BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF CHATTANOOGA GAS COMPANY FOR APPROVAL OF ADJUSTMENT OF ITS RATES AND CHARGES, COMPREHENSIVE RATE DESIGN PROPOSAL, AND REVISED TARIFF	)	DOCKET NO. 06-00175

CONSUMER ADVOCATE'S PHASE 2 ISSUES LIST

Robert E. Cooper, Jr., the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division of the Office of Attorney General ("Consumer Advocate"), respectfully submits this issues list for phase 2 of this case. Attached as an exhibit to this issues list is the affidavit of Dr. Stephen N. Brown and the attachments to the affidavit.

Proposed Conservation and Usage Adjustment

1. Should Chattanooga Gas Company's conservation and usage adjustment be accepted, rejected, modified or replaced?

2. If the conservation and usage adjustment is modified or replaced, how should it be modified or with what should it be replaced?

3. If the conservation and usage adjustment is allowed in any form, should Chattanooga Gas Company be required to reduce its excess pipeline capacity to correspond with the impact of conservation in reducing pipeline capacity needs?

Proposed Energy Conservation Program

4. Should Chattanooga Gas Company's energy conservation program be accepted, rejected, modified or replaced?

5. If the energy and conservation program is modified or replaced, how should it be modified or with what should it be replaced?

6. If the energy conservation program is allowed in any form, should Chattanooga Gas Company be required to reduce its excess pipeline capacity to correspond with the impact of conservation in reducing pipeline capacity needs?

Capacity Release and Related Issues

7. How is Chattanooga Gas Company compensated for the sale, lease, or release of capacity and any other gas supply assets, and is that compensation fair to consumers?

  A. What is the bidding process, and is it fair?

  B. What asset management arrangements or contracts are or have been in place with regard to capacity and any other gas supply assets, and are they fair to consumers?

  C. How are FERC-mandated payments handled, and is the handling fair to consumers?

8. What exactly is the amount of total capacity and other gas supply assets, and what amount of capacity or gas supply assets are available for the sale, lease, or release to third parties or affiliates or divisions of Chattanooga Gas Company?

  A. What is the appropriate level and mix of capacity and other gas supply assets?

  B. What has been the record of capacity and other asset planning in the past?

  C. What are the future plans for capacity and other gas supply assets?

  D. Has Chattanooga Gas Company oversubscribed to storage and capacity assets to handle its jurisdictional requirements?

E. Has Chattanooga Gas Company utilized the appropriate mix of firm transportation, peaking capacity, and storage capacity?

F. Is Chattanooga Gas Company delivering its supply to storage at the appropriate times of the year and at the appropriate cost?

G. What safeguards exist or should exist to guarantee that the customers of Chattanooga Gas are being treated fairly regarding the sales and purchases of natural gas?

9. What is the appropriate relation between Chattanooga Gas Company and Sequent and any other affiliated entity or division related to AGL Holding Company?

A. What process is utilized to ensure that Sequent pays the fair market value for rights to utilize or market the assets paid for by the customers of Chattanooga Gas Company?

B. Should Chattanooga Gas Company be subject to requirements for affiliate transactions similar to those required for Atmos Energy Corporation?

10. Are consumers receiving fair compensation for the assets related to the sale, lease or release of idle gas supply assets and excess capacity for which they have paid?

A. How much money has Sequent paid to Chattanooga Gas Company in recent years for rights to utilize or market assets paid for by the customers of Chattanooga Gas Company?

B. How much money has Sequent made from the assets paid for by the customers of Chattanooga Gas Company in recent years?

C. What safeguards exist or should exist to guarantee that the customers of Chattanooga Gas Company are being treated fairly with regard to excess capacity and storage assets?

11. Should the Tennessee Regulatory Authority impute to Chattanooga Gas Company all or a

portion of the profits Sequent generates through its management of Chattanooga Gas Company's idle gas supply assets and excess capacity?

12. Should Chattanooga Gas Company return to consumers or share with consumers the money it receives from Sequent under the terms of the asset management contract?

Need for Contested Case on Capacity Release and Related Issues

The need for a contested case on capacity release and related issues already has been briefed in TRA docket number 05-00258. The specific facts regarding the specific entities at issue are important, and discovery will be needed to learn the facts of the case. In a rulemaking proceeding without discovery, neither the TRA nor the Consumer Advocate would learn the facts necessary to understand what Chattanooga Gas Company and its affiliate asset manager Sequent are doing with the excess capacity and gas storage assets paid for by consumers. In a rulemaking proceeding without discovery, neither the TRA nor the Consumer Advocate would learn the facts necessary to understand how much money Sequent has been and is making at the expense of the customers of Chattanooga Gas Company. In a rulemaking proceeding without discovery, neither the TRA nor the Consumer Advocate would learn the facts necessary to understand whether consumers are being treated fairly by Chattanooga Gas Company with respect to the excess capacity and gas storage assets paid for by consumers. A contested case on these issues would be an opportunity for the TRA to learn the facts related to issues of serious importance to the customers of Chattanooga Gas Company.

As discussed in the Recommendation of the Hearing Office Regarding the Dismissal of Phase Two and the Need for a Rulemaking to Resolve Asset Management Issues, filed on October 6, 2006, by Director Ron Jones, acting as Hearing Officer, TRA docket number 05-00258, the standards for convening a rulemaking established in *Tennessee Cable Television Association v. Tennessee Public*

Service Commission, 844 S.W.2d 151, 162 (Tenn. App. 1992), are not met on these issues. The Affidavit of Stephen N. Brown, attached as an Exhibit to this Consumer Advocate's Phase 2 Issues List, establishes that there are significant facts specific to Chattanooga Gas Company and its affiliate asset manager Sequent that justify a contested case and that weigh against a rulemaking proceeding. Discovery will be needed to learn what is not necessarily available in the public domain. Given that consumers are required to pay for all of Chattanooga Gas Company's pipeline capacity, even for pipeline capacity that is not used to transport natural gas for their use, the TRA should utilize this opportunity to learn the facts regarding Chattanooga Gas Company's pipeline capacity and related issues.

RESPECTFULLY SUBMITTED,

Steve Butler

STEPHEN R. BUTLER, B.P.R. #14772
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, Tennessee 37202
(615) 741-8722
FAX: (615) 532-2910

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on the parties of record via U.S. Mail on February 9, 2007.

Steve Butler
Stephen R. Butler

#103981

IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	**DOCKET NO. 06-00175**
	)	
PETITION OF CHATTANOOGA GAS COMPANY FOR APPROVAL OF ADJUSTMENT OF ITS RATES AND CHARGES, COMPREHENSIVE RATE DESIGN PROPOSAL, AND REVISED TARIFF	))))	

AFFIDAVIT OF STEPHEN N. BROWN

I, Stephen N. Brown, being duly sworn, depose and say:

1. I am an economist in the Consumer Advocate and Protection Division, Office of the Attorney General and have held this position since 1995. In that capacity, I review utility filings and information relating to rates and rate changes and follow the economic conditions that affect the companies. Also, I assess and evaluate facts for the Consumer Advocate and Protection Division and other entities within the Office of the Attorney General.

2. From 1986 to 1995 I was employed by the Iowa Utilities Board as Chief of the Bureau of Energy Efficiency, Auditing and Research, and Utility Specialist and State Liaison Officer to the U.S. Nuclear Regulatory Commission. From 1984 to 1986, I worked for Houston Lighting & Power as Supervisor of Rate Design. From 1982 to 1984, I worked for Arizona Electric Power Cooperative as a Rate Analyst. From 1979 to 1982, I worked for Tri-State Generation and Transmission Association as Power Requirements Supervisor and Rate Specialist. My work spanned many issues including cost of service studies, rate design issues,

telecommunications issues and matters related to the disposal of nuclear waste.

3. I have an M.S. in Regulatory Economics from the University of Wyoming, an M.S. and Ph.D. from the University of Denver, and a B. A. from Colorado State University.

4. I am providing this affidavit in regard to Phase 2 of the instant proceeding.

5. In particular, I am giving my opinion that there is good reason and ample evidence in this case to proceed with Phase 2 in the manner proposed by the CAPD. My opinion is based not only on my direct testimony, pages 50-58, which I have already provided in this docket and which establishes that Chattanooga Gas Company's contracts are managed in concert with Sequent: My opinion is also based on the exhibits I have attached to this affidavit.

6. The exhibits consist of:

A) The United States Security and Exchange Commission's order of September 28, 2005 captioned "Release No. 35-28038; 70-10304 AGL Resources Inc. Order Authorizing the Acquisition of Nonutility Businesses and Participation in the System Money Pool," said in its Order that "Sequent, LLC ("Sequent"), [is] an indirect, wholly-owned subsidiary company of AGL, is engaged in the optimization of natural gas assets, gas transportation and storage, producer and peaking services and the wholesale marketing of natural gas. Sequent's asset optimization business focuses on capturing value from idle or underutilized natural gas assets..." This helps to show that pipeline capacity that is not used by consumers creates profit potential for Sequent, which is an affiliate of Chattanooga Gas Company. It is important to note that the Chattanooga's idle or underutilized pipeline capacity at issue is paid for entirely by consumers.

B) The Prepared Rebuttal Testimony Of Eileen E. Goldsack dated May 31, 2002 and given on behalf of Atlanta Gas Light in Federal Energy Regulatory Commission Docket No. RP01-245-000, where Ms. Goldsack testified at page 6 that "Sequent Energy Marketing, L.P. manages Atlanta's gas assets pursuant to an agreement entered into by Atlanta and Sequent's predecessor in 1996." This helps to demonstrate that there has been a long-standing relationship between Sequent and the companies that control the pipeline capacity. It also helps to show that Sequent has a long-standing goal of turning the idle capacity that it manages into profit.

C) The Direct Testimony Of James C. Yardley, President of Southern Natural Gas Company, in Federal Energy Regulatory Commission Docket No. RP99-496 and dated August 31, 1999, where Mr. Yardley testified at pages 9 and 10: "Southern expects intense competitive pressure as marketers strive to reduce their costs by retaining or causing Atlanta to retain no more FT than is absolutely necessary...A number of marketers... have stated that Atlanta has too much firm transportation capacity under contract." This helps to show that Chattanooga Gas Company, as an affiliate of Atlanta Gas Light Company, also might have too much firm transportation, especially considering the admitted impact of conservation on natural gas use. It should be noted that Chattanooga Gas Company was a subsidiary of Atlanta Gas Light Company before the AGL Holding Company was formed in 2000.

D) The Request For Rehearing of The Alabama Municipal Distributors Group et. al in Federal Energy Regulatory Commission Docket No. CP02-1-002 and dated October 17, 2002 where the petitioners argued at page 13 that "The risk of capacity turnback was for Southern a driving force underlying the settlement approved in Docket No. RP99-496. All of Southern's customers were provided a significant rate reduction below current rates in exchange for a commitment to extend their contracts until October 31,2005. In addition, Atlanta Gas Light Company ("Atlanta"), historically the largest customer on the system, was provided with several sizeable discounts that dwarfed any other discount provided by the settlement. See e.g. March 10,2000 Offer of Settlement, Article V, Section 7 of the Stipulation and Agreement in Docket No. RP99-496." This tends to show that Atlanta, an affiliate of Chattanooga Gas Company that also utilizes Sequent to manage its capacity assets, chose to keep large amounts of capacity when given the choice. Sequent turns the idle capacity into profits.

E) The Direct Testimony Of Glenn A. Sheffield, Director of Rates for Southern Natural Gas Company, in Federal Energy Regulatory Commission Docket No. RP04-523 and dated August 20, 2004 where Mr. Sheffield testified at pages 38 and 39 that: "...Southern [is] at significant risk of turnback...approximately 31% of Southern's firm transportation contracts, measured by contract demand, will come up for renewal before the end of 2005." This tends to show a continuing thread from the testimony of James C. Yardley from (C) above that Southern Natural Gas Company was concerned recently about the potential problem of oversubscription to pipeline capacity and the possibility of significant turnback of the capacity for firm transportation.

F) The Initial Post-Technical Conference Comments of Atlanta Gas Light Company and Chattanooga Gas Company in Federal Energy Regulatory Commission Docket No. RP04-523 and dated January 7, 2005 where at pages 3 and 4 the companies state their opposition to changes in Southern's General Terms and Conditions Southern's regarding "PSC-Out" language in Southern's tariff, a copy of which appears in my direct testimony, page 56. This shows that Chattanooga Gas Company wanted to preserve its ability to drop contracts for pipeline capacity within 90 days if a state regulatory authority ordered it to reduce its firm transportation assets. Chattanooga Gas Company did not want to be locked into a 24-month notice requirement as proposed by the pipeline. This helps to show that Chattanooga Gas Company has at least considered the possibility that a state commission, such as the Tennessee Regulatory Authority, could conclude that Chattanooga Gas Company is subscribing to too much firm transportation capacity.

G) Southern's Offer of Settlement in Federal Energy Regulatory Commission Docket No. RP04-523 and dated April 29, 2005 where at page 12 Southern offers the parties the opportunity to extend contracts through August 31, 2010. This is the same 5-year approach as referenced above in (D). This helps to show that Chattanooga Gas Company and all other customers of Southern had an opportunity to extend their firm transportation contracts.

H) The Initial Comments of Atlanta Gas Light Company and Chattanooga Gas Company In Support Of Offer Of Settlement in Federal Energy Regulatory Commission Docket No. RP04-523 and dated May 19, 2005 where at page 1 the companies state their support of Southern's Offer. This tends to show that Chattanooga Gas Company has the same interests as Atlanta Gas Light Company in extending the firm transportation contracts. Both company's assets are managed by Sequent, which makes profits from idle assets.

I) Southern's Offer of Settlement in Federal Energy Regulatory Commission Docket No. RP04-523, and dated April 29, 2005 where at page 13 Southern writes that "Appendix D hereto lists shippers that have elected in writing not to extend all or a portion of one or more of their firm contracts." This shows that some companies chose not to extend their contracts for firm transportation.

J) Appendix D of Southern's Offer lists Tennessee Municipalities and Utility Districts that, unlike Chattanooga Gas, chose not to extend firm transportation contracts. The amount of daily firm transportation capacity which the municipalities chose to discontinue is also listed:

Jefferson-Cocke County Utility District	350
Knoxville Utilities Board	10,000
Middle Tennessee Natural Gas Utility District	1,000
Oak Ridge Utility District	100
Powell Clinch Utility District	500

This shows that Chattanooga Gas Company did not decline to extend its contracts for firm transportation, unlike other local gas service providers in Tennessee.

K) Transcript of Federal Energy Regulatory Commission Dockets Nos. PL04-17 and AD04-11 "IN THE MATTER OF: STATE OF THE NATURAL GAS INDUSTRY CONFERENCE, STAFF REPORT ON NATURAL GAS STORAGE," dated October 21, 2004 -- at pages 141-147, where at page 142 the representative of the American Gas Association explains his Power Point presentation and states that "The planning focus of any LDC is to optimize its capacity portfolio to meet that load duration curve. We want to do two things. We want to maintain reliable service and we want to meet it at least cost...An optimized portfolio...can be broken into three parts...firm transportation...Storage...[and] peak shaving ... They also are part of close scrutiny by state commissions." This helps to show that it is generally accepted that cost minimization should be part of a local distribution company's supply planning. It also shows that close scrutiny by state commissions is anticipated.

L) The American Gas Association's Power Point Presentation as just described, consisting of 17 pages where CAPD's annotations appear near the bottom of the chart on the left side of page 6. This helps to show that proper least-cost planning includes peak shaving and storage withdrawals. The chart on page 6 also makes clear that when energy conservation or other factors cause the load duration curve to shift downward, there is more idle capacity available for capacity release from firm transportation.

7. The behavior of Chattanooga Gas towards extending firm transportation contracts is clearly different from the behavior of some municipalities and utility districts in Tennessee. To the extent that Chattanooga Gas extends the life of firm transportation contracts while actively participating in the capacity release markets through Sequent's efforts, and where such contract extensions occur without presenting a needs-assessment to the Tennessee Regulatory Authority and receiving the considered approval of the Authority, consumers served by regulated utilities in Tennessee may not have the opportunity to enjoy the benefits that flow to customers served by unregulated utilities, when in the considered judgment of the municipality or the

district, the public interest is served by either not renewing contracts for firm transportation or by reducing the amount of firm transportation. Phase 2 is clearly needed in this docket and it should proceed along the lines suggested CAPD. The Phase 2 issues proposed by the CAPD provide this Authority an opportunity to review issues of great importance to Tennessee consumers.

I swear and affirm that the statements in this affidavit are true and correct.

Stephen N. Brown

STEPHEN N. BROWN
Economist
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, Tennessee 37202
(615) 741-3132

Sworn and subscribed before
me this 2nd day of February, 2007

Emily Knight

NOTARY PUBLIC

My commission expires: Sept. 22, 2007

EMILY KNIGHT
NOTARY PUBLIC AT LARGE
DAVIDSON COUNTY, TENN.
My Commission Expires SEPT. 22, 2007

CERTIFICATE OF SERVICE

The undersigned hereby certifies that true and exact copies of the forgoing documents were delivered via U.S. Mail to the parties of record in this action on the 9th day of February, 2007.

Steve Butler

Stephen R. Butler

103955

EXHIBIT

A

SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-28038; 70-10304)

AGL Resources Inc.

Order Authorizing the Acquisition of Nonutility Businesses and Participation in the System Money Pool

September 28, 2005

AGL Resources Inc. ("AGL"), Atlanta, Georgia, a registered holding company has filed an application-declaration ("Application") with the Securities and Exchange Commission ("Commission") under sections 6(a), 7, 9(a), 10, 11(b) and 12(b) of the Public Utility Holding Company Act of 1935, as amended ("Act") and rule 54 under the Act. On July 27, 2005, the Commission issued notice of the Application (Holding Co. Act Release No. 28004).

AGL requests authority to organize and finance one or more direct or indirect subsidiaries to engage in certain gas- and energy-related nonutility businesses in Canada, Mexico and/or the United States.

I. Background

AGL distributes natural gas to more than 2.2 million end-use customers through public-utility company subsidiaries organized in Georgia (Atlanta Gas Light Company), Tennessee (Chattanooga Gas Company), Virginia (Virginia Natural Gas Inc. and Virginia Gas Distribution Company) and New Jersey (Pivotal Utility Holdings, Inc.). Pivotal Utility Holdings owns and operates utility facilities in New Jersey, Florida and Maryland through the following divisions: Elizabethtown Gas, Florida City Gas, and Elkton Gas.

AGL is also involved in various energy- and gas-related nonutility businesses, including: retail natural gas marketing to end-use customers in Georgia; natural gas asset management and related logistics activities for its own utilities as well as for other non-affiliated companies;

operation of high deliverability underground natural gas storage; and construction and operation of telecommunications conduit and fiber infrastructure within select metropolitan areas. The common stock of AGL is listed on the New York Stock Exchange.

Through various subsidiaries, Sequent, LLC ("Sequent"), an indirect, wholly-owned subsidiary company of AGL, is engaged in the optimization of natural gas assets, gas transportation and storage, producer and peaking services and the wholesale marketing of natural gas. Sequent's asset optimization business focuses on capturing value from idle or underutilized natural gas assets, which are typically amassed by companies via investments in, or contractual rights to, natural gas transportation and storage facilities. Margins are typically created in this business by participating in transactions that balance the needs of varying markets and time horizons. Sequent provides its customers with natural gas from the major producing regions and market hubs primarily in the Eastern and Mid-Continental United States. Sequent also purchases transportation and storage capacity to meet its delivery requirements and customer obligations in the marketplace. Sequent's customers benefit from its logistics expertise and ability to deliver natural gas at prices that are advantageous relative to the other alternatives available to its end-use customers.

II. Requests For Authority

AGL requests authority to acquire interests in energy- and gas-related nonutility businesses operating in Canada, Mexico and/or the U.S ("Foreign Nonutility Businesses").[1] Typically, these investments will be made through one or more direct or indirect subsidiaries of Sequent and funded by acquisitions of equity and debt securities of Foreign Nonutility

---

[1] Rule 58 does not permit the acquisition of these businesses because "substantially all" of their revenues will not be derived from activities within the United States.

Businesses, borrowings from AGL's nonutility money pool by Foreign Nonutility Businesses, and guarantees.[2] AGL will limit its direct and indirect investments in Foreign Nonutility Businesses to an aggregate amount not to exceed $300 million ("Investment Limit") in the form of equity, debt and guarantees, including nonutility money pool borrowings, through February 8, 2006 ("Authorization Period").[3]

The specific nonutility businesses in which AGL seeks authorization to invest include: (1) energy management services and other energy conservation related businesses;[4] (2) the maintenance and monitoring of utility equipment; (3) the provision of utility related or derived

---

[2] The proposed investments would be subject to the limits set forth in Holding Co. Act Release No. 27828, (April 1, 2004). In addition, AGL's public-utility company subsidiaries will not directly or indirectly acquire any Foreign Nonutility Businesses, and they will not provide funding for, extend credit to, or guarantee the obligations of Foreign Nonutility Businesses.

[3] AGL's investments in "gas-related companies" and "energy-related companies" within the meaning of rule 58 are subject to the investment limits under that rule, not to the Investment Limit.

[4] Energy management services include: the marketing, sale, installation, operation and maintenance of various products and services related to energy management and demand-side management, including energy and efficiency audits; meter data management, facility design and process control and enhancements; construction. installation, testing, sales and maintenance of (and training client personnel to operate) energy conservation equipment; design implementation, monitoring and evaluation of energy conservation programs; development and review of architectural, structural and engineering drawings for energy efficiency, design and specification of energy consuming equipment and general advice on programs; the design, construction, installation, testing, sales, operation and maintenance of new and retrofit heating, ventilating, and air conditioning, gas, electrical and power systems, alarm, security, access control and warning systems, motors, pumps, lighting, water, water-purification and plumbing systems, building automation and temperature controls, installation and maintenance of refrigeration systems, building infrastructure wiring supporting voice, video, data and controls networks, environmental monitoring and control, ventilation system calibration and maintenance, piping and fire protection systems. and design, sale, engineering, installation, operation and maintenance of emergency or distributed power generation systems, and related structures, in connection with energy-related needs; and the provision of services and products designed to prevent, control, or mitigate adverse effects of power disturbances on a customer's electrical systems.

software and services; (4) engineering, consulting and technical services, operations and maintenance services: (5) brokering and marketing of natural gas, electricity and other energy commodities and providing incidental related services, such as fuel management, storage and procurement; and (6) oil and gas exploration, development, production, gathering, transportation, storage, processing and marketing activities, and related or incidental activities. AGL is not seeking authority to acquire any assets that would cause any subsidiary to be or become an "electric-utility company" or "gas-utility company," as those terms are defined in sections 2(a)(3) and 2(a)(4) of the Act, respectively. AGL will report its investments in its Canadian and Mexican gas- and energy-related companies in a supplement to its regular quarterly reports filed on Form U-9C-3.

In addition, AGL requests authority for all Foreign Nonutility Businesses to participate as borrowers and lenders in the nonutility money pool authorized by Commission order dated April 1, 2004 (Holding Co. Act Release No. 27828). Participation in the nonutility money pool will include unsecured short-term borrowing, contributing surplus funds, and lending and extending credit to other nonutility money pool participants.

The proposed transaction is subject to rule 54, which provides that, in determining whether to approve certain transactions other than those involving exempt wholesale generators ("EWGs") or foreign utility companies ("FUCOs"), as defined in the Act, the Commission will not consider the effect of the capitalization or earnings of any subsidiary which is an EWG or FUCO if the requirements of rule 53(a), (b) and (c) under the Act are satisfied. AGL states that neither it nor any of its subsidiaries presently has an interest in any EWG or FUCO. Therefore, the requirements of rule 53 are satisfied.

III. Conclusion

AGL estimates that the fees, commission and expenses incurred in connection with the proposed transaction will be approximately $12,000. The company states that no state or federal commission, other than this Commission, has jurisdiction over the proposed transactions.

Due notice of the filing of the Application has been given in the manner prescribed, and no hearing has been requested of or ordered by the Commission. Upon the basis of the facts in the record, it is found that the applicable standards of the Act and rules are satisfied, and that no adverse findings are necessary.

IT IS ORDERED, that the Application, as amended, is granted and permitted to become effective immediately, subject to the terms and conditions contained in rule 24 under the Act.

For the Commission by the Division of Investment Management, pursuant to delegated authority.

Jonathan G. Katz
Secretary

EXHIBIT

B

B
Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#: RP01-245-000

LEBOEUF, LAMB, GREENE & MACRAE
L.L.P.
A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
1875 CONNECTICUT AVENUE, N.W.
WASHINGTON, DC 20009-5728
(202) 986-8000
TELEX: 440274 FACSIMILE: (202) 986-8102

NEW YORK
WASHINGTON, D.C.
ALBANY
BOSTON
DENVER
HARRISBURG
HARTFORD
HOUSTON
JACKSONVILLE
LOS ANGELES
NEWARK
PITTSBURGH
PORTLAND, OR
SALT LAKE CITY
SAN FRANCISCO

LONDON
A LONDON-BASED MULTINATIONAL PARTNERSHIP
PARIS
BRUSSELS
MOSCOW
ALMATY
SÃO PAULO
ASSOCIATED OFFICE
RIYADH
AFFILIATED OFFICE

WRITER'S DIRECT DIAL:
(202) 986-8013

FILED
02 MAY 31 PM 4:47
REGULATORY COMMISSION

May 31, 2002

The Hon. David I. Harfeld
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Transcontinental Gas Pipe Line Corp.,
Docket No. RP01-245-000

Dear Judge Harfeld:

Enclosed for filing with the Commission is the prepared rebuttal testimony of Eileen E. Goldsack on behalf of Atlanta Gas Light Company in the above referenced proceeding.

