

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

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

Trunkline Gas Company, LLC

Docket No. CP04-64-001

ORDER AMENDING CERTIFICATE

(Issued February 11, 2005)

1. On November 5, 2004, and supplemented on November 24, 2004, 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, to amend its Certificate of Public Convenience and Necessity issued in this proceeding September 17, 2004.<sup>1</sup> Trunkline Gas requests that the Commission amend the certificate to increase the pipeline diameter of its LNG Loop Project (not yet constructed) from a 30-inch to a 36-inch diameter pipeline and to allow certain capacity and delivery pressure modifications to the interconnection facilities authorized in the September 17 Order. This order grants the requested authorities, as conditioned, and is in the public interest because it will assist in assuring the availability and transportation of liquefied natural gas (LNG) supplies required by domestic gas markets.

**Background and Proposal**

2. Trunkline Gas owns and operates an existing 30-inch diameter, 45.8 mile pipeline (LNG Lateral) extending from the tailgate of Trunkline LNG Company, LLC's (Trunkline LNG) liquefied natural gas import terminal in Calcasieu Parish, Louisiana, and connecting to Trunkline Gas's transmission system in Longville, Louisiana.<sup>2</sup> On September 17, 2004, the Commission issued a certificate authorizing Trunkline Gas to construct, own, and operate, in addition to new metering and appurtenant facilities,

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<sup>1</sup> Docket No. CP04-64-000, *Trunkline Gas Company, LLC, et. al.*, 108 FERC ¶ 61,251 (2004) (September 17 Order).

<sup>2</sup> The LNG Lateral consists of two segments. One is designated as Line 2000-1, and extends from the tailgate of the LNG terminal to Gate 203A on Trunkline's Lakeside System in Calcasieu Parish. The other, Line 200-2, extends north from Gate 203A to Trunkline's Longville Compressor Station in Beauregard Parish, Louisiana.

22.8 miles of 30-inch diameter pipeline looping its LNG Lateral (LNG Loop Project). The LNG Loop Project is designed to accommodate an additional 600,000 Dth/day send-out capacity from Trunkline LNG's terminal, which is 1.8 Bcf/day on a sustained basis, and 2.1 Bcf/day on a peak day basis.

3. On September 17, 2004, Trunkline Gas and its customer, BG LNG Services, LLC (BG LNG), entered into a Supplement and Amendment (Amended Agreement) to their January 28, 2004 Agreement for Construction of Facilities (Construction Agreement). The Amended Agreement provides BG LNG with additional operational reliability and flexibility in Trunkline Gas's Field Zone to accommodate BG LNG's currently contracted for and anticipated expanded levels of regasified LNG volumes. Under the Amended Agreement, Trunkline Gas and BG LNG have agreed in principle to certain modifications to the proposed facilities. These modifications include (a) changing the proposed pipeline loop from a 30-inch to a 36-inch diameter pipeline, and (b) modifying the capacity and delivery pressure at some of the proposed delivery points. Trunkline Gas proposes to have the amended facilities in service by October 1, 2005, in order to meet BG LNG's transportation requirements.

4. In light of the evolving needs of its customer and the timing for the construction, Trunkline Gas has determined that the installation of the 36-inch diameter pipeline at this time (rather than at a later time) will facilitate the provision of current and future transportation services from Trunkline LNG's terminal. The project modifications will not change the proposed construction footprint or construction procedures. The change in pipeline diameter will result in no increase in the proposed construction area.

5. Trunkline Gas requests authorization to amend its certificate to construct, own, operate, and maintain the following facilities:

- a) Approximately 22.8 miles of 36-inch pipeline loop of Trunkline Gas's existing Line 2000-1 pipeline between the LNG Import Terminal and Gate Valve 203A on Trunkline Gas's Lakeside system, designed with a maximum allowable operating pressure (MAOP) of 1261 psig;
- b) Facilities to increase the metering capacity at Trunkline Gas's existing Ragley delivery point interconnection with Transcontinental Gas Pipe Line Corporation (Transco) in Beauregard Parish, Louisiana, to 700,000 Dth/day, designed with a MAOP of 835 psig, instead of the metering capacity of 500,000 Dth/day currently certificated in Docket No. CP04-64-000;

