

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Saltville Gas Storage Company L.L.C.

Docket Nos. CP04-13-003
CP04-14-003
CP04-14-004 and
CP04-15-002

ORDER ON COMPLIANCE FILING AND GRANTING CLARIFICATION

(Issued March 23, 2005)

1. On December 22, 2004, Saltville Gas Storage Company L.L.C. (Saltville) filed, in Docket No. CP04-14-003, *et al.*, a request for clarification or, in the alternative, rehearing of the Commission's November 22, 2004 Order¹ amending Saltville's certificate of public convenience and necessity and directing Saltville to revise, among other things, certain tariff provisions pertaining to interruptible revenue crediting. On December 22, 2004, Saltville submitted, in Docket No. CP04-14-004, its compliance filing as required by the November 22 Order. Saltville's compliance filing contains tariff sheets requiring Saltville to credit 100 percent of its interruptible revenues to its firm and interruptible shippers, in accordance with the November 22 Order. The compliance filing also includes a set of tariff sheets which, consistent with Saltville's request for clarification or rehearing, includes the billing units for interruptible service in designing its firm storage rates rather than crediting the interruptible revenues. Saltville requests an effective date of November 22, 2004 for the revised tariff sheets, consistent with the effective date of its FERC Gas Tariff.
2. For the reasons discussed herein, we are granting the requested clarification and accepting certain tariff sheets subject to conditions and rejecting others. This order is in the public interest because it ensures that Saltville's rates and tariff are in accordance with the Commission's regulations and policies.

¹ 109 FERC ¶ 61,200 (2004).

I. Background

3. On June 14, 2004, the Commission issued an order in Docket No. CP04-13-000, *et al.*, granting Saltville certificate authority to construct and operate salt cavern natural gas storage facilities.² The June 14 Order also approved Saltville's request for negotiated rate authority, directed the rate design by which Saltville was to design its recourse rates and ordered Saltville to file its non-conforming service agreements. The June 14 Order further directed Saltville to either include the billing units for interruptible service in designing the firm storage rates (Cost Allocation Method) or, alternatively, credit interruptible revenues to its firm and interruptible shippers, net of variable costs (Revenue Crediting Method). On July 14, 2004, Saltville requested rehearing of, among other things, the rate design required by the June 14 Order.

4. On August 2, 2004, Saltville tendered a filing to comply with the June 14 Order. The compliance filing proposed a modified *Equitable* method of rate design for Saltville's initial rates and contained Saltville's proposal to credit 90, rather than 100 percent, of its interruptible revenues to its firm and interruptible shippers after it had met its annual revenue requirement.

5. The November 22 Order granted clarification and rehearing, in part, and accepted the compliance tariff sheets, including the recourse rate tariff sheets, to be effective, subject to conditions, on November 22, 2004. The November 22 Order directed Saltville to revise its tariff to, among other things: (a) credit 100 percent of its interruptible revenues to its firm and interruptible shippers; (b) state the proportional storage facility design parameters mentioned in section 3.1(b) of the General Terms and Conditions (GT&C) of its FERC Gas Tariff, delete the phrase "unless otherwise agreed to by Saltville" and replace the phrase "sole discretion" with "reasonable and nondiscriminatory discretion"; (c) remove the Maximum Daily Park and Loan Quantities stated in section 3.2 of the GT&C of its tariff from consideration when deciding the quantities available to be awarded for firm service requests; (d) specify what the monthly space reservation charge is multiplied by to determine the monthly bill; (e) specify the Rate Schedule FSS section 2.1(a) field system constraints to which the 70 percent Maximum Daily Injection Quantity (MDIQ) limit upon reaching 70 percent of the Maximum Storage Quantity (MSQ) applies and specify all ratcheting provisions which apply to injection rights; and (f) define "sufficient" in Rate Schedule FSS section 2.1(c), which provides that a customer can withdraw its Maximum Daily Withdrawal Quantity (MDWQ) provided that the customer has sufficient gas stored in its firm inventory and state all ratcheting provisions which apply to withdrawal rights.