The undersigned certifies that the foregoing prepared written testimony is being served upon all the parties listed on the Commission's service list for this proceeding. Should you have any questions regarding this filing, please contact the undersigned at (202) 986-8013.

Yours truly,

Elias G. Farrah

Elias G. Farrah
Attorney for Atlanta Gas Light Company

Enclosures

cc: Magalie R. Salas, Secretary FERC
Erin M. Murphy, Law Clerk for Judge Harfeld
All parties

FEDERAL ENERGY REGULATORY COMMISSION
Docket No. RP01-245-000
Hearing Ex. No. AGL-1
Date Identified 7-15-02
Date Admitted 7-15-02

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#: RP01-245-000

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Transcontinental Gas Pipe Line Corporation) Docket No. RP01-245-000

PREPARED REBUTTAL TESTIMONY OF EILEEN E. GOLDSACK ON BEHALF OF ATLANTA GAS LIGHT COMPANY

Q. Please state your name and address?

A. Eileen E. Goldsack, 1219 Caroline Street N.E., Atlanta, Georgia.

Q. Please state your employer and present position.

A. I am employed by AGL Resources, Inc., the holding company of parties to this proceeding; Atlanta Gas Light Company ("AGLC" or "Atlanta") and Virginia Natural Gas, Inc. ("VNG"), as Legal and Policy Advisor.

Q. Have you provided copies of your background and professional experience?

A. Yes. Attachment A contains a summary of my background and experience.

Q. What is the purpose of your rebuttal testimony?

A. My testimony is being filed on behalf of Atlanta and responds to a portion of the prepared direct testimony of Mr. Michael P. Wingo, which was filed on behalf of South Carolina Pipeline Corporation and SCANA Energy Marketing, Inc., (collectively ("SEMI"). Specifically, my testimony refutes Mr. Wingo's proposal that the Commission mandate the conversion of services currently provided to Atlanta by Transco under Part 157 of the Commission's regulations to Part 284 service over Atlanta's objection.

Q. Please summarize your conclusions.

A. Mr. Wingo's proposal should be rejected because: (i) Atlanta is not seeking to convert its Part 157 services to Part 284. Mr. Wingo's proposal is squarely at odds with longstanding and

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#. RP01-245-000

well established Commission Policy against forcing any customer to convert from Part 157 to Part 284 service; (ii) SEMI's ultimate goal of forcing Atlanta to release its capacity on Transco to them is also directly at odds with longstanding Commission policy against forcing a customer to release its capacity to third parties; (iii) the extraordinary relief requested by SEMI is unnecessary since Atlanta has provided them with the use of this capacity to serve customers in Georgia in a manner that is substantially similar to the manner in which they could utilize this capacity if they obtained the release of this capacity which they desire; and (iv) their allegations with respect to Atlanta's marketing affiliate are not only irrelevant, they are false and misleading.

Q. Which Atlanta-Transco service agreements is SEMI seeking to have converted from Part 157 to Part 284 service?

A. SEMI stated on Page 2, Lines 20-23 of Mr. Wingo's prepared testimony that it is seeking conversion of the Part 157 services provided by Transco to Atlanta under Transco's Rate Schedules GSS, LG-A, LSS and SS-1.

Q. Is Atlanta seeking to convert these service agreements from Part 157 to Part 284 service?

A. No.

Q. Has the Commission addressed the conversion of Part 157 to Part 284 service over a shipper's objection?

A. Yes. It is my understanding that the Commission's policy in this regard is well settled. The Commission has held that even the pipeline service provider cannot convert Part 157 services to Part 284 service without the shipper's consent or over the shipper's objection. Simply put, the Commission has not compelled a shipper to convert to Part 284 service. In *Northern*

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#: RP01-245-000

Border Pipeline Company, 81 FERC ¶ 61,402 (1997)("*Northern Border*") the Commission held that:

> Order No. 636 allows for the voluntary abandonment of Part 157 service to Part 284 service, *although a pipeline cannot mandate a shipper to convert its Part 157 service to service under Part 284*. No shipper other than Panhandle has filed in opposition to Northern Border's proposal. Thus, in this case, with the sole exception of the transportation service for which Panhandle is guarantor . . . , the Commission believes that Northern Border's proposal to abandon firm service to PAGUS in order to convert it to Part 284 service is permitted by the public convenience and necessity.
>
> However, the same cannot be said regarding the volumes . . . for which Panhandle remains guarantor in the event of a PAGUS default. Because of Panhandle's guarantor obligation, it stands as the ultimate shipper for its original portion of the . . . capacity. *As discussed above, the Commission will not compel section 7(c) shippers to convert to service under Part 284.* Therefore, we will not force Panhandle to submit to the conversion of the . . . section 7(c) firm transportation service. Northern Border's request to abandon that portion of PAGUS' section 7(c) capacity is denied.

81 FERC at 62,844 (emphasis added).

Q. Has the Commission also addressed attempts by third parties to force a customer to convert to Part 284 Service?

A. Yes. It is my understanding that the Commission has been equally clear that a third party cannot force a conversion to Part 284 if the shippers do not consent to conversion. Applying Commission policy, the judge in *Great Lakes Gas Transmission Limited Partnership*, 70 FERC ¶ 63,001 (1995)(Leibman, J.), *aff'd*, 74 FERC ¶ 61,257 (1996), ruled:

> In urging the presiding judge to require Great Lakes to allocate costs to the [affected] services based on zoned Mcf miles, TransCanada argues that all of the attributes of Part 284 service would be available to ANR and NMU if they were to convert the T rate schedules to Part 284 service. *The short answer to this argument is that ANR and NMU have chosen not to convert and do not want to be forced to convert. . . . While the Commission has encouraged customers to convert from Part 157 service to Part 284 service, it has not required such conversions, and it has maintained the differences between these classes of service.*

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#· RP01-245-000

70 FERC at 65,013 (emphasis added). The Commission expressly affirmed the judge on this point. 74 FERC at 61,856-57. Thus, there is no question that SEMI cannot seek to compel the conversion of Atlanta's Part 157 services when it is clear that Atlanta does not consent to such conversion.

Q. Has the Commission addressed the issue of whether a Shipper can be forced to release capacity once service has been converted to Part 284 service?

A. Yes. It is my understanding that Commission policy is equally clear that Atlanta cannot be forced to release its capacity against its will even if the service was converted to Part 284 service. For example, in *Southern California Edison Company v. Southern California Gas Company*, 79 FERC ¶ 61,157, *reh'g denied*, 80 FERC ¶ 61,390 (1997), the Commission denied a complaint that would have required the release of capacity against the wishes of the capacity holder, Southern California Gas Company ("SoCal Gas"). The Commission stated:

> While the Commission is concerned about the potential for the exercise of market power in the secondary market and issues relating to the most efficient use of existing capacity, *our regulations do not require firm holders of capacity to release their capacity.* If the firm holder decides to release its capacity, however, it is required to do so on a nondiscriminatory basis. We do not find that SoCal Gas has withheld capacity on an unduly discriminatory basis. Since the Commission finds no violation of its regulations, the Commission is dismissing Edison's complaint.

79 FERC at 61,662 (citation omitted).

Q. Does Atlanta make any of the service it receives from Transco available to Marketers in Georgia to serve retail customers in Georgia?

A. Yes. SEMI's request for extraordinary Commission relief is unnecessary in that Atlanta has made its capacity on Transco (provided under Transco Rate Schedules LG-A, LSS,

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#: RP01-245-000

and SS-1) available to Marketers under a state program that allow Marketers like SEMI to utilize this capacity in a manner substantially similar to the way in which they could utilize this capacity if it were released to them on a limited Part 284 basis (just capacity release and the same receipt and delivery points) and they held the capacity on Transco in their own name.

Q. Please describe in more detail Atlanta's state program that makes Transco capacity available to Marketers.

A. Under Atlanta's Georgia Public Service Commission ("GPSC") authorized Parking and Redelivery Service ("PRS") Rate Schedule, Atlanta utilizes its Transco and Cove Point LNG, Inc. ("Cove Point") to: 1) receive gas delivered by the Marketer to Atlanta's citygate; 2) park the gas; and 3) redeliver the gas upon nomination by the Marketer. Atlanta aggregates services it receives from Transco and Cove Point under Rate Schedules LSS, SS-1, LG-A and Rate Schedules FPS-1 and FTS-1 in order to provide PRS to the Marketers in Georgia. Under Rate Schedule PRS, marketers are able to park or redeliver gas based on specified parking and redelivery periods. The parking period is from April 1st through October 31st. The redelivery period is from November 1st through March 31st. These specified periods are based on the physical limitations of the storage services that make up the PRS Rate Schedule. Based upon the parking and redelivery periods, marketers are able to nominate daily on all four-nomination cycles for parking or redelivery service at their discretion to serve either their firm or interruptible market. Additionally, each Marketer owns and manages the inventory in PRS and is allotted its own PRS capacity, parking rights and redelivery rights based on each Marketer's market share of firm demand on Atlanta's system.

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#: RP01-245-000

Q. Do you agree with Mr. Wingo's claim (at page 8) that the PRS service is analogous with the Commissions generic finding in "Order No. 636 where.... pipelines bundled sales structure to be unjust and unreasonable and sought to give pipeline customers direct control over the transportation components of their traditional sales service..."?

A. No, as previously described, Atlanta's PRS is not a bundled sales service as Mr. Wingo may lead you to believe. Quite the contrary, marketers purchase gas and therefore are in control of their gas cost. Marketers also have the discretion to determine the quantity of gas they park into PRS to serve their firm market needs.

Q. How is the Transco GSS service that Atlanta has under contract utilized under the state program?

A. In 1998, in Docket No. 8390-U, the GPSC authorized AGLC to retain a certain level of interstate pipeline assets for system balancing. As a result, the GSS service was retained by AGLC. Atlanta utilizes its retained storage to provide marketers with a no-notice service to balance on a daily basis the Marketers' firm customer loads. The retained storage is also used to balance shippers accounts daily for interruptible demand behind AGLC's system. The GPSC reaffirmed the level of retained storage in September 2001 in Docket No. 14060-U.

Q. Do you agree with Mr. Wingo's assertion that the GPSC found that Atlanta's affiliate utilized this capacity in a manner contrary to that of the Georgia retail customers?

A. No. Atlanta's affiliate, Sequent Energy Marketing, L.P. ("Sequent"), manages Atlanta's gas assets pursuant to an agreement entered into by Atlanta and Sequent's predecessor in 1996. The terms of that agreement and the agreement itself were approved by the GPSC. Recently, Atlanta sought to replace that agreement with a new "Bailment Agreement." In Atlanta's most

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#: RP01-245-000

recent Capacity Supply Plan, the GPSC found that the terms of this new agreement had not received the necessary review and approval. The GPSC merely found that the bailment agreement with Sequent could potentially give rise to a conflict of interest. The GPSC did not find that Atlanta in fact acted in its own self-interest nor did the GPSC preclude subsequent approval of the agreement.

Q. Do you have an opinion concerning Mr. Wingo's assertion that if Atlanta's capacity were released, Marketers could trade among themselves and optimize the use of storage capacity?

A. Yes.

Q. What is that opinion?

A. Pursuant to Rate Schedule PRS, Marketers are free to transfer inventory amongst themselves or sell the inventory to other parties on any given day. The inventory in PRS is owned and managed by each individual Marketer and allows them the opportunity to optimize the use of storage inventory and take advantage of arbitrage opportunities when they arise.

Q. Does this conclude your testimony?

A. Yes.

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#: RP01-245-000

Attachment A

EILEEN E. GOLDSACK

Educational Background and Professional Experience

Educational Background

Ms. Goldsack graduated from Mercer University in 1979 with a Bachelors of Science Degree in Mathematics. Mr. Goldsack also graduated second in her class from Atlanta Law School while working full time with Atlanta Gas Light Company ("AGLC").

Professional Experience

In 1980 Ms. Goldsack began her career with AGLC as a Utility Analyst in the rate department. Ms. Goldsack's responsibilities included the preparation of rate design analysis for use in the company's rate case applications before the Georgia Public Service Commission ("GPSC"). In 1986 she assumed the position of Senior Rate Analyst, where she acted as project leader in the planning, scheduling and preparation of rate design and cost of service analyses for use in AGLC's rate case applications before the GPSC.

In 1988, Ms Goldsack became Director, Federal Regulatory Affairs responsible for the corporate planning, review, and administration of all federal regulatory matters as they affect AGLC and other subsidiaries of AGL Resources, Inc. (the "Company"). She represents the Company in proceedings before the Federal Energy Regulatory Commission ("FERC") and when necessary advocates positions at FERC as a witness in hearings before FERC Administrative Law Judges. Ms. Goldsack also coordinates corporate communications and acts as a liaison with numerous Company departments with respect to federal regulatory issues. In January 2001, she moved to the Legal Department where she also assumed responsibility for the oversight of state regulatory matters. In September 2001, she became Legal and Policy Advisor responsible the formulation and implementation of policy and legal positions on major federal and state regulatory initiatives that directly impact the Company's future business opportunities.

Unofficial FERC-Generated PDF of 20030110-0202 Received by FERC OSEC 07/15/2002 in Docket#. RP01-245-000

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Transcontinental Gas Pipe Line Corporation **Docket No. RP01-245-000**

State of Georgia)
) SS:
County of)

AFFIDAVIT of EILEEN E. GOLDSACK

I, Eileen E. Goldsack, being duly sworn, depose and state that the contents of the foregoing Prepared Rebuttal Testimony of Eileen E. Goldsack are true, correct, accurate and complete to the best of my knowledge, information, and belief.

Eileen E. Goldsack

Subscribed and sworn to before me this 29th day of May, 2002.

Notary Public

Notary Public, Fulton County, Georgia
My Commission Expires September 20, 2005

My Commission expires: ____________

EXHIBIT

C

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southern Natural Gas Company) Docket No. RP99-___-000

**PREPARED DIRECT TESTIMONY
OF
JAMES C. YARDLEY
ON BEHALF OF
SOUTHERN NATURAL GAS COMPANY**

Q. Please state your name, position, and business address.

A. My name is James C. Yardley. I am President of Southern Natural Gas Company ("Southern"). My business address is the AmSouth-Sonat Tower, 1900 5th Avenue North, Birmingham, Alabama 35203.

Q. Please briefly state your education and professional background.

A. I graduated from Duke University in 1973 with an undergraduate degree in Economics. I subsequently received an MBA from Harvard Business School in 1978. I was employed by Southern beginning in 1978 in the Corporate Planning Department. I subsequently held various management and senior management positions in the Planning, Marketing, Business Development, and Executive areas of Southern and other Sonat Inc. subsidiaries prior to appointment to my present position in May 1998.

Q. What are your responsibilities as President of Southern?

A. I am responsible for the overall business and operations of Southern, including the development and execution of Southern's strategies, the provision of reliable transportation services to our customers, and the pursuit of new business opportunities.

Q. What is the purpose of your direct testimony in this case?

A. I will testify concerning the business risks faced by Southern that form a basis for Southern's proposed rate of return on equity.

Q. How do you define business risk?

A. Business risk refers generally to the uncertainty associated with the business or operations of a company. Business risk is all risk other than financial. It encompasses all operating factors – productivity, competition, markets, and regulations – that bear on an adequate return on equity for the firm.

Q. Please summarize your direct testimony.

A. In my view, Southern faces significant business uncertainty relating to the potential for underrecovery of costs due primarily to the risks of (1) contract terminations, (2) the significant level of contracts that come up for renewal by 2002, (3) the relatively short average remaining term of its long-term contracts and the even shorter terms of its contract renewals, and (4) the intense and increasing level of pipeline competition in its major market areas. These risks have recently increased with the substantial LDC unbundling on Southern's system. Because of these factors, Southern's business risks are higher than the average pipeline.

Q. Would you briefly describe Southern's pipeline system?

A. Southern is a regional pipeline serving the Southeastern United States. This is an area characterized by cold winters of relatively brief duration when compared to the longer winters of the mid-Atlantic, northeastern, and mid-western gas markets. Southern has firm capacity into its market areas of approximately 2.5 Bcf per day. Our major markets are in the states of Alabama, Georgia, and South Carolina, which account for nearly 90% of Southern's transportation and storage revenues.

Significantly, Southern's pipeline is configured in a distribution-like system as shown in the map attached as Exhibit No. SNG- _____ (JCY-2) to this testimony. Our system is designed to provide multiple delivery points to many of our customers. For example, Southern provides deliveries to Atlanta Gas Light Company (AGLC), its largest customer, at 56 delivery points throughout the state of Georgia. Similarly, we provide delivery to Alabama Gas Corporation, our second largest customer, at 75 delivery points located throughout the state of Alabama. Additionally, Southern provides deliveries to the Municipal Gas Authority of Georgia and its member cities at 23 delivery points throughout the state of Georgia. Many of Southern's other customers also receive service at multiple delivery points.

Q. What are the competitive implications of Southern's geographic location and pipeline configuration?

A. There are several. First, Southern's average system utilization is lower than its principal competitors. While Southern's system terminates in Tennessee and South Carolina, its competitors extend into the northeast where they serve areas of more sustained cold weather.

Second, since our storage fields are located in the production area, we do not enjoy – as some of our competitors do – the continued market area throughput to fill up market area storage. Thus, while Southern's annual utilization rate has been increasing (approximately 72% in 1998), it is below the load factor of our biggest competitor, Transcontinental Gas Pipeline ("Transco"), which is a long-line northeast pipe that has an annual utilization rate of more than 85% into its market area.

The third competitive implication of Southern's distribution-like configuration is that we have higher per-unit fixed costs, when compared to long-line transmission systems, related to the distribution-like nature of our system. In essence, rather than have our customers build their distribution systems to our mainlines, we have invested substantial capital to build our pipeline system to serve our customers at a myriad of delivery points throughout a wide geographic area. While this configuration provides a valuable service to our customers, it also entails substantial additional capital and operating and maintenance costs when compared on a unit of throughput basis with major long-line pipelines. Primarily as a result of these factors, Southern's principal pipeline competitor, Transco, has significantly lower filed rates than Southern in its major market areas as set forth below:

FT Reservation Charges
$/Dth

	Alabama	Georgia	South Carolina
Transco (from Transco Station 85/ Mobile Bay line)	$5.18	$5.18	$7.79
Southern (current settlement rates)	$8.62	$11.37	$11.37

Q. Has Transco evidenced a willingness to expand its pipeline into the Southeastern United States?

A. In the five years since the end of Southern's last rate case, Transco has announced or placed in service six pipeline expansions, with total firm capacity of over 600,000 mcf/d into the Southeast and Mid-Atlantic states. These expansions included an additional 400,000 mcf/d of firm service into Alabama, Georgia, and South Carolina, Southern's major market areas. Southern's shippers have often subscribed for Transco's competing expansions. We expect this trend to continue as indicated in Transco's April 15, 1999 announcement of a proposed Sundance Expansion to serve markets in Alabama, Georgia, and the Carolinas. What this means for Southern is continuing competitive pressures to provide rate discounts to retain existing loads as well as increasing risk of loss of existing loads to new expansion projects.

Q. Has competition with Transco intensified in recent years?

A. Yes, it has. By shifting some of its expansion costs to its firm shippers in the Mid-Atlantic and Northeastern states, Transco has been able to aggressively expand its pipeline to serve additional Southeast markets in the last several years. Transco's recent SouthCoast Expansion Project, for example, which provides an additional 61,600 dth/d of firm transportation service to AGLC, is priced on a rolled-in rate basis. Transco has recently announced that it will seek rolled-in rates for its proposed Sundance expansion into the Southeast.

By contrast, many of Transco's earlier system expansions were priced on an incremental rate basis. For example, Transco's SunBelt Project, which was placed in service in 1997, provided an additional 75,700 mcf/d of firm transportation service to South Carolina Pipeline at a weighted average incremental reservation rate of approximately $12.30/dth. Transco has recently announced its intention to propose roll-in of the SunBelt Project in Transco's next general rate case. See Answer of Transcontinental Gas Pipe Line Corporation to Comments, Requests for Conditions and Protests filed June 24, 1999, in *Transcontinental Gas Pipe Line Corp.*, Docket No. CP99-392-000, p. 9. The rolled-in rate to South Carolina Pipeline, Southern's third largest customer, is likely to be in the range of $9.50 to $10.00/dth.

Q. Are there other pipeline competitors in Southern's major markets?

A. Yes, there are. A number of Southern's pipeline competitors are shown on the map attached as Exhibit No. SNG-_____ (JCY-3) to this testimony. East Tennessee Natural Gas currently provides approximately 45,000 mcf/d to Chattanooga Gas Company in Tennessee and 59,000 mcf/d to AGLC in northwest Georgia. In addition, Columbia Gulf Transmission and MCN Energy Group Inc. announced in April 1999 an open season offering of up to 250,000 dth/d of capacity in the Volunteer Pipeline, a proposed new pipeline to extend from an interconnection with Midwestern Gas Transmission near Portland, Tennessee to an interconnection with AGLC near Chattanooga, Tennessee to serve markets in Georgia and the Southeast. Finally, in 1997, AGL Resources, Inc. and Transco announced a joint venture for a new pipeline, called the Cumberland Pipeline, to provide additional service from Transco's interstate pipeline into the northern Atlanta metro region and northern Georgia. While this project ultimately did not go in service, it is indicative of the continued high-level interest by existing and potential pipeline competitors to provide additional gas service into the Southeast.

Other competitors include Florida Gas Transmission Company (FGT) and Koch Gateway Pipeline Company (Koch), which currently provides pipeline service in southeast Alabama. Significantly, FGT's western division reservation rate of $2.44/dth extends through southern Alabama to the Alabama-Florida state line, where FGT's market area rate zone begins. Similarly, Koch's FT reservation rate in southeast Alabama is $5.84/dth. Both of these rates compare favorably with Southern's current settlement Zone 2 FT reservation rate of $8.62/dth. Other potential competitors include Duke Energy, which has announced plans to build the Sawgrass Energy Transmission System from southeastern Alabama, across Mobile Bay, and through the Florida panhandle into peninsular Florida.

Q. Please describe Southern's transportation contracts.

A. Southern is currently fully subscribed in its major market areas (Zones 2 and 3). By the end of 2002, approximately 42% of our existing firm contracts (measured by transportation demands) will come up for renewal as shown in Exhibit No. SNG-_____ (JCY-4). The weighted average remaining term of Southern's long-term firm transportation contracts is only 4.8 years (as of March 1, 2000). Exhibit No. SNG-_____ (JCY-5). This compares with an average remaining term for U.S. pipelines in excess of 8 years for all firm contracts, and in excess of 10 years for long-term firm contracts. Energy Information Administration, *Natural Gas 1998: Issues and Trends*, pp. 132-133 (June 1999). With the level of competition from other pipelines, Southern will face strong challenges to maintain its existing load. This is evidence of the high level of business risk that Southern faces.

Q. What other factors affect the recontracting risk that Southern faces?

A. AGLC is Southern's largest customer, representing approximately 40% of Southern's total revenues. By October 1999, AGLC will have completely unbundled its system and exited the gas merchant function. This unbundling, which was initiated following the passage of legislation in Georgia in 1997, has proceeded at a pace that has been unprecedented in the industry. Indeed, AGLC will be the largest, fully unbundled LDC in the nation by October.

Southern has contracts with AGLC for over 600,000 Mcf/d of firm transportation demand which come up for renewal in August 2002. What AGLC's unbundling means for Southern is that the future level of AGLC's transportation contracts and the term of those contracts are very uncertain. As the American Gas Association recently observed in assessing the impact of state unbundling on LDC contracting decisions:

> Uncertainty about the future level of demand, who their customers will be, and the potential treatment of stranded costs makes many LDCs reluctant to contractually commit to [pipeline] capacity for any significant period of time.

American Gas Association, *The Changing Nature of Pipeline Capacity Contracts and the Potential for Future Capacity Turnback by Local Distribution Companies, January 1998,* p.15.

Q. Does AGLC's unbundling have other effects on Southern?

A. Yes. Not only is the overall level of FT service likely to change, but also the type of services which marketers utilize to provide gas service to the end-use customers. Thus, Southern expects intense competitive pressures as marketers strive to reduce their costs by retaining (or causing AGLC to retain) no more FT than is absolutely necessary, and substituting other services, such as capacity release and IT, wherever possible. In addition, Southern will face additional competition from the marketers themselves, who can rebundle transportation and storage services on several pipelines with the gas commodity to provide a delivered market area service, often with greater flexibility in price and terms than the tariff-based services that an interstate pipeline must offer. A number of these marketers, such as SCANA, have publicly stated their views that AGLC has too much firm transportation capacity under contract and that AGLC should no longer hold the level of pipeline firm transportation contracts that are currently subscribed. See, Motion to Intervene and Protests of SCANA Energy Marketing, Inc., p. 5-9, filed May 27, 1999, in *Transcontinental Gas Pipe Line Co.*, Docket No. CP99-392. This means even greater competitive and decontracting pressures for Southern which further exacerbate Southern's business risks.

Q. But isn't the recontracting risk mitigated by the growing demand for gas in the Southern's major markets?

A. Only to some extent. It is true that gas demand in the Southern's major markets (Alabama, Georgia, and South Carolina) is growing at a rate faster than the national average (an average annual rate of 3.1% over the last 10 years compared to 2.6% nationally). Energy Information Administration, *Historical Natural Gas Annual 1930 through 1997*, pp. 230, 250. Southern has been fortunate to secure a portion of that growth through market expansions. But due to intense pipeline competition as described above, Southern faces a decreasing likelihood that it will be able to continue to capture a meaningful portion of the market growth, or that it will be able to retain the existing level of business on its pipeline.

