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.

East Tennessee Natural Gas, LLC — Docket Nos. RP00-469-011, RP00-469-012, RP01-22-013, RP01-22-014, RP03-177-008, RP03-177-009

ORDER ON SEGMENTATION REPORT AND
PRO FORMA COMPLIANCE FILING

(Issued March 23, 2007)

1. This order concerns two filings made by East Tennessee Natural Gas, LLC (East Tennessee) in its proceeding to comply with Order No. 637.[1] On December 4, 2006, in Docket No. RP00-469-011, *et al*., East Tennessee filed a report for the 12-month period ending August 31, 2006 on operational factors which affect its ability to implement linear segmentation on a system-wide basis (2006 Segmentation Report).[2] On December 14,

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[1] Regulation of Short-Term Natural Gas Transportation Services and Regulation of Interstate Natural Gas Transportation Services, FERC Stats. & Regs., Regulations Preambles (July 1996 - December 2000) 31,091 (2000); *order on rehearing*, Order No. 637-A, FERC Stats. & Regs., Regulations Preambles (July 1996 - December 2000) 31,099 (2000); *order on rehearing*, Order No. 637-B, 92 FERC 61,062 (July 26, 2000); *aff'd in part and remanded in part*, Interstate Natural Gas Association of America v. FERC, 285 F.3d 18 (D.C. Cir. 2002), *order on remand*, 101 FERC 61,127 (2002).

[2] East Tennessee filed the 2006 Segmentation Report to comply with an April 13, 2006 Commission Order accepting a similar report for the previous 12-month period, and directing East Tennessee to update the data for the current reporting period. *East Tennessee*, 115 FERC ¶ 61,046 (2006(April 13, 2006 Order).

2006, East Tennessee filed *pro forma* tariff sheets[3] in Docket No. RP00-469-012, *et al*., proposing to implement Enhanced Segmentation as an alternative to system-wide linear segmentation.[4]

2. East Tennessee requests authority to implement Enhanced Segmentation on October 1, 2007 in order to allow sufficient time to program and test its systems. For the reasons discussed below, the Commission accepts the 2006 Segmentation Report for filing, and approves the revised Enhanced Segmentation proposal for implementation on October 1, 2007 or an earlier date proposed by East Tennessee, subject to condition.

Public Notice

3. Docket Nos. RP00-469-011 and 012 were noticed, respectively on December 8, 2006, and December 19, 2006, with protests due in accordance with Rule 211 of the Commission's rules and regulations.[5] Sequent Energy Management, L.P. (Sequent) filed timely comments in both dockets, and the East Tennessee Group (ETG) filed timely comments in Docket No. RP00-469-011. East Tennessee filed Answers in both dockets.

Background

4. East Tennessee operates a natural gas pipeline primarily in Tennessee. On its west side, the pipeline consists of two mainlines, the 3100 Line and the 3200 Line, which originate, respectively, southwest and north of Nashville, and continue eastward until they converge into a single line, the 3300 Line, near Knoxville, Tennessee. The 3300 Line continues northeastward through Tennessee into the southwest tip of Virginia.

5. East Tennessee's system also extends into portions of western North Carolina, and northern Georgia. Of primary relevance to this order, the 3600 Line (hereinafter, Patriot Extension) was placed in service in 2003 as part of East Tennessee's Patriot Project, and extends approximately 93 miles south from the 3300 Line at Wytheville, Virginia to an interconnection with Transcontinental Gas Pipe Line Corporation at Eden, North Carolina. The Patriot Project facilities also included looping and compression which expanded the capacity of the 3300 Line. In addition, East Tennessee operates its own liquefied natural gas (LNG) storage facility near Kingsport, Tennessee, and connects to

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[3] *See* Appendix.

[4] On January 17, 2007, East Tennessee filed an answer in Docket No. RP00-469-012, which included substitute *pro forma* tariff sheets shown in the Appendix.

[5] 18 C.F.R. § 385.211 (2006).

underground storage fields owned and operated by third parties and to various small production areas located in southwest Virginia and eastern Tennessee.

