

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Natural Gas Pipeline Company of America

Docket No. CP05-7-000

ORDER ISSUING CERTIFICATE AND APPROVING ABANDONMENT

(Issued March 25, 2005)

1. On October 18, 2004, Natural Gas Pipeline Company of America (Natural) filed an application under sections 7(b) and 7(c) of the Natural Gas Act for a certificate of public convenience and necessity authorizing it to abandon, construct, and operate facilities at its Sayre storage field in Beckham County, Oklahoma.

2. Natural's proposals will increase the peak day withdrawal levels and the maximum working gas capacity at the Sayre field. Natural's proposals will provide approximately 10 Bcf of incremental storage capacity for its customers. We find that authorizing these proposals is in the public interest because they will enable Natural to meet its customers' demonstrated need for additional storage services.

**I. Background**

3. Natural's gas transmission system consists of the Amarillo mainline, the Gulf Coast mainline, and the A/G line, which connects the Amarillo and Gulf Coast mainlines. The Amarillo line extends from gas producing areas in New Mexico, Texas, and Oklahoma to termination points near the Chicago, Illinois metropolitan area. The Gulf Coast line extends from onshore and offshore gas producing areas of Louisiana and Texas to termination points near Chicago. The A/G line extends from Carter County, Oklahoma to Cass County, Texas. Natural also owns and operates underground gas storage facilities in Texas, Oklahoma, Iowa, and Illinois.

4. The Sayre field is on the Amarillo line in Beckham County, Oklahoma. The Sayre field has 18,100 horsepower of compression, consisting of six compressor units, and 35 injection/withdrawal wells. Currently, the certificated maximum inventory of the Sayre field is 90.4 Bcf at 14.73 psia, with a certificated maximum daily deliverability of 400 MMcf.

5. In 1965, we authorized Natural to acquire, develop, and operate the Sayre field, an existing natural gas storage field, and to construct and operate the appurtenant facilities necessary to provide storage service to its customers in interstate commerce.<sup>1</sup> Under the 1965 certificate, Natural, among other things, acquired the easements, rights, and other property interests in the Sayre field from ONEOK Sayre Storage Company (ONEOK) pursuant to a 40-year lease.<sup>2</sup> Under the lease agreement, ONEOK retained certain capacity rights in the Sayre field to serve its intrastate customers and Natural agreed to operate the storage field to provide ONEOK access to, and use of, its retained capacity rights.

6. Between 1965 and 2002, we issued numerous authorizations to Natural to develop the Sayre field by constructing, removing, reworking, and installing additional facilities.<sup>3</sup> In 2002, pursuant to the 1965 certificate, Natural acquired by purchase all of ONEOK's rights, easements, and property interests in the Sayre field.<sup>4</sup> In 2003, when we authorized Natural to construct and operate six injection/withdrawal wells and to convert and operate three observation wells to injection/withdrawal wells, we recognized that ONEOK was reducing its cushion gas inventory in the Sayre field.<sup>5</sup>

## II. Proposals

7. Natural proposes to increase the peak day withdrawal levels from 400 to 600 MMcf and the maximum working gas capacity at the Sayre field. Natural states that its proposals will provide approximately 10 Bcf of additional storage capacity for its customers.

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<sup>1</sup> *Natural Gas Pipeline Company of America*, 34 FPC 1258 (1965), *order on reh'g*, 35 FPC 189 (1966).

<sup>2</sup> ONEOK, an intrastate company, was formerly known as Oklahoma Natural Gas Storage Company which, in turn, is a successor to Oklahoma Natural Gas Company.

<sup>3</sup> *Natural Gas Pipeline Company of America*, 32 FPC 1295 (1964); 45 FPC 258 (1971); 45 FPC 1055 (1971); 47 FPC 1563 (1972); 47 FPC 1564 (1972); 50 FPC 532 (1973); 52 FPC 348 (1974); and a prior notice under section 157.205 of the regulations, effective May 7, 1991.

<sup>4</sup> The 1965 order did not limit Natural's acquisition authorization to rights obtained pursuant to the lease agreement.

<sup>5</sup> *Natural Gas Pipeline Company of America*, 104 FERC ¶ 61,166 (2003), *amended*, 109 FERC ¶ 62,250 (2004).

