



Point and Total Inerts. Among the changes in existing gas quality specifications proposed by Northern is a reduction in Northern's CO<sub>2</sub> limit from 2% to 1% during the April 1-October 31 time period, and a substantial reduction in Northern's maximum O<sub>2</sub> standard. Table 1 to Northern's Application.

On May 31, 2007, the Commission accepted and suspended Northern's tariff sheets, to become effective November 1, 2007, and established a technical conference. The Technical Conference was held on July 24, 2007.

## II. COMMENTS

In 2004 in Docket No. RP04-155, Northern proposed similar gas quality specifications for CO<sub>2</sub> and O<sub>2</sub>, which the Commission rejected on the grounds that Northern had not shown:

- (1) that corrosion on Northern's system was a real, rather than merely hypothetical or theoretical, concern;
- (2) that the proposed specifications would solve the problem Northern alleged existed; and
- (3) that Northern's proposed solution was economically efficient and that more cost effective alternatives had been adequately considered.

*Northern Natural Gas Co.*, 108 FERC ¶ 61,083, at P 25 (2004) ("*Northern*").

The Commission also rejected Northern's proposal because of policy concerns that the specifications would lead to a balkanizing of the national energy market. *Id.* at P 34. **The Commission's technical and policy reasons for rejecting Northern's gas quality proposals in Docket No. RP04-155 are just as applicable today as they were in 2004.**

Northern's failure to provide adequate technical support for its proposed gas quality standards has been well documented by Indicated Shippers and other intervenors. Therefore, the

WPA will focus primarily on the policy issues raised by Northern's proposed gas quality specifications.

**A. NORTHERN'S GAS SPECIFICATIONS MUST BE REJECTED, BECAUSE THEY UNDERMINE LONG-STANDING COMMISSION POLICIES**

**1. Northern's Proposal Violates the Commission's Policy On Cost Causation.**

Northern's proposed gas specifications violate the Commission's long-standing policies on cost causation and therefore must be rejected. Northern's proposed Cricondentherm Hydrocarbon Dew Point ("CHDP") is an effort by Northern to respond to Northern's abnormally cold service territory. Similarly, Northern mainly supports its CO<sub>2</sub> level by arguing its storage fields introduce free water. Northern is essentially arguing that its system contains unique features that warrant tighter CHDP and CO<sub>2</sub> restrictions than are imposed by the majority of interconnecting pipelines. The policy question before the Commission then is whether gas on the national grid should be treated for the lowest common denominator, thereby spreading the cost to producers, and indirectly but inevitably, to consumers throughout the country or whether Northern or its customers should pay to process gas meeting national standards to satisfy the more restrictive limitations dictated by conditions peculiar to Northern's service territory and storage fields. WPA believes the answer is self-evident. The costs of addressing such local issues should not be separated from the benefits to the system.

The Commission's long-standing cost causation policy dictates that when a "pipeline's compensable services have benefited particular customers to the exclusion of the rest, the associated costs [must be] placed directly on the served customers." *United Gas Pipe Line Co. v. Federal Energy Regulatory Commission*, 649 F.2d 1110, 1115 (5<sup>th</sup> Cir. 1981). *See, Natural Gas Pipeline Co. of America v. Federal Power Commission*, 12 F.P.C. 708 (1953); *Battle Creek Gas Co. v. Federal Power Commission*, 281 F.2d 42 (DC Cir. 1960). Accordingly, **the economic**

**burden of gas quality specifications dictated by peculiar conditions, either in Northern's storage fields or by the colder-than-average region served by Northern's system, should be borne by Northern or its ratepayers who demand such specifications** and not by the rest of the interstate pipeline system. Otherwise producers and pipelines will be left with the choice to either build expensive plants or not ship gas to Northern's system. This is inefficient to say the least. Instead, the Commission should ensure that the decision of how to address the problem is left to those who will both pay the costs and reap the benefits. In this situation, since Northern and its end-users will receive the benefits, they must bear the costs so that they can decide the most efficient way to address these local issues. For example, rather than foist the costs on others, Northern may decide that the best way to deal with the carbon dioxide storage field corrosion problem is to construct an amine plant in its storage areas to remove CO<sub>2</sub>. Northern and its customers may decide that the most cost effective way to handle the CHDP issue is to install a cryogenic plant at a critical location or have heaters at delivery points to protect against liquid fallout.

Additionally, in constructing plants, amine or cryogenic, there are economies of scale such that it may not be economical for a producer in the Rockies or the mid-continent to build a plant for the portion of volumes destined for Northern. Instead, a larger plant built by Northern at a location of its choosing to address its specific quality issues can take advantage of economies of scale. Northern and its customers will choose the most efficient way to address its local issues only if they are required to incur its costs.

Colorado Interstate Gas ("CIG") is a perfect example of a pipeline whose service territory dictates special gas quality specifications. Originally, the Front Range of Colorado was supplied with natural gas produced from the Texas and Oklahoma Panhandles and the Hugoton Field in

Kansas. A significant market shift occurred as natural gas production in the Rockies increased. Because of differing qualities of the gas producing regions, CIG needed to condition the newer supply sources in order for the gas to burn properly and remain interchangeable with gas supplies the Front Range used in the past. To achieve the interchangeability needed for Front Range customers without changing national standards CIG charges its Front Range customers a gas quality conditioning fee. By doing so, CIG ensures that the customers who benefit from the action pay for the action. Treating the gas at the delivery point as opposed to the receipt point also ensures that gas can flow off the CIG system onto the national grid thereby preventing balkanizing of the national grid. The situation on CIG's system is perfectly analogous to the situation Northern is facing and just as CIG charges those who receive the benefit so should Northern.

## **2. Northern's Proposal Frustrates The Ability Of Shippers To Enter Into Firm Gas Supply Contracts.**

Northern's proposed specifications should be rejected because they prevent producers and marketers of Rocky Mountain gas supplies from entering into firm supply contracts with purchasers on the Northern system. Without the ability to enter into firm gas supply contracts, the economic incentives to develop and produce Rocky Mountain gas supplies will be reduced, diminishing future gas supplies and increasing future gas prices for consumers. In *Northern*, the Commission rejected Northern's proposal for this exact reason. *Northern*, 108 FERC ¶ 61,083 at P 24. Specifically, the Commission noted that Northern's proposed standards might prevent "Rocky Mountain producers from continuing to develop and produce this resource area" which "is a vital source [of gas] for mid-American markets." *Id.* The Commission also stated that it has "a statutory obligation to ensure customers access to an adequate supply of gas at reasonable prices." *Id.* The Commission's previous concerns about the Rocky Mountain gas supply are

equally valid today.

Because Rockies gas is high in carbon dioxide, shippers on pipelines delivering gas supplies from the Rocky Mountain region to the Northern system, particularly Rockies Express, Cheyenne Plains and Trailblazer, cannot guarantee that the gas they nominate to Northern will be accepted. Without the ability to guarantee that the gas will be accepted, these shippers will be unable to enter into firm sale contracts with customers on the Northern system. Fortunately for shippers on Rockies Express, Cheyenne Plains and Trailblazer, there are other markets anxious to receive Rocky Mountain gas. That is hardly good news for customers on the Northern system however. The reduced availability of gas supplies to the Northern system (and the reduction in competition that would otherwise be posed by the availability of Rocky Mountain gas supplies) will inevitably lead to higher prices for customers served by the Northern system. As the Commission has previously recognized, it has a statutory obligation to prevent this from happening.

### **3. Northern's Proposal Will Balkanize The National Energy Market.**

Because Northern's proposed gas quality standards are inconsistent with those of the vast majority of interstate pipelines, approval of Northern's standards threatens to balkanize the interstate pipeline grid, a risk that is heightened by Northern's geographic location straddling that grid from south to north through the middle of the country. Thus approving these standards would be contrary to the "Commission's policy of fostering a national energy market."

*Northern*, 108 FERC ¶ 61,083 at P 34.

One example of the inconsistency of Northern's gas standards with those of the national grid is Northern's carbon dioxide standard. While Northern itself admits that the proposed CO<sub>2</sub> specification is more stringent than 13 out of 15 interconnecting pipelines, Northern's Technical

Conference Presentation at p.24, in actuality, Northern's CO<sub>2</sub> specification is more stringent than 14 out of the 15 pipelines. In its presentation at the Technical Conference, Northern listed Florida Gas Transmission, LLC ("FGT") as an interconnecting pipeline with a 1% carbon dioxide specification. Northern's Presentation at p. 24. Northern's assertion, however, is inaccurate. Original Sheet No. 206 of FGT's tariff explicitly identifies the carbon dioxide limit for FGT as 3%. Florida Gas Transmission, FERC Gas Tariff, Original Sheet No. 206. Thus in reality, Northern's carbon dioxide standard is more stringent than 14 of the 15 pipelines interconnecting with Northern.

Northern's oxygen and CHDP standards are also inconsistent with the national grid. Northern's oxygen standard is more stringent than 10 of the 15 pipelines listed on page 25 of Northern's technical conference presentation, and its CHDP safe harbor is more stringent than 14 out of the 15 interconnecting pipelines. Northern's Technical Conference Presentation at p. 44.

