authorization sought herein, and upon consideration of the record,

The Commission orders:

(A) A certificate of public convenience and necessity is issued authorizing Chandeleur to acquire line pack gas, as described in the body of this order and in the application.

(B) The certificate issued in paragraph (A) is conditioned on Chandeleur's complying with Part 154 of the Commission's regulations.

(C) In connection with Chandeleur's limited sales of line pack gas, Chandeleur's request for waiver of the disclosure and standards of conduct requirements under section 284.286 and 358.4 is granted.

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[4] *See, e.g., Northern Border Pipeline Company*, 83 FERC ¶ 61,150 (1998).

(D) Chandeleur shall comply with paragraphs (a), (c), and (e) of section 157.20 of the Commission’s regulations.

(E) In accordance with section 157.20(b) of the Commission’s regulations, the change in operation shall be effective within one year from the date of issuance of this order.

(F) Chandeleur's costs in acquiring line pack will receive rolled-in rate treatment, absent a material change in circumstances at the time Chandeleur files under section 4 of the NGA to recover such costs.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.