8. In order to accomplish this, Natural proposes to construct and abandon facilities as follows. Specifically, Natural proposes to abandon (1) 0.61 miles of 16-inch diameter pipeline; (2) 0.22 miles of 24-inch diameter pipeline; (3) 100 feet of 10-inch diameter pipeline; (4) 155 feet of 20-inch diameter pipeline; and (5) 600 feet of 16-inch diameter pipeline. In addition, Natural proposes to:

- drill 22 injection/withdrawal wells (from four existing and one new well pad) and install 0.8 miles of 6- and 12-inch diameter lateral lines to connect the wells to the existing storage fields;
- construct and operate 22 6-inch wellhead meters;
- construct and operate 1.82 miles of 24-inch diameter pipeline;
- construct and operate 1.24 miles of 20-inch diameter pipeline;
- construct and operate 4.3 miles of 24-inch diameter pipeline (North lateral) to loop the existing line between compressor station 184 and Natural's Oklahoma extension mainline;
- construct and operate 100 feet of 10-inch diameter line;
- install one 16-inch ultrasonic station meter;
- install two compressor units with a total rating of 8,285 horsepower; and
- construct and operate appurtenant facilities.<sup>6</sup>

Natural estimates that the cost of the proposed construction will be \$32,871,062.

9. Natural held an open season from September 2 to 23, 2004. In its open season, Natural stated that it would consider bids with a minimum term of three years and a maximum term of ten years, and rates that reflected the stated recourse rate or a negotiated rate. Natural reserved the right to consider other bids on a not unduly

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<sup>6</sup> Natural states that it will construct, operate, and modify auxiliary facilities under section 2.55(a) of the regulations. Specifically, Natural states that it will replace two dehydration units with a new unit, install a suction filter at compressor station 184, install miscellaneous facilities associated with the modifications to compressor station 184, and install new pigging facilities and replace other pigging facilities. Natural estimates that these facilities will cost approximately \$2,496,277. The contemplated section 2.55(a) facilities are more fully described in the application.

discriminatory basis. Natural also solicited the turn back of NSS capacity on the Amarillo line from its existing customers. No customer responded to Natural's solicitation to turn back capacity.

10. Natural states that it signed three binding precedent agreements that fully subscribe the capacity created by Natural's proposals. Specifically, Natural entered into agreements with Occidental Energy Marketing, Inc. for 40,000 Dth of firm storage per day, Tractebel Energy Marketing, Inc. for 53,333 Dth of firm storage per day, and with Oneok Energy Services Company, L.P. for 40,000 Dth of firm storage per day. The Occidental and Tractebel agreements are for terms of five years and the Oneok Energy agreement is for a term of three years. The agreements provide for negotiated rates under Rate Schedule NSS.<sup>7</sup>

11. Natural proposes a \$4.12 per Dth incremental monthly reservation recourse rate based on an estimated \$6,584,810 cost of service,<sup>8</sup> using the cost factors underlying the currently effective NSS service rates and the 10 Bcf of working gas design capacity created by the project.<sup>9</sup> The resulting unit rate is converted to the monthly reservation rate based on the reservation determinants of 133,333 Dth per day for 75 days of service. Natural proposes a \$0.1355 per Dth authorized overrun service (AOS) charge consistent with the derivation of its AOS charge applicable to its other NSS shippers and to recover fuel costs from the incremental shippers through the existing NSS storage fuel retention factor. The fuel factor is currently 1.7 percent and applicable to all NSS volumes injected.

12. Natural's application includes *pro forma* tariff sheets that revise Rate Schedule NSS and the related rate sheet, and that adds definitions to reflect the construction proposals herein. Specifically, Natural proposes to revise: (1) Rate Schedule NSS to provide that the additional capacity at the Sayre field will be separately identified for purposes of cost allocation; (2) the rate sheet applicable to Rate Schedule NSS to add the

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<sup>7</sup> Rate Schedule NSS is a 75-day, no-notice service with no limitations on injections or withdrawals. Rate Schedule NSS is primarily used by producers, marketers, end-users (including power generators), and local distribution companies for daily and seasonal balancing and arbitrage and supply security.

<sup>8</sup> Natural functionalized the \$6.6 million cost of service as storage costs classified to the reservation component of the rate consistent with the rate derivation for its existing firm service under Rate Schedule NSS.

<sup>9</sup> See a November 3, 1997 Letter Order approving Natural's May 31, 1996 Stipulation and Agreement in Docket Nos. RP95-326-010 and RP95-242-010. 81 FERC ¶ 61,160. Natural's settlement rates were based, among other things, on a straight fixed-variable rate design, a 14.98 percent pre-tax return, and a 2.32 percent depreciation rate.

\$4.12 per Dth maximum recourse rate and the \$0.1355 per Dth authorized overrun charge; and (3) the definitions in its General Terms and Conditions (GT&C) to reference the new incremental capacity and the related agreements, shippers, and rates.