As I have previously stated, approximately 42% of Southern's current long-term FT contracts will expire by the end of 2002. The conditions in its markets make the renewal of these contracts far from certain. And Southern's experience indicates that most renewals will be for relatively short terms. Failure to renew or resubscribe even 10% of the contracts that end by 2002 could mean an annual reservation revenue loss to Southern of as much as $17.5 million. These recontracting risks are particularly acute in light of the structural, cost, and rate differences between Southern, a distribution-like system, and Transco, a long-line pipeline with whom we compete.

Q. Does cost-of-service rate regulation mitigate the pipeline's financial risks of turnback?

A. No. In assessing the business risks that Southern faces, it should be noted that the FERC has not insured full-cost recovery for interstate pipelines that have faced significant capacity turnbacks from current customers. Rather, FERC's approach in the rate cases of El Paso Natural Gas Company, Transwestern Pipeline Company, and Natural Gas Pipeline Company of America has been to encourage pipelines to remarket turnback capacity. Regardless of the merits of FERC's position, the agency has nonetheless made it clear that pipelines should not expect full recovery of all costs of turnback capacity. As a result, Natural, El Paso, and Transwestern entered into settlements in which the pipelines assumed significant risks of remarketing the turnback capacity. So it is a risk that we take very seriously at Southern.

Q. How does Southern's average remaining contract life compare with the depreciable life of its pipeline system?

A. Under the FERC's approach to turnback capacity and its cost-of-service ratemaking, Southern has no assurance that it will be able to fully recover the cost of its facilities. This is because depreciation rates are generally not set based on the life of the contracts.

The weighted average life of Southern's firm transportation contracts is 4.8 years (as of March 1, 2000). Yet, Southern's pipeline transmission facilities, which comprise the bulk of its rate base, are depreciated over a 50 year period based on a 2% composite annual depreciation rate that is applied to gross plant. As Ms. Hardy's testimony indicates, Southern's net plant is approximately $1.1 billion. At an annual depreciation and amortization expense of approximately $50 million, which Southern proposes in this rate proceeding (see Exhibit No. SNG-_____ (TSH-2) p. 2), Southern's pipeline system will have a depreciable life of approximately 22 years. The significant gap between Southern's remaining average firm transportation contract life of only 4.8 years and its remaining pipeline depreciable life of 22 years represents a very substantial business risk. Looking forward, Southern's investors face approximately 17.2 years of depreciation expense and fixed cost recovery not covered by contracted revenues.

Q. Is the risk of remarketing turnback capacity unique to Southern?

A. No, but I believe it is more significant for Southern than other pipelines in general for several reasons. First, the average remaining term of Southern's long-term firm contracts is only 4.8 years – less than half of the national average, as I've explained. Second, AGLC's unbundling has progressed faster and farther than any other state LDC unbundling in the country. AGLC will be completely unbundled and out of the merchant function within the next two months. This will result in additional pressures by retail marketers – who have clearly indicated their views that AGLC has "too much" pipeline FT capacity – for AGLC to reduce the level of FT held and to seek lower cost alternatives. Third, while Southern provides a valuable distribution-like service, its system configuration also results in a higher per unit cost structure than its long-line competitors who are able to cherry pick major loads in Southern's principal market areas. Thus, while other pipelines may face capacity turnback risks, the recontracting risks for Southern are greater than the risks faced by other pipelines in general.

Q. Does Southern have other business risks?

A. While the degree of recontracting risk and the level of pipeline competition are the principal risks, Southern also faces a significant risk in recovering the approximately $11.8 million of fixed costs that have been allocated to Southern's interruptible transportation service. As described in Mr. Outlaw's testimony, capacity release is very competitive with Southern's interruptible transportation (IT) service, and it will present a substantial challenge for Southern to achieve the levels of IT throughput that are necessary to recover the \$11.8 million of fixed costs that are allocated to IT service in this rate filing.

Q. What is your overall assessment of Southern's business risks?

A. Based on Southern's level of recontracting risk, the significant level of contracts that come up for renewal by 2002, the relatively short average remaining term of Southern's long-term firm contracts, and the relatively short terms of its contract renewals, the intense and increasing pipeline competition in Southern's major markets, and the level of cost recovery that is dependent upon IT service, I conclude that Southern's business is of greater risk than the average pipeline.

Q. What measures has Southern taken to respond to the intense pipeline competition in its market area?

A. We have implemented measures to become more productive and efficient in our business and operations. Through these efforts, which included a substantial reengineering of our business processes in 1996-97, we have been able to reduce the number of employees needed to run the pipeline from 1,154 in 1993 to 758 as of April 30, 1999 – a reduction of 34%. We have reduced our combined Operations & Maintenance (O&M) and Administrative & General (A&G) expenses from \$150 million in the 1995 RP93-15 settlement to \$144.5 million in this rate case, even though during that period we have increased salaries to retain and motivate our workforce and have added pipeline expansion facilities of more than $270 million, including approximately 36,000 horsepower of additional compression, which otherwise increase O&M costs.

Q. Does the cost of service in this filing reflect any projected savings related to the proposed merger of El Paso Energy Corporation and Sonat Inc.?

A. No, it does not. Nor does the filing reflect any costs related to the proposed merger or any possible merger-related restructurings. While it is true that El Paso's management has publicly stated that it expects to realize $60 million of undefined cost savings, it must be noted that such savings, if achieved, would occur within a very large organization – of which Southern would represent only a relatively small part. The savings could involve cost reductions within the combined entity's gas and electricity marketing groups, the exploration and development company, the corporate services group, or El Paso's pipelines other than Southern. One would also expect that there will be corresponding restructuring and other charges related to the cost savings. Thus the timing, and the level, of overall net savings, if any, to Southern, is speculative at this time.

Q. What else has Southern done to respond to competitive conditions?

A. In addition to our drive for improved efficiency and productivity, we have responded to market conditions in several ways. First, we have strived to provide safe and reliable service to our customers. These efforts have included the replacement of old 1940s-vintage coupled pipe throughout Southern's system and the replacement of compressor engines at Enterprise, Mississippi. It should be noted that in an independent national survey conducted each year by the Southern Gas Association, Southern has been ranked #1 in safety among all major pipelines for 8 of the last 10 years (Exhibit No. SNG-_____ (JCY-6).

Second, we have discounted our rates where necessary, in our judgment, to meet competition and win or retain markets, as described in Ms. Parker's testimony.

Third, we have selected a rate of return on equity that is slightly below the median cost of equity determined under the FERC's method, even though Southern faces greater than average business risk compared to other pipelines.

Q. Why, given Southern's greater than average business risk, have you selected an equity return that is below the median rate of return on equity established in Dr. Williamson's analysis?

A. We selected the 13.0 percent return on equity based on our need to respond to the current market and competitive conditions. The 13.0 percent return balances Southern's need for an adequate rate of return with our need to recognize market conditions.

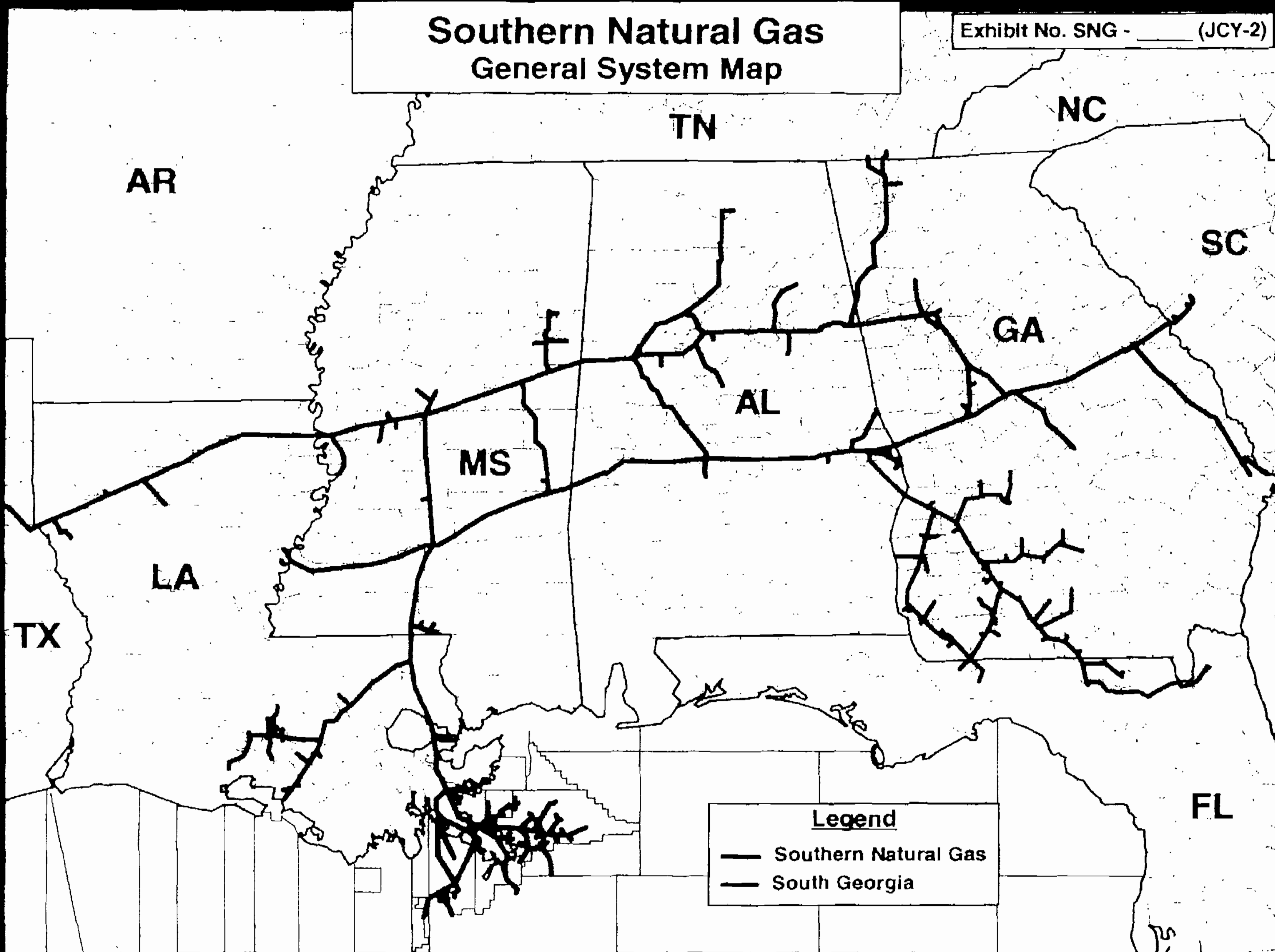
Q. Does this conclude your testimony?

A. Yes.

Exhibit No. SNG - _____ (JCY-2)

Southern Natural Gas

General System Map



SNG Pipeline Competition

Exhibit No. SNG - ______ (JCY-3)

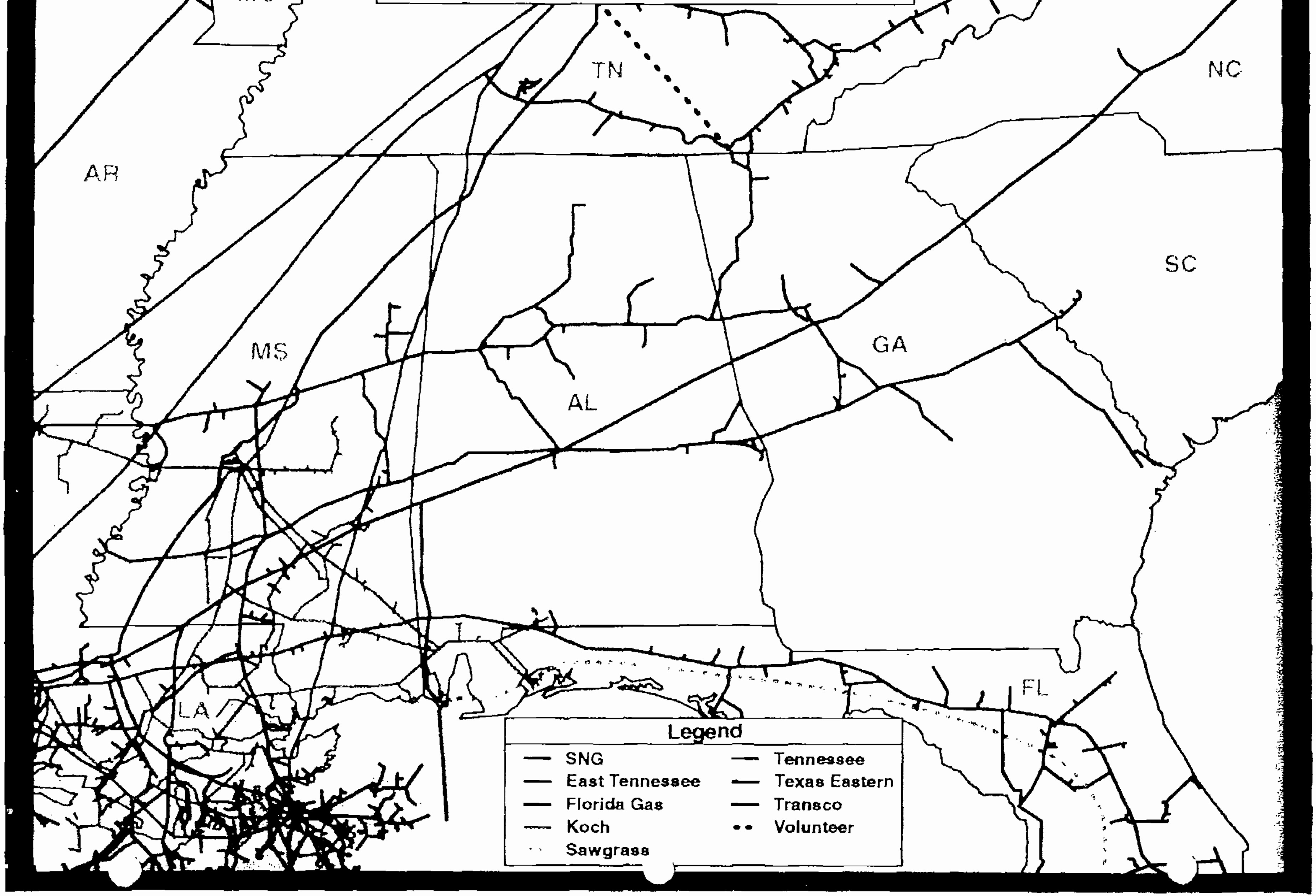
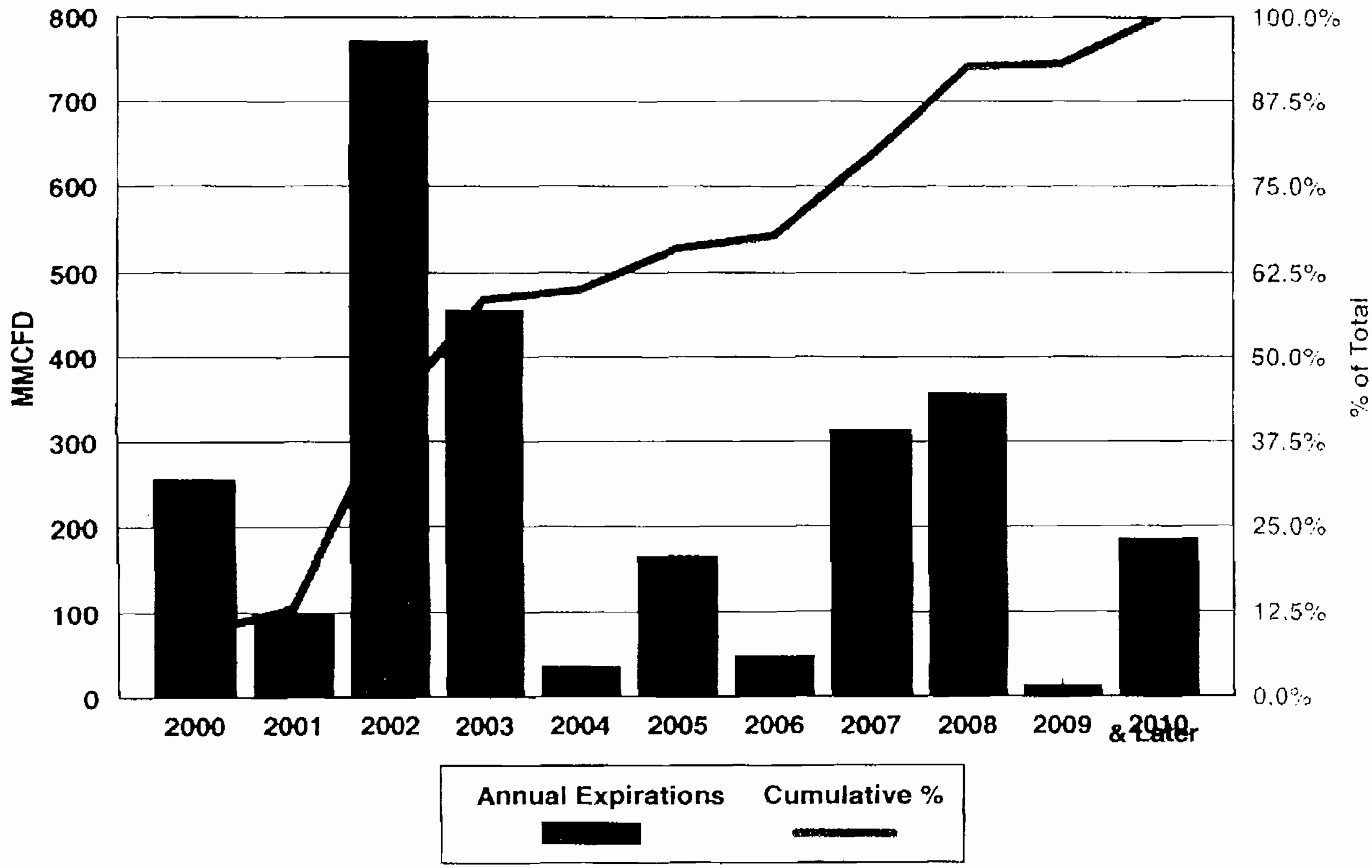


Exhibit No. SNG - _____ (JCY-4)

SNG Firm Transportation Contracts

Yearly Expirations



EXHIBIT

D

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

ORIGINAL

FILED
OFFICE OF THE SECRETARY
02 OCT 17 AM 11:39
FEDERAL ENERGY
REGULATORY COMMISSION

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

In the Matter of	)	
	)	Docket No. CP02-1-002
Southern Natural Gas Company	)	

REQUESTS FOR REHEARING OF THE ALABAMA MUNICIPAL DISTRIBUTORS GROUP, THE MUNICIPAL GAS AUTHORITY OF GEORGIA, AND THE SOUTHEAST ALABAMA GAS DISTRICT

Pursuant to Rule 713 of the Commission's Rules of Practice and Procedure, the Alabama Municipal Distributors Group, the Municipal Gas Authority of Georgia, and The Southeast Alabama Gas District (hereinafter jointly referred to as the "Municipals") seek rehearing of the September 20, 2002 order issued in the above-captioned proceeding ("September 20 Order").

I. CONCISE STATEMENT OF ERRORS

The Municipals set forth below the statement of errors with respect to the September 20 Order:

A. The Commission erred in approving the unduly preferential rates for the proposed service to SCS.

B. The Commission erred in ruling that the discounted rate for SCS will not result in subsidization in contravention of the Commission's Policy Statement.

C. The Commission erred in not following directly applicable precedent to protect existing shippers from paying for higher fuel costs.

The details of the statement of errors are set forth in the Argument section below.

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

II. ARGUMENT

A. The Commission erred in approving the unduly preferential rates for the proposed service to SCS.

1. The Commission failed to justify the particular proposed discounted rates to SCS in contravention of (a) its statutory obligation under Section 7 of the Natural Gas Act to determine that initial rates are in the public interest, (b) judicial mandate that the Commission justify selective discounting and (c) applicable Commission policy and precedents relating to discount adjustments.

Both the Courts and the Commission have stressed the importance of demonstrating the appropriateness of the initial rates that are approved in a section 7 application. The Supreme Court stressed that the Natural Gas Act "requires a most careful scrutiny and responsible reaction to initial price proposals. . . . [Such] proposals must be supported by evidence showing their necessity to the public convenience and necessity' before permanent certificates are issued." Atlantic Refining Co. v. Public Service Com. of N.Y., 360 U.S. 378, 391 (1959). Similarly, the principal focus and emphasis of the Commission's Certification of New Interstate Gas Pipeline Facilities, 88 FERC ¶ 61,227 at 61,748 (1999) (hereinafter, referred to as "Certificate Policy Statement"), order on reh'g, 90 FERC ¶ 61,128 (2000) (hereinafter, referred to as "Rehearing Certificate Policy Statement") was the need to establish the appropriate initial rates for pipeline projects. The Statement also stressed that the applicant has the burden to create the record on which a determination can be made.

The September 20 Order contravenes these mandates by approving, without analysis of the factual contentions raised by Municipals, rates for service to SCS that are significantly less than the tariff rates that Southern charges for the same services. Specifically, the September 20 Order approves (a) an initial $7.00 per dth reservation charge for the first five years under the contract, which is about 85% of the current applicable tariff rate, (b) a formula rate for the

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket# CP02-1-002

remaining 10 years under the contract that can be less than but not exceed the applicable tariff rate and (c) a waiver of the GRI and GSR surcharges. *See* Exhibit E of the Southern-SCS contract contained in Exhibit I of Southern's Application.

There is no dispute that the rates to SCS are preferential. Nevertheless, the September 20 Order rejects Municipals' contention that there has been no showing that the ***particular*** proposed rates are unduly preferential. The totality of the Commission's reasoning, found at Paragraph 40 of the order, is as follows:

> Here, we will not second-guess Southern's business decision to offer a discount since we believe that Southern had a legitimate, competitive reason to offer a discount –i.e., the shipper, SCS, was telling Southern that it would not subscribe to service at a non-discounted rate. Further, it is reasonable to presume the pipeline will always seek the highest reasonable rate from non-affiliated shippers, since it is in its own economic interest to do so. The Municipals have not offered reasons why Southern would not seek the highest possible rate.

The Commission must reverse this ruling which constitutes nothing less than an abdication of its statutory mandate under Section 7 of the Natural Gas Act to determine rates that are required by the public convenience and necessity. The September 20 Order provides no support for the ***particular*** rates proposed. The only basis rooted in fact is that SCS requested a discounted rate. According to the September 20 Order, that fact alone would justify ***any*** initial rate, no matter how deeply discounted, as being required by competitive circumstances. This leap of faith is no substitute for the showing–required under Section 7 of the Act–that the ***particular*** proposed rates were in fact required by the public convenience and necessity. Atlantic Refining, supra.

Moreover, the failure of the Commission to justify the proposed discounted rate also contravenes the repeated judicial recognition that selective discounting must be justified by the

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

particular factual situation. Associated Gas Distributors v. FERC., 824 F.2d 981 at 1011-12 (D.C. Cir. 1987); *see also* Mississippi Valley Gas Company v. FERC, 68 F.3d 503 at 507 (D.C. Cir. 1995).

The rationale of the September 20 Order for failing to fulfill its mandate to justify the particular proposed preferential rates–the presumption that the pipeline will always seek the highest rate from a non-affiliated shipper–is obviously invalid. The presumption is not only unsupported, but directly inconsistent with Commission policy and ***specific findings***, in the context of when a discount adjustment is appropriate, that pipelines do not always provide discounts to non-affiliated shippers for competitive reasons. For example, in its Policy Statement Providing Guidance with Respect to the Designing of Rates, 47 FERC ¶61,295 at 62,057 (1989) order on reh'g, 48 FERC ¶61,122 (1989) ("Rate Design Policy Statement") the Commission stressed its concern that such selective discounts "that have the potential for giving rise to undue discrimination. . . ."

In determining whether a discount is required by competition in deciding whether a discount adjustment is appropriate, the Commission does provide for an ***initial*** presumption that pipelines will always seek the highest rate from a non-affiliated shipper ***if*** the pipeline generally explains the basis for the discounts. Iroquois Gas Transmission System L.P., 84 FERC ¶61,086 at 61,476-77 (1998); and Trunkline Gas Company, 90 FERC ¶61,017 at 61,092-93 (2000). Even then, "once evidence has been introduced raising reasonable questions concerning whether competition in fact required the discounts . . . the pipeline must provide sufficient evidence concerning why it granted the ***specific*** discounts in question. . . ." Id. Indeed, in Iroquois and Trunkline, the Commission specifically rejected proposed discount adjustments based on the

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

failure of the pipeline to show that the ***specific*** discounts to non-affiliated shippers were justified by competition.

The invocation by the September 20 Order of a conclusive presumption that any discounted rate to a non-affiliated shipper is by definition justified is patently inconsistent with the above-discussed Commission policy and precedents.

Indeed, application of these policy and precedents to the pleadings in this case compels the determination that the proposed discounted rates to SCS had not been justified. To begin with, in its certificate application Southern provided no explanation for its proposed discount to SCS other than a one-sentence conclusory assertion that the discount was necessary to induce SCS to locate generation load on Southern. Municipals November 1, 2001 Protest at 4. When the Municipals protested the absence of any explanation for the discount (id.), Southern responded by providing a general explanation of the initial $7/dth reservation rate. Southern's November 16, 2001 Pleading at 7 - 10.

