

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.

Dominion Transmission, Inc.

Docket Nos. CP07-66-000
CP07-71-000
CP07-73-000

ORDER APPROVING ABANDONMENT

(Issued June 12, 2007)

1. On January 17, 2007, Dominion Transmission, Inc. (Dominion) filed an application in Docket No. CP07-66-000 pursuant to section 7(b) of the Natural Gas Act (NGA) seeking authorization to abandon two natural gas storage injection/withdrawal wells at the Fink Storage Reservoir, part of the Fink Kennedy/Lost Creek storage facility complex in Lewis County, West Virginia. On January 29, 2007, Dominion filed an application in Docket No. CP07-71-000 seeking authorization under NGA section 7(b) to abandon two existing natural gas storage injection/withdrawal wells in the Lost Creek Storage Reservoir (Lost Creek), also part of the Fink Kennedy/Lost Creek storage complex, in Harrison and Lewis County, West Virginia. Also on January 29, 2007, Dominion filed an application in Docket No. CP07-73-000 seeking authorization to abandon an existing natural gas storage withdrawal well in the Oakford Storage Complex (Oakford) in Westmoreland County, Pennsylvania. Since the proposed abandonments will have no adverse impact on Dominion's services or operations, the Commission finds that the proposed abandonments are permitted by the public convenience and necessity.

I. Background/Proposal

A. Fink Storage Reservoir Facilities

2. Storage operations using the Fink Storage Reservoir in the Fink Kennedy/Lost Creek complex in Lewis County, West Virginia began in 1941.¹ The two wells in the Fink Storage Reservoir that Dominion proposes to abandon in Docket No. CP07-66-000 are well AW-9306, a withdrawal well, and well AW-8345, an injection/withdrawal well.

¹ *Hope Natural Gas Company*, 3 FPC 994 (1941).

3. Dominion states in May 2004, surveillance on well AW-9306 revealed that the 7-inch production casing has excessive metal loss due to corrosion. As a result, in June 2004, the well was temporarily plugged with a retrievable mechanical bridge plug set by wireline at 2,075 feet, isolating storage zone pressure, preventing communication with the surface and effectively placing the well in an inactive, idled service capacity. In addition, the well was loaded with 9.1 parts per gallon brine water as a safety precaution in the event of plug failure.

4. In January 2005, surveillance of well AW-8345 revealed that well's 5.5-inch production casing also has excessive metal loss due to corrosion. In March 2005, that well also was temporarily plugged with a mechanical plug set by wireline at 2,050 feet to place the well in an inactive, idled service capacity. Dominion proposes to plug and abandon wells AW-8345 and AW-9036 from a depth of approximately 2,275 feet and 2,370 feet, respectively, to the surface.²

5. Dominion states that remedial actions available to extend the life and maintain the performance from the wells are limited due to the size of the current production string, which would ultimately reduce the deliverability of the wells. Dominion has concluded that the costs of remediation efforts to extend the lives of these wells are not economically justified, since permanently plugging and abandoning the two wells will not significantly affect the operational capabilities at the storage reservoir. Dominion explains that due to its integrated storage system, the gas stored in these wells has temporarily been routed to other wells to fulfill its obligations to its existing customers.

6. Dominion acknowledges that abandonment of the subject wells may affect drainage of gas inventory and overall reservoir performance at low pressures and inventories. Therefore, Dominion states that replacement of both of wells may be needed in the future. If so, Dominion will file application for certificate authority to construct replacement wells at the same locations in order to maintain late season, peaking performances at current levels.

7. Dominion asserts that the abandonment of these wells involves only the removal of minor surface facilities, installation of associated erosion control practices and site restoration. Dominion further emphasizes that earth disturbances will be minimal and will involve only the removal of the "Christmas trees", lead lines, and the placing of a monument at each site to identify the location of the wells. Dominion states that all work

² Dominion states that it will rely on its Part 157 blanket certificate to abandon by removal fifty feet of H-18358 and H-18326, the pipelines which connect wells AW-8345 and AW-9036 to Dominion's storage lines. A portion of these pipelines will remain attached to the main pipeline system and will be capped.

will be confined to the original well pads on previously disturbed land and the well locations will be restored to their original state or in accordance with the landowner's preference.³

B. Lost Creek Storage Reservoir Facilities

8. In Docket No. CP07-71-000, Dominion requests authority to abandon wells CW-449 and CW-427 in its Lost Creek Reservoir, also part of the Fink Kennedy/Lost Creek storage complex in Harrison and Lewis Counties, West Virginia.

9. Dominion states that in 2002 a surveillance log for well CW-449 was attempted but could not be completed due to a bend in the casing of the well. Upon examination, Dominion determined that the bend in the casing was due to a slip/shift in the hillside above the well. Therefore, in mid-2002, Dominion installed a mechanical bridge plug, temporarily plugging and isolating well CW-449, effectively placing the well into idle service.

10. In 2004, a surveillance log for well CW-427 was attempted but it also could not be completed due to a bend in the casing of the well, and the well was scheduled for a top joint change. While preparing for this change out, Dominion discovered that the lead line had physically shifted, and further examination revealed that this shift and the bend in the casing were due to a slip/shift in the hillside above the well. Therefore, in mid-2005, Dominion installed a mechanical bridge plug, temporarily plugging and isolating well CW-427, effectively placing the well into idle service. Dominion proposes to plug and abandon wells CW-427 and CW-449 from a depth of approximately 2,300 feet and 2,000 feet, respectively.⁴

C. Oakford Storage Complex Facilities

11. The Oakford storage facilities in Westmoreland County, Pennsylvania were originally certificated in 1950⁵ and are jointly owned and operated by Dominion and Texas Eastern Transmission, LP (Texas Eastern). In Docket No. CP07-73-000,

³ Dominion also makes the same arguments regarding prohibitive rehabilitation costs, potential operational impacts, and minimal site disturbance with regard to the proposed abandonment of the additional wells discussed below.

⁴ Dominion will rely on its Part 157 blanket certificate to abandon by removal fifty feet of lines H-20877 and H-20839, the pipelines which connect wells CW-427 and CW-449 to Dominion's storage lines. A portion of pipelines will remain attached to the main pipeline system and will be capped.

⁵ 9 FPC 1188 (1950).

Dominion proposes to abandon well JW-242, which is designated and operated as a withdrawal-only well. However, Dominion maintains the same casing integrity guidelines as if it were an injection/withdrawal well. Dominion states that an August 2005 surveillance revealed that the production casing had excessive metal loss due to corrosion. Subsequently a mechanical plug was set, temporarily plugging and isolating well JW-242, effectively placing the well into idle service.

12. Dominion also proposes to abandon well JW-242.⁶ Prior to permanently plugging and abandoning the well, Dominion plans to test the deliverability of the well. If deliverability has improved significantly, it will rework the well and file with the Commission for authority to place it back into service. If deliverability has not improved, Dominion will permanently plug the well at a depth of approximately 1,342 feet to the surface.

II. Notice and Interventions

13. After notice by publication in the *Federal Register* for Docket Number CP07-66-000 on February 2, 2007 (72 Fed. Reg. 5,037), for Docket Number CP07-71-000 on February 6, 2007 (72 Fed. Reg. 6,719), and for Docket Number CP07-73-000 on February 8, 2007 (72 Fed. Reg. 7,431), Consolidated Edison Company of New York, Inc. (Con Edison) and Philadelphia Gas Works (PGW) jointly filed a timely, motion to intervene and request for technical conference.⁷ Dominion filed an answer to Con Edison and PGW's request for technical conference. Although the Commission's Rules of Practice and Procedure do not permit answers to protests, the Commission finds good cause to waive Rule 213(a) to admit these pleadings, as they have provided information that assists in the decision making process.⁸ The comments by Con Edison and PGW are addressed below.

⁶ Dominion will rely on its Part 157 blanket certificate to abandon by removal fifty feet of lines JP-228, the pipeline which connects well JW-242 to Dominion's storage lines. A portion of pipeline will remain attached to the main pipeline system and will be capped.

⁷ The timely, unopposed motion to intervene is automatically granted under Rule 214(c) of the Commission's Rules of Practice and Procedure, 18 CFR § 385.214(c) (2006).

⁸ 18 C.F.R. § 385.213(a)(2) (2006)

III. Discussion

A. Authorization to Abandon Facilities

14. Dominion has documented that the subject storage wells raise safety considerations due to excessive core casing metal loss as the result of corrosion. Further, Dominion states that it has been able to meet its service obligations notwithstanding that the wells have been placed in idle service. In addition, Dominion states that it will file for certificate authority to replace any wells it determines are needed to maintain late season peaking requirements. Therefore, the Commission finds, subject to the environmental conditions set forth herein, that the public convenience and necessity permits approval of Dominion's request for abandonment authority under NGA section 7(b).

B. Con Edison and PGW's Request for Technical Conference

15. Con Edison and PGW request a technical conference to create a forum in which Dominion can more fully explain its accounting for the proposed well abandonments. Con Edison and PGW request a detailed explanation of Dominion's asset retirement obligations accounting. An asset retirement obligation (ARO) is a liability resulting from a legal obligation to retire or decommission a plant asset. Specifically, Con Edison and PGW request an explanation of Dominion's initial entries upon adopting ARO accounting, as well as the subsequent entries related to the depreciation of the ARO asset, and the accretion of the ARO liability. Con Edison and PGW also request clarification as to whether the claimed ARO associated with these facilities will be extinguished upon their abandonment, and an explanation of how these amounts are to be removed upon the abandonment of these storage wells.

16. On March 1, 2007, the Commission requested additional information concerning Dominion's proposed accounting treatment of the proposed abandonments. On March 8, 2007, Dominion filed its response to the Commission's data request and provided details related to ARO accounting.

17. Dominion proposes to account for the cost of plugging and abandoning these storage wells by charging Account 108, Accumulated Provision for the Depreciation of Gas Utility Plant, to eliminate the asset retirement costs previously accrued through accumulated depreciation, as explained in detail below.

18. Dominion treats gas storage wells as having indeterminate AROs and reflects storage well AROs in its financial statements when sufficient information becomes available to determine a reasonable estimate of the fair value of the obligation. According to Dominion this generally occurs when expected abandonment dates are determined by Dominion's Operational Planning Department.

19. Dominion established an ARO in June 2005 for well AW-9306 when Dominion's Operational Planning Department identified that the well would be abandoned during 2006. Dominion recorded the initial fair value of the ARO asset and liability by debiting Account 101, *Gas Plant in Service*, and crediting Account 230, *Asset Retirement Obligations*, for \$11,133. Dominion recorded the accumulated depreciation on the ARO asset from the time the ARO liability was incurred to implementation by debiting Account 108 for \$11,133. Dominion then recorded the accumulated accretion on the ARO liability from the time the ARO liability was incurred to implementation by debiting Account 108 for \$106,942 and crediting Account 230. The ARO liability was then increased by \$6,276 to reflect accretion of the liability since it was originally recorded for a total ARO liability of \$124,351.

20. Dominion estimates that the actual ARO settlement cost for well AW-9306 will be \$155,000. Since the estimated settlement cost of \$155,000 exceeds the ARO of \$124,351, there will be a loss of \$30,649 upon settlement of the ARO. Dominion proposes to account for this loss by debiting Account 108 and crediting Account 230. Dominion states that it believes it is eligible for this accounting treatment because the amount that would otherwise be included in net income determinations meets the criteria for recognition as a regulatory asset or liability. Finally, Dominion states that this accounting is in accordance with paragraph 30 of the Commission's Order No. 631.⁹

21. Additionally, in December 2006, Dominion identified wells AW-8345, CW-427, CW-449 and JW-242 for abandonment. Since the wells did not have a remaining expected life in service greater than one year, Dominion did not charge the asset retirement cost to a gas utility plant account. Instead, Dominion established the ARO for these wells by crediting Account 230, *Asset Retirement Obligations*, and debiting Account 108, *Accumulated Provision for Depreciation of Gas Utility Plant*. The ARO amounts established for the wells were \$155,000 for well AW-8345, \$80,000 for well CW-427, \$80,000 for well CW-449 and \$59,000 for well JW-242.

22. Dominion states that the amounts recorded in Account 108 and Account 230 for wells AW-8345, CW-427, CW-449 and JW-242 are to eliminate the asset retirement costs previously accrued through accumulated depreciation. Dominion again states that it believes it is eligible for this treatment because the amounts that would otherwise be included in net income determinations meet the criteria for recognition as a regulatory asset or liability. Further, Dominion states that this accounting is in accordance with paragraph 30 of the Commission's Order No. 631.

⁹ *Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations*, Order No. 631, 68 FR 19,610 (Apr. 21, 2003) and 68 FR 34,795 (June 11, 2003), FERC Stats. & Regs. ¶ 31,142 (2003), *order on reh'g*, Order No. 631-A, 104 FERC ¶ 61,183 (2003).

23. Dominion's accounting for the above wells is not in compliance with the Uniform System of Accounts, because it embeds differences between the amount of asset retirement costs previously accrued through depreciation and asset retirement obligation-related costs as a regulatory asset or liability in Account 108, rather than in Account 182.3, *Other Regulatory Assets*, or Account 254, *Other Regulatory Liabilities*, as appropriate.¹⁰ Further, paragraph 30 of Order No. 631 does not provide natural gas companies the authority to embed regulatory assets or liabilities in Account 108. It only grants natural gas companies the necessary authority to adjust Account 108 for the removal of amounts from accumulated depreciation associated with asset retirement obligations.¹¹

24. Therefore, the Commission will require Dominion to revise its accounting and to recognize differences between the amount of asset retirement costs previously accrued through depreciation and asset retirement obligation-related costs as a regulatory asset in Account 182.3 or a regulatory liability in Account 254, if the criteria for such recognition are met under Order No. 552.¹²

25. In addition to the request for further details on accounting practices, Con Edison and PGW also seek an explanation of Dominion's deferred income tax entries. Dominion's March 8, 2007 response to the Commission's data request indicated that at the time of abandonment there will be no deferred taxes remaining on Dominion's books related to the storage wells described above. That is, all of the subject storage wells are fully depreciated for financial statement and tax purposes. The book and tax bases of the storage wells are zero, which means there are no remaining deferred taxes associated with the original storage well assets.