13. Natural states that its proposals will add significant storage infrastructure to a proven storage facility and allow it to provide additional service to meet the needs of its Rate Schedule NSS customers. Natural contends that the addition of the proposed injection and withdrawal wells and compressors will increase the withdrawal rate needed to meet late season requirements. Natural also asserts that the new compressors will be able to run with, or in place of, the existing compressors during power injection operations. In addition, Natural contends that the proposed increase in the peak day withdrawal level to 600 MMcf per day is not only within the Sayre field's operational capacity, but is necessary to provide the higher amounts of service under Rate Schedule NSS.

14. Natural states that the proposed facilities will allow it to convert 6.0 Bcf of cushion gas to working gas. Natural states that the additional 10 Bcf of working gas that will be available because of its proposals includes the 6.0 Bcf of cushion gas converted to working gas, plus 4 Bcf from an earlier cushion gas reductions by ONEOK. Under its proposals, Natural states that the total storage operating capacity for the Sayre field will stay at 90.4 Bcf, the working gas capacity will be 57.1 Bcf, and the cushion gas will be 33.3 Bcf.

### **III. Interventions**

15. Notice of Natural's application was published in the *Federal Register* on October 28, 2004, 69 Fed. Reg. 62,875 (2004). FPL Energy Forney, LP and Lamar Power Partners, L.P. filed a timely, unopposed, joint motion to intervene. Timely, unopposed motions to intervene are granted by operation of Rule 214.

### **IV. Discussion**

16. Since the construction, operation, and abandonment of the proposed facilities would involve the transportation of natural gas in interstate commerce, the proposals are subject to the jurisdiction of the Commission under sections 7(b) and 7(c) of the Natural Gas Act.

**A. Public Convenience and Necessity Filing**

17. The Certificate Policy Statement provides guidance as to how we will evaluate proposals for certificating new construction.<sup>10</sup> The Certificate Policy Statement established criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest. The Certificate Policy Statement explained that in deciding whether to authorize the construction of major new pipeline facilities, we balance the public benefits against the potential adverse consequences. Our goal is to give appropriate consideration to the enhancement of competitive transportation alternatives, the possibility of overbuilding, subsidization by existing customers, the applicant's responsibility for unsubscribed capacity, the avoidance of unnecessary disruptions of the environment, and the unneeded exercise of eminent domain in evaluating new pipeline construction.

18. Under this policy, the threshold requirement for pipelines proposing new projects is that the pipeline must be prepared to financially support the project without relying on subsidization from its existing customers. The next step is to determine whether the applicant has made efforts to eliminate or minimize any adverse effects the project might have on the applicant's existing customers, existing pipelines in the market and their captive customers, or landowners and communities affected by the route of the new pipeline. If residual adverse effects on these interest groups are identified after efforts have been made to minimize them, we will evaluate the project by balancing the evidence of public benefits to be achieved against the residual adverse effects. This is essentially an economic test. Only when the benefits outweigh the adverse effects on economic interests will we proceed to complete the environmental analysis where other interests are considered.

19. As noted above, the threshold requirement is that the pipeline must be prepared to financially support the project without relying on subsidization from its existing customers. Since Natural is proposing incremental rates, existing customers cannot subsidize the project. Thus, Natural's proposal meets the threshold test of the Certificate Policy Statement.

20. The proposals will provide greater reliability and flexibility on Natural's system. Thus, the construction of the proposed facilities will not result in any degradation of service to Natural's existing customers. In addition, no service on any other pipeline will

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<sup>10</sup> *Certification of New Interstate Natural Gas Pipeline Facilities* (Certificate Policy Statement), 88 FERC ¶ 61,227 (1999), *order clarifying statement of policy*, 90 FERC ¶ 61,128, *order further clarifying statement of policy*, 92 FERC ¶ 61,094 (2000).

be displaced, since the proposed facilities satisfy the increased demand for storage service on Natural's Amarillo system. Thus, there will not be any adverse effects on existing pipelines or their customers.

21. Natural will construct the proposed wells on four existing well pads and one new well pad within the Sayre field. Natural will construct the compressor units within an existing fenced compressor area at the Sayre field. The pipelines to be constructed will consist of laterals connecting the wells to the existing facilities and will loop the North lateral line. For this construction, Natural requires only minimal new rights-of-way. There is no landowner opposition to the proposals. Thus, we find that any adverse impacts on landowners and communities near the storage field or along the pipeline route will be minimal.