As Municipals demonstrated, this late-filed explanation raised many questions concerning the appropriateness of the $7/dth rate. Municipals' December 6, 2001 Pleading at 4 - 8. For example, Southern's first justification was that Transco's rolled-in rate was lower than Southern's rolled-in rate. Yet, this point was obviously irrelevant to any discount Southern would provide to SCS in light of the fact that the Certificate Policy Statement required Transco to price system expansions on an incremental basis, a fact confirmed by Southern when it acknowledged that Transco had priced all projects on an incremental basis since the issuance of the Certificate Policy Statement. Id. at 4 - 5.

Southern's next attempted justification for the $7/dth rate was that Transco was offering unidentified shippers unidentified negotiated rates, and that Transco offered an undisclosed

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket# CP02-1-002

discount to SCS. Yet, as the Municipals demonstrated, Southern provided only a description of the variables it considered in deriving its $7/dth proposal to SCS, and provided no specific information that would provide ***any*** basis for the Commission to determine whether the $7/dth rate was competitively required. Id. at 6.

Moreover, ***as Southern conceded***, the rate that Transco offered was only one of a number of factors that had to be considered to determine the rate that Southern would be required to offer to make it more economical to locate new generation on Transco or Southern. Southern's November 16, 2001 Pleading at 9 - 10. Indeed, ***as Southern also conceded***, there were economic advantages for the generation site on SCS as compared to Transco–e.g., (1) in Southern's words, that Southern had "an historically verifiable gas price advantage . . . over prices on the Transco system,"(id. at 9), and (2) that there should be savings associated with the location of the plant on the Southern system because the site was already being developed for other SCS generation and there were electric transmission lines already being built to the site (id. at 9 - 10). Yet, Southern did not provide ***any*** explanation of how or the extent to which it took into account the verifiable gas savings of locating a plant on Southern. Moreover, Southern simply dismissed the potentially huge cost savings associated with an existing infrastructure on the Southern system on the unexplained and unsupported assertion that it found no quantifiable competitive advantage. Municipals' December 6, 2001 Pleading at 4 - 7.

As the Municipals also demonstrated, there were other factors that required analysis to determine whether there was need to offer a specific discount to SCS. For example, the generation sites on Southern might be closer to SCS' transmission lines or closer to the ultimate purchasers of the output of the plant than the site on the Transco system. The generation sites on Southern might also present fewer or less significant environmental problems that might be less

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#· CP02-1-002

expensive to address. All of these factors could enable Southern to charge ***more*** than Transco for transportation. Yet, Southern had not provided ***any*** information on ***any*** of these factors; indeed, Southern had not provided such basic information as the name or location of the Transco alternative site. Id. at 6 - 7.

Southern deigned not to provide any response to these numerous questions concerning the reasonableness of the specific discounted rate proposed for service to SCS. Against this backdrop, the ruling of the September 20 Order that the preferential rates are justified, indeed required by the public interest, is manifestly inconsistent with the above-discussed policy and precedents and clearly untenable.

Finally, the ruling of the September 20 Order that Municipals had failed to provide any reason why Southern would not seek the highest rate is ill-founded both factually and legally. It is legally wrong as demonstrated by the above discussed precedent on discount adjustments, and more importantly, because under Section 7 of the Act the burden is on Southern to justify the clearly preferential rates, and not on the Municipals to demonstrate otherwise. It is factually wrong because it disregards the ***repeated*** demonstration of the Municipals that it is unreasonable to conclude that Southern would always seek the highest rate given the diversified interests of SCS and Southern. As the Municipals stressed (November 1, 2001 Protest at 8; fn. reference omitted):

> [T]he companies involved are members of corporate families with highly diversified interests extending well beyond the rates at which Southern will provide transportation to new powerplant load. The discounted transportation rates that Southern has agreed to may be the product of Southern's efforts to attract load, or they may be compensation for commercial arrangements that have nothing to do with transportation on the Southern system.

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

The Municipals repeated this same point at pages 7 - 8 of its December 6, 2001 Supplemental Protest and then concluded (emphasis added):

> Given that Southern can exchange a discounted rate for Southern transportation in return for a consideration in a different and unrelated context, the ***only*** check to ensure that the discounted rates to SCS were the highest that could be obtained is to require Southern to demonstrate this fact. The clear failure of Southern to make this demonstration, despite continued opportunities to do so, confirms that the Commission cannot approve these preferential rates.

2. The Commission contravened the mandate of Section 7 and the requirements of its Certificate Policy Statement to determine whether the discounted rates provide an overall benefit to Southern's customers.

Even assuming that the preferential rates are required to attract the new SCS load, such rates have still not been shown to be required by the public interest. As the Commission is well aware, the rationale for selective discounting is that existing customers of a pipeline would benefit by the reduction in rates to the extent that the discounted shippers also contribute to recovery of the fixed costs of the pipeline. Rate Design Policy Statement, 47 FERC at 62,056.

Both the APGA and the Municipals November 1, 2001 Protests demonstrated that the discount would produce ***detriments*** which the September 20 Order failed to analyze.

Specifically, at pages 3 - 4 of its protest, APGA demonstrated that an increase in power plant load has clear adverse effects on the price of natural gas. As APGA noted, numerous articles in national news publications have confirmed industry common knowledge that the spike in natural gas prices during the winter of 2000- 2001 were caused in notable part by the substantial increase in the demand for natural gas by power plant load. While gas prices have fallen recently from those spectacular price spikes due in large measure to depressed industrial gas demand resulting from a slumping economy, the significant increase in gas usage to meet new electric generation can only have a substantial and adverse impact on the long-term prices of

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

natural gas for all consumers. Virtually every power plant now being constructed relies either primarily or exclusively on natural gas to generate electricity. Most of the predicted growth in gas consumption (up to the oft-heard number of 30+ Tcf) is attributable to the electric power industry. 1/ The adverse effect on price of natural gas that must be paid by Southern's existing customers is a real and significant factor in determining whether it is in the public interest to reduce rates to attract SCS' electric generation load onto its system.

The Municipals November 1, 2001 protest also demonstrated that the discount to SCS would produce another detriment by building new facilities that would exacerbate the capacity turn-back crisis that Southern had discussed at great length and passion in sworn testimony. Municipals protest at 11 - 13. 2/

Obviously, if the preferential rates produce a net detriment to the Southern system, they cannot be approved. This conclusion is mandated not only by logic but by the clearly applicable judicial precedent of Maryland People's Counsel v. FERC, 761 F.2d 768 (D.C. Cir. 1985), and Maryland People's Counsel v. FERC, 761 F.2d 780 (D.C. Cir. 1985). In these decisions, the D.C. Circuit repeatedly struck down certificates that were preferential to certain customers precisely because the Commission had refused to determine whether the particular program presented a net benefit to existing customers.

Moreover, as stressed in the protests of both the Municipals and APGA, the Commission as a separate matter is required under its own Certificate Policy Statement to conduct a broad

---

1/ According to the Gas Technology Institute, gas demand for electric generation was 202 Bcf in 1999 and 653 Bcf in 2000. The Gas Technology Institute forecasts a large growth in demand in 2001, 2002, and 2003. Demand for gas-fired electric generation will be 1,110 Bcf, 1,552 Bcf, and 2,077 Bcf, respectively. Gas Daily, March 1, 2001 at 8.

2/ The exacerbation of the capacity turn back crisis is also discussed infra at 13 - 15.

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

inquiry into precisely the concerns raised in the protests. Municipals' November 1, 2001 Protest at 8; APGA's November 1, 2001 Protest at 5. Indeed, the Certificate Policy Statement requires that the Commission determine that the benefits outweigh the detriments of the proposed project (Certificate Policy Statement, supra, at 61,745), and places the burden on the applicant to create a record that will enable the Commission make this determination (id. at 61,748).

Southern has clearly failed to provide any record–and there is no record–that analyzes the detriments of the proposed discounted rates and weighs them against the benefits. Instead, in contravention of the Commission Certificate Policy Statement, the September 20 Order simply disregarded the demonstration of APGA and the Municipals that there were detriments associated with the proposed discounts to SCS that required analysis.

B. The Commission erred in ruling that the discounted rate for SCS will not result in subsidization in contravention of the Commission's Policy Statement.

As the Municipals stressed at pages 9 - 14 of their November 1, 2001 protest, the discounted rates to SCS will require Southern's existing customers to subsidize the service to SCS, which is in violation of the threshold requirement of the Certificate Policy Statement. 88 FERC at 61,747. At Paragraph 27 of the September 20 Order, the Commission rejected this position by relying on Exhibit N of Southern's amended application that demonstrated, according to the Commission, that the incremental revenues from the project will exceed the incremental costs. As further justification, the Commission cites two precedents when the same protest was raised and rejected. Finally, the September 20 Order notes that issues related to the level of any discount adjustment can be addressed in Southern's next rate case.

These rulings are flawed in several respects. To begin with, the analysis by the September 20 Order of Exhibit N is based on a fundamentally incorrect assumption–that the

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

incremental costs of the facilities are the total costs for the service to be provided. The Certificate Policy Statement rejected this very assumption with respect to inexpensive capacity expansions. According to the Commission, "[i]n that instance, because the existing customers bear the costs of the earlier, more costly construction in their rates, incremental pricing could result in the new customers receiving a subsidy from existing customers because the new customers would not face the full cost of the construction that makes their new service possible." Certificate Policy Statement at 61,746.

Indeed, the Commission has implemented this aspect of the Certificate Policy Statement by requiring the roll-in of inexpensive expansions precisely because it was necessary to avoid subsidization by existing customers. For example, as the Commission ruled in Transwestern Pipeline Company, 90 FERC ¶ 61,032 at 61,162 (2000), reh'g denied, 92 FERC ¶ 61,035 (2000) (emphasis added):

> The Certificate Policy Statement provides that expansion project costs should be rolled into the rates of existing customers in cases where the inexpensive expansion of facilities was made possible because of prior costly construction and rolled-in rates would result in lower rates for the existing customers. . . . Thus, if rolled-in pricing will result in reduced rates for existing customers . . . we will require Transwestern to roll the . . . expansion costs into the rates of its customers in its next rate case. ***Otherwise, the expansion shippers will receive a subsidy from the existing customers.***

Charging a full rolled-in rate for service to SCS is required for precisely this reason. As the Commission well knows, the cost of pipeline construction has increased significantly, particularly since the construction of Southern's mainline facilities. Southern has not found new material for its capacity additions that is less expensive than the depreciated cost of existing facilities. Nor has Southern struck a bargain with contractors to reduce labor costs. The ***only***

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#. CP02-1-002

reason why the revenues of the service to expansion shippers will exceed its incremental costs is that the service depends on existing costlier capacity for which existing customers have paid and are paying. Accordingly, at Paragraph 33 of the September 20 Order the Commission properly required a roll-in of rates to prevent existing customers from subsidizing the project.

Yet, the same order then created a subsidy by allowing Southern to charge less than the rolled-in rates. There simply is no rational basis for the Commission ruling. If rolled-in rates are required to eliminate subsidization by existing customers of the new service, any reduction in rolled-in rates creates the very subsidy that the Policy Statement prohibits.

In the September 20 Order the Commission does not address the merits of Municipals' arguments, but simply refers to precedents in which the Commission rejected the same argument. Yet, at page 11 of their November 1, 2001 protest, the Municipals had already acknowledged the existence of such precedents, but demonstrated that these rulings are inconsistent with the reasoning of the Certificate Policy Statement that charging expansion shippers less than the rolled-in rates constitutes inappropriate subsidization.

While the Municipals have already demonstrated this inconsistency above and in its November 1, 2001 Protest, the following example confirms the inconsistency beyond debate. Assume that a pipeline proposes an incremental rate of $1/dth, which reflects the incremental cost of a new project, and that the existing rolled-in rate is $2/dth. Commission policy requires that the pipeline charge the $2/dth to avoid a subsidy that would otherwise exist because the true cost of the new service includes the cost of existing facilities. Now assume that the pipeline knows of Commission policy and proposes a rolled-in rate, except that it will discount that rate down to $1/dth. The same subsidy exists with respect to the proposed $1/dth rate in either situation–and for the same reason. The cost of the new facilities–which in both examples is the

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

same because the facilities are the same–is immaterial. The service to be provided–which is the same in both examples–would be made possible by existing facilities. Accordingly, the full rolled-in rates would be required to avoid a subsidy to the new service. There is no other logical result.

As the Municipals demonstrated at pages 11 - 13 of their November 1, 2001 protest, the need for the Commission to require SCS to pay full rolled-in rates is compelling when assessed in the context of the Southern system. ***As Southern has stressed***, it will shortly be in a capacity turnback crisis at the expiration of customer contracts. Southern's President, James C. Yardley, testified to this problem at considerable length and passion in Southern's latest rate case in Docket No. RP99-496. *See* Direct Testimony of James C. Yardley at pages 5 - 11. 3/

The risk of capacity turnback was for Southern a driving force underlying the settlement approved in Docket No. RP99-496. All of Southern's customers were provided a significant rate reduction below current rates in exchange for a commitment to extend their contracts until October 31, 2005. In addition, Atlanta Gas Light Company ("Atlanta"), historically the largest customer on the system, was provided with several sizeable discounts that dwarfed any other discount provided by the settlement. *See e.g.* March 10, 2000 Offer of Settlement, Article V, Section 7 of the Stipulation and Agreement in Docket No. RP99-496.

The apparent rationale for these large discounts was the risk that there would be a substantial reduction in the capacity presently contracted for by Atlanta following the transfer of that capacity to marketers. Such a reduction could arise not only if the marketers contracted with Southern's competitors for some of their capacity, but simply because the marketers might desire

---

3/ For convenience, the relevant excerpt of Mr. Yardley's testimony is provided as the Attachment hereto.

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

less capacity. *See e.g.* Direct Testimony of James C. Yardley at pages 8 - 10. (At page 9: "[T]he future level of [Atlanta]'s transportation contracts and the term of those contracts are very uncertain." At page 9: "Southern expects intense competitive pressure as marketers strive to reduce their costs by retaining (or causing [Atlanta] to retain) no more FT than is absolutely necessary." At page 10: "A number of these marketers . . . have stated that [Atlanta] has too much firm transportation capacity under contract and that [Atlanta] should no longer hold the level of pipeline firm transportation contracts that are currently subscribed."

The risk of capacity turnback as of October 2005 applies not only to Atlanta, but to all firm transportation customers of Southern--apart from its captive customers that would bear the burden of spiraling increases in rates due to capacity turnback. This risk clearly heightens the burden on Southern to justify discounts to build additional capacity on the Southern system to be in service as of June, 2003 and May, 2004 for Phase I and Phase II, respectively, i.e., shortly before ***Southern*** anticipates it will be in a capacity turnback crisis.

The discounting of rates for capacity that, consistent with ***Southern's*** fears, may well soon be excess to its needs must be a concern to the Commission, given its emphasis in the Certificate Policy Statement Rehearing that the prohibition against subsidization is necessary to protect against overbuilding (Certificate Policy Statement Rehearing, supra at 61,392; emphasis added):

> The removal of the subsidy is necessary to ensure that the market finds the project is viable because either the pipeline or its expansion shippers are willing to fully fund the project. ***Having lower prices subsidized by existing customers can lead to overbuilding as new customers are willing to subscribe to the capacity only because the price of the capacity is subsidized.***

As the Commission recognized, the willingness of the pipeline to step up to the plate and propose rates for the project without financial subsidy is an important indicator of the market-based need for the project. Certificate Policy Statement, supra at 61,747. Yet, with respect to the capacity that would be built to serve SCS, Southern will ***not*** assume ***any*** risk. If, consistent with Southern's fears, such capacity produces a level of system capacity well in excess to its needs, Southern will simply file system-wide rates reflecting the cost of the excess capacity.

It cannot be overemphasized that Southern's captive customers will bear these additional costs of future unsubscribed capacity and any additional discount adjustments created by the excess capacity induced by Southern's discounted rates to SCS. The inequity to these customers is underscored when it is recalled that under Southern's proposals these same customers will be required to fund the severely discounted rates to SCS. In this manner, Southern's proposed rates contravene another principal goal of the Certificate Policy Statement, which is to protect captive customers. *See* Certificate Policy Statement, supra at 61,744 - 45.

Finally, the Municipals note that the statement in the September 20 Order that issues related to the level of discount adjustment are irrelevant to the Commission's determination as to whether the proposed discounted rates to SCS provide for a subsidization prohibited by the Policy Statement.

C. The Commission erred in not following directly applicable precedent to protect existing shippers from paying for higher fuel costs.

At pages 13 - 14 of our November 1, 2001 protest, the Municipals protested that existing customers are not protected from paying increased fuel costs prompted by the massive generation load of the expansion shippers, citing PG&E Gas Transmission Northwest Corp., 96 FERC ¶61,194 (2001), order on reh'g, 97 FERC ¶61,101 (2001). In these cited orders, in response to a

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

similar protest, the Commission directed the pipeline to establish a surcharge for expansion shippers that would protect against the existing shippers incurring any additional fuel costs. *See also* Kern River Gas Transmission, 96 FERC ¶ 61, 137 (2001). In doing so, the Commission noted that it had made no determination that fuel costs would actually increase, but was obligated by the Certificate Policy Statement to provide such protection.

Southern collects fuel costs by imposition of a fuel retention percent. *See* Sheet Nos. 15 - 18 of Seventh Revised Volume No. 1 of Southern's FERC Gas Tariff. The Certificate Policy Statement is equally applicable here and would likewise require the Commission to protect against any increase in fuel costs either in price or increase in fuel retention percent that would be caused by the proposed facilities or expansion load.

WHEREFORE, for the foregoing reasons, the Municipals request rehearing of the September 20, 2002 order.

Respectfully submitted,

THE ALABAMA MUNICIPAL DISTRIBUTORS GROUP, THE MUNICIPAL GAS AUTHORITY OF GEORGIA, AND THE SOUTHEAST ALABAMA GAS DISTRICT

By ____________________

James R. Choukas-Bradley
Joshua L. Menter
Miller, Balis & O'Neil, P.C.
Suite 700
1140 Nineteenth Street, N.W.
Washington, D.C. 20036

Their Attorneys

October 17, 2002

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each of the parties shown on the official service list compiled by the Secretary of the Commission in this proceeding.

Dated at Washington, D.C., this 17th day of October 2002.

By ______________________

Joshua L. Menter
Miller, Balis & O'Neil, P.C.
Suite 700
1140 Nineteenth Street, N.W.
Washington, D.C. 20036
(202) 296-2960

M:\Clients\19650\FERC\1002rhngcp02-1.wpd

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

ATTACHMENT

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Southern Natural Gas Company) **Docket No. RP99-___-000**

**PREPARED DIRECT TESTIMONY
OF
JAMES C. YARDLEY
ON BEHALF OF
SOUTHERN NATURAL GAS COMPANY**

Q. Please state your name, position, and business address.

A. My name is James C. Yardley. I am President of Southern Natural Gas Company ("Southern"). My business address is the AmSouth-Sonat Tower, 1900 5th Avenue North, Birmingham, Alabama 35203.

Q. Please briefly state your education and professional background.

A. I graduated from Duke University in 1973 with an undergraduate degree in Economics. I subsequently received an MBA from Harvard Business School in 1978. I was employed by Southern beginning in 1978 in the Corporate Planning Department. I subsequently held various management and senior management positions in the Planning, Marketing, Business Development, and Executive areas of Southern and other Sonat Inc. subsidiaries prior to appointment to my present position in May 1998.

Q. What are your responsibilities as President of Southern?

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

pipelines. Primarily as a result of these factors, Southern's principal pipeline competitor, Transco, has significantly lower filed rates than Southern in its major market areas as set forth below:

FT Reservation Charges
$/Dth

	Alabama	Georgia	South Carolina
Transco (from Transco Station 85/ Mobile Bay line)	$5.18	$5.18	$7.79
Southern (current settlement rates)	$8.62	$11.37	$11.37

Q. Has Transco evidenced a willingness to expand its pipeline into the Southeastern United States?

A. In the five years since the end of Southern's last rate case, Transco has announced or placed in service six pipeline expansions, with total firm capacity of over 600,000 mcf/d into the Southeast and Mid-Atlantic states. These expansions included an additional 400,000 mcf/d of firm service into Alabama, Georgia, and South Carolina, Southern's major market areas. Southern's shippers have often subscribed for Transco's competing expansions. We expect this trend to continue as indicated in Transco's April 15, 1999 announcement of a proposed Sundance Expansion to serve markets in Alabama, Georgia, and the Carolinas. What this means for Southern is continuing competitive pressures to provide rate discounts to retain existing loads as well as increasing risk of loss of existing loads to new expansion projects.

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#. CP02-1-002

Q. Has competition with Transco intensified in recent years?

A. Yes, it has. By shifting some of its expansion costs to its firm shippers in the Mid-Atlantic and Northeastern states, Transco has been able to aggressively expand its pipeline to serve additional Southeast markets in the last several years. Transco's recent SouthCoast Expansion Project, for example, which provides an additional 61,600 dth/d of firm transportation service to AGLC, is priced on a rolled-in rate basis. Transco has recently announced that it will seek rolled-in rates for its proposed Sundance expansion into the Southeast.

By contrast, many of Transco's earlier system expansions were priced on an incremental rate basis. For example, Transco's SunBelt Project, which was placed in service in 1997, provided an additional 75,700 mcf/d of firm transportation service to South Carolina Pipeline at a weighted average incremental reservation rate of approximately $12.30/dth. Transco has recently announced its intention to propose roll-in of the SunBelt Project in Transco's next general rate case. See Answer of Transcontinental Gas Pipe Line Corporation to Comments, Requests for Conditions and Protests filed June 24, 1999, in *Transcontinental Gas Pipe Line Corp.*, Docket No. CP99-392-000, p. 9. The rolled-in rate to South Carolina Pipeline, Southern's third largest customer, is likely to be in the range of $9.50 to $10.00/dth.

Q. Are there other pipeline competitors in Southern's major markets?

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

A. Yes, there are. A number of Southern's pipeline competitors are shown on the map attached as Exhibit No. SNG-_____ (JCY-3) to this testimony. East Tennessee Natural Gas currently provides approximately 45,000 mcf/d to Chattanooga Gas Company in Tennessee and 59,000 mcf/d to AGLC in northwest Georgia. In addition, Columbia Gulf Transmission and MCN Energy Group Inc. announced in April 1999 an open season offering of up to 250,000 dth/d of capacity in the Volunteer Pipeline, a proposed new pipeline to extend from an interconnection with Midwestern Gas Transmission near Portland, Tennessee to an interconnection with AGLC near Chattanooga, Tennessee to serve markets in Georgia and the Southeast. Finally, in 1997, AGL Resources, Inc. and Transco announced a joint venture for a new pipeline, called the Cumberland Pipeline, to provide additional service from Transco's interstate pipeline into the northern Atlanta metro region and northern Georgia. While this project ultimately did not go in service, it is indicative of the continued high-level interest by existing and potential pipeline competitors to provide additional gas service into the Southeast.

Other competitors include Florida Gas Transmission Company (FGT) and Koch Gateway Pipeline Company (Koch), which currently provides pipeline service in southeast Alabama. Significantly, FGT's western division reservation rate of $2.44/dth extends through southern Alabama to the Alabama-Florida state line, where FGT's market area rate zone begins. Similarly, Koch's FT reservation rate in southeast Alabama is $5.84/dth. Both of these rates compare favorably with Southern's current settlement Zone 2 FT reservation rate of $8.62/dth. Other potential competitors include Duke Energy, which has announced plans to build the Sawgrass Energy Transmission System

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#. CP02-1-002

from southeastern Alabama, across Mobile Bay, and through the Florida panhandle into peninsular Florida.

Q. Please describe Southern's transportation contracts.

A. Southern is currently fully subscribed in its major market areas (Zones 2 and 3). By the end of 2002, approximately 42% of our existing firm contracts (measured by transportation demands) will come up for renewal as shown in Exhibit No. SNG-_____ (JCY-4). The weighted average remaining term of Southern's long-term firm transportation contracts is only 4.8 years (as of March 1, 2000). Exhibit No. SNG-_____ (JCY-5). This compares with an average remaining term for U.S. pipelines in excess of 8 years for all firm contracts, and in excess of 10 years for long-term firm contracts. Energy Information Administration, *Natural Gas 1998: Issues and Trends*, pp. 132-133 (June 1999). With the level of competition from other pipelines, Southern will face strong challenges to maintain its existing load. This is evidence of the high level of business risk that Southern faces.

Q. What other factors affect the recontracting risk that Southern faces?

A. AGLC is Southern's largest customer, representing approximately 40% of Southern's total revenues. By October 1999, AGLC will have completely unbundled its system and exited the gas merchant function. This unbundling, which was initiated following the passage of legislation in Georgia in 1997, has proceeded at a pace that has been

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#. CP02-1-002

unprecedented in the industry. Indeed, AGLC will be the largest, fully unbundled LDC in the nation by October.

Southern has contracts with AGLC for over 600,000 Mcf/d of firm transportation demand which come up for renewal in August 2002. What AGLC's unbundling means for Southern is that the future level of AGLC's transportation contracts and the term of those contracts are very uncertain. As the American Gas Association recently observed in assessing the impact of state unbundling on LDC contracting decisions:

> Uncertainty about the future level of demand, who their customers will be, and the potential treatment of stranded costs makes many LDCs reluctant to contractually commit to [pipeline] capacity for any significant period of time.

American Gas Association, *The Changing Nature of Pipeline Capacity Contracts and the Potential for Future Capacity Turnback by Local Distribution Companies, January 1998,* p.15.