26. The Commission has addressed Dominion's accounting and tax treatment for the proposed well abandonments in detail above. Therefore, the Commission finds that the technical conference requested by Con Edison and PGW is unnecessary, and the request is therefore denied.

¹⁰ 18 C.F.R. Part 201 (2006).

¹¹ Paragraph E to Account 108, *Accumulated Provision for Depreciation of Gas Utility Plant*, in 18 C.F.R. Part 201 (Natural Gas Companies).

¹² See Order No. 552, 58 FR 17982 (1993), FERC Stats. & Regs., Regulations Preambles January 1991-June 1996 ¶ 30,967 at pp. 30,823-26 (Mar. 31, 1993) for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

C. Environmental

27. The Commission's staff prepared environmental assessments (EAs) for Dominion's proposals in CP07-66-000, CP07-71-000, and CP07-73-000. The EAs were issued and placed in the records in these proceeding on March 20, 2007, April 20, 2007, and April 9, 2007, respectively. The EAs address geology, soils, water resources, wetlands and/or waterbodies, land use, wildlife, threatened and endangered species, cultural resources, and alternatives.

28. Based on the discussion in the EAs and subject to the environmental conditions in the appendix to this order, the Commission concludes that if well abandonment construction is in accordance with Dominion's application, approval of these proposals would not constitute a major federal action significantly affecting the quality of the human environment.

IV. Conclusion

29. For the reasons discussed above, the Commission finds the requested authorizations for abandonment are permitted by the public convenience and necessity and are granted subject to the conditions discussed herein and listed in the appendix to this order.

30. The Commission, on its own motion, received and made part of the record in this proceeding all evidence, including the application, as supplemented, and exhibits thereto, submitted in support of the authorizations requested, and upon consideration of the record,

The Commission orders:

(A) Permission for and approval of the abandonments by Dominion of the subject facilities as described herein and in the applications are granted.

(B) Dominion shall notify the Commission's environmental staff by telephone, facsimile, or e-mail, of any environmental noncompliance identified by other federal, state, or local agencies on the same day that such agency notifies Dominion. Dominion shall file written confirmation of such notification with the Secretary of the Commission within 24 hours.

(C) Dominion shall notify the Commission of the effective date of each abandonment authorized in paragraph (A) above within 10 days thereof.

(D) Dominion must revise its accounting as discussed in the body of the order.

(E) This order's abandonment authorizations are subject to the conditions set forth in the appendix to this order.

(F) Con Edison's and PGW's request for technical conference is denied.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

Appendix

Environmental Conditions

1. Dominion shall follow the abandonment procedures and mitigation measures described in its applications and as identified in the environmental assessments (EA), unless modified by this Order. Dominion must:
 - a. request any modification to these procedures, measures, or conditions in a filing with the Secretary of the Commission;
 - b. justify each modification relative to site-specific conditions;
 - c. explain how that modification provides an equal or greater level of environmental protection than the original measure; and
 - d. receive approval in writing from the Director of the Office of Energy Projects (OEP) **before using that modification.**

2. The Director of OEP has delegation authority to take whatever steps are necessary to ensure the protection of all environmental resources during construction activities associated with the proposed abandonment. This authority shall allow:
 - a. the modification of conditions of this Order; and
 - b. the design and implementation of any additional measures deemed necessary (including stop work authority) to assure continued compliance with the intent of the environmental conditions as well as the avoidance or mitigation of adverse environmental impact resulting from project abandonment activities.

3. Dominion should defer implementation of any treatment plans/measures (including archaeological data recovery), abandonment of facilities, and use of all staging storage and temporary work areas and new or to be improved access roads until:
 - a. Dominion files with the Secretary cultural resources survey and evaluation reports, any necessary treatment plans, and the Pennsylvania SHPO's comments on the reports and plans; and
 - b. the Director of OEP reviews and approves all cultural resources survey reports and plans and notifies Dominion in writing that treatment plans/measures may be implemented or that construction may proceed.

All material filed with the Commission containing location, character, and ownership information about cultural resources must have the cover and any relevant pages therein clearly labeled in bold lettering: **“CONTAINS PRIVILEGED INFORMATION-DO NOT RELEASE.”**