6. Order No. 637 requires pipelines, to the extent operationally feasible, to offer shippers the opportunity to segment their capacity through the nomination and capacity release processes.[6] Throughout this proceeding to comply with Order No. 637, East Tennessee has sought to demonstrate that on all but two discrete portions of its system, physical segmentation is not operationally feasible due to the complexity and reticulated nature of its operations. On November 14, 2004, the Commission accepted a settlement between East Tennessee and its shippers permitting physical segmentation only upstream west of the Dixon Springs compressor station on the 3100 Line and the Lewisburg compressor station on the 3200 Line, both in central Tennessee.[7] The November 14, 2004 Order, among other things, noted that East Tennessee had asserted that the Patriot Project could potentially alter its operations significantly, and concluded that given the customers' preference for continuing segmentation only on a limited basis, it was appropriate to defer further action until East Tennessee gained additional experience with the effect of the Patriot Project on its operations.

7. Accordingly, the November 14, 2004 Order directed East Tennessee to file a report for the annual period ending August 31, 2005 (2005 Segmentation Report) explaining whether the Patriot Project expansion made physical segmentation feasible downstream of the Dixon Springs and Lewisburg compressor stations and, if so, proposing *pro forma* tariff language providing for system-wide physical segmentation. East Tennessee was also directed to include specified data related to the incidence of gas flows and null points during the reporting period.

8. East Tennessee filed the 2005 Segmentation Report on November 4, 2005, asserting that it demonstrated the infeasibility of system-wide segmentation at that time. East Tennessee pointed out that its system experienced convergent and divergent null points[8] that can change in number and location under different conditions and during a single gas day. According to East Tennessee, the fact that multiple contract paths crossed null points forced it to meet its delivery obligations through displacement rather than physically pathing in a linear fashion from one point to another, except for the portions of its system upstream of the Dixon Springs and Lewisburg compressor stations where it

[6] This requirement is set forth in section 284.7(d) of the Commission's regulations. 18 C.F.R. § 284.7(d) (2006).

[7] *East Tennessee*, 109 FERC ¶ 61,149 (2004) (November 14, 2004 Order).

[8] Null points are locations on the system across which gas does not flow due to a pressure or flow anomaly.

currently permits segmentation. East Tennessee asserted that the Patriot Project had not initially created the increase in volumes flowing across its system from west to east that would have been necessary to reduce the incidence of null points.

9. Moreover, East Tennessee asserted that it was not able, prior to the start of a gas day, to rely on customer nominations to predict how gas would flow during the day. East Tennessee therefore stated that it relied on its shippers' use of Operational Balancing Agreements (OBAs) under Rate Schedules LMS-MA and LMS-PA to keep the system in balance. East Tennessee maintained that although the use of OBAs kept the system in balance and provided flexibility to its shippers, East Tennessee was still precluded from monitoring for overlapping Maximum Daily Transportation Quantities (MDTQs) or verifying an actual flow path in real time as would be necessary under system-wide linear segmentation. East Tennessee maintained that such limitations on its ability to predict and monitor gas flows could, in turn, jeopardize the operations and reliability of its system if it was forced to implement linear segmentation on a system-wide basis.

10. Finally, East Tennessee offered to meet with its customers to discuss concerns regarding system-wide segmentation and its alternatives, and to report to the Commission in November 2006 on the results of such discussions.

11. On April 13, 2006, the Commission accepted the 2005 Segmentation Report for filing and directed East Tennessee to file a similar report on November 4, 2006 which updated its data and addressed the same issues.[9] In addition, the Commission directed East Tennessee to meet with its customers to discuss segmentation, and to include the results of such meeting(s) in the 2006 Segmentation Report. Finally, if the report concluded that system-wide linear segmentation is operationally feasible, East Tennessee was directed to include in its filing *pro forma* tariff provisions for implementing segmentation on that basis.

2006 Segmentation Report in Docket No. RP00-469-011

12. On December 4, 2006, East Tennessee filed its 2006 Segmentation report. The 2006 Segmentation Report concludes, as did the 2005 Segmentation Report, that due to the complexity of East Tennessee's system and services, East Tennessee continues to be unable to implement linear segmentation on a system-wide basis. Of particular significance, East Tennessee asserts that the volume of gas flowing across its system in an easterly direction did not increase sufficiently to reduce the frequency of null points and gas flow reversals.