² *Saltville Gas Storage Co., LLC*, 107 FERC ¶ 61,267 (2004).

II. Public Notice and Interventions

6. Public notice of the compliance filing in Docket No. CP04-14-004 was issued on December 29, 2004. Interventions and protests were due as provided in section 154.210 of the Commission's regulations.³ No interventions or protests were filed.

III. Discussion

A. Saltville's Request for Clarification

7. Saltville requests clarification that the November 22 Order allows it to allocate costs to interruptible service in the design of its firm rates, as permitted by the June 14 Order, rather than crediting interruptible revenues to its customers. Alternatively, Saltville requests rehearing of both: (1) the requirement to credit 100 percent of its interruptible revenues to its customers rather than crediting 90 percent of its interruptible revenues to its customers after it meets its annual cost of service and (2) the refusal to permit it to use the alternative Cost Allocation Method.

8. The June 14 Order stated that Saltville may choose to either credit the revenues from interruptible service to its firm and interruptible customers or to allocate costs to the interruptible service. The primary concern is to ensure that interruptible service assumes a fair portion of the cost of service. Both of the methods permitted by the June 14 Order satisfy that concern and are methods which are generally accepted by the Commission. Therefore, the Commission clarifies that Saltville may use the Cost Allocation Method to design rates for interruptible service. Furthermore, since the Commission is granting the requested clarification, the alternative requests for rehearing are dismissed as moot.

B. Saltville's Compliance Filing

9. Saltville's filing consists of: (1) primary rate sheets recalculating Saltville's rates utilizing the Cost Allocation Method which is the subject of its request for clarification; (2) primary rate sheets modifying the non-rate tariff language consistent with the November 22 Order; (3) alternate tariff sheets providing for 100 percent crediting of interruptible revenues to Saltville's customers consistent with the November 22 Order and (4) other tariff revisions directed by the November 22 Order.

10. Saltville included an exhibit showing its rate derivation using the Cost Allocation Method. Saltville used its actual interruptible revenues for the period from September 1, 2003 through August 31, 2004 for its first phase (September 1, 2004 through August 31, 2005). Saltville asserts that the interruptible revenues should increase proportionally to the

³ 18 C.F.R. § 154.210 (2004).

percentage increase in yearly storage creation. Therefore, Saltville increased the interruptible revenues which it used for the period beginning September 1, 2004, by the percentage increase in yearly storage creation for each of the three subsequent annual phases. Saltville subtracted the interruptible revenues from the total cost of service included in its August 2, 2004 compliance filing to the June 14, 2004 Order in order to determine the new cost of service to be recovered through its firm rates. Saltville also used the same firm volumes in designing its rates which it used in its August 2, 2004 compliance filing.

11. The Commission finds that using Saltville's actual year ending August 31, 2004 interruptible revenues for the first phase beginning September 1, 2004, adjusted upward by the expected percentage increase in capacity for each of the next three phases, is reasonable.

12. The November 22 Order directed Saltville to state what the monthly space reservation charge is multiplied by to determine the monthly bill. Saltville revised Sheet No. 11 to include this multiplier. This change is in accordance with the November 22 Order's directives and is accepted.

13. The November 22 Order required Saltville to specify the Rate Schedule FSS section 2.1(a) field system constraints to which the 70 percent Maximum Daily Injection Quantity (MDIQ) limit upon reaching 70 percent of the Maximum Storage Quantity (MSQ) applies. Saltville was also required to specify all ratcheting provisions which apply to injection rights. Saltville revised section 2.1(a) of Rate Schedule FSS to define the field system constraints to be whenever the cavern pressures exceed 80 percent of the maximum allowable operating pressure. Saltville states that there are no ratcheting provisions which apply to injection rights. These revisions comply with the November 22 Order's requirements and are accepted.