- c) Facilities to modify the metering capacity at Trunkline Gas's existing Beauregard delivery point interconnection with Texas Eastern Transmission, LP (TETCO) in Beauregard Parish, Louisiana, to 200,000 Dth/day, designed with a MAOP of 935 psig, instead of the metering capacity of 500,000 Dth/day currently certificated in Docket No. CP04-64-000;
- d) A new interconnect with Calcasieu Gas Gathering System (Calcasieu Gas) in Calcasieu Parish, Louisiana, with a metering capacity of 100,000 Dth/day, designed with a MAOP of 1,030 psig;<sup>3</sup>
- e) A new interconnect with Sabine Pipe Line Company, LLC, in Calcasieu Parish, Louisiana, with a metering capacity of 200,000 Dth/day, designed with a MAOP of 1,017 psig instead of the designed MAOP of 1,020 currently certificated in Docket No. CP04-64-000;
- f) A new interconnect with Tennessee Gas Pipeline Company at Trunkline Gas's Gate 204A in Jefferson Davis Parish, Louisiana, with a metering capacity of 500,000 Dth/day, designed with a MAOP of 936 psig;<sup>4</sup> and
- g) A new interconnect with Texas Gas Transmission, LLC, in Calcasieu Parish, Louisiana, with a metering capacity of 125,000 Dth/day, designed with a MAOP of 885 psig instead of the design MAOP of 998 psig currently certificated in Docket No. CP04-64-000.

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<sup>3</sup> Construction of this interconnection was approved in the September 17 Order. Here, Trunkline Gas states that BG LNG has indicated that an interconnection with Gulf South Pipeline Company, in lieu of the interconnection with Calcasieu Gas, may be a better alternative to serve the Lake Charles, Louisiana area industrial customers. Application at 6, n. 3. If BG LNG enters into a transportation agreement with Gulf South, a new interconnect with Trunkline Gas will be constructed under Gulf South's Blanket Construction Certificate. In that event, Trunkline Gas states that it will request that the Commission vacate the September 17, 2004 authorization to construct the proposed interconnect with Calcasieu Gas.

<sup>4</sup> Construction of this interconnection was also approved in the September 17 Order, but without specific reference to Trunkline's Gate 204A.

6. Firm transportation service through the LNG Loop Project facilities will be provided under Trunkline Gas's Rate Schedule FT. Trunkline's proposed modifications to the LNG Loop Project increases the cost of the facilities from \$39.9 million to \$50.0 million. Trunkline Gas requests further that the previously authorized rolled-in rate treatment continue since it will receive revenues in excess of increased costs, ensuring that its existing customers will not subsidize the project.

### **Notice and Interventions**

7. Notice of the application was published in the *Federal Register* on November 19, 2004, 69 Fed. Reg. 67,714. BP LNG filed timely comments in support,<sup>5</sup> stating that the proposal is consistent with the Commission's recognition that the development of new sources of LNG is vital to satisfying projected demands for natural gas in the United States.<sup>6</sup> No protests to the application have been filed.

### **Discussion**

#### **Commission Policy Statement**

8. The facilities proposed by Trunkline Gas will be used to transport natural gas in interstate commerce subject to the jurisdiction of the Commission; accordingly, the construction and operation of the facilities are subject to the requirements of section 7 of the NGA.

9. On September 15, 1999, the Commission issued a Policy Statement to provide guidance as to how we will evaluate proposals for certificating new construction.<sup>7</sup> The 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 Policy Statement explains that in deciding whether to authorize the construction of major

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<sup>5</sup> Timely notices of intervention and unopposed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2004).

<sup>6</sup> *Citing AES Ocean Express LLC v. Florida Gas Transmission Company*, 107 FERC ¶ 61,276 at P 26, n. 22 (2004).

<sup>7</sup> *Certification of New Interstate Natural Gas Pipeline Facilities (Policy Statement)*, 88 FERC ¶ 61,227 (1999); *order clarifying statement of policy*, 90 FERC ¶ 61,128 (2000); *order further clarifying statement of policy*, 92 FERC ¶ 61,094 (2000).

new pipeline facilities, the Commission balances 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.

10. Under this policy, the threshold requirement for existing pipelines proposing new projects is that the pipeline must be prepared to financially support the project without relying on subsidization from the existing customers. The next step is to determine whether the applicant had 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, the Commission 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 the Commission then proceed to complete the environmental analysis where other interests are considered.

### **Subsidization**

11. The Commission's Policy Statement directs that 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 existing customers. Trunkline Gas submitted workpapers showing that no subsidization by its existing customers of its proposed increased LNG Loop's costs will occur, because the proposal's annual revenues generated by the BG LNG contract will exceed the annual cost of service on both the existing lateral and the proposed increased LNG Loop.