Q. Does AGLC's unbundling have other effects on Southern?

A. Yes. Not only is the overall level of FT service likely to change, but also the type of services which marketers utilize to provide gas service to the end-use customers. Thus, Southern expects intense competitive pressures as marketers strive to reduce their costs by retaining (or causing AGLC to retain) no more FT than is absolutely necessary, and substituting other services, such as capacity release and IT, wherever possible. In addition, Southern will face additional competition from the marketers themselves, who can rebundle transportation and storage services on several pipelines with the gas commodity to provide a delivered market area service, often with greater flexibility in

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

price and terms than the tariff-based services that an interstate pipeline must offer. A number of these marketers, such as SCANA, have publicly stated their views that AGLC has too much firm transportation capacity under contract and that AGLC should no longer hold the level of pipeline firm transportation contracts that are currently subscribed. See, Motion to Intervene and Protests of SCANA Energy Marketing, Inc., p. 5-9, filed May 27, 1999, in *Transcontinental Gas Pipe Line Co.*; Docket No. CP99-392. This means even greater competitive and decontracting pressures for Southern which further exacerbate Southern's business risks.

Q. But isn't the recontracting risk mitigated by the growing demand for gas in the Southern's major markets?

A. Only to some extent. It is true that gas demand in the Southern's major markets (Alabama, Georgia, and South Carolina) is growing at a rate faster than the national average (an average annual rate of 3.1% over the last 10 years compared to 2.6% nationally). Energy Information Administration, *Historical Natural Gas Annual 1930 through 1997*, pp. 230, 250. Southern has been fortunate to secure a portion of that growth through market expansions. But due to intense pipeline competition as described above, Southern faces a decreasing likelihood that it will be able to continue to capture a meaningful portion of the market growth, or that it will be able to retain the existing level of business on its pipeline.

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

As I have previously stated, approximately 42% of Southern's current long-term FT contracts will expire by the end of 2002. The conditions in its markets make the renewal of these contracts far from certain. And Southern's experience indicates that most renewals will be for relatively short terms. Failure to renew or resubscribe even 10% of the contracts that end by 2002 could mean an annual reservation revenue loss to Southern of as much as $17.5 million. These recontracting risks are particularly acute in light of the structural, cost, and rate differences between Southern, a distribution-like system, and Transco, a long-line pipeline with whom we compete.

Q. Does cost-of-service rate regulation mitigate the pipeline's financial risks of turnback?

A. No. In assessing the business risks that Southern faces, it should be noted that the FERC has not insured full-cost recovery for interstate pipelines that have faced significant capacity turnbacks from current customers. Rather, FERC's approach in the rate cases of El Paso Natural Gas Company, Transwestern Pipeline Company, and Natural Gas Pipeline Company of America has been to encourage pipelines to remarket turnback capacity. Regardless of the merits of FERC's position, the agency has nonetheless made it clear that pipelines should not expect full recovery of all costs of turnback capacity. As a result, Natural, El Paso, and Transwestern entered into settlements in which the pipelines assumed significant risks of remarketing the turnback capacity. So it is a risk that we take very seriously at Southern.

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#: CP02-1-002

Q. How does Southern's average remaining contract life compare with the depreciable life of its pipeline system?

A. Under the FERC's approach to turnback capacity and its cost-of-service ratemaking, Southern has no assurance that it will be able to fully recover the cost of its facilities. This is because depreciation rates are generally not set based on the life of the contracts.

The weighted average life of Southern's firm transportation contracts is 4.8 years (as of March 1, 2000). Yet, Southern's pipeline transmission facilities, which comprise the bulk of its rate base, are depreciated over a 50 year period based on a 2% composite annual depreciation rate that is applied to gross plant. As Ms. Hardy's testimony indicates, Southern's net plant is approximately $1.1 billion. At an annual depreciation and amortization expense of approximately $50 million, which Southern proposes in this rate proceeding (see Exhibit No. SNG-_____ (TSH-2) p. 2), Southern's pipeline system will have a depreciable life of approximately 22 years. The significant gap between Southern's remaining average firm transportation contract life of only 4.8 years and its remaining pipeline depreciable life of 22 years represents a very substantial business risk. Looking forward, Southern's investors face approximately 17.2 years of depreciation expense and fixed cost recovery not covered by contracted revenues.

Q. Is the risk of remarketing turnback capacity unique to Southern?

Unofficial FERC-Generated PDF of 20021018-0260 Received by FERC OSEC 10/17/2002 in Docket#. CP02-1-002

A. No, but I believe it is more significant for Southern than other pipelines in general for several reasons. First, the average remaining term of Southern's long-term firm contracts is only 4.8 years – less than half of the national average, as I've explained. Second, AGLC's unbundling has progressed faster and farther than any other state LDC unbundling in the country. AGLC will be completely unbundled and out of the merchant function within the next two months. This will result in additional pressures by retail marketers – who have clearly indicated their views that AGLC has "too much" pipeline FT capacity – for AGLC to reduce the level of FT held and to seek lower cost alternatives. Third, while Southern provides a valuable distribution-like service, its system configuration also results in a higher per unit cost structure than its long-line competitors who are able to cherry pick major loads in Southern's principal market areas. Thus, while other pipelines may face capacity turnback risks, the recontracting risks for Southern are greater than the risks faced by other pipelines in general.

Q. Does Southern have other business risks?

A. While the degree of recontracting risk and the level of pipeline competition are the principal risks, Southern also faces a significant risk in recovering the approximately $11.8 million of fixed costs that have been allocated to Southern's interruptible transportation service. As described in Mr. Outlaw's testimony, capacity release is very competitive with Southern's interruptible transportation (IT) service, and it will present a substantial challenge for Southern to achieve the levels of IT throughput that are

EXHIBIT

E

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

ORIGINAL

Southern Natural Gas
An El Paso Company

2 of 3

FILED
OFFICE OF THE
SECRETARY

2004 AUG 31 A 11: 32

FEDERAL ENERGY
REGULATORY COMMISSION

August 31, 2004

Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Attention: Ms. Magalie R. Salas, Secretary

RE: Southern Natural Gas Company
Docket No. RP04- 523 - 000

Ladies and Gentlemen:

Pursuant to the Federal Energy Regulatory Commission's 18 CFR ¶ 154.4 (a), Southern Natural Gas Company (Southern) herewith submits a compact disc ("CD") containing Southern's electronic version of its Section 4 rate filing.

The enclosed CD is labeled "Southern Natural Gas Company, Rate Case Filing" and contains a directory labeled 007A0408. The directory contains Statements and Schedules A - P.

Should there be any questions regarding electronic files, formats, etc., please contact Debbie Hendrix by phone at (205) 325-7390, or by e-mail at debbie.hendrix@elpaso.com.

Respectfully submitted

SOUTHERN NATURAL GAS COMPANY

Glenn A. Sheffield
Director - Rates

1
CD- Rom/ OMTR

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

FILED
OFFICE OF THE
SECRETARY
2004 AUG 31 A 11:32

SOUTHERN NATURAL GAS COMPANY

DOCKET NO. RP04- 523-000

NOTICE OF RATE CHANGE

VOLUME 3

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
Southern Natural Gas Company	)	**Docket No. RP04-_____-000**
	)	

PREPARED DIRECT TESTIMONY
OF
GLENN A. SHEFFIELD
ON BEHALF OF
SOUTHERN NATURAL GAS COMPANY

I.

INTRODUCTION

A. <u>Qualifications</u>

Q. Please state your name, address and position with Southern Natural Gas Company (Southern).

A. My name is Glenn A. Sheffield. I am the Director – Rates of Southern, P.O. Box 2563, Birmingham, Alabama 35202.

Q. Please describe briefly your education and business background.

A. I graduated from Auburn University in December 1977 with a Bachelor's degree in Electrical Engineering. Upon graduation, I was commissioned as an officer in the United

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

States Navy. In January 1982, I began my employment with Southern as an Engineer in the Engineering Department and, in October 1987, I was assigned to the Rates Department. In March 1988, I received a Masters of Business Administration degree from the University of Alabama at Birmingham.

Q. Please describe your present duties with Southern.

A. Since joining the Rates Department, I have been given assignments of increasing responsibility leading to my current position, where I am responsible for the analysis and development of the jurisdictional rates for Southern and its subsidiaries.

Q. Have you previously testified or presented testimony before the Federal Energy Regulatory Commission?

A. Yes. I have presented testimony on behalf of Southern in several of Southern's recent rate proceedings including its most recent rate proceeding in Docket No. RP99-496. I have also presented testimony in Southern's Order No. 636 restructuring proceeding in Docket No. RS92-10 and in some of the recent rate proceedings of Southern's subsidiaries.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#. RP04-523-000

B. Purpose of Testimony

Q. What is the purpose of your direct testimony in this proceeding?

A. I will present Southern's proposed cost classification, cost allocation and rate design for all of its jurisdictional services. I will also testify concerning the business risks faced by Southern that form the basis for Southern's proposed rate of return on equity, and I will explain generally the basis for discounts to its services.

C. Exhibits

Q. Are you sponsoring any exhibits?

A. Yes. Exhibit No. SNG-___(GAS-2) contains a map of Southern's system and Exhibit No. SNG-___(GAS-3) shows contract terms.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

II.

SOUTHERN'S PIPELINE SYSTEM

A. Configuration

Q. Please briefly describe Southern's pipeline system.

A. Southern is a regional pipeline serving the southeastern United States. Southern's firm transportation capacity is approximately 3.4 Bcf/day, with such capacity being generally telescoped from the primary producing areas in the Gulf of Mexico and Louisiana to its major markets in the states of Alabama, Georgia, and South Carolina. There are two underground storage facilities directly connected to Southern, one of which, Muldon, is wholly owned by Southern. The other, Bear Creek, is 50% owned by Southern. These storage fields are located in the states of Mississippi and Louisiana, respectively. Southern's wholly owned subsidiary Southern LNG Inc. (SLNG) operates an LNG import terminal connected to the eastern end of Southern's system. As shown in Exhibit No. SNG-___(GAS-2), Southern's pipeline system is configured in a distribution-like manner, with many of Southern's customers receiving service from Southern through numerous delivery points. For example, Southern provides deliveries to its two largest customers located in Alabama and Georgia at 157 active delivery points throughout these states.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

B. Services

Q. Please briefly describe the services which Southern provides.

A. Southern provides both firm and interruptible transportation service to 256 customers on its system. Southern also provides both firm and interruptible storage service to 141 customers utilizing the Muldon and Bear Creek facilities I mentioned previously. Southern provides its storage services from Muldon and Bear Creek on an aggregated basis. Southern's tariff allows customers holding both firm transportation and firm storage to receive service as firm no-notice service. Southern has provided these services since its unbundling under Order No. 636.

Q. Has Southern established any new services since its last general rate case?

A. Yes. On April 1, 2001, Southern began providing a Park and Loan (PAL) service pursuant to the Commission's order dated February 28, 2001 in Docket No. RP01-242. This service, which is only available on an interruptible basis, allows customers to park gas on Southern's system for a period of time or receive a loan of gas for a period of time. Southern provides this service using its operationally available assets, principally line pack and retained storage, or through offsetting parks and loans. I will discuss the rates related to the PAL service later in my testimony.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

Q. What is the basis for the cost classification, cost allocation and rate design underlying Southern's currently effective rates?

A. With the exception of the PAL service established since Southern's last rate case, Southern's currently effective base tariff rates are those established by the Commission in its May 31, 2000 order which approved a settlement of Southern's last general rate case proceeding in Docket No. RP99-496 ("Stipulation and Agreement").

C. <u>**Current Rates**</u>

Q. Did the Commission make a merits determination in Docket No. RP99-496 concerning the appropriate cost classification, allocation and rate design for Southern?

A. No. Because the Stipulation and Agreement was uncontested, the Commission approved the Stipulation and Agreement on the basis that it was fair and reasonable and in the public interest.

Q. Did the Commission make a merits determination on cost classification, allocation and rate design in Southern's general rate case prior to Docket No. RP99-496?

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

A. Yes. In orders issued on September 29, 1995 and April 11, 1996, the Commission accepted a settlement filed on March 15, 1995 which resolved numerous Southern rate and certificate proceedings, including Southern's Order No. 636 restructuring proceeding and Southern's most recent general rate proceeding, prior to Docket No. RP99-496, in Docket No. RP93-15. Because such settlement was partially contested, the Commission's orders resolved on the merits the numerous cost classification, allocation and rate design issues raised by the contesting parties.

Q. Are you recommending any changes in the instant proceeding with respect to the cost classification, allocation and rate design issues resolved by the Commission in its September 25, 1995 and April 11, 1996 orders?

A. With the exception of the changes provided for in the provisions of the Stipulation and Agreement and certain relatively minor changes which I will discuss later in my testimony, I believe that the cost classification, allocation and rate design approved in the September 29, 1995 and April 16, 1996 orders continue to be appropriate for Southern's system.

Q. What changes in cost classification, allocation and rate design were provided for in the Stipulation and Agreement?

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

A. The most significant change is that, under the Stipulation and Agreement, South Georgia Natural Gas Company (South Georgia) was merged into Southern. Prior to the effectiveness of the Stipulation and Agreement, South Georgia was a wholly owned subsidiary corporation of Southern. South Georgia's costs and revenues were separate from Southern's, and its rates were determined by the Commission in rate proceedings separate from Southern's rate proceedings. Upon the effectiveness of the Stipulation and Agreement, South Georgia ceased to be a separate corporate entity pursuant to a certificate application in Docket No. CP00-117 in which Southern was authorized to acquire and operate all of South Georgia's assets and to provide service to all of South Georgia's customers. Under the Stipulation and Agreement, separate rates were established for services on the facilities that were formerly South Georgia through an allocation of the combined costs of service of those facilities and Southern's existing facilities.

Q. Do you propose to continue the same methodology established in the Stipulation and Agreement for determining the rates for services on the formerly South Georgia facilities?

A. Yes.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

Q. What other cost classification, allocation and rate design changes were reflected in the Stipulation and Agreement?

A. Under the Stipulation and Agreement, a Part 157 firm transportation service known as the ANR Storage Transportation Service (STS) was to be converted to Part 284 service under Southern's existing FT rate schedule. The Stipulation and Agreement further provided that the converted service would be at the same contract quantity as under the STS service and be for a six-month period from October through March of each year at the maximum rates under Southern's FT rate schedule. As of October 1, 2004, all such conversions will have occurred. In accordance with the Stipulation and Agreement, on August 23, 2004, Southern made a compliance filing to reflect a rate reduction to all of its base reservation rates under Rate Schedule FT and its base rates under Rate Schedule IT to be effective October 1, 2004.

Q. Are you proposing to continue treating the converted STS service as Part 284 service in the instant proceeding?

A. Yes. Pursuant to the Stipulation and Agreement and Southern's application to abandon the Part 157 service and convert it to Part 284 service in Docket No. CP00-170, the converted STS service is to be treated no differently than other Part 284 FT service on Southern's system.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

III.

COST CLASSIFICATION

Q. Have you continued to use the straight fixed variable (SFV) methodology in this proceeding?

A. Yes. I have continued to use the SFV methodology for cost classification, cost allocation and rate design in this proceeding. SFV continues to be the methodology preferred by the Commission.

IV.

COST ALLOCATION

A. <u>Reservation Costs</u>

Q. Turning first to cost allocation, how do you propose to allocate reservation costs?

A. I propose to continue to utilize annual reservation contract quantities for firm services and imputed reservation contract quantities for interruptible services and volumetric small shipper services, to allocate reservation costs among zones. In the Commission's September 29, 1995 order, the Commission determined that this was the appropriate methodology for Southern's system.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

Q. Does your allocation of costs to zones take into account the distance which gas travels?

A. Yes. I have continued to utilize mileage-based zones and rates for Southern's system under the same structure approved by the Commission in its September 29, 1995 and April 11, 1996 orders. Under this structure, costs which are deemed to be mileage-based are allocated to zones based on average miles of haul for each zone.

Q. What components of Southern's cost of service are not mileage-based?

A. Consistent with the methodology underlying Southern's current rates, administrative and general costs, customer services and informational costs, supervision and engineering costs (Account No. 850), system control and load dispatching costs (Account No. 851), the cost of service attributable to Southern's measurement stations and the costs of storage allocated to system usage are not mileage-based.

Q. Are there other costs which you recommend be classified as non-mileaged?

A. I have also reflected the cost of service of Southern's customer nominations and billing computer system, commonly known as SoNet Premier, as non-mileaged. This system is utilized on a transactional basis and the transaction costs do not vary based on mileage of gas haul.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

Q. Have you continued to treat the costs of service attributable to Southern's unconnected production area segments and its Wrens – Savannah line facilities as non-mileaged costs?

A. No. First, Southern's unconnected production area segments will be fully depreciated by the end of the test period, hence there is no need to continue to segregate these facilities from Southern's other transmission plant. Second, the rationale for treating the costs attributable to Southern's Wrens-Savannah line facilities as non-mileaged cost has been superseded by the reactivation of SLNG's LNG terminal.

Q. Please explain why the LNG terminal reactivation should impact the allocation of these costs.

A. In the Commission's April 6, 1988 order in Docket No. RP83-58, the Commission found that it was appropriate to allocate the costs of the Wrens-Savannah facilities on a non-mileage basis because the LNG terminal connected to the end of the line had ceased to provide terminaling service. The circumstances have changed. The Wrens-Savannah line is now being actively used to transport gas from the reactivated terminal. Thus, the facts that the Commission relied upon as a basis for previously requiring the allocation of costs on a non-mileage basis no longer exist, and it now is appropriate to allocate the cost of these facilities on a mileaged basis consistent with the allocation of the costs of the

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

remainder of Southern's transmission facilities, other than Southern's measurement stations.

B. **Storage Costs**

Q. Do you propose to allocate any of Southern's storage function costs to its pipeline transportation services?

A. Yes. In Southern's Order No. 636 restructuring proceeding in Docket No. RS92-10, Southern was authorized to retain a small amount of its storage for system operations and load management. This retained storage provides a benefit to all pipeline transportation services by facilitating the balancing of receipt and delivery volumes. Further, by utilizing this retained storage, Southern has been able to avoid the construction of additional transmission facilities. If additional transmission facilities had been constructed, the cost of these facilities would have been allocated to Southern's pipeline transportation services. Therefore, it is appropriate to allocate the costs of the retained storage to transportation services because the storage capacity is being used to serve the transportation function in lieu of pipeline facilities that otherwise would have to be constructed.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

Q. Please describe the methodology you are proposing to use to allocate the costs of Southern's retained storage.

A. I have continued to use the same methodology approved by the Commission in its September 29, 1995 order. Under this methodology, retained storage capacity, deliverability and injection levels are used as allocation determinants to allocate total storage costs between Southern's pipeline transportation services and its unbundled storage services. Southern's allocation factors are comparable in design to those the Commission prefers under the method originally adopted in *Equitable Gas Company (Equitable)*, 36 FERC ¶ 61,147 (1986). These allocation factors result in the allocation of approximately 18 percent of Southern's total storage costs to Southern's pipeline transportation services. The following table sets forth the allocation of storage costs to pipeline transportation services.

	Total Cost	**Pipeline Trans. Allocation Factors**	**Cost Allocated Pipeline Trans.**
Deliverability	$22.4 Mil	12.4%	$2.8 Mil
Capacity	22.4	13.3%	3.0
Working Storage	2.4	100.0%	2.4
Injection/Withdrawal	1.1	34.7%	0.4
Total Storage	$48.4 Mil	17.7%	$8.6 Mil

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

Q. Have these allocation percentages changed from those underlying Southern's current rates?

A. Yes, but only to the limited extent necessary to reflect actual storage activities. While Southern is proposing to continue the same levels of retained storage in this proceeding as the levels previously approved by the Commission, and the total storage capabilities have not changed, the allocation percentages for Deliverability, Capacity and Injection/Withdrawal have been adjusted to reflect the imputed units for the base period actual Interruptible Storage (ISS Rate Schedule) volumes and the base period actual injection and withdrawal volumes.

Q. Why does Southern propose to continue the same levels of retained storage?

A. Southern continues to need these levels of retained storage in order to effectively manage its system. It is not uncommon for Southern's daily throughput to fluctuate by over 1,000,000 Dth from one day to the next as cold fronts move through the Southeast, and to fluctuate by over 300,000 Dth from one day to the next in hot summer weather. The daily swings in throughput are at least as great today as they were when Southern restructured its services under Order No. 636. Thus, I believe it is reasonable for Southern to maintain the current levels of retained storage.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#. RP04-523-000

Q. Why are you proposing to allocate 100% of the cost of working storage in Southern's retained storage to the pipeline transportation services?

A. This element of Southern's storage cost is attributable to the return and income taxes on the working storage necessary to perform the system operations and load management functions of its retained storage. The working storage balance underlying this cost does not include any storage gas volumes owned by Southern's unbundled storage service customers, and therefore, should be allocated in its entirety to Southern's pipeline transportation services. This allocation methodology is the same as that accepted by the Commission in its September 29, 1995 and April 11, 1996 orders.

Q. Does your proposed methodology for allocating storage costs allocate any additional cost to the transportation component of each unit of Southern's no-notice service provided under Rate Schedule FTNN, as compared to what is allocated to each unit of regular firm transportation service provided under Rate Schedule FT?

A. No, it does not. As the Commission found in its September 29, 1995 and April 11, 1996 orders, the fact that Southern's overall rate for no-notice service includes both the cost of firm transportation and the cost of firm unbundled storage under Rate Schedule CSS dictates that the same per unit allocation will be commensurate with the nature of the services. Accordingly, it would be inappropriate to allocate a larger proportion of

Southern's retained storage cost to no-notice transportation than is allocated to regular firm transportation. Because the no-notice rates filed in this case continue to include both firm transportation and storage, I believe that the Commission's rationale underlying this conclusion continues to be valid today. Therefore, I do not recommend any change in the Commission-approved methodology.

C. **PAL Costs**

Q. Earlier in your testimony you mentioned that since your last general rate case, Southern had established a new PAL service. Have you allocated costs to the PAL service in developing your proposed rates in this proceeding?

A. Rather than allocating costs to this service, I believe that, given the significant discounting that occurs and the significant volatility in the rates that Southern is able to collect, a more equitable method is to credit the test period revenues received from the PAL service to Southern's transmission function cost of service. While I will discuss the basis for Southern's discounts later in my testimony, if Southern were to allocate cost to the service and then design rates for the service, based on such allocation the resulting rates would produce significantly lower revenues than Southern's test period projected revenues. Since Southern uses its operationally available assets to provide the PAL service, to the extent that revenues from the PAL service are lower, Southern's rates for

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#. RP04-523-000

its other transportation services would have to be higher. In light of the historical patterns in the revenues associated with the PAL service, I do not believe that a separate allocation methodology is appropriate.

Q. Does significant discounting of the PAL services suggest that the PAL rates should be lower?

A. No. The nature of the PAL service is unique. Since this service allows customers to park or loan gas over time, the rate received is driven by differences in gas prices during the period over which the gas will be parked or loaned. For example, if Henry Hub prices are $5.00/Dth in one month and the NYMEX price for gas six months into the future is $6.00/Dth, a customer might be willing to pay up to $1.00/Dth to park gas for that six month period. To the extent that Southern's PAL rates are set at a significantly lower level than the current rates, there would be numerous instances in which Southern would be unable to charge a rate that reflects the actual value of the service provided.

D. <u>Discounts</u>

Q. Have you reflected the impact of pipeline transportation discounts in your allocation of costs to the rate zones?

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#. RP04-523-000

A. Yes. For each component utilized in the allocation process, I have adjusted the units used to allocate costs to each zone to reflect the impact of discounted transportation services. I have performed this adjustment by weighting the allocation determinants for each zone to reflect the actual rate to be received. Furthermore, in designing rates, I have also used the discounted volumes and the base tariff rate to be received relative to the maximum base tariff rate to arrive at the rate design billing determinants in each zone.

Q. What level of discounts is Southern reflecting in this proceeding?

A. Southern's witness Lucas supports Southern's test period level of discounting and billing determinants in his prepared direct testimony. Mr. Lucas also presents the computations implementing my recommended cost allocation methodologies. Later in my testimony, I will explain generally Southern's basis for discounts to its services.

V.

RATE DESIGN

A. <u>FT Rates</u>

Q. Turning to rate design, how did you design Southern's FT rates in this proceeding?

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

A. Once costs were allocated to each zone, I designed rates for services under Southern's firm transportation rate schedules by dividing the reservation and commodity cost levels by the applicable reservation and commodity design units in each zone.

Q. How did you determine FT rates for Southern's small, G customers?

A. In determining the FT rates for the G customers, I designed volumetric rates for each zone based on the same imputed load factor set forth in the Stipulation and Agreement of Southern's last general rate case.

B. <u>IT Rates</u>

Q. How do you propose to design Southern's IT rates?

A. I have designed rates for IT service based on a 100% load factor derivative of the FT rates. This is the same load factor IT rate design which the Commission found to be appropriate for Southern in its September 29, 1995 and April 11, 1996 orders. 100% load factor derivative IT rates continue to be the standard which the Commission has used for pipelines in general since it issued Order No. 636.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

C. **Gathering Rates**

Q. How do you propose to design gathering rates for Southern?

A. I am proposing to use the same methodology as that accepted by the Commission in Southern's restructuring proceedings, as provided in the Stipulation and Agreement of Southern's most recent rate proceeding, and as approved in the September 29, 1995 and April 11, 1996 orders. I have derived Southern's proposed gathering rate of 4.7¢/Dth by dividing the cost of service for Southern's production and gathering function of $772,248 by the test period volumes which are projected to flow through these facilities of 16,595,422 Dth.