22. The proposals to construct, operate, and abandon facilities will add injection and withdrawal wells and compression to Sayre field. Thus, Natural's customers will have more flexibility to store and withdraw gas on the Amarillo system on a year-round basis. Also, the proposals will allow Natural to create approximately 10 Bcf of additional incremental storage capacity on the Amarillo system. As shown by the results of the open season, the market wants the new capacity. In addition, we find no identified adverse effect on existing customers, other pipelines, landowners, or communities. For these reasons, we find, consistent with the Certificate Policy Statement and sections 7(b) and 7(c) of the Natural Gas Act, that the public convenience and necessity requires approval of Natural's proposals.

## **B. Rates**

23. We will approve Natural's proposal to incrementally price the new Sayre storage capacity. Further, we find that Natural's \$4.12 per Dth monthly incremental recourse rate is appropriate because it is based on the project's estimated cost of service and the additional 10 Bcf of working gas storage capacity created by the project.

24. Natural executed three precedent agreements with shippers for the full capacity of the proposed project. The \$4,911,988 in revenue generated by the fixed \$3.07 per Dth monthly negotiated rate under the precedent agreements will not fully recover the estimated \$6.6 million cost of service for the project. Thus, Natural will be at risk for any revenue shortfall due to the lower negotiated contract rates with the incremental shippers.<sup>11</sup>

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<sup>11</sup> See *Texas Eastern Transmission, LP*, 101 FERC ¶ 61,120 (2002).

25. Because Natural has agreed in the precedent agreements to charge negotiated rates, our rate policy statement, as revised,<sup>12</sup> requires Natural to file the executed negotiated rate contracts or file numbered tariff sheets, not less than 30 days but no more than 60 days, prior to the in-service date of the Sayre project. If Natural elects to submit tariff sheets, it must state for each negotiated rate shipper the following information as provided under section 49.1(e) of its GT&C: (1) the exact legal name of the shipper; (2) the type of service; (3) the receipt and delivery points; (4) the volume of gas to be transported; (5) the specific negotiated rate; and (6) a statement affirming that the negotiated rate contract does not deviate in any material aspect from the Rate Schedule NSS *pro forma* service agreement. Natural must also disclose any other agreement, understanding, negotiation, or consideration associated with the negotiated agreements. In addition, Natural must maintain separate and identifiable accounts for volumes stored, billing determinants, rate components, surcharges, and revenues associated with its negotiated rate in sufficient detail so that they can be identified in Statements G, I, and J in any future Natural Gas Act section 4 rate proceeding.<sup>13</sup>

26. With respect to the *pro forma* tariff sheets, we find that the proposed changes are appropriate and consistent with previous tariff changes accepted by the Commission for Natural's North Lansing project.<sup>14</sup> Thus, we will require Natural to file actual tariff sheets placing the incremental rates approved herein, as well as the related tariff references, into effect no less than 30 days, but no more than 60 days, prior to commencing service.

### C. Environmental Assessment

27. Our staff prepared an environmental assessment (EA) for Natural's proposals. The EA addresses land requirements, water use and quality, fish, vegetation, wildlife, cultural resources, air quality, noise quality, land use, and project alternatives. Based on the discussion in the EA, we conclude that approval of Natural's proposals would not

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<sup>12</sup> *Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines and Regulation of Negotiated Transportation Services of Natural Gas Pipelines*, 74 FERC ¶ 61,076, *reh'g and clarification denied*, 75 FERC ¶ 61,024, *reh'g denied*, 75 FERC ¶ 61,066 (1996); *petition for review denied, Burlington Resources Oil & Gas Co. v. FERC*, Nos. 96-1160, *et al.*, U.S. App. Lexis 20697 (D.C. Cir. 1998). *Modification of Negotiated Rate Policy*, 104 FERC ¶ 61,134 (2003), *reh'g pending*.

<sup>13</sup> *Tennessee Gas Pipeline Company*, 110 FERC ¶ 61,047 (2005).

<sup>14</sup> See the April 29, 2003 unpublished Letter Order in Docket No. RP03-322-000, accepting tariff sheets implementing an incremental rate under Rate Schedule NSS.



constitute a major federal action significantly affecting the quality of the human environment, if the project is constructed and operated in accordance with Natural's application.

28. Any state or local permits issued with respect to the jurisdictional facilities authorized herein must be consistent with the conditions of this certificate. We encourage cooperation between interstate pipelines and local authorities. However, this does not mean that state and local agencies, through application of state or local laws, may prohibit or unreasonably delay the construction or operation of facilities approved by this Commission.<sup>15</sup>

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

#### **D. Conclusion**

30. For the reasons stated above, we find that Natural's proposed project is required by the public convenience and necessity and that a certificate authorizing the construction and operation of facilities should be issued, subject to the conditions discussed herein. In addition, we will grant Natural's request to abandon facilities.