12. Specifically, the estimated cost of service in the first year of operation of the new facilities is \$9.5 million, and \$1.7 for the use of the existing LNG Lateral, while first year revenues are projected at \$23 million. In subsequent years, revenues will continue to exceed expenses. We find Trunkline Gas's proposed amended project financially viable without any subsidy from Trunkline Gas's other customers, because the revenue generated by the BG LNG contract will essentially underwrite the costs for the amended LNG Loop Project.

### **Adverse Effects**

13. The LNG Loop Project's limited modifications, to pipeline diameter and interconnection facilities, will not change the proposed construction footprint or construction procedures. Change in pipeline diameter will result in no increase in the proposed construction area. All affected landowners affected by the proposed LNG Loop Project, have been notified by Trunkline Gas. No party submits any argument that adverse economic results will occur as a result of the application.

### **Conclusion**

14. The record shows that approval of the application will assist in making available to the domestic market new sources of gas, consistent with our finding in the initial September 17 Order. Approval of the application does not affect the authorized vaporization service and increased send-out capabilities from the Trunkline LNG Terminal to its customers. The application shows that Trunkline Gas has properly designed the amended project to increase the reliability of its pipeline and to provide additional take-away capacity in case of potential expansion of Trunkline LNG's terminal in Calcasieu Parish, Louisiana. The total capacity on Trunkline's amended loop currently exceeds the phased-in capacity commitment of BG LNG, as discussed more fully below. Trunkline Gas is directed to offer excess capacity on an open access basis in accordance with section 10, General Terms and Conditions, of its tariff.

15. Consistent with the criteria discussed in the Policy Statement, we find that the benefits of the properly designed project proposed by Trunkline Gas will outweigh potential adverse effects. No such potential adverse effects are identified in the record. Consequently, the proposed amendment is required by the public convenience and necessity, and the construction/operation authorities requested by Trunkline Gas will be issued.

### **Rates**

16. Trunkline Gas requests rolled-in rate treatment of the revised \$49,977,179 in costs to build and operate the amended LNG Loop Project. The amended project increases the costs of the initially approved project by \$10,091,507. To develop its \$9,546,254 cost of service for the initial year of service, Trunkline Gas uses the cost factors approved in the Commission's initial order in this proceeding.<sup>8</sup> Specifically, Trunkline Gas uses a

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<sup>8</sup> September 17 Order at P 25.

straight fixed-variable rate design, a 59 percent debt to 41 percent equity capital structure, a long-term debt cost of 8.25 percent and an equity return of 11.92 percent, and maintains a depreciation rate of 1.5 percent based on the existing facilities depreciated at the current onshore transmission rate. The design of the cost-of-service based rate for the loop remains unchanged under the amended application.<sup>9</sup>

17. The Amended January 28 contract<sup>10</sup> underwriting the proposed loop reflects the project changes detailed in the Amended Application. A new Exhibit A to the amended contract reflects the changes to the primary delivery points affected by the modifications to the metering capacity at two of the four new interconnecting points. BG LNG's capacity requirements eventually increasing to 1,500,000 Dth per day under the contract remain unchanged. Currently, BG LNG's commitment is 510,000 of the 700,000 Dth per day capacity on Trunkline Gas's Lateral.<sup>11</sup> On January 1, 2006, BG LNG's commitment on Trunkline Gas increases to 1,200,000 Dth per day to accommodate BG LNG's contractual commitment with Trunkline LNG for 100% of the full sendout deliverability from the LNG terminal. On July 1, 2006, BG LNG's commitment on Trunkline Gas further increases to 1,500,000 Dth per day to accommodate the additional sendout scheduled from the "modified" expansion at the LNG terminal.

18. The September 17, 2004, Amended Discount Rate Agreement, which phases in the increases in BG LNG's required capacity, reflects one change. The discounted rate in effect for Year 2005 increases slightly but remains significantly lower than the FT maximum tariff rate applicable to the lateral service. The discounted rate decreases in Year 2006 with the addition of the proposed loop. Trunkline Gas applies the cost-of-service based rate for the loop to BG LNG's total capacity requirements on both the lateral and the proposed loop, and as a result, the firm first-year annualized reservation

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<sup>9</sup> To recover project costs, Trunkline Gas designed the loop rate based on the contract demand at 600,000 Dth/day and its estimated \$9.5 million cost of service. The rate remains significantly less than the maximum FT monthly reservation rate of \$3.7001 per Dth.