14. The November 22 Order directed Saltville to define "sufficient" in section 2.1(c) of Rate Schedule FSS, which provides that a customer can withdraw its MDWQ provided that the customer has sufficient gas stored in its firm inventory. The November 22 Order also directed Saltville to state any ratcheting provisions which apply to withdrawal rights. Saltville revised section 2.1(c) of its FSS Rate Schedule to state that Saltville will withdraw and deliver up to a customer's MDWQ provided that the customer has a quantity of gas equal to or greater than its MDWQ in firm storage. Saltville states that there are no ratcheting provisions which apply to withdrawal rights. The Commission finds that these revisions are in accordance with the November 22 Order's directives and are accepted.

15. Saltville, in accordance with the November 22 Order's directive, has revised Sheet Nos. 31 and 108 to replace the phrase "sole discretion" with the phrase "reasonable and nondiscriminatory." This revision complies with the November 22 Order's directive and is accepted.

16. The November 22 Order required Saltville to state the proportional storage facility design parameters mentioned in section 3.1(b) of the GT&C. The November 22 Order further required Saltville to remove the Maximum Daily Park and Loan Quantities from consideration when deciding the quantities available to be awarded for firm service. Saltville revised sections 3.1(b) and section 3.2 of the GT&C of its tariff, which pertain to requests for service, to identify specific design parameters that will limit service nominations. The MSQ is now limited to be no less than five times and no greater than twenty five times the MDWQ; the MDIQ is limited to being no lower than 40 percent and no greater than 100 percent of the MDWQ.

17. Saltville's proposal to limit the MSQ to be no less than five times and no greater than twenty five times the MDWQ and to limit the MDIQ to being no lower than 40 percent and no greater than 100 percent of the MDWQ complies with the November 22 Order's directive to state the proportional storage facility design parameters which apply to service requests. The revised language ties the maximum injections and withdrawals to the MSQ while still permitting customers to choose their injections and withdrawals independently of each other. Furthermore, revised section 3.2 of the GT&C no longer references Maximum Park and Loan Quantities as potential limitations on firm service nominations. The Commission finds that these revisions comply with the November 22 Order's directives and are accepted.

18. Sections 3.1(g) and 3.2 of the GT&C continue to limit service only to those customers who are willing to pay a mutually agreeable rate which Saltville will accept. This condition is unacceptable. Under the Commission's policy, customers who are willing to pay the maximum recourse rate are not required to negotiate rates in order to receive service. Shippers must be permitted to opt for the use of a traditional cost of service recourse rate.⁴ Therefore, in accordance with Commission policy, Saltville is directed to revise sections 3.1(g) and 3.2 to provide that customers offering to pay the maximum recourse rate will receive the same consideration for service as those willing to pay a mutually agreeable rate

19. The instant filing complies with the November 22 Order in all other respects.

The Commission orders:

(A) Saltville's request for clarification is granted and the alternative requests for rehearing are dismissed as moot.

⁴ 104 FERC ¶ 61,134 at P 2 (2003).

(B) The tariff sheets listed in Appendix A, which contains the non-rate and the interruptible service Cost Allocation Method tariff sheets, are accepted to be effective on November 22, 2004, subject to the conditions discussed in the body of this order and the Ordering Paragraphs below.

(C) The tariff sheets listed in Appendix B, which contain the interruptible service Revenue Crediting Method, are rejected as moot.

(D) Within 30 days of the date of this order, Saltville must file revised tariff sheets reflecting the changes discussed above.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

APPENDIX A

Saltville Gas Storage Company, L.L.C.
Docket No. CP04-14-004
FERC Gas Tariff, Original Volume No. 1
(Tariff Sheets Accepted to be Effective November 22, 2004, Subject to Conditions)

Non-Rate Tariff Sheets

Sub Original Sheet No. 31
Sub Original Sheet No. 106
Sub Original Sheet No. 107
Sub Original Sheet No. 108

Cost Allocation Method Tariff Sheets

Sub Original Sheet No. 11
Sub Original Sheet No. 12
Sub Original Sheet No. 100
Sub Original Sheet No. 161

APPENDIX B

Saltville Gas Storage Company, L.L.C.

Docket No. CP04-14-004

FERC Gas Tariff, Original Volume No. 1

(Rejected Tariff Sheets Containing Interruptible Service Revenue Crediting Method)

Second Alt Original Sheet No. 11

Alt Original Sheet No. 161