UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southern Natural Gas Company, L.L.C.	)	Docket No. RP19-86

MOTION TO ANSWER PROTEST
AND
ANSWER OF SOUTHERN NATURAL GAS COMPANY, L.L.C.

Pursuant to Rules 212 and 213 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission" or "FERC"), 18 C.F.R. §§ 385.212 and 385.213 (2018), Southern Natural Company, L.L.C ("Southern") hereby submits its motion for leave to answer the protest filed by the Alabama Municipal Distributors Group and The Southeast Alabama Gas District (hereinafter jointly referred to as the "Municipals") in this docket on October 29, 2018 ("Protest") and Southern's answer to the Protest. In support hereof, Southern states as follows:

I. PRELIMINARY STATEMENT

On October 16, 2018, Southern filed changes to various sections of its Tariff[1] pursuant to Part 154 of the Commission's regulations, 18 C.F.R. Part 154 (2018) ("Tariff Filing"). The primary purpose of the Tariff Filing is to revise the Type 3 Operational Flow Order ("OFO") penalty provisions in Section 41.2 of the General Terms and Conditions of Southern's Tariff ("GT&C"). Only one protest was filed and that Protest applied to only one aspect of Southern's Tariff Filing.

As stated in its Tariff Filing, Southern's current Type 3 OFO penalty amounts for Levels 2 and 3 of a flat $15 per Dth on OFO days has not proven to be an adequate deterrent to conduct that threatens system integrity because it is not tied to the actual price of gas. Therefore, Southern

[1] Southern Natural Gas Company, L.L.C. FERC Gas Tariff, Eighth Revised Volume No. 1.

has proposed to increase the penalty amounts for a Type 3 Level 2 OFO and a Type 3 Level 3 OFO to include a gas price index. It is the specific addition of the Transcontinental Gas Pipe Line Corporation ("Transco") pricing points in the gas index price that the Municipals protest for those firm shippers that do not have a primary firm contract receipt point on Southern at a Transco interconnect.

II. MOTION REQUESTING LEAVE TO ANSWER PROTEST

Although the Commission's rules generally do not permit answers to protests[2], the Commission accepts such answers for good cause, including where the answer will assist the Commission's analysis and may provide useful information to the Commission that assists in its decision-making[3]. Accepting Southern's answer will "provide relevant information and will lead to a more complete and accurate record, as well as a better understanding of the filing." Southern respectfully requests that the Commission grant this motion requesting leave to answer the Protest.

III. ANSWER

A. SOUTHERN'S PROPOSAL UTILIZES THE APPROPRIATE INDICES IN SOUTHERN'S MARKET AREA.

The Municipals protest the use of the Transco Zone 4 and Zone 5 South gas prices in Southern's Type 3 Level 2 OFO and Type 3 Level 3 OFO penalty calculation for those firm shippers that do not have a primary receipt point on Southern from Transco. It is important to note that on page 5 of its Protest, the Municipals reiterate that "it does not oppose the use of a gas adder for violation of OFO penalties to send the right price signals to ensure system integrity. However,

[2] 18 C.F.R. § 385.213(a)(2) (2018).

[3] *Columbia Gas Transmission, LLC*, 149 FERC ⁋ 61,092 at P 5 (2014); *Carolina Gas Transmission Corporation*, 148 FERC ⁋ 61,186 at P 5 (2014); *Tuscarora Gas Transmission Co.*, 120 FERC ¶ 61,022, at P 4 (2007); *Transwestern Pipeline Co.*, 109 FERC ¶ 61,062, at P 7 (2004); *Transcontinental Gas Pipe Line Corp.*, 108 FERC ¶ 61,230, at P 3 (2004).

the gas adder must reflect only relevant gas indices." In support of its inclusion of Transco Zone 4 and Zone 5 South price indices as relevant, Southern provides the following information.

The Southern system has only one location with a published price which is the Southern Natural, South Louisiana price, located at Southern's Zone 0 South pool near Franklinton, Louisiana. This price was established to be representative of pricing in Southern's traditional production area, but it is not geographically close to the majority of Southern's market areas. Southern's main market areas are in Zone 2 (Alabama) and Zone 3 (Georgia, South Carolina, Tennessee and Florida). Southern has no market area index prices that are published in its Zones 2 and 3. Inclusion of the Transco Zone 4 and Zone 5 South prices provide a fair and reasonable gauge of gas prices in Southern's market area[4] since there is not a specific Southern Natural price index available downstream of Southern's Zone 0. Use of Southern's existing index in Zone 0 alone does not provide the proper market signals to practically affect shipper behavior and result in meaningful change in economic choices by shippers.

Specifically, gas transported from Louisiana into Southern's market area passes through several constraint areas on Southern's system in Mississippi, Alabama and Georgia. On a high-demand day, when demand exceeds pipeline capacity and Southern must issue an OFO Type 3 to protect the system, the Louisiana price location is not representative of gas prices in Southern's market area because it has little geographic proximity to gas that is being purchased in Southern's Zones 2 and 3. Utilizing Transco Zone 4 and Zone 5 South prices (which reflect the pricing at the Transco receipt points in Southern's market area) in the "highest average" Southern OFO penalty calculation is just and reasonable since this is the best indicator of where shippers can purchase additional gas supply that is downstream of the west-to-east constraints on Southern's system in

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[4] Southern has interconnects with Transco in Atlanta, Georgia in Transco's Zone 4 and interconnects at the Georgia/South Carolina border in Transco Zone 4 and Zone 5.