Q. Has Southern recently agreed to sell its remaining gathering facilities?

A. Yes. On June 2, 2004 Southern included in an application in Docket No. CP04-348 a proposal to sell its remaining gathering facilities to an unaffiliated company. On August 9, 2004 the Commission approved the application as proposed. Southern anticipates closing on the sale and filing to terminate its gathering service prior to the effectiveness of Southern's filed rates in the instant proceeding. In such event, the determination of Southern's gathering rates in the instant proceeding will be rendered moot, and no gathering rates will be placed into effect.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

D. **Storage Rates**

Q. How were Southern's rates for its unbundled storage services determined?

A. Southern's unbundled storage services consist of a firm storage service under Rate Schedule CSS and an interruptible storage service under Rate Schedule ISS. I have designed rates for these services using the same methodology approved by the Commission in its September 29, 1995 and April 11, 1996 orders, with only one exception. When Southern established its unbundled storage services in its Order No. 636 restructuring and rate case proceedings that were the subject of the September 29, 1995 and April 11, 1996 orders, Southern had no historical experience on which to base its ISS levels of service. Southern, therefore, agreed to and the Commission approved 100% crediting of ISS revenues, less variable costs, to Southern's CSS customers. Since Southern now has historical experience regarding its ISS service levels, consistent with the methodology in the Stipulation and Agreement of Southern's last general rate proceeding, I have determined Southern's storage rates based on its actual base period volumes for this service.

Q. Please explain how you designed rates for Southern's CSS service.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

A. As provided for in *Equitable*, the rate for services under the CSS rate schedule consists of four parts: (1) a reservation rate based on contracted daily withdrawal deliverability (Deliverability rate); (2) a reservation rate based on contracted working storage capacity (Capacity rate); (3) a commodity rate based on actual injections (Injection rate); and (4) a commodity rate based on actual withdrawals (Withdrawal rate). Rates for Southern's CSS service were then derived by dividing the component costs which have been allocated to contract storage for deliverability, capacity, injection and withdrawal by the billing determinants for each component including imputed billing determinants for ISS service. The costs allocated to injections and withdrawals as well as the injection and withdrawal billing units have been combined, and therefore the rates for injection and withdrawal are the same.

Q. How did you design CSS rates for the customers electing the FT small shipper service?

A. Consistent with the methodology approved by the Commission in its September 29, 1995 and April 11, 1996 orders and in the Stipulation and Agreement, I have designed the CSS deliverability rate for these customers based on deliverability billing units designed at a 37.5% load factor. The capacity and injection/withdrawal rates for these customers are the same as for the large customers.

Q. Please describe how Southern has derived its proposed ISS rates.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#. RP04-523-000

A. Consistent with the methodology underlying the rates in Southern's Stipulation and Agreement, I have designed rates for ISS service based on a 100% load factor derivative of Southern's firm four-part CSS rates.

E. Zone Matrix Rates

Q. Does Southern propose to continue the zone matrix methodology for computing its transportation rates that was approved by the Commission in its September 29, 1995 and April 11, 1996 orders?

A. Yes. This is also the same as the methodology underlying the Stipulation and Agreement.

Q. Please explain Southern's zone matrix methodology.

A. Under this methodology, I have designed FT reservation rates based on the actual zone of delivery. I have designed IT and FT commodity rates using a zone matrix methodology whereby the inter-zone and intra-zone rates are computed by backing out the upstream mileage based cost.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

Q. Have circumstances on Southern's system which would support the current zone rate structure changed significantly since its last rate proceeding?

A. No. Southern's system continues to operate as an integrated system on which gas still generally flows east from production areas offshore and in Louisiana and Mississippi to Southern's major markets in Alabama, Georgia and South Carolina. The volumes of gas received in Southern's market-area zones continue to remain relatively small in proportion to the overall production area volumes.

F. <u>PAL Rates</u>

Q. How do you propose to design rates for Southern's PAL service?

A. Southern's PAL rates have been designed using the same methodology that was approved by the Commission in its orders accepting the tariff sheets implementing this service. This methodology reflects a two-tiered rate structure with a first day rate design based on Southern's total transmission non-mileaged cost of service and a subsequent day rate design based on the storage component of the transmission non-mileaged cost of service. The first day rate is applied on the day that gas is initially parked or loaned, and the subsequent day rate is applied to a shipper's balance under the PAL service on all days excluding the initial day that gas is parked or loaned.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

VI.

OTHER SERVICES

A. Shell Service

Q. What methodology are you proposing to use to allocate costs and determine the charges for the service certificated in Docket No. CP95-500?

A. The service certificated in Docket No. CP95-500 is a Part 284 service provided under Southern's FT Rate Schedule. Consistent with the methodology underlying the Stipulation and Agreement, the reservation rate charged is based on the cost of service of the specific facilities constructed to provide the service. The annual reservation rate revenues resulting from the service are then credited to Southern's transmission function cost of service before the cost allocation process begins.

Q. How were the rates designed for this service?

A. As discussed in detail in the certificate application and in the Commission's orders approving Southern's proposal, the service certificated in Docket No. CP95-500 provides certain firm production-area transportation (for Shell Offshore Inc.) of up to 140,000 Mcf/D, over a 10-year term, which commenced in 1996. The firm reservation

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

charge approved by the Commission was to be based on the 10-year average incremental cost of service of the facilities as set forth in the certificate application, adjusted only to reflect the actual capital cost of the facilities and the actual platform space lease expense. The resulting annual reservation rate revenue is $2,298,475, which I have reflected as a credit to Southern's transmission cost of service.

B. **<u>At-Risk Services</u>**

Q. Did Southern operate any facilities or provide any services that are subject to a Commission at-risk condition during the base period in this proceeding?

A. No. Furthermore, none of the projected test period plant additions reflected in Mr. Henderson's testimony are subject to an at-risk condition.

C. **<u>Expansion Services</u>**

Q. Has Southern completed and placed in-service any expansion projects since its last general rate case?

A. Yes. Southern has completed and placed in-service four expansion projects since its last general rate case. In 2001, Southern placed in-service an expansion of its South Georgia

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

facilities certificated in Docket No. CP01-35. In 2002, Southern placed in-service the first phase of an expansion of its South mainline system certificated in Docket No. CP00-233. In 2003, Southern placed in-service the last phase of the Docket No. CP00-233 facilities, an expansion of its North mainline system certificated in Docket No. CP01-161, and the first two phases of a second expansion of its South mainline certificated in Docket No. CP02-1. In August 2004, Southern placed in-service the final phase of the facilities certificated in Docket No. CP02-1.

Q. Did the Commission make a predetermination of the rate treatment for these projects in its orders issuing certificates for each of these projects?

A. Yes. In each of the orders issuing certificates the Commission determined that there would be a presumption that the costs and revenues of these expansions would be treated on a rolled-in basis in Southern's next general rate proceeding.

Q. Do Southern's filed rates in the instant proceeding reflect the Commission's rolled-in rates presumptions for these projects.

A. Yes.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#. RP04-523-000

VII.

DISCOUNTING

A. Background

Q. Earlier in your testimony you mentioned that Southern's proposed cost allocation and rate design reflect some discounting of its services. Please describe why it is necessary for Southern to make discounts.

A. Southern awards discounts when in its reasonable judgment it is likely that Southern would lose business without a discount, due to competitive alternatives.

Q. What competitive alternatives do Southern's customers have?

A. The competitive alternatives can be classified into two general categories: gas-on-gas competition and alternative fuel competition. With respect to gas-on-gas competition, many of Southern's customers, including its four largest customers, have connections that enable them to take gas from other major interstate pipelines. These four largest customers also have firm contracts with other interstate pipeline suppliers. As discussed later in my testimony, Southern faces significant competitive pressure from these pipelines both in contracting for new loads as well as in renewing existing contracts.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

Since these pipelines already have facilities in Southern's primary market area, it is quite feasible that they could expand their facilities to provide additional service to Southern's customers. In fact, as I will also discuss later, Southern's primary market area competitor already has indicated a desire to attempt to cut into Southern's market share by constructing major expansions in Southern's primary market area. With respect to alternate fuel competition, a number of Southern's industrial customers have the ability to burn alternative fuels, which, in today's environment of high gas prices, makes this competitive pressure even more severe.

B. PAL Discounts

Q. Does Southern make discounts for reasons other than these two general categories?

A. There are two exceptions to these two general categories. As I mentioned earlier in my testimony, Southern makes discounts for its PAL service based on basis differentials over time. With respect to PAL service, the price that customers are willing to pay for the service is based on the difference in gas prices on the day(s) that gas is delivered into Southern's system (parked) or borrowed from the system (loaned) and the day(s) on which the transaction is reversed by the park being returned to the shipper or the loan being paid back to Southern.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

Q. If Southern were to refuse to grant PAL discounts what would be the result?

A. In many instances the transaction would simply not happen. A customer attempting to use PAL service as a hedging tool could choose to implement an alternative hedging tool or choose to operate with more gas price risk rather than pay for a higher rate PAL transaction. In other instances, another pipeline or supplier may provide the service at a price that clears the market.

C. **Exxon Discounts**

Q. What is the other type of discount you referred to?

A. During the base period, Southern continued to provide a discount to Exxon Corporation (Exxon). Southern agreed to provide this transportation discount to Exxon as part of the settlement of gas supply realignment issues. Under the settlement, Southern agreed to transport for Exxon up to 50 MMcf per day of gas through the offsystem Matagorda Offshore Pipeline System (MOPS) pipeline and two laterals located offshore Texas to points of interconnection in Refugio County, Texas. The discounted rate for the transportation service through the MOPS pipeline is 12¢ per MMBtu, while the discounted rate through the laterals is 1¢ per MMBtu. The term of the discount runs through August 2, 2007. In accordance with Article VII, Paragraph 6 of Southern's

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

March 15, 1995 Stipulation and Agreement in Docket Nos. RP89-224 *et al.*, the recognition of such discounts is precluded from challenge for purposes of designing Southern's rates in rate proceedings.

D. **Affiliate Discounts**

Q. Were any of Southern's base period discounts to affiliates?

A. No.

E. **SCANA Discounts**

Q. Have any of Southern's base period discounts occurred in the context of negotiated rate transactions?

A. With one possible exception, no. In the Commission's September 20, 2002 order in Docket Nos. CP02-1-000 and CP02-1-001, the Commission found that the service agreement between Southern and SCANA Resources, Inc. (SCANA) constituted a negotiated rate agreement.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

Q. Why did the Commission determine that this agreement constituted a negotiated rate agreement?

A. Although Southern had filed the agreement as a discounted rate agreement which under certain circumstances could result in the rate to be charged being less than Southern's maximum tariff rate, apparently the Commission believed that since the rate to be charged SCANA potentially could be based on a formula, it constituted a negotiated rate.

Q. Please describe the relevant provisions of the SCANA agreement.

A. The agreement provides that the reservation charge shall be the lower of Southern's maximum zone 3 reservation charge under its existing FT rate schedule or $11.50/Dth. After five years, the $11.50/Dth rate cap was to be escalated at 40% of the Gross Domestic Product Deflator.

Q. Is the Commission's September 20 order consistent with the Commission's current policy differentiating discounted rate transactions from negotiated rate transactions?

A. No. I believe that the Commission's policy distinguishing between discounted and negotiated rates has changed. The September 20 order was issued prior to the Commission's December 18, 2003 Order on Remand in *Northern Natural Gas Company*,

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

Docket No. RP00-152-002. In *Northern*, the Commission found that pipelines may enter into discounted rate agreements that use formulas which may produce fluctuating transportation rates, so long as the rates remain within a pipeline's maximum and minimum tariff rates. *See Northern Natural Gas Company*, 105 FERC ¶ 61,299 (2003).

Q. Should Southern's agreement with SCANA qualify as a discounted rate under the Commission's current policy?

A. Yes. Since under the agreement the charge is "the lower of" the tariff rate or $11.50/Dth, the rate should be considered a discounted rate rather than a negotiated rate.

VIII.

BUSINESS RISK

A. - <u>Supply Area</u>

Q. Turning to the issue of Southern's business risk, please describe the competitive landscape in the geographic area in which Southern operates.

A. In Southern's production area zone and Zone 1, which are located in the Gulf of Mexico, Louisiana and Mississippi, the markets are served by numerous interstate and intrastate pipelines as well as non-jurisdictional gathering companies. In these areas discounting is required much of the time because of the accessibility to the diverse competitive alternatives.

B. Market Area

Q. What is the competitive landscape in Southern's primary market area?

A. As I mentioned earlier in my testimony, in Southern's primary market area of Alabama, Georgia and South Carolina, which account for approximately 92% of Southern's transportation and storage revenues, Southern's system is configured as a distribution-like system with numerous delivery points to many of our customers. This contrasts with Southern's primary competitor, Transcontinental Gas Pipeline Corporation (Transco), which is the classically configured long-line transmission system from the Gulf of Mexico to the Northeast United States, with larger diameter pipeline. The result of this difference in configuration is that Southern has higher per-unit fixed cost than Transco and thus higher rates than Transco.

Q. Please quantify the difference in Southern's and Transco's transportation rates.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

A. With respect to Transco's system rates, the following chart compares the current reservation rates for Transco from the interconnection where gas is received from its Mobile Bay line in Transco's Zone 4 to Southern's current reservation rates:

FT Reservation Charges

$/Dth per Month

	Alabama	Georgia	South Carolina
Transco	$5.19	$ 5.19	$ 8.14
Southern	$8.10	$10.79	$10.79

Q. Has Transco sought to expand its capacity to serve additional load in Southern's primary market area?

A. Yes. Since Southern's last rate case, Transco has completed three major expansion projects which serve loads in Alabama, Georgia and South Carolina, including service to Southern's largest customer, Atlanta Gas Light Company.

Q. What rates does Transco charge for service in these expansion projects?

A. All of the service in these expansions is provided at negotiated rates which tend to vary by the location of the firm receipt and delivery points as well as the contract term. For example, for service from receipt points in Transco's Zone 4 to delivery points along

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

Transco's mainline in Georgia, the reservation rates have ranged from $6.08/Dth to $8.21/Dth, all below Southern's currently effective rate for service into Georgia. The largest load under these expansions, a 140,000 Dth/day service to a Southern Company electric generating plant in Georgia, is at a negotiated reservation rate of $7.00 and no base commodity charge.

Q. Does Southern face competition from other pipelines in its primary market area?

A. Yes. Southern also faces competition from East Tennessee Natural Gas Company ("East Tennessee"), which has an interconnection with Atlanta Gas Light and from Gulf South Pipeline Company. East Tennessee markets its service aggressively in Georgia and currently has significant firm capacity available as a result of the underutilization of its "Patriot" expansion which went into service in 2003 pursuant to the certificate order dated November 20, 2002 in Docket No. CP01-415. *See East Tennessee Natural Gas Company*, 101 FERC ¶ 61,188 (2002), *order on reh'g*, 102 FERC ¶ 61,225 (2003).

C. **Capacity Turnback**

Q. Does competition from Transco and other pipelines place Southern at a significant risk of turnback when its contracts expire?

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

A. Yes. As shown on Exhibit No. SNG-___ (GAS-3), approximately 31% of Southern's firm transportation contracts, measured by contract demand, will come up for renewal before the end of 2005. Moreover, the weighted average remaining term of Southern's firm transportation contracts as a whole as of the end of the test period in this proceeding is only approximately four and one-half years.

Q. How does the four and one-half years average remaining life for Southern's contracts compare to the remaining economic life of Southern's facilities based on its proposed depreciation rates in this proceeding.

A. As Mr. Henderson's testimony indicates, Southern's net plant is approximately $1.6 billion. At an annual depreciation and amortization expense of approximately $59 million, which Southern proposes in this proceeding, Southern's pipeline system will have an average depreciable life of approximately 27 years, or six times the average remaining life of its contracts.

Q. Has Southern attempted to respond to the intense pipeline competition in its primary market area?

A. Southern has responded to such competition from two principle perspectives. First, Southern has aggressively moved to lower its cost since the Commission's restructuring

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket#: RP04-523-000

of the pipeline industry under Order No. 636. For example, Southern has been able to reduce the number of employees needed to run the pipeline from 1,154 in 1993 to 436 as of the end of the base period in this proceeding - a reduction of 62%. Second, Southern has aggressively pursued expansions of its system where the economics of the expansions are such that the incremental revenues from the expansion will exceed the incremental cost of the project, thereby spreading existing fixed cost over additional units of service and thus reducing its rates to existing customers.

Q. Has Southern been successful in its expansion efforts?

A. Yes. As I discussed earlier in my testimony, Southern has constructed four expansions of its system since its last rate case. These projects have expanded the capacity of Southern's system by approximately 25% and, as the Commission found in its certificate orders, rolling in the projects will provide both financial and operational benefits to Southern's existing customers. On the other hand, while Southern has been successful in capturing significant load growth in its primary market area, both Transco and East Tennessee have aggressively priced their own expansions to capture some of the growth. In some instances this has required Southern to discount its FT service associated with the expansions in order to capture its share of the load growth in the Southeast.

Q. What other measures has Southern taken to respond to its competitive pressures?

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

A. In an attempt to balance Southern's need for an adequate return to attract capital investment while also recognizing the competitive market conditions, Southern has selected a 13.5% rate of return on equity. This return on equity is below both the 14.29% mean and 13.96% median returns on equity supported in the prepared direct testimony of Southern's witness Williamson.

Q. What is your overall assessment of Southern's business risks?

A. Based on Southern's significant level of recontracting risk, particularly in the near term and the intense level of competition in its primary market area, I conclude that Southern's business risk is as least as great as the business risk of the average pipeline.

Q. Does this conclude your testimony?

A. Yes.

Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

Exhibit No. SNG-___(GAS-2)

Exhibit No. SNG ____ (GAS-2)

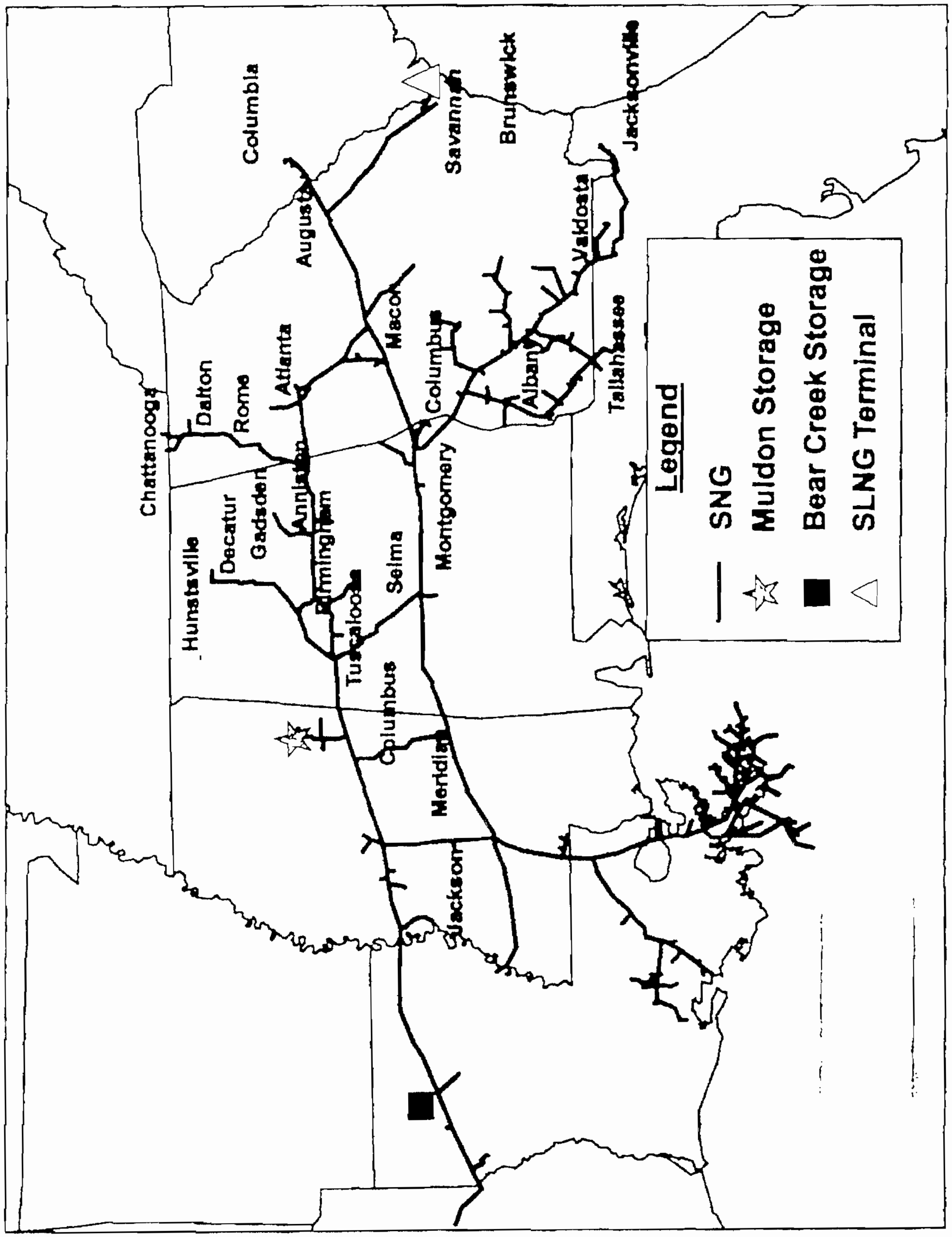
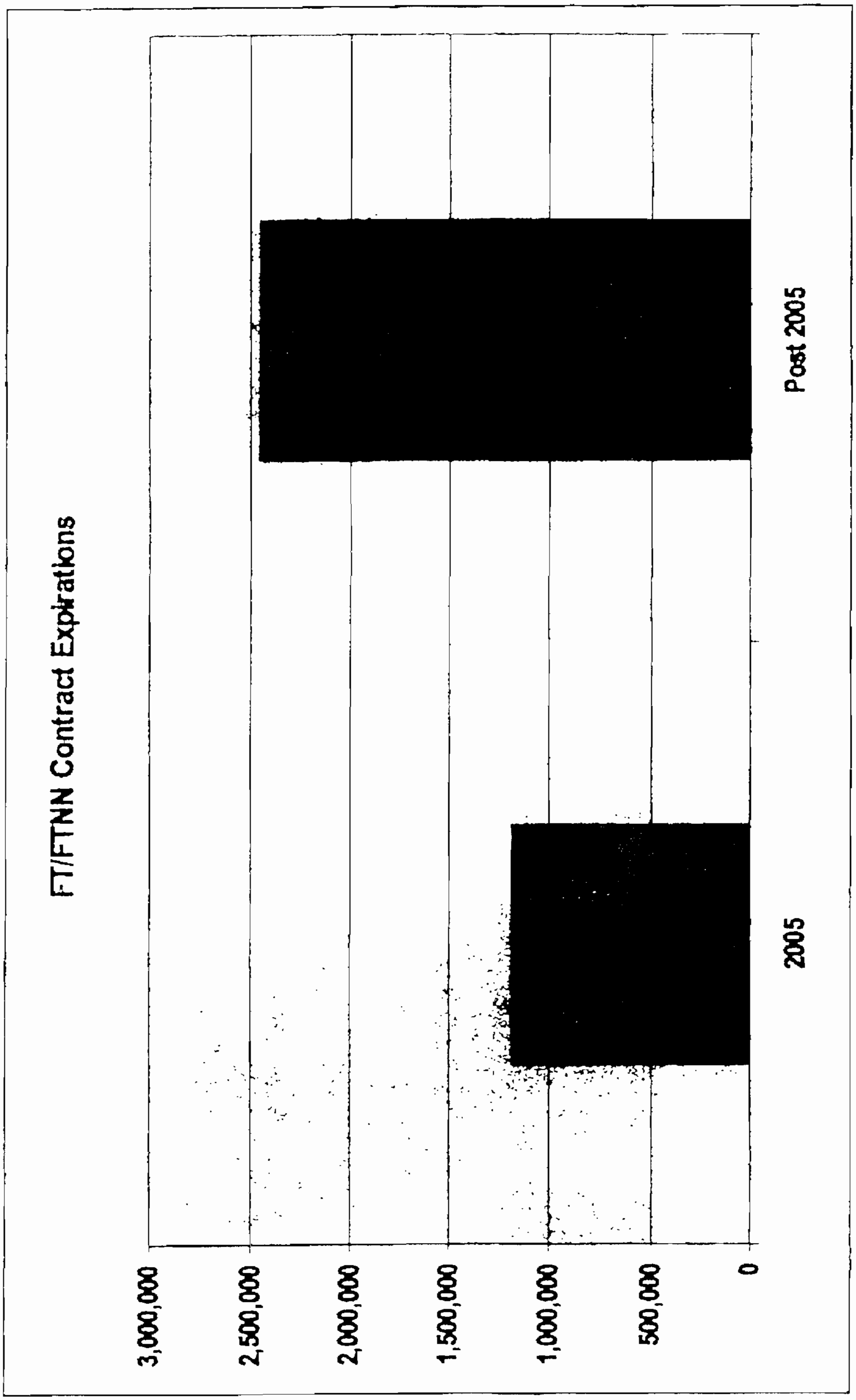


Exhibit No. SNG ____ (GAS-3)



Unofficial FERC-Generated PDF of 20040901-0101 Received by FERC OSEC 08/31/2004 in Docket# RP04-523-000

UNITED STATES OF AMERICA

FEDERAL ENERGY REGULATORY COMMISSION

Southern Natural Gas Company	)	Docket No. RP04-___-000

State of Alabama

County of Jefferson

Glenn A. Sheffield, being first duly sworn, on oath says that he is the Glenn A. Sheffield identified in the foregoing prepared direct testimony; that he caused to be prepared such testimony; that the answers appearing therein are true to the best of his knowledge and belief; and that if asked the questions appearing therein, his answers thereto would, under oath, be the same.