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[9] *East Tennessee,* 115 FERC ¶ 61,046 (2006).

13. East Tennessee asserts that it continues to be unable to determine how the system will be used based on customer nominations. It points out that its report includes data for representative days of peak, winter, and summer usage and demonstrates that actual customer takes differed significantly from nominations at delivery meters.

14. In its comments in Docket No. RP00-469-011, Sequent requests that the Commission conditionally accept the 2006 Segmentation Report as filed, pending approval of East Tennessee's December 14, 2006 Enhanced Segmentation proposal discussed below. Sequent asserts that that while East Tennessee's recent projects have the potential for bringing new volumes onto the system, this has not occurred. Sequent asserts that the report's data explain the lack of west-to-east flows across the system and null points that have been identified as impediments to system-wide segmentation. For this reason, Sequent states there may be value in revisiting the effects of a revised segmentation program after a further year of experience. Sequent adds that East Tennessee's OBA balancing mechanism should be able to effectively coexist with implementation of segmentation.

15. The Commission accepts the 2006 Segmentation Report as in compliance with its April 13, 2006 Order. In view of our action below addressing East Tennessee's Enhanced Segmentation proposal, the Commission will not require East Tennessee to implement linear physical segmentation on a system-wide basis in order to comply with section 284.7(d) of the Commission's regulations.

Enhanced Segmentation Proposal in Docket No. RP00-469-012

16. East Tennessee proposes to add new section 19 to its General Terms and Conditions permitting firm transportation shippers under Rate Schedules FT-A and FT-L to segment their capacity through nomination (section 19.l) and capacity release (section 19.2), to the extent operationally feasible. East Tennessee states that this proposal, which it calls Enhanced Segmentation, will entirely replace its currently effective segmentation provisions.

17. In its transmittal letter, East Tennessee states that Enhanced Segmentation will enable shippers to deliver the contract's maximum daily transportation quantity (MDTQ) multiple times to locations subject to a single point OBA, and deliver the MDTQ multiple times to points subject to Aggregator OBAs[10] that cover points within the same Pipeline

[10] *Pro forma* section 1.57 defines an "Aggregator OBA" as an OBA covering multiple delivery points pursuant to Rate Schedule LMS-MA.

Operational Section (POS)[11] provided that no receipt points occur between the Aggregator OBA's delivery points, whether on the mainline or on a lateral. Further, it states that shippers may release, by segmentation, all or a portion of their capacity on any portion of the system within the contract path on a permanent or temporary basis.

18. East Tennessee states that, section 19.1(f) provides that for any segmented transaction in which a portion of the transaction flows in the same direction as physical flows on the system, the applicable maximum fuel and loss retention percentage will be assessed even if the segmented transaction is a Reverse Flow Nomination. East Tennessee's proposes section 19.2 to permit shippers under Rate Schedule FT-L to segment through capacity release on an incremental lateral, and shippers under Rate Schedule FT-A to segment through capacity release on any portion of the system that is not an incremental lateral. Segmentation by capacity release is permitted at any receipt or delivery point, including the head of any lateral within the contract Path regardless of whether the point is subject to a segmentable OBA.

19. Section 19.2 also provides that overlapping nominations on a segment that exceed the original MDTQ will be reduced in accordance with each nomination's scheduling priority. If the nominations overlap outside the contract paths of both the releasing and replacement shippers and exceed the original MDTQ, they will be reduced according to an Overlap Priority Percentage provided by the releasing shipper, or *pro rata* if no percentage is provided.

<u>Fuel Assessment</u>

20. In its January 4, 2007 comments, Sequent expresses concern that section 19.1(f) would permit East Tennessee to assess all segmented transactions, regardless of flow direction, the full fuel and unaccounted for retention factors. Sequent questions the need for a full fuel assessment on Reverse Flow Nomination transactions that are determined to be actual backhauls, in particular when East Tennessee currently assesses backhauls only a 0.6 percent Gas Lost and Unaccounted for retention factor.