31. At a hearing held on March 22, 2005, 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, submitted in support of the authorizations sought herein, and upon consideration of the record.

#### **The Commission orders:**

(A) A certificate of public convenience and necessity is issued authorizing Natural to construct and operate facilities at its Sayre field, as described more fully in this order and in the application.

(B) Permission for and approval of Natural's abandonment of facilities at the Sayre field, as more fully described in the order and in the application, are granted.

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<sup>15</sup> See, e.g., *Schneidewind v. ANR Pipeline Co.*, 485 U.S. 293 (1988); *National Fuel Gas Supply v. Public Service Commission*, 894 F.2d 571 (2d Cir. 1990); and *Iroquois Gas Transmission System, L.P., et al.*, 52 FERC ¶ 61,091 (1990) and 59 FERC ¶ 61,094 (1992).

(C) The certificate issued in Ordering Paragraph (A) is conditioned on Natural's compliance with all of the applicable regulations under the Natural Gas Act, particularly the general terms and conditions set forth in Parts 154, 157, and 284, and paragraphs (a), (c), (e), and (f) of section 157.20.

(D) Natural shall execute firm service agreements equal to the level of service represented in its precedent agreements prior to commencing construction.

(E) Natural shall file a tariff sheet reflecting the pertinent terms of the fixed negotiated rate contracts or the actual agreements at least 30 days, but no more than 60 days, prior to the commencement of service.

(F) Natural shall file actual tariff sheets reflecting the *pro forma* tariff sheets implementing the project's recourse and AOS rates and related tariff references at least 30 days, but no more than 60 days, prior to the commencement of service.

(G) The certificate issued herein is conditioned on Natural's compliance with the environmental conditions set forth in the appendix to this order.

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

(I) The certificate issued to Natural is conditioned on the following:

(1) The maximum inventory of natural gas stored at the Sayre field shall not exceed the certificated levels of 90.4 Bcf at 14.73 psia and 60 degrees Fahrenheit, and the maximum bottom hole storage pressure shall not exceed 1,020 psia, without prior authorization of the Commission.

(2) The Sayre field shall be operated in such a manner as to prevent/minimize gas loss or migration.

(3) Before bringing any of the new wells into service, Natural shall file with the Secretary copies of any new analyses of well logs, including Neutron logs, Gamma Ray logs, Cement Bond and Caliper logs, and well tests, including drill stem tests and back pressure tests for any well drilled in conjunction with this project.

(J) Natural's facilities shall be constructed and made available for service within two years of the date of the order in this proceeding.

By the Commission.

( S E A L )

Linda Mitry,  
Deputy Secretary.

## Appendix

## Environmental Conditions for Natural's Project

1. Natural shall follow the construction procedures and mitigation measures described in its application, and as identified in the EA, unless modified by this order. Natural must:

- a. request any modification to these procedures, measures, or conditions in a filing with the Secretary;
- b. justify each modification relative to site specific conditions;
- b. explain how that modification provides an equal or greater level of environmental protection than the original measure; and
- c. receive approval in writing from the Director of the Office of Energy Projects (OEP) before using that modification.

2. The Director of OEP has delegated authority to take all steps necessary to ensure the protection of all environmental resources during construction and operation of the project. This authorization shall allow:

- a. 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 construction and operation and activities associated with abandonment of the project.

3. **Prior to construction**, Natural shall file an affirmative statement with the Secretary, certified by a senior company official, that all company personnel, environmental inspectors, and contractor personnel will be informed of the environmental inspector's authority and have been or will be trained on the implementation of the environmental mitigation measures appropriate to their jobs **before** becoming involved with construction or restoration activities.

4. Natural shall conduct noise surveys at nearby residences upon initiation of the horizontal directional drill and the drilling of wells. Where the surveys indicate the noise attributable to the drilling activities exceeds a day-night sound level ( $L_{dn}$ ) of 55 decibels on the A weighted scale (dBA), Natural should:

- a. stop drilling and mitigate noise near residences during drilling activities to bring  $L_{dn}$  levels at those residences at or below 55 dBA; or
- b. offer temporary housing until  $L_{dn}$  levels at the residence is 55 dBA or below.

5. Natural shall file a noise survey with the Secretary **no later than 60 days** after placing the modified compressor station 184 in service. If the noise attributable to the operation of the modified compressor station at full load exceeds an  $L_{dn}$  of 55 dBA at any nearby noise sensitive areas, Natural should install additional noise controls to meet that level within **one year** of the in-service date. Natural should confirm compliance with the  $L_{dn}$  of 55 dBA requirement by filing a second noise survey with the Secretary **no later than 60 days** after it installs the additional noise controls.