Glenn A. Sheffield
Director - Rates
Southern Natural Gas Company
P.O. Box 2563
Birmingham, Alabama 35202-2563
(205) 325-3813

Sworn to and subscribed before me this
30th of August, 2004.

Notary Public

My Commission Expires: NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Dec 5, 2004
BONDED THRU NOTARY PUBLIC UNDERWRITERS

EXHIBIT

F

20050107-5040 Received FERC OSEC 01/07/2005 02:39:00 PM Docket# RP04-523-000

5

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southern Natural Gas Company) Docket No. RP04-523

INITIAL POST-TECHNICAL CONFERENCE COMMENTS OF ATLANTA GAS LIGHT COMPANY AND CHATTANOOGA GAS COMPANY

Pursuant to the procedures established at the December 9, 2004 technical conference held in the above-referenced proceeding, Atlanta Gas Light Company ("AGLC") and Chattanooga Gas Company ("CGC") hereby submit these initial post-technical conference comments.

I. Background

On August 31, 2004, Southern Natural Gas Company ("Southern") filed a general rate case under section 4 of the Natural Gas Act ("NGA") proposing to increase its annual revenue entitlement by approximately $35 million, or an aggregate rate increase of approximately 10 percent. In addition to the rate modifications, Southern has also proposed revisions to the General Terms and Conditions ("GT&C") in its FERC Gas Tariff ("Tariff"). By order dated September 30, 2004, the Federal Energy Regulatory Commission ("Commission") directed the Commission Staff to convene a technical conference to discuss the following issues raised by Southern's filing:

1. Southern's proposal to extend the notice period in the currently-effective section 39 of the GT&C from 90 days to 24 months for contract demand reductions pursuant to an order of a state regulatory commission ("PSC Out").

2. Southern's proposal to revise section 2.1(e) of the GT&C to provide that primary receipt points may be added to or deleted from Exhibit A to a service agreement provided that they are in the same zones for which the shipper has contracted for firm service, and to allow shippers to add or delete primary delivery points from Exhibit B to a service agreement only if the additional delivery points are in the same zone as the

shipper's current delivery points ("Amendment of Primary Receipt Points").

3. Southern's proposal to change its cash out price calculation to apply the high/low index price to the zero to two percent tolerance level ("Cash Out").

4. Southern's pro forma proposal to revise section 14.2 for the GT&C to apply the Storage Cost Reconciliation Mechanism to supply poolers ("SCRM").

II. PSC Out

At the technical conference, Southern presented its response to the general opposition to the 24 month notice requirement. Southern stated that the Commission does not require pipelines to offer PSC Outs and such provision was offered as part of Southern's settlement in Docket No. RP99-496, which expired in March 1, 2004. Southern added that it voluntarily continued the PSC Out by not removing the provision in the current proceeding. Southern also stated that the proposed 24 month notice requirement allows it to balance the goal of providing shippers flexibility with need to protect Southern and its customer base against revenue erosion. Southern suggested that LDCs could remarket surplus capacity through capacity release during the interim period to mitigate the impact. It added that the proposed 24 month notice requirement provides reasonable timeframe to remarket the turned back capacity through an expansion.

AGLC and CGC remain opposed to a 24-month notice requirement. Southern still has not offered any concrete evidence to support its claim that a 24-month notice requirement is necessary to mitigate the effects of the turned back capacity, and it has yet to "[e]xplain why the change is being proposed at this time."[1] Moreover, Southern admitted that no shipper has ever exercised the PSC Out. Therefore, Southern has not

[1] 18 C.F.R. § 154.204(c).

provided any support for the proposed revision in the manner required by the Commission's rules and regulations.

As discussed in AGLC and CGC's September 13, 2004 filing, extending the notice period to 24 months would fatally undermine the purpose of the contract demand option and upset the balance of risk that Southern negotiated with the shippers when it established the program as part of the settlement in Docket No. RP99-496. The purpose of the contract demand reduction option is to enable an LDC to respond to a final order by a state commission and reduce its transportation quantity in a timely fashion. AGLC and CGC submit that the current ninety-day notice period properly balances the risk of turned back capacity between shippers and the pipeline. A 24-month notice period, on the other hand, would shift virtually all of the risk to the shipper exercising the PSC Out option.

Additionally, despite the voluntary inclusion of the PSC Out in the Tariff by Southern, the provision should be consistent with other notice periods that the Commission has approved as part of contract demand reduction mechanisms on other pipelines. The proposed 24-month notice period would be a radical departure from the notice periods that the Commission has approved.[2] Southern has not presented any evidence that the proposed 24-month notice requirement is just and reasonable. Therefore, the Commission should reject this proposed revision as inconsistent with Commission precedent.

---

[2] *See, e.g., Columbia Gas Transmission Corp.*, 103 FERC ¶ 61,388, at P 9 (2003) (Commission accepts tariff sheets permitting insertion in service agreements of CD reduction rights to the extent a shipper is required to implement regulatory unbundling; reduction to take effect the later of the effective date of the regulatory unbundling or following sixty days written notice to Columbia); *Gulf South Pipeline Co., L.P.*, 101 FERC ¶ 61,019 at 61,058, at PP 10, 11 (2002) (Commission approves tariff sheets permitting reduction in "Winter Season Daily Contract Demand" under Rate Schedule NNS upon 60 days' notice following final order requiring NNS shipper to permit retail unbundling or implement open access transportation and upon a mutually agreed number of days, not to exceed 60, notice following final order that an NNS shipper has contracted for too much capacity on Gulf South).

III. Amendment of Primary Receipt Points

In its presentation, Southern stated that the proposed Amendment of Primary Receipt Points Tariff revision was not intended to limit the nomination of secondary receipt points. Rather, the revision attempts to clarify the contracting rules for amendment of firm receipt points, which is once a shipper has contracted for firm receipt point capacity, its ability to amend its contract should be within the contracted for zones. Such a rule is contrary to Commission policy and Southern's zone of delivery rate design.

Pursuant to Order 636-A, "a shipper gets flexibility in receipt and delivery points for the part of the system for which it pays a reservation charge."[3] Under Southern's zone of delivery rate design, a shipper paying the Zone 3 delivered rate pays for capacity in Zones 1, 2 and 3 and may currently have its firm receipt points in Zone 1. Southern's proposal would prohibit shippers from amending their firm receipt points to zones other than those in its current contract although it may be paying for capacity in all zones. Shippers should be able to amend their receipt points to zones for which they are paying.[4] Accordingly, the Commission should reject Southern's proposed Amendment of Primary Receipt Points revision.

IV. Cash Out

AGLC and CGC continue to support the Cash Out proposed Tariff revisions. As discussed in AGLC and CGC's September 13 filing, the companies have long been concerned that the current cash-out mechanism presented opportunities for gaming Southern's system by making the end of the month cash-out price too predictable. AGLC and CGC support the proposed Cash Out revisions because they will reduce arbitrage

[3] Order 636-A, *FERC Stats. and Regs., Regulations Preambles 1991-1996* ¶30,950 (1992).

[4] *See Great Lakes gas Transmission Limited Partnership*, 101 FERC ¶61,206, *clarifying* 100 FERC ¶61,083(2002)("The Commission will require Great Lakes to permit shippers to permanently add, or change, primary points to those outside the transportation paths stated in their firm contracts, but within zones for which they are paying. This policy applies to segmented transactions as well.")

opportunities. Accordingly, AGLC and CGC urge the Commission to approve the proposed Cash Out Tariff revisions.

V. SCRM

AGLC and CGC also continue its support for the proposed SCRM Tariff revisions. As discussed in their September 13, 2004 filing, AGLC and CGC have also been concerned that the current SCRM does not equitably distribute the costs that are recovered through the SCRM among the shippers that are responsible for generating those costs. Accordingly, AGLC and CGC support the proposed Tariff revision to the SCRM because it will result in a more equitable distribution of SCRM costs. Therefore, AGLC and CGC urge the Commission to approve the proposed SRCM Tariff revision.

VI. Conclusion

WHEREFORE, for the foregoing reasons, AGLC and CGC respectfully request that the Commission consider these initial post-technical conference comments in opposition to Southern's proposed PSC Out and Amendment of Primary Receipt Points revisions and in support of the proposed Cash Out and SCRM revisions.

Respectfully submitted,

/s/ Shannon Omia Pierce

Shannon Omia Pierce
AGL Resources Inc.
Ten Peachtree Place
Suite 1000
Atlanta, Georgia 30309

Counsel for Atlanta Gas Light Company and Chattanooga Gas Company

January 7, 2005

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing "Initial Post-Technical Conference Comments of Atlanta Gas Light Company and Chattanooga Gas Company" upon each person designated on the electronic service list compiled at the December 9. 2004 Technical Conference in this proceeding.

Dated at Atlanta, Georgia this 7th day of January 2005

/s/ Shannon Omia Pierce

Shannon Omia Pierce
AGL Resources Inc.
Ten Peachtree Place
Suite 1000
Atlanta, Georgia 30309

20050107-5040 Received FERC OSEC 01/07/2005 02:39:00 PM Docket# RP04-523-000

Submission Contents

EXHIBIT

G

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket# RP04-523-000

Southern Natural Gas
an El Paso company

April 29, 2005

FILED
OFFICE OF THE
SECRETARY
2005 APR 29 A 11:42
FEDERAL ENERGY
REGULATORY COMMISSION

Ms. Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D. C. 20426

Re: *Southern Natural Gas Company*
Offer of Settlement
Docket Nos. RP04-523-000 and RP04-523-001

Dear Ms. Salas:

Pursuant to Rule 602 of the Rules of Practice and Procedures of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. Section 385.602 (2004), Southern Natural Gas Company ("Southern") submits for the Commission's approval an original and fourteen copies of the attached Stipulation and Agreement and its Appendices ("Settlement"). The Settlement will resolve all issues arising out of Southern's August 31, 2004, Section 4 general rate increase filing and is offered as an integrated, comprehensive resolution of the issues in the referenced proceeding.

Among other things, the Settlement, if approved and implemented pursuant to the terms thereof, provides for a resolution of all pending issues in this proceeding, including those tariff sheets approved in the Commission's February 28, 2005 Order in this proceeding, for which rehearing has been requested. The two parties with timely requests for rehearing of the February 28 Order have agreed as part of the Settlement to request the Commission to hold in abeyance such requests for rehearing until such time as the Settlement is approved; and, if the Settlement is approved, those parties have agreed to withdraw their requests for rehearing. Southern concurs with such requests to hold the requests for rehearing in abeyance until this Settlement can be approved. Prompt consideration and approval of this Settlement by the Commission will aid Southern and all parties by providing rate certainty to Southern and its customers.

Southern Natural Gas
1900 Fifth Avenue North Birmingham, Alabama 35203
PO Box 2563 Birmingham, Alabama 35202-2563
tel 205.325.7410 fax 205.325.7490

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket# RP04-523-000

This Settlement is a result of extensive negotiations and represents a delicate compromise of numerous, complex, interrelated issues and represents a consensus among virtually all of the active parties in the proceeding and the Commission Staff. The parties supporting, or not opposing, the Settlement represent approximately 99% of Southern's total system revenue requirements. The Settlement produces an overall result that is just and reasonable and in the public interest.

The Settlement must be considered as an integrated package. The isolation or alteration of any of the Settlement's individual components would disturb the negotiated compromise and the delicate balance of interests that has been reached among the parties. In addition, any modification of the Settlement will prevent the Settlement from becoming effective unless the modification is acceptable to Southern and not objected to by at least 25% of the intervenors in this proceeding.

As required by Rule 602(c), Southern hereby submits the following:

1. The attached Stipulation and Agreement and its Appendices constitute the settlement offer ("Settlement"). The Settlement includes:
   - Appendix A - Tariff Sheets which include the rates established pursuant to this Settlement and other terms and conditions agreed upon among the parties.
   - Appendix B - A complete listing of Southern's depreciation and amortization rates, including those not changed under the Settlement and the negative salvage rate.
   - Appendix C – A list of the converted South Georgia firm contracts; and
   - Appendix D - A list of shippers that have elected in writing and received by Southern not to extend all or a portion of one or more of their firm contracts; and

2. A separate Explanatory Statement.

As required by Rule 602 (c)(ii), Southern provides this Explanatory Statement for the convenience of the Commission and the parties. The Articles that comprise the Settlement are summarized below. In the event that this Explanatory Statement is inconsistent with any aspect of the Settlement, the provisions of the Settlement shall control.

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket#. RP04-523-000

Southern respectfully requests that the Commission waive any and all regulations that may be necessary in order to permit the approval of this Settlement as filed. In accordance with Rule 602(d), Southern certifies that it is serving this offer of Settlement upon all parties of record in the referenced proceeding and those persons that typically are served with Southern's tariff or rate schedule filings. As required by Rule 602(d)(2), Southern hereby advises the parties that initial comments on the Settlement are due no later than 20 days after the filing date hereunder, and reply comments are due no later than 30 days after the filing date hereunder.

Respectfully Submitted,

SOUTHERN NATURAL GAS COMPANY

Patricia S. Francis

Patricia S. Francis
Senior Counsel
Southern Natural Gas Company
P.O. Box 2563
Birmingham, Alabama 35202-2563
(205) 325-7696

Patrick Pope
Vice President and General Counsel
Southern Natural Gas Company
P.O. Box 2563
Birmingham, Alabama 35202-2563
(205) 325-7126

Howard Nelson
Senior Counsel
El Paso Corporation
555 11th Street N.W.
Washington, D.C. 20004
(202) 637-3543

Mark Sundback
Andrews Kurth, LLP
1701 Pennsylvania Ave., NW
Suite 300
Washington, D.C. 20006
(202) 662-2700

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket#: RP04-523-000

1. The primary term(s) of each current two-part rate contract under Rate Schedules for FT and FT-NN service; and each current, non-small shipper Contract Storage Service ("**CSS**") agreement, including all contracts for firm service on the South Georgia facilities, as amended hereunder, which primary term(s) expire prior to August 31, 2010, will be extended through August 31, 2010. In addition, any contract under Rate Schedules FT, FT-NN or CSS under which a small shipper charge is applicable ("**Small Shipper Contract**") whose primary term expires prior to August 31, 2010 may, at the shipper's option, be extended through August 31, 2010. If a discounted rate granted under the March 10, 2000 Settlement currently applies to the contract quantity extended, but the discount expires prior to August 31, 2010, then any extensions as described above shall include an extension of such discount through August 31, 2010. Any seasonal mitigation in contract quantity or other sculpting provision implemented pursuant to Commission Order No. 636 will be continued during a term extended pursuant to this provision, except as such sculpting may have been modified for the converted South Georgia firm contracts, as more particularly shown in **Appendix** C. Further, such mitigated or sculpted contracts shall not be deemed to be seasonally adjusted contracts or discounted contracts for purposes of the ROFR regulations, if applicable. A request by a shipper to extend in conjunction with amending any other provisions of the contract that in Southern Natural's reasonable judgment reduces the value of the contract, including a request to

EXHIBIT

H

20050519-5056 Received FERC OSEC 05/19/2005 02:46:00 PM Docket# RP04-523-000, ET AL

7

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southern Natural gas Company	)	Docket Nos. RP04-523-000
	)	RP04-523-001

INITIAL COMMENTS OF ATLANTA GAS LIGHT COMPANY AND CHATTANOOGA GAS COMPANY IN SUPPORT OF OFFER OF SETTLEMENT

To: The Honorable Bruce L. Birchman
Presiding Administrative Law Judge

Pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, Atlanta Gas Light Company ("AGLC") and Chattanooga Gas Company ("CGC"), hereby file their initial comments in support of the "Stipulation and Agreement", that was submitted as an offer of settlement ("Settlement") by Southern Natural Gas Company ("Southern") on April 29, 2005, in the above referenced proceeding.

The Settlement is the result of extensive negotiations between the parties and represents a fair and reasonable reconciliation of the parties' varying interests in this proceeding. The lower, than filed, transportation rates, additional fuel savings and rate certainty achieved by the Settlement will benefit AGLC, CGC, and their customers. AGLC and its customers will also benefit from the "roll-in" of the South Georgia facilities into the settlement rates. Additionally, approval of the Settlement will enable the parties to avoid significant litigation expenses. AGLC and CGC request that the Commission promptly approve the Settlement without any material modification so as to not disturb the compromise and balance of interests represented in the Settlement.

WHEREFORE, AGLC and CGC respectfully requests that the Presiding Administrative Law Judge promptly certify the Settlement to the Commission for approval and respectfully request that the Commission approve the Settlement, without material modification, as just, reasonable, and in the public interest.

Respectfully submitted,

/s/ Shannon Omia Pierce

Shannon Omia Pierce
AGL Resources Inc.
Ten Peachtree Place
Suite 1000
Atlanta, Georgia 30309

Counsel for Atlanta Gas Light Company and Chattanooga Gas Company

May 19, 2005

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing "Initial Comments of Atlanta Gas Light Company and Chattanooga Gas Company in Support of Offer of Settlement" upon each person designated on the official service list compiled by the Secretary in this proceeding.

200505195056 Received FERC OSEC 05/19/2005 02:46:00 PM Docket# RP04-523-000, ET AL.

Dated at Atlanta, Georgia this 19th day of May 2005.

/s/ Shannon Omia Pierce

Shannon Omia Pierce
AGL Resources Inc.
Ten Peachtree Place
Suite 1000
Atlanta, Georgia 30309

EXHIBIT

I

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket# RP04-523-000

Southern Natural Gas
an El Paso company

April 29, 2005

FILED
OFFICE OF THE
SECRETARY
2005 APR 29 A 11: 42
FEDERAL ENERGY
REGULATORY COMMISSION

Ms. Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D. C. 20426

Re: *Southern Natural Gas Company*
Offer of Settlement
Docket Nos. RP04-523-000 and RP04-523-001

Dear Ms. Salas:

Pursuant to Rule 602 of the Rules of Practice and Procedures of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. Section 385.602 (2004), Southern Natural Gas Company ("Southern") submits for the Commission's approval an original and fourteen copies of the attached Stipulation and Agreement and its Appendices ("Settlement"). The Settlement will resolve all issues arising out of Southern's August 31, 2004, Section 4 general rate increase filing and is offered as an integrated, comprehensive resolution of the issues in the referenced proceeding.

Among other things, the Settlement, if approved and implemented pursuant to the terms thereof, provides for a resolution of all pending issues in this proceeding, including those tariff sheets approved in the Commission's February 28, 2005 Order in this proceeding, for which rehearing has been requested. The two parties with timely requests for rehearing of the February 28 Order have agreed as part of the Settlement to request the Commission to hold in abeyance such requests for rehearing until such time as the Settlement is approved; and, if the Settlement is approved, those parties have agreed to withdraw their requests for rehearing. Southern concurs with such requests to hold the requests for rehearing in abeyance until this Settlement can be approved. Prompt consideration and approval of this Settlement by the Commission will aid Southern and all parties by providing rate certainty to Southern and its customers.

Southern Natural Gas
1900 Fifth Avenue North Birmingham, Alabama 35203
PO Box 2563 Birmingham, Alabama 35202-2563
tel 205.325.7410 fax 205.325.7490

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket# RP04-523-000

This Settlement is a result of extensive negotiations and represents a delicate compromise of numerous, complex, interrelated issues and represents a consensus among virtually all of the active parties in the proceeding and the Commission Staff. The parties supporting, or not opposing, the Settlement represent approximately 99% of Southern's total system revenue requirements. The Settlement produces an overall result that is just and reasonable and in the public interest.

The Settlement must be considered as an integrated package. The isolation or alteration of any of the Settlement's individual components would disturb the negotiated compromise and the delicate balance of interests that has been reached among the parties. In addition, any modification of the Settlement will prevent the Settlement from becoming effective unless the modification is acceptable to Southern and not objected to by at least 25% of the intervenors in this proceeding.

As required by Rule 602(c), Southern hereby submits the following:

1. The attached Stipulation and Agreement and its Appendices constitute the settlement offer ("Settlement"). The Settlement includes:
   - Appendix A - Tariff Sheets which include the rates established pursuant to this Settlement and other terms and conditions agreed upon among the parties.
   - Appendix B - A complete listing of Southern's depreciation and amortization rates, including those not changed under the Settlement and the negative salvage rate.
   - Appendix C – A list of the converted South Georgia firm contracts; and
   - Appendix D - A list of shippers that have elected in writing and received by Southern not to extend all or a portion of one or more of their firm contracts; and

2. A separate Explanatory Statement.

As required by Rule 602 (c)(ii), Southern provides this Explanatory Statement for the convenience of the Commission and the parties. The Articles that comprise the Settlement are summarized below. In the event that this Explanatory Statement is inconsistent with any aspect of the Settlement, the provisions of the Settlement shall control.

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket#: RP04-523-000

Southern respectfully requests that the Commission waive any and all regulations that may be necessary in order to permit the approval of this Settlement as filed. In accordance with Rule 602(d), Southern certifies that it is serving this offer of Settlement upon all parties of record in the referenced proceeding and those persons that typically are served with Southern's tariff or rate schedule filings. As required by Rule 602(d)(2), Southern hereby advises the parties that initial comments on the Settlement are due no later than 20 days after the filing date hereunder, and reply comments are due no later than 30 days after the filing date hereunder.

Respectfully Submitted,

SOUTHERN NATURAL GAS COMPANY

Patricia S. Francis

Patricia S. Francis
Senior Counsel
Southern Natural Gas Company
P.O. Box 2563
Birmingham, Alabama 35202-2563
(205) 325-7696

Patrick Pope
Vice President and General Counsel
Southern Natural Gas Company
P.O. Box 2563
Birmingham, Alabama 35202-2563
(205) 325-7126

Howard Nelson
Senior Counsel
El Paso Corporation
555 11th Street N.W.
Washington, D.C. 20004
(202) 637-3543

Mark Sundback
Andrews Kurth, LLP
1701 Pennsylvania Ave., NW
Suite 300
Washington, D.C. 20006
(202) 662-2700

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket# RP04-523-000

reduce or otherwise sculpt seasonal contract quantities, shall be deemed an election not to extend; and that contract or that portion of the contract will be treated under Article III Paragraph 3. Southern Natural agrees that for the primary term of any firm contract being extended under this Article III Paragraph 1 or for the primary term of any firm contract that is exempt under Paragraph 5, the contract extension will provide for a cap of sixty (60) consecutive months on the maximum term that such shipper must match when exercising a ROFR under Section 20 of the GT&Cs at the termination of the primary term of such extension. This contractual ROFR cap of five years shall carry over to the contract of a replacement shipper if the contract is permanently assigned by the releasing shipper during the primary term of the contract.

2. For all contracts extended under the preceding paragraph and whose provision for giving notice to Southern Natural prior to termination is less than three hundred and sixty five (365) calendar days, each Consenting Party (as that term is defined in Article XIII, Paragraph 3(a)) agrees that such prior notice period for termination at the end of the primary term or any evergreen period shall be amended to 365 days.

3. **Appendix D** hereto lists shippers that have elected in a writing received by Southern Natural not to extend all or a portion of one or more of their firm contracts. With respect to those contract quantities for which those shippers have elected not to extend, such shippers agree to pay, in lieu of the applicable

EXHIBIT

J

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket# RP04-523-000

Southern Natural Gas
an El Paso company

April 29, 2005

FILED
OFFICE OF THE
SECRETARY
2005 APR 29 A 11: 42
FEDERAL ENERGY
REGULATORY COMMISSION

Ms. Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D. C. 20426

Re: Southern Natural Gas Company
Offer of Settlement
Docket Nos. RP04-523-000 and RP04-523-001

Dear Ms. Salas:

Pursuant to Rule 602 of the Rules of Practice and Procedures of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. Section 385.602 (2004), Southern Natural Gas Company ("Southern") submits for the Commission's approval an original and fourteen copies of the attached Stipulation and Agreement and its Appendices ("Settlement"). The Settlement will resolve all issues arising out of Southern's August 31, 2004, Section 4 general rate increase filing and is offered as an integrated, comprehensive resolution of the issues in the referenced proceeding.

Among other things, the Settlement, if approved and implemented pursuant to the terms thereof, provides for a resolution of all pending issues in this proceeding, including those tariff sheets approved in the Commission's February 28, 2005 Order in this proceeding, for which rehearing has been requested. The two parties with timely requests for rehearing of the February 28 Order have agreed as part of the Settlement to request the Commission to hold in abeyance such requests for rehearing until such time as the Settlement is approved; and, if the Settlement is approved, those parties have agreed to withdraw their requests for rehearing. Southern concurs with such requests to hold the requests for rehearing in abeyance until this Settlement can be approved. Prompt consideration and approval of this Settlement by the Commission will aid Southern and all parties by providing rate certainty to Southern and its customers.

Southern Natural Gas
1900 Fifth Avenue North Birmingham, Alabama 35203
PO Box 2563 Birmingham, Alabama 35202-2563
tel 205.325.7410 fax 205.325.7490

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket# RP04-523-000

This Settlement is a result of extensive negotiations and represents a delicate compromise of numerous, complex, interrelated issues and represents a consensus among virtually all of the active parties in the proceeding and the Commission Staff. The parties supporting, or not opposing, the Settlement represent approximately 99% of Southern's total system revenue requirements. The Settlement produces an overall result that is just and reasonable and in the public interest.