<sup>10</sup> The January 28 amendment includes changes to both the construction contract and the FT service agreement.

<sup>11</sup> See January 28, 2004 FT service agreement, Exhibit I.

demand of 493,200,000 Dth<sup>12</sup> under the FT Agreement guarantees revenue of approximately \$23 million. This amount exceeds the sum of the estimated \$9.5 million annual cost of service on the proposed loop and the \$1.7 million for the existing LNG Lateral. In Year 2007, the annualized reservation demand increases to 547,500,000 Dth<sup>13</sup> annually and remains unchanged for the remainder of the contract. Trunkline Gas continues to receive excess annual revenues under the BG LNG contract, even with the implementation of a lower discount rate which begins in Year 2010.

19. As noted above, we find Trunkline's proposed amended project financially viable without any subsidy from Trunkline's other customers, because the revenue generated by the BG LNG contract will exceed the projected costs for the proposed loop. Therefore, barring significant changed circumstances with respect to Trunkline's representations in this case, we will permit Trunkline to roll in the costs of the LNG Loop, as amended in this proceeding, when it files its next NGA section 4 rate case.

### **Environmental**

20. The environmental assessment (EA) for the original project discussed in the September 17 Order found that Trunkline Gas's proposal would not constitute a major federal action significantly affecting the quality of the human environment. On October 8, 2004, the Commission staff issued a partial clearance for Trunkline Gas to begin construction of the Trunkline Gas Meter Station located within the existing Trunkline LNG Terminal and the Gate 203A Receiver at milepost (MP) 22.6 of the proposed pipeline in Calcasieu Parish, Louisiana. On November 23, 2004, the Commission staff issued an approval for Trunkline Gas to construct minor piping connections at Transco's Meter Station located at approximate MP L-303.4 of the existing Trunkline Gas LNG Lateral portion of Line 200-2, in Beauregard Parish, Louisiana.

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<sup>12</sup> Trunkline Gas derives the first year reservation demand based on 1,200,000 Dth per day of service to BG LNG for 181 days for the period January 1 through June 30, 2006, and on 1,500,000 Dth per day for 184 days for the period July 1 through December 31, 2006.

<sup>13</sup> Trunkline Gas derives the annual reservation demand for the remaining years under the contract based on 1,500,000 Dth per day times 365 days.



21. Under Trunkline Gas's amendment, the right-of way width will not change to accommodate the proposed increase in pipeline diameter. Therefore, no additional right-of-way environmental impacts will occur. Thus, the changes proposed in Trunkline Gas's amendment are consistent with and subject to the EA issued in Docket No. CP04-64-000.

22. The increase in pipeline diameter will cause an increase in hydrostatic test water volume. Trunkline Gas states in its application in Docket CP04-64-000 that it will file its hydrostatic test withdrawal and discharge plan when it is developed. The Commission Staff will review Trunkline Gas's hydrostatic test plan when Trunkline Gas files its revised Implementation Plan to construct the pipeline portion of the project in Docket No. CP04-64-000.

23. At a hearing held on February 9, 2005, the Commission on its own motion received and made a part of the record all evidence, including the application and exhibits thereto, submitted in this proceeding, and upon consideration of the record,

The Commission orders:

(A) The certificate of public convenience and necessity issued in Docket No. CP04-64-000 pursuant to section 7(c) of the NGA to Trunkline Gas, to construct, own and operate facilities is amended as described and conditioned herein, and as more fully described in its application.

(B) The amended certificate described in Ordering Paragraph (A) is conditioned upon compliance by Trunkline Gas with all applicable Commission regulations, particularly Part 154 and paragraphs (a), (c), (e), and (f) of section 157.20.

(C) Trunkline Gas shall complete the Amended Loop Project and Metering Facilities and have them available for service by October 1, 2005, pursuant to paragraph (b) of section 157.20 of the Commission's regulations.

(D) Trunkline may roll the costs of the facilities proposed in its amended application and approved by this order into its system-wide cost of service in its next NGA section 4 rate proceeding barring a significant change from the present facts and circumstances.

(E) The authority issued in Ordering Paragraph (A) is conditioned upon compliance by Trunkline Gas with the requirement to file its Final hydrostatic test withdrawal and discharge plan reflecting the increase of volumes of water in its revised Implementation Plan. Trunkline Gas shall not begin further construction until the revised Implementation Plan is reviewed and approved in writing by the Director of the Office of Energy Projects.

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

By the Commission.

( S E A L )

Linda Mitry,  
Deputy Secretary.