Southern's market area. The purpose of the inclusion of these gas price indices is to provide a representative valuation of gas prices during an OFO day to allow for the penalty to be effective and provide a deterrent to harmful behavior, not to identify the exact location from where shippers actually choose to purchase gas. Therefore, the inclusion of the Transco Zone 4 and Zone 5 South pricing when calculating the OFO Type 3 penalty is appropriate for all shippers on Southern's system since it is the most practical index available to measure the highest average price of gas in Southern's market area.

Further, even acknowledging the Municipals' position that there are numerous firm Southern customers that do not purchase Transco gas because they do not have primary firm receipt points at the Southern-Transco interconnections, it is important to note that **all** Southern customers have alternate receipt point rights under their firm contracts with the opportunity to access Southern's interconnects with Transco in Transco's Zones 4 and 5. Firm shippers on Southern's system have the right to nominate from any receipt point on Southern's system, and shippers on Southern typically do not purchase all their gas from their firm receipt points, even on OFO days. For example, a firm shipper with all of its firm receipt point(s) in Louisiana can still nominate from the Transco Zone 4 receipt points or the Transco Zone 5 receipt point interconnected with Southern's system. Furthermore, many shippers that do not have firm receipt points at the Southern/Transco interconnects in Transco's Zone 4 and/or Zone 5 have the ability to receive gas from Transco on OFO days to support or increase their daily entitlements. Accordingly, the flexibility of Southern's Tariff with respect to receipt point optionality also supports the inclusion of the Transco prices in the calculation of the OFO Type 3 penalty.

B. SOUTHERN'S PROPOSED PENALTIES ARE NOT ARBITRARY AND GROSSLY EXCESSIVE AS SUGGESTED BY THE MUNICIPALS.

As stated above, Transco Zone 4 and Zone 5 South prices are appropriate indices to take into consideration with respect to OFO Type 3 penalty calculations as they are complimentary to Southern's market area and are thus not arbitrary. As stated in its Tariff Filing, the proposed penalty levels are not as high as some other pipeline penalty levels in Southern's service territory that have been approved by the FERC. Transco's OFO penalty is the higher of $50 or three times the applicable midpoint price published in Platts Gas Daily, "Daily Price Survey". Dominion Carolina Gas Transmission's OFO penalty is the higher of $60 or $15 plus three times the highest price shown among all the pricing points listed for Transco and the pricing point listed for South Louisiana-Southern Natural in the "AVG" column of the cash market price table published in NGI Daily Gas Price Index. These are both higher than Southern's proposed OFO penalties of $15 plus the highest average index price for Type 3, Level 2, and $25 plus two times the highest average index price for Type 3, Level 3. These examples demonstrate that Southern's proposal is far from excessive. In fact, Southern is concerned that the proposed penalties may not be high enough when compared to Transco's and Dominion Carolina Gas Transmission's OFO penalties. However, as stated in its Tariff Filing, Southern is taking a measured approach to deter shipper behavior that could jeopardize the pipeline system and potentially affect Southern's ability to provide firm service.

The revised penalty structure proposed by Southern is intended to influence shipper conduct to comply with OFO's and thereby serve as an effective deterrent to behavior that may threaten system integrity. To the extent that the shippers take gas on an OFO day from Southern within their daily entitlement plus the appropriate tolerance level[5], there is no OFO violation and no penalty. Further, as discussed in more detail in its Tariff Filing, Southern's Tariff offers several additional checks in addition to the volume tolerance before a shipper becomes subject to the OFO Type 3 penalty.[6] The purpose of the penalty is not to make shippers buy gas at any specific location, but to ensure that shippers do not make the choice of taking gas in excess of their daily entitlements. It is reasonably in the shippers' control to avoid the penalty, either through securing sufficient gas supplies or reducing takes of gas from the system. Only when a shipper exceed its daily entitlement, the applicable tolerances, and various checks is a penalty assessed. Southern's goal is not to assess penalties but to protect firm service and system integrity with the right economic incentives.

C. SOUTHERN IS AGREEABLE TO REVISION OF SECTION 17.2.

In the Protest the Municipals correctly identified an inconsistency with Section 358 of the Commission's regulations in Southern's proposal in GT&C Section 17.2. Southern is agreeable to revising the proposed provision to change the reference from "marketing affiliates" to "affiliates".

D. CONCLUSION

WHEREFORE, for the foregoing reasons, Southern respectfully requests that the Commission accept its answer in this proceeding, reject the Municipals' Protest and accept the proposed revisions to GT&C Sections 17 and 41 to be effective December 1, 2018.

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[5] For Type 3 Level 2 and Level 3, Southern is proposing to increase the tolerance level to the greater of 200 Dth or 102% of the Daily Entitlement.
[6] *See* Section 41.2(e) of the GT&C.

Respectfully submitted,

/s/ T. Brooks Henderson

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November 7, 2018

CERTIFICATE OF SERVICE

In accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, 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.

Dated at Birmingham, Alabama this 7th day of November, 2018.

/s/ T. Brooks Henderson
T. Brooks Henderson