As a result of these inconsistencies, at best the national grid will become balkanized and at worst valuable Rocky Mountain gas supplies will be shut in. As an example, both CIG and Trailblazer have a 3% carbon dioxide level while Cheyenne Plains' carbon dioxide level is 2%. Northern's Presentation at p. 24. If the Commission approves Northern's proposal, then these pipelines may be unable to deliver gas from their systems to Northern. In the best case this will result in a balkanized energy market. In the worst case, Northern's reduced carbon dioxide specification could "migrate upstream" to Cheyenne Plains, CIG, Trailblazer and Rockies Express based on these pipelines' perceived need to conform their carbon dioxide specification to the downstream pipeline's carbon dioxide specification. This "domino effect" would have serious implications for all natural gas producers in the Rocky Mountain region.

Furthermore, approving Northern's proposed standards would be contrary to recent

Commission actions certificating new pipeline capacity from the Rocky Mountain region to mid-continent markets. Between Trailblazer, Cheyenne Plains and Rockies Express the Commission has certified nearly three billion cubic feet of new transportation capacity from the Rockies region in the last six years. In approving this capacity, the Commission noted that “Cheyenne Plains’ proposed pipeline project will provide public benefits by providing needed transportation of Rocky Mountain gas supplies to interconnections with existing, underutilized interstate and intrastate gas pipelines serving Mid-continent gas markets.” *Colorado Interstate Gas Company and Cheyenne Plains Gas Pipeline Company*, 105 FERC ¶ 61,095, at P 30 (2003). Similarly, in approving Rockies Express, the Commission stated that the pipeline “will benefit consumers across the nation by providing access to new, competitive supplies of domestic natural gas.” *Rockies Express Pipeline LLC*, 119 FERC ¶ 61,069, at P 40 (2007).

The vital nature of these projects to the national grid is demonstrated by the recent actual level of use of Trailblazer and Cheyenne Plains to deliver gas to Northern. For the seven days ending August 12, 2007, an average of nearly 700,000 MMBtu per day was delivered by these pipelines to Northern (440,000 MMBtu per day (fully 51% of Trailblazer’s capacity) from Trailblazer and 250,000 MMBtu per day (fully 32% of Cheyenne Plains capacity) from Cheyenne Plains). Additionally, Rockies Express has certificated 200,000 MMBtu per day of delivery point capacity for its interconnection with Northern in Gage Nebraska. This receipt point capacity into Northern was fully subscribed during Northern’s recent open season. These very high levels of flow highlight that the Commission was accurate in its prediction of the importance of these projects and of Rockies Mountain region natural gas to the energy supply of the nation. Furthermore, if the Commission approves Northern’s proposal, then not only will the nearly 700,000 MMBtus of gas which flows into Northern’s system from Trailblazer and



Cheyenne Plains need to be treated but the entire capacity of Trailblazer and Cheyenne Plains, over 1,500,000 MMBtu per day, will need to be treated. This would be far more costly than Northern treating much smaller volumes of gas at the injection site. When given the choice between incurring significantly higher costs or shipping elsewhere, upstream pipelines are going to ship elsewhere thereby balkanizing the national grid and harming Northern's customers.

**4. Northern Has Not Met Its Section 4 Burden Of Proof For The Waiver Provision.**

In its Answer, Northern states that any claim that its proposed gas quality requirements would restrict gas supply is "speculative." Northern's Answer at p. 8. Northern argues that its general waiver of most specifications will allow "virtually all gas to flow all of the time" onto its system except when it deviates significantly from Northern's specifications and cannot be blended. *Id.* Northern does not elaborate on when or under what conditions the gas cannot be blended.

Northern's postulation of the issue turns the issue on its head. Northern has the burden under Section 4 to show its proposal is just and reasonable. Without more explanation from Northern on the circumstances involved in the revocation of the general waiver, Northern has not met its burden of showing the proposal is just and reasonable. Northern has not even provided any indication of whether there will be changes in the amounts of gas it takes under the proposed quality specifications. More importantly, when asked how much gas behind the receipt points cited by Northern actually met the more restrictive gas quality specifications, Northern was unable to provide an answer.

**B. NORTHERN'S GAS SPECIFICATIONS MUST BE REJECTED, BECAUSE THEY FAIL TO BALANCE THE NEED FOR SYSTEM INTEGRITY WITH THE COMMISSION'S OBLIGATION TO PROVIDE CONSUMERS WITH ADEQUATE GAS SUPPLIES AT REASONABLE PRICES.**

**1. The Proposed Specifications Will Not Solve The Problem.**

There is no rational basis for applying Northern's proposed CO<sub>2</sub> specifications downstream of Northern's storage fields. Northern's request that the Commission do so is further evidence that Northern's proposal is not designed to solve Northern's storage field corrosion problems. Because Northern's proposed "solution" goes far beyond the scope of the "problems" documented by Northern, Northern's proposal does not satisfy the second requirement set forth in *Northern*. Consequently, the Commission should reject Northern's proposal.