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[11] *Pro forma* section 1.54 defines a "POS" as an area of the pipeline where delivery points can be grouped under a segmentable OBA and still be considered as segmentable by nomination under section 19.1. This section identifies eight POS areas on East Tennessee's the system.

21. In its January 17, 2007 answer,[12] East Tennessee states that it intends to treat segmented backhauls the same as non-segmented backhauls for the purpose of fuel retention, assessing both types of backhauls only a 0.6 percent retention factor for gas lost and unaccounted for. East Tennessee points out that a Reverse Flow Nomination as addressed in section 19.1(f) is distinguishable from an actual backhaul nomination in that a Reverse Flow Nomination, though counter to the direction of flow defined by the Contract Path, may or may not be counter to the physical flow of gas on the system. In contrast, the entire path of a backhaul transaction, whether or not segmented, is counter to the actual physical flow of gas. Thus, East Tennessee notes that under section 19.1(f), fuel charges would be assessed only when "any portion of such transaction flows in the same direction as physical flows", *i.e*., when the transaction is not a backhaul.

22. On February 13, 2007, Sequent responded stating that East Tennessee's answer adequately clarified the fuel assessment charge.

Implementation Date

23. According to East Tennessee, its shippers have requested implementation of Enhanced Segmentation outside the winter heating season. East Tennessee states that it will need eight months to program and test the software systems modifications required for the program, and therefore, requests an implementation date of October 1, 2007.

24. In its comments, Sequent asks the Commission to direct East Tennessee to make every practical attempt to implement its proposal by September 1, 2007 rather than October 1, 2007. Sequent explains that the earlier date would give shippers one more month's experience with the program prior to the 2007-2008 winter heating season.

25. In its answer, East Tennessee states that it intends to implement the proposal as quickly as practicable, and that given the complexity of programming and testing the systems modifications, October 1, 2007 is a realistic date for implementation. East Tennessee states that it will make Enhanced Segmentation available prior to that date if its preparations are complete.

Discussion

26. The Commission has reviewed East Tennessee's proposal, and finds that given the unique operational circumstances of East Tennessee's system, the instant proposal

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[12] Generally, answers to protest are not permitted unless ordered by the decisional authority. 18 CFR §213(a)(2) (2006). In the instant case, the Commission will permit the answer in order that it may fully understand East Tennessee's filing.

constitutes a reasonable method by which East Tennessee may provide flexibility to its shippers. Therefore, the Commission approves East Tennessee's Enhanced Segmentation proposal. Moreover, given the complexity of East Tennessee's proposal, the Commission will grant its requested date for implementation of October 1, 2007. The Commission's acceptance is conditioned upon East Tennessee filing actual tariff sheets that include the *pro forma* revisions discussed herein bearing a proposed effective date of October 1, 2007, or such earlier date as East Tennessee may propose.[13] Such tariff sheets must be filed in accordance with notice provisions of section 154.207 of the Commission's regulations.[14] East Tennessee must immediately notify its shippers and the Commission if it determines that it can implement segmentation on a date earlier than October 1, 2007.

27. Further, in its comments in Docket No. RP00-469-012, ETG requested that East Tennessee be required to file a report, as of April 1, 2008, describing how the implementation of the instant segmentation proposal was faring on East Tennessee's system. ETG requests that the report focus particularly on the criteria set forth in section 19.1(c) by which East Tennessee determines the feasibility of a segmentation transaction.

28. In its answer, East Tennessee does not oppose ETG's request for a report, but asserts that it would be more appropriate to be filed eighteen months after the program is first implemented rather than on April 1, 2008. East Tennessee argues that deferring the report would allow for a six-month adjustment period while shippers determine how to fully utilize segmentation flexibility, and provide a year's worth of operational data on segmentation in both winter and summer seasons. According to East Tennessee, a longer reporting period would include more complete and representative operational data.

