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**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C.**

Leaf River Energy Center LLC)	Docket Nos. CP08-___ - 000,
)	CP08-___ - 000 and CP08-___ - 000
)	EXPEDITED ACTION
)	REQUESTED;
)	PRIVILEGED TREATMENT
)	REQUESTED

**ABBREVIATED APPLICATION FOR
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
AUTHORIZING CONSTRUCTION AND OPERATION OF
HIGH-DELIVERABILITY NATURAL GAS STORAGE FACILITY,
FOR BLANKET CERTIFICATES
AND FOR APPROVAL OF MARKET-BASED RATES UNDER
SECTION 7 OF THE NATURAL GAS ACT
AND REQUEST FOR EXPEDITED ACTION**

Pursuant to Section 7(c) of the Natural Gas Act, as amended (“NGA”), 15 U.S.C. § 717f(c) (2000) and Parts 157 and 284 of this Commission’s regulations, 18 C.F.R. Pts. 157 and 284 (2007), Leaf River Energy Center LLC (“Leaf River”) herein requests that the Commission grant Leaf River, on an expedited basis:

- (i) a certificate of public convenience and necessity authorizing Leaf River to construct, own, operate and maintain a high-deliverability salt dome natural gas storage facility to be located in Smith, Jasper and Clarke Counties, Mississippi, that will accommodate the injection, storage and subsequent withdrawal of natural gas for redelivery in interstate commerce;
- (ii) a blanket certificate pursuant to Subpart G of 18 C.F.R. Part 284 that will permit Leaf River to provide open-access firm and interruptible natural gas storage services on behalf of others in interstate commerce with pre-granted abandonment of such services;
- (iii) a blanket certificate pursuant to Subpart F of 18 C.F.R. Part 157 that will permit Leaf River to construct, acquire, operate, rearrange and abandon certain facilities following construction of the proposed project;

(iv) authorization to provide the proposed storage services, including interruptible wheeling services, at market-based rates, as described more fully below; and

(v) approval of the *pro forma* FERC Gas Tariff contained in **Exhibit P**, under which Leaf River will provide open-access natural gas storage and hub services, including interruptