BEFORE THE TENNESSEE REGULATORY AUTHORITY AT

NASHVILLE, TENNESSEE

November 28, 2001

IN RE:	)	
	)	
APPLICATION OF NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY, FOR APPROVAL OF A NEGOTIATED GAS REDELIVERY AGREEMENT WITH VISTEON CORPORATION	)))))	DOCKET NO. 01-00530

ORDER APPROVING NEGOTIATED GAS REDELIVERY AGREEMENT

This matter came before the Tennessee Regulatory Authority (the "Authority") at a regularly scheduled Authority Conference held on August 21, 2001, upon the Application (the "Application") of Nashville Gas Company ("Nashville Gas" or the "Company") for Approval of a Negotiated Gas Redelivery Agreement (the "Agreement") with Visteon Corporation ("Visteon").

Nashville Gas's Application

Nashville Gas filed its Application on June 18, 2001. The Application states that the Tennessee Public Service Commission ("TPSC"), by Order dated April 23, 1993 in TPSC Docket No. 90-07401, approved an agreement by which Nashville Gas would transport natural gas to the Ford Motor Company ("Ford") at Ford's Nashville, Tennessee manufacturing plant.[1] That agreement had a five-year term, providing for transportation services to begin on March 1, 1993 and terminate on February 28, 1998.

[1] *See Order*, Tennessee Public Service Commission Docket No. 90-07401 (April 23, 1993).

The Application further states that by Order dated March 12, 1998, in Docket No. 98-00128, the Authority approved an extension of the original agreement from March 1, 1998 through October 31, 2000. The Application notes that in its March 12, 1998 Order, the Authority stated that the transportation agreement was appropriate to retain Ford as a customer, "considering the natural gas usage by the Ford plant and its close proximity to an interstate pipeline."

In addition, the Application states that on September 8, 2000, Piedmont filed a request for approval of an amendment to the original agreement to assign the agreement to Visteon, which is a wholly-owned subsidiary of Ford, and to extend its term until March 31, 2001, and on a month-to-month basis thereafter. On January 24, 2001, the Authority approved the amendment on the condition that any continuation of the Agreement on a month-to-month basis after its scheduled expiration not extend beyond June 30, 2001.[2]

The Application states that on May 15, 2001, Nashville Gas and Visteon executed the Agreement which is the subject of the Application. The Agreement is a new long-term "Gas Redelivery Agreement" which revises the original agreement and extends its term until July 1, 2004. According to the Application, the Agreement contains revisions of the original agreement that provide for a slightly lower reservation fee, but the amount of gas included within the reservation fee is also reduced with the result that the per unit cost is virtually identical. Further, the volumetric charge for gas taken over the amount of gas included in the reservation fee remains the same. The Application concludes that as a result, the total amount paid by Visteon for gas under the Agreement is not expected to be different from the amount that is currently being paid under the original agreement. The

[2] *See Order Approving Amendment to Gas Redelivery Agreement*, Docket No. 00-00824 (January 24, 2001).

Application also states that the amount of revenue expected to be generated from the Agreement is also the same as included in the Company's most recent general rate case and, therefore, approval of the Agreement would not affect the Company's earnings or its return on investment.

In support of its request for Authority approval of the Agreement, the Company cites the reasons for approval of the extension of the original agreement stated in the Authority's Order of March 12, 1999, which are as follows:

> a. Ford has notified Nashville Gas Company that it must reduce its delivered natural gas costs in order to keep its Nashville facility competitive with other glass operations. If Ford were to reduce its operations in Nashville, it could result in layoffs. Any such action would adversely affect the Nashville economy and tax base.
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> b. Ford has already significantly reduced its gas consumption and has indicated that it may have to make further reductions if the delivered cost of gas does not become more competitive. If this were to occur, the fixed cost currently being realized from Ford would be shifted to other Nashville Gas Company customers.
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> c. Ford has advised Nashville Gas Company that if its rates are not reduced to a competitive level, Ford may be forced to seek permanent alternative sources of gas supplies, including direct service from an interstate pipeline. If this were to occur, the shift in costs referred to in the foregoing paragraph would be permanent.[3]

The Application states that "[t]hese same conditions exist today."[4]

Findings and Conclusions

The new long-term, revised Agreement is nearly identical to the agreement between the Company and Ford originally approved by the TPSC and extended by approval of the Authority. Slight changes to the rate structure may result in minor differences in the amount paid by Visteon, but the overall effect of such changes on the Company's revenue

[3] *See Order Approving the Negotiated Gas Redelivery Agreement*, Docket No. 98-00128 (March 12, 1999), pp. 2-3.
[4] Application, Docket No. 01-00530, June 18, 2001.

from Visteon appears to be minimal. The Revised Agreement provides that any resulting margin loss will be shared with the Company's other ratepayers on a ninety percent-ten percent (90% - 10%) basis, with ten percent (10%) of such loss to be borne by the Company. This represents a change from the original agreement, as extended by the Authority's March 12, 1999 Order in Docket No. 98-00128, under which one hundred percent (100%) of any margin loss was to be borne by the Company's other ratepayers. Approval of a sharing of margin loss on the proposed basis is consistent with past Authority actions with respect to other special contracts.[5]

The Application and responses to data requests from the Authority Staff indicate that the conditions supporting approval of the Agreement in the Authority's Orders of March 12, 1999 and January 24, 2001 are still present. The record indicates that the circumstances surrounding the Agreement continue to support a finding that bypass by Visteon is feasible and therefore that a special contract between the Company and Visteon is appropriate.[6] Information supplied by the Company shows that Visteon's gas costs have increased as a percentage of its total costs over the last several years, which indicates even greater economic pressure on Visteon and thus an ever-present threat of bypass.[7] Thus, the

[5] *See Initial Order of the Hearing Officer*, Docket Nos. 98-00338 and 98-00339 (July 6, 1999).

[6] In *In re: Petition of Chattanooga Gas Company for Approval of Large Customer Contract Under Experimental Rule with Archer Daniels Midland Co.*, Docket No. 97-00262, the Authority applied four (4) criteria for approval of a discounted long-term gas transportation service contract for the purpose of avoiding system bypass. The Authority derived these criteria from an Experimental Rule approved for Chattanooga Gas Company, pursuant to which "the Authority must find that: customer bypass is imminent; such bypass would be uneconomic; the contract rates and terms are not unduly preferential or unduly discriminatory; and that the contract rates are the highest that could be negotiated." *Order Disapproving Special Contract Under the Large Customer Contracts Tariff*, Docket No. 97-00262 (March 17, 1998), p. 5.

[7] *See* Company Response to Data Request 1, July 17, 2001, p. 2. The Company has stated that operations at Visteon's "Nashville Gas Plant are presently being studied by Glass and Visteon management. No conclusions to that study have been reached and none are expected until at least the end of this year." *Id.*, p. 5. These remarks further indicate that extension of the Company's contract with Visteon is appropriate at this time, given the uncertain future of Visteon's Nashville plant.

rationale for approval stated in the Authority's March 12, 1999 Order in Docket No. 98-00128 continues to apply.

Upon careful consideration of the Application and of the entire record in this matter, the Directors voted unanimously to approve the Application.

IT IS THEREFORE ORDERED THAT:

1. The Application of Nashville Gas Company for approval of a Gas Redelivery Agreement with Visteon Corporation is approved; and

2. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.

Sara Kyle, Chairman

H. Lynn Greer, Jr., Director

Melvin J. Malone, Director

ATTEST:

K. David Waddell, Executive Secretary