**2. Northern Has Not Shown That Its Proposed CO<sub>2</sub> Standard Is A Cost-Effective Means Of Addressing Corrosion.**

Northern has not shown that lower-cost means of addressing Northern's storage-related corrosion concerns, which would have less adverse impact on the development of new gas supplies, do not exist. In its Answer, Northern states that because carbon dioxide can cause problems throughout the pipeline system the best and most efficient solution is to control carbon dioxide at the source and not at the storage fields. Northern's Answer, p. 4. However, the evidence submitted by Northern in support of its proposal is based on corrosion in the storage fields, not in the pipeline as a whole. Therefore, Northern's reason for rejecting carbon dioxide treatment facilities at its storage fields is without merit.

Northern has also failed to demonstrate that it has adequately considered any of the other alternatives suggested by intervenors to reduce corrosion in Northern's storage wells, such as installation of rudimentary production safeguards such as production tubing strings or tubing liners. As the Commission itself noted in 2004, "It would be economically wasteful to require that enormous sums be spent on gas treatment facilities when more modest solutions such as installing tubing liners would suffice." Northern 108 FERC ¶ 61,083, at P 32.

### **3. Northern's Proposal Is Not Based On System Integrity Concerns.**

In its application, Northern concedes that the proposed 1% carbon dioxide limit will not solve the corrosion problems in Northern's storage fields because of the presence of water in the storage reservoirs. But Northern states that it is willing to accept the 1% limit because it is consistent with the needs of its and its customers' LNG facilities. Northern's Application, p. 11. This admission proves two things. First, Northern does not have the evidence required by the Commission to prove that the 1% CO<sub>2</sub> limit will actually solve the corrosion problems in Northern's storage fields. In fact by its own admission, the 1% limit will not solve those corrosion problems. Second, Northern's true motivation for proposing these specifications is to provide gas supplies that produce operational cost savings (and increased profitability) for Northern's own LNG storage facilities and those of its favored customers. This goal is not a valid basis for the proposed changes under the standards established previously in *Northern*.

Furthermore, because Northern already has mole sieves at its two LNG facilities, Northern's Application, p. 10, it would be more cost effective and have less of an impact on the interstate pipeline grid and upstream gas supplies for Northern simply to upgrade the existing mole sieves to handle gas with higher carbon dioxide concentrations than to treat the entire gas stream to achieve a lower CO<sub>2</sub> content than is generally required for the rest of Northern's system.

### **4. Northern's Reliance On The Commission's Holding in *Columbia Gas Transmission Corporation* Is Misplaced.**

In its application, Northern cites the Commission's approval of Columbia Gas Transmission Corporation's 1.25% carbon dioxide level, *Columbia Gas Transmission Corp.*, 118 FERC ¶ 61,221 (2007) ("*Columbia*"), in support of Northern's proposed 1% seasonal carbon dioxide level. Northern's Application, p. 9. Northern's reliance on *Columbia* is misplaced.

While WPA believes the Commission erred in approving Columbia's carbon dioxide standard, the facts and circumstances in *Columbia* are distinguishable from the present case. In *Columbia*, the Commission was not concerned that the lower carbon dioxide level would balkanize the energy market because: (1) the historical carbon dioxide concentration of the gas on Columbia Gas's system was 0.74% and (2) concerns about shutting in Rocky Mountain gas supplies were too speculative, given that REX-East had not even filed a certificate application at the time. *Id.* at P 93-94. The situation in this proceeding is completely different. First, the gas in Northern's system has traditionally had a significantly higher carbon dioxide concentration. Fifty percent of Northern's gas flow exceeds 1% with some of it exceeding 2%. See Indicated Shipper's Technical Conference Presentation at p.4. Second, unlike in *Columbia*, the Commission has certificated a major interconnection between REX-West and the Northern system at Gage Nebraska. Acceptance of Northern's proposed 1% CO<sub>2</sub> limit therefore presents a clear and present danger of shutting in large supplies of Rocky Mountain gas supplies or at a minimum balkanizing the interstate pipeline grid so that Rocky Mountain gas supplies do not flow into the Northern system. Given the factual distinctions between Columbia Gas's system and that of Northern, Northern's reliance on *Columbia* is misplaced.

### III. CONCLUSION

The WPA respectfully requests the Commission reject Northern's proposed gas quality standards for failure to meet the technical and policy guidelines set forth in *Northern*.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in these proceedings.

Dated at Washington, D.C., this 14th day of August 2007.

*Nancilee Holland*