The Settlement must be considered as an integrated package. The isolation or alteration of any of the Settlement's individual components would disturb the negotiated compromise and the delicate balance of interests that has been reached among the parties. In addition, any modification of the Settlement will prevent the Settlement from becoming effective unless the modification is acceptable to Southern and not objected to by at least 25% of the intervenors in this proceeding.

As required by Rule 602(c), Southern hereby submits the following:

1. The attached Stipulation and Agreement and its Appendices constitute the settlement offer ("Settlement"). The Settlement includes:
   - Appendix A - Tariff Sheets which include the rates established pursuant to this Settlement and other terms and conditions agreed upon among the parties.
   - Appendix B - A complete listing of Southern's depreciation and amortization rates, including those not changed under the Settlement and the negative salvage rate.
   - Appendix C – A list of the converted South Georgia firm contracts; and
   - Appendix D - A list of shippers that have elected in writing and received by Southern not to extend all or a portion of one or more of their firm contracts; and
2. A separate Explanatory Statement.

As required by Rule 602 (c)(ii), Southern provides this Explanatory Statement for the convenience of the Commission and the parties. The Articles that comprise the Settlement are summarized below. In the event that this Explanatory Statement is inconsistent with any aspect of the Settlement, the provisions of the Settlement shall control.

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket#. RP04-523-000

Southern respectfully requests that the Commission waive any and all regulations that may be necessary in order to permit the approval of this Settlement as filed. In accordance with Rule 602(d), Southern certifies that it is serving this offer of Settlement upon all parties of record in the referenced proceeding and those persons that typically are served with Southern's tariff or rate schedule filings. As required by Rule 602(d)(2), Southern hereby advises the parties that initial comments on the Settlement are due no later than 20 days after the filing date hereunder, and reply comments are due no later than 30 days after the filing date hereunder.

Respectfully Submitted,

SOUTHERN NATURAL GAS COMPANY

Patricia S. Francis
Senior Counsel
Southern Natural Gas Company
P.O. Box 2563
Birmingham, Alabama 35202-2563
(205) 325-7696

Patrick Pope
Vice President and General Counsel
Southern Natural Gas Company
P.O. Box 2563
Birmingham, Alabama 35202-2563
(205) 325-7126

Howard Nelson
Senior Counsel
El Paso Corporation
555 11th Street N.W.
Washington, D.C. 20004
(202) 637-3543

Mark Sundback
Andrews Kurth, LLP
1701 Pennsylvania Ave., NW
Suite 300
Washington, D.C. 20006
(202) 662-2700

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket#: RP04-523-000

APPENDIX D

CONTRACTS NOT EXTENDED

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket#· RP04-523-000

Appendix D

Southern Natural Gas Company
Docket No. RP04-523

SHIPPER	Mcf/d
Alabama Gas Corporation	1,959
Atmos Energy Corporation - MidStates	5,000
Cheney Lime and Cement Company	147
Enterprise Alabama Intrastate LLC	1,592
G-P Gypsum Corporation	3,090
Gulf States Paper Corporation	712
Industrial Insulations Group LLC	500
International Paper Company	3,918
Jefferson-Cocke County Utility District	350
Knoxville Utilities Board	10,000
Middle Tennessee Natural Gas Utility District	1,000
Northwest Alabama Gas District	5,000
Oak Ridge Utility District	100
Occidental Chemical Corporation	600
Oglethorpe Power Corporation	161,606
Powell Clinch Utility District	500
Shell Offshore Inc	140,000
SP Newsprint Co	7,581

Unofficial FERC-Generated PDF of 20050503-0466 Received by FERC OSEC 04/29/2005 in Docket#: RP04-523-000

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 this proceeding via first-class mail.

Dated at Birmingham, Alabama, this 29th day of April, 2005.

Patricia S. Francis

Patricia S. Francis
Senior Counsel
Southern Natural Gas Company
1900 5th Avenue North
Birmingham, AL 35203
(205)325-7696

EXHIBIT

K

UNITED STATES OF AMERICA

FEDERAL ENERGY REGULATORY COMMISSION

- - - - - - - - - - - - - - - - - x

IN THE MATTER OF: : Docket Number

STATE OF THE NATURAL GAS : PL04-17-000

INDUSTRY CONFERENCE :

STAFF REPORT ON NATURAL GAS : AD04-11-000

STORAGE :

- - - - - - - - - - - - - - - - - x

Hearing Room 2C
Federal Energy Regulatory
Commission
888 First Street, NE
Washington, D.C.

Thursday, October 21, 2004

The above-entitled matter came on for hearing, pursuant to notice, at 9:10 a.m.

PRESIDING:

BERNE MOSLEY, OEP, presiding

pricing corollary in the pipeline industry I would suggest you consider along with market-based rates.

I think I've probably used my time, and exhausted my comments at this stage.

MR. MOSLEY: Thank you, Mr. Dickerson. Mr. Oaks.

MR. OAKS: Good afternoon. I'd like to thank the Commission for this opportunity to speak. I'm Tim Oaks from UGI Utilities, Inc., in eastern Pennsylvania. Today, I'm speaking on behalf of the American Gas Association.

I'd like to cover three topics today. The first topic is LDC use of storage. AGA is concerned for some time now that there seems to be some misconception about how LDCs use storage, how we contract for it, how we plan for it, how we use it. In fact, I heard some of those misconceptions already today. Then I will move on to the topic of this panel, the uncommitted reserve capacity, and then finally a brief discussion about some market rates.

AGA members represent 90 percent of the gas that is delivered at retail in this country. As the staff report points out, we hold the majority of storage. We hold that storage for both the merchant and delivery functions that we provide. We utilize storage to meet retail obligations. We assure that we meet our winter requirements through storage. This morning I heard storage is an optional service. For LDC's it's not an optional service. It's a critical component to what we do. It provides a large portion of our deliveries at the time deliveries are most critical. We focus our planning on delivering for a firm, reliable service. This cannot be overemphasized.

While we do use storage for other reasons, like price hedging, daily balancing, and no notice service, those unfortunate consequences of holding storage, our planning focus is still firm, reliable deliveries.

In my slides, I present a graph which is sort of gas supply planning 101. It provides something called a load duration curve, a bit of an unusual curve in that it resorts temperatures from coldest to warmest. It provides a quick profile of how LDCs face temperature sensitivity during the winter season. The planning focus of any LDC is to optimize its capacity portfolio to meet that load duration curve. We want to do two things. We want to maintain reliable service, and we want to meet it at least cost. We want to minimize fixed costs.

The second graph in the handout superimposes capacities on that load duration curve. The lines and step lines you see on that graph are representative of an optimized portfolio. It can be broken into three parts, as you know. FT, which is the flat line, which represents how firm transportation is more a base load serving capacity. Storage, which are the step lines immediately above firm transportation, which serve to sculpt our capacities in a form that meets the demand requirements of the system. And then finally peak shaving, which is the step line at the very top for the very coldest days.

The third graph focuses on storage. Sculpting of storage creates three level of storage that LDCs contract for. I call the first new peak, approximately 20 days or less storage. The next one intermediate storage, which runs from 25 to 75 days, and then finally seasonal storage, which tends to run from 75 days to 150 days, the full winter season.

These differing levels of service are the primary tools for optimizing our contracts and for maintaining least cost. They also are part of close scrutiny by state commissions.

As I pointed out earlier, they are the primary components of our portfolio for the meeting of winter requirements. The next graph focuses on some of the benefits we receive from helping storage. We do use the price hedge of the summer injection versus winter withdrawals. While those benefits have lessened or become less assured over the last few years, those things still exist and we do use that physical hedge. There seems to be confusion regarding how LDCs inject storage versus price plays. Price plays generally are handed by marketers.

Virtually all LDCs are injecting during summer season. Even if the price levels we are experiencing on future NYMEX contracts are decreasing as we go through the winter, we will be injecting storage. We have no choice but to inject. The obligations to serve our firm customers outweigh any price. It's also been pointed out that storage injection capacities are often less than withdrawal capacities. Therefore, to the extent that we have longer storage services in the form of seasonal service, seasonal storage or intermediate storage, it generally takes most of the summer to inject those gases. Again, most price spikes come from the marketers.

Finally, summer injections. The differential in prices between summer injections and winter prices has, at times, become less pronounced because of the lack of competition in the summer months.

Just to summarize the things we focus on: the obligation to serve firm service drives all planning. In early November, all LDCs are close to full inventory. On March 31st, they're all close to empty. We take one full term for most of our services. There are variances in storage injections during the summer we realize, but it is not coming from the LDCs. While we do make some adjustments based on price levels, given the limited flexibility that exists in storage contracts, we will still fill storage.

Also, in addition, most LDC storage is market area.

Generally, reservoirs or aquifers, having only one term per year, generally what we do is we fill throughout the entire summer and withdraw during the winter season. While we do hold some production area storage, those are mainly for commodity reasons, for replacement of supply during well freeze offs for short-term least cost activities.

I'd now like to turn to the question of uncommitted reserves. Certainly, simple supply and demand theory would suggest that additional capacity would reduce volatility. I'd like to point out, however, that capacity constraints are only half of the equation. Indeed, some additional capacity might limit some of the upward volatility on demand pressures, putting pressure on higher prices. However, the other half of the equation, and I would argue maybe more than half of the equation, is the availability of the commodity itself. As long as supply remains tight, volatility will remain.

While AGA finds the idea of uncommitted reserves an interesting idea, we have some concerns. The first is obviously cost allocation. We're moving to the bottom line. Who pays? This raises other questions. What is the appropriate level of service for each pipeline? Is it different for each pipeline? Is it different regionally?

Does the pipeline earn a fair return? I guess I know the pipeline's answer on that one. How is the construction certificated and financed?

The second issue AGA has is the nature of the demand pressure that we're currently seeing. As I have emphasized earlier, LDCs focus on our core responsibility: our obligation to serve. We design and contract where a portfolio can meet our design loads. Therefore, the LDC loads are not a surprise in peak situations. We are not adding to any shortage of capacity. Much of the pressure appears to be coming from interruptible loads. We remain on at near peak situations primarily from electric generation and other industrial loads.

These entities have made the economic decision to shun from capacity. In doing so, they're sending the wrong market signals. They're increasing demand into those situations and are attempting to commoditize the capacity market while LDCs pay the fixed cost on an annual basis. Given this reality, creating what would in essence be additional capacity to exacerbate reliance on inappropriate services during peak conditions, the LDCs will stand firmly against subsidizing excess interruptible capacity that would be created through a mandate to build reserve capacity. If a reserve margin develops through market forces, that is another matter. The market will be signaling a willingness to pay and a subsidization issue would not come into play. For example, some state commissions already require LDCs to contract for reserve capacity. Margins for reliability purposes, but holding reserves to build into a contract portfolio is different than a mandate. That would create excess uncommitted capacity in the market.

Third, LDCs are concerned about the effect that extra capacity will have on the capacity release market. Under Order 636, the capacity release mechanism is directly tied to the recognition that firm customers needed a means to mitigate fixed costs. Additional unused capacity, which from a planning standpoint would be available at virtually 100 percent of the time, will significantly reduce the value of capacity in the release market, thereby weakening the cost mitigation we received under 636. Such an event would necessitate reconsideration of the regulatory impact we received under Order 636.

Finally, AGA would like to turn its attention briefly to market-based rates. The staff report points out that several proposed storage projects have been delayed or canceled. The staff report also points out that right now we have about sufficient level of storage. We need to meet projected storage growth. LDCs have been meeting with pipelines and independent project developers. At times, we signal our willingness to buy in, and at other times, the economics just are not right for us.

The recent Duke Project, which received a significant amount of attention from LDCs on Texas Eastern and Algonquin indicates our willingness to acquire additional storage. It appears the economics don't make sense. The buyers are not interested or the promoters will cancel or delay that. And sometimes the transportation tied to the storage just doesn't work for the project.

Accordingly, AGA supports the staff proposal to relax or broaden the current market-based rates test to spur more storage development. Another option might be to develop incentives to spur storage development. In a fair market, if a party is interested, it will make a rational decision. The market will bear the market-based rates, and there is no reason to foreclose that option.

Critical for consumer protection are the staff's provisions that discuss assuring that all market risks lay with the projects' owners, and no captive customers are involved in the project. Additionally, periodic review of market-based rate storage services would be an important check on the continued appropriateness of the rate-based authority. The good news is that we are not in a critical situation today, and efforts like today's conference should prevent it in the future. Thank you

MR. MOSLEY: Thank you, Mr. Oaks. Next is Mr.

EXHIBIT

L

FERC Conference on State of the Natural Gas Industry – Storage
October 21, 2004

Comments of
Tim Oaks
UGI Utilities Inc
Manager – Federal Regulatory Affairs
On Behalf of
The American Gas Association

American Gas Association

GAS SERVICE

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- Topics:
  - ✓LDCs use of storage.
  - ✓Uncommitted Capacity
  - ✓Market Based Rates

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- LDCs use of storage.
- LDCs hold the majority of storage contracts
- LDCs utilize storage as a tool for meeting their retail obligations

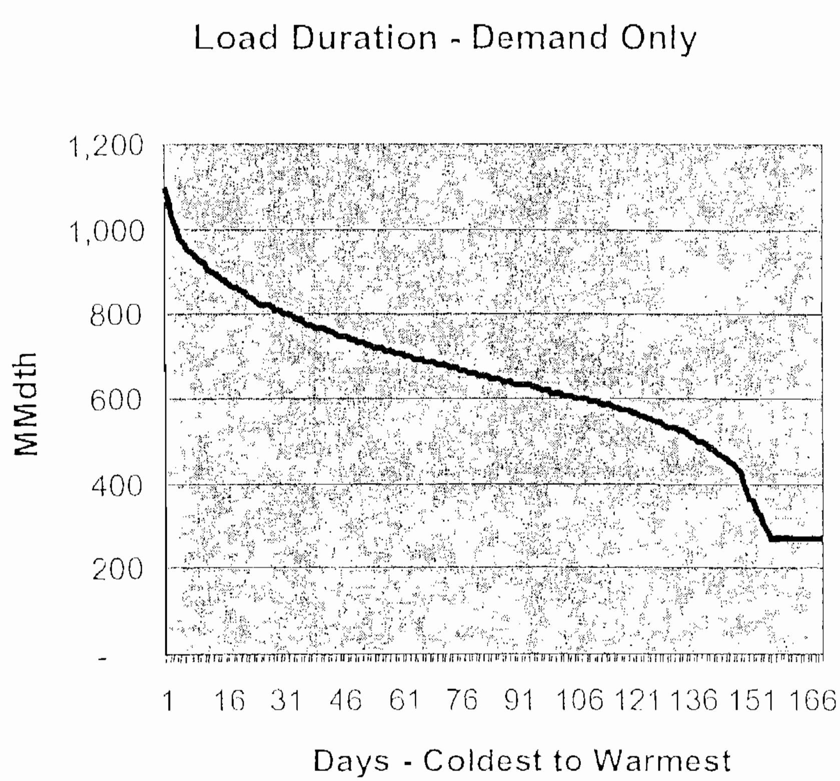
FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- Storage is acquired to ensure LDCs can reliably serve our peak, firm markets.
  - ✓Cannot be over emphasized
  - ✓LDCs use storage for other reasons, like price hedging, this is a fortunate consequence of operations of storage, but NOT the driving force in planning.

American Gas Association

GAS SERVICE

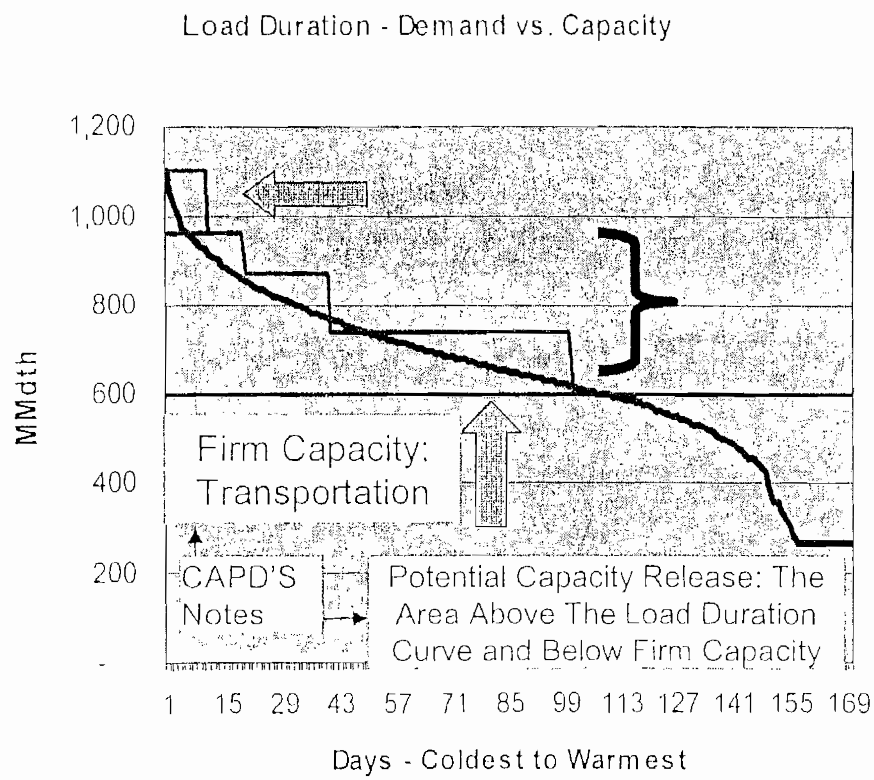
FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004



- ➢ **Typical Load Duration**
- ➢ From a Demand Standpoint
- ➢ Winter
- ➢ Summer
- ➢ Storage Injections
  - •Increase Summer Needs
- ➢ Optimize the Portfolio of Capacity Services

American Gas Association

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004



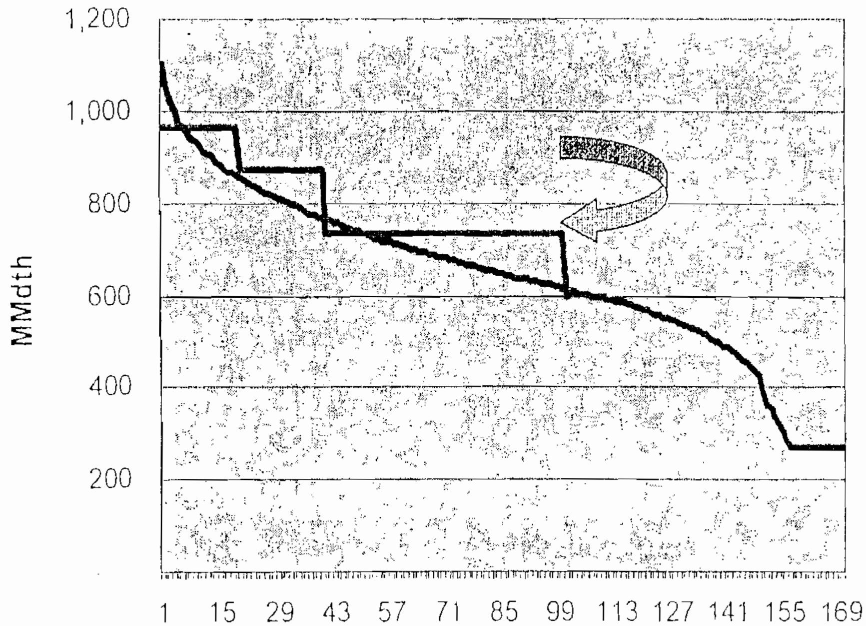
- **Adds Supply/Capacity to the Load Duration**
- Broken into three Parts
  - •Flowing Gas (FT)
  - •Storage Withdrawals
  - •Peak Shaving
- Minimize Fixed Costs & Optimize Assets

American Gas Association

GAS SERVICE

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

Load Duration - Storage Only

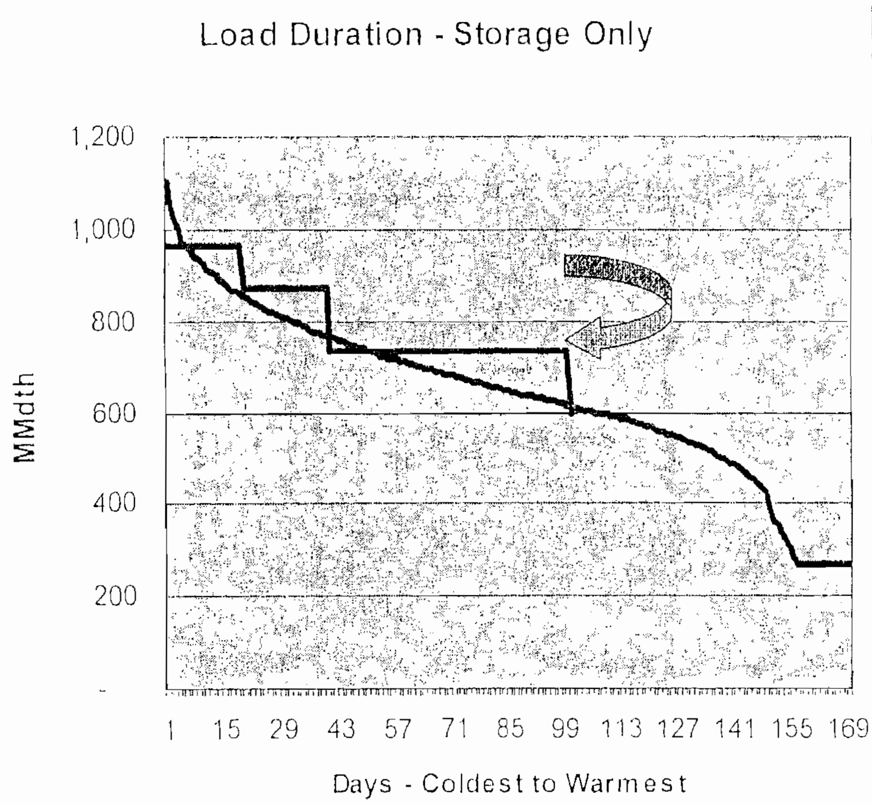


Days - Coldest to Warmest

Storage

- Multiple Options – Days of Service
  - Near Peak (20 days of less)
  - Intermediate (25 to 70 days)
  - Seasonal (75 to 150 days)
  - Number of Turns
- Optimization of Contract Profile
  - Least Cost Capacity Mix
  - State Regulatory Scrutiny

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

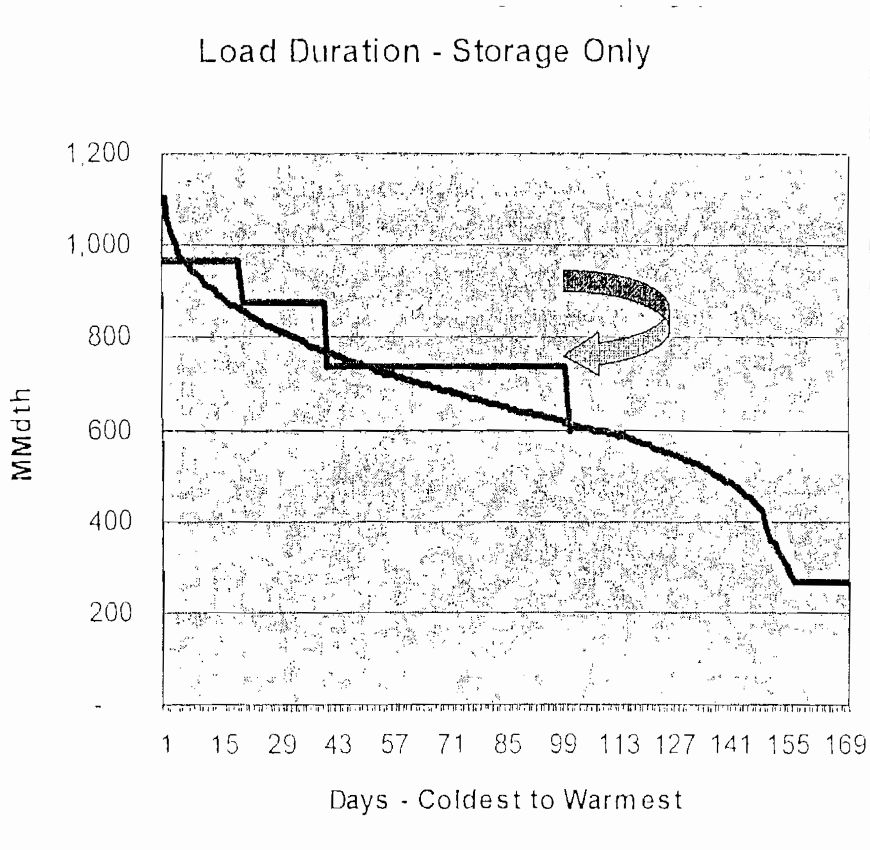


Storage

- Seasonal Pricing issues
  - Summer/Winter price Difference Physical Hedge
  - Summer Fill for LDC vs. Price Plays for Marketers
  - The Affect of Summer Electric Generation.
  - Seasonal Price Differential has shrunk in recent years

American Gas Association

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004



Storage

- Obligation to Serve Drives Planning
- LDCs at or near Full Inventory in November
  - Different from marketers – less price plays
- Market area versus Production area
  - Market area services generally Summer injection, Winter withdrawal (i.e. 1 turn)
  - Production area services have the ability to quickly refill and withdraw (i.e. multiple turns all year round)

AGA American Gas Association

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- Uncommitted reserves for storage and FT
  - ✓ Supply and demand would suggest this could help reduce volatility in prices.
  - ✓ Capacity constraints are only half of this equation
  - ✓ Other half of the equation is the availability of the commodity itself
  - ✓ As long as supply remains tight, volatility will remain