29. In this instance, the Commission agrees with East Tennessee and finds that its proposal to file a report covering one year's worth of implementation, to begin after a six-month adjustment period, is reasonable. The Commission also finds that the suggestion by ETG to focus the report on the manner in which East Tennessee determines the feasibility of a segmentation transaction also has merit. The Commission therefore directs East Tennessee to file a report in line with these findings. Moreover, shippers on East Tennessee's system should inform the Commission immediately if they believe that East Tennessee is improperly exercising its discretion in granting segmentation requests under this proposal.

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[13] See Appendix for list of approved *pro forma* tariff sheets.

[14] 18 CFR § 154.207 (2006).

Additional Pro Forma Tariff Revisions

30. East Tennessee also proposes *pro forma* revisions of the scheduling priorities set forth in currently effective section 15.3, in particular to clarify the priorities for scheduling firm nominations. Whereas section 15.3 does not currently provide separate priorities for point capacity and throughput capacity, the proposal sets forth the priorities for points and throughput separately. The proposal does not revise the scheduling priorities for non-firm nominations, although it applies such language separately to points and throughput capacity.

31. In general, section 15.3 provides that for Rate Schedule FT-A, FT-L, and FT-GS transactions, point capacity is scheduled on a *pro rata* basis within each priority class according to the quantity nominated, and based on various criteria including whether a point is considered primary under the contract, whether the nomination exceeds or is within the point's maximum daily receipt or delivery obligation (MDRO or MDDO), and for secondary nominations, whether the point is within or outside the contract path as described by that section.

32. In addition, section 15.3(a) has retained existing tariff language stating that for the purpose of determining whether points are located within a contract path, East Tennessee will consider the movement of gas from receipt point to delivery point counter to the flow of gas from receipt to delivery point specified in the service agreement as being outside the contract path.

33. Under section 15.3(b), throughput capacity is scheduled according to essentially the same criteria as point capacity. The only exception is that in order to have the highest priority, firm nominations must be within a shipper's segment path rights, in addition to being within the applicable MDRO and MDDO at a primary point.

Discussion

34. The Commission approves the *pro forma* revisions to East Tennessee's scheduling priorities for firm service. Such revisions will align its scheduling priorities so that they will be compatible with both segmented and non-segmented transactions. Moreover, the proposed tariff language adapts the required distinction between within-the-path and outside-the-path secondary nominations to East Tennessee's operational circumstances. East Tennessee is directed to file actual tariff sheets containing the language approved herein.

<u>The Commission orders</u>:

(A) The 2006 Segmentation Report is accepted for filing.

(B) The language contained on the *pro forma* tariff sheets and substitute *pro forma* tariff sheets listed in the Appendix is approved.

(C) East Tennessee is directed to file actual tariff sheets with an effective date of October 1, 2007, or such earlier date as proposed, which correspond to the language contained on the *pro forma* tariff sheets accepted by this order. Such tariff sheets must be filed in accordance with the prior notice provisions of the Commission's regulations.

(E) East Tennessee is directed to file a report concerning the implementation of its Enhanced Segmentation proposal as discussed in the body of this order.

By the Commission.

(S E A L)

Philis J. Posey,
Acting Secretary.

Appendix

East Tennessee Natural Gas, LLC

Pro Forma Tariff Sheets[15] in
Docket No. RP00-469-012

Pro Forma Sheet No. 103
Pro Forma Sheet No. 105
Pro Forma Sheet No. 108
Pro Forma Sheet No. 109
Pro Forma Sheet No. 113
Pro Forma Sheet No. 115
Pro Forma Sheet No. 300
Pro Forma Sheet No. 306
Pro Forma Sheet No. 306A
Substitute *Pro Forma* Sheet No. 306B
Substitute *Pro Forma* Sheet No. 334
Substitute *Pro Forma* Sheet No. 335
Substitute *Pro Forma* Sheet No. 335A
Pro Forma Sheet No. 335B
Pro Forma Sheet No. 339
Pro Forma Sheet No. 355
Pro Forma Sheet No. 373
Pro Forma Sheet No. 373A
Substitute *Pro Forma* Sheet No. 373B
Substitute *Pro Forma* Sheet No. 373C

[15] The p*ro forma* tariff sheets were filed December 14, 2006. The substitute *pro forma* tariff sheets were filed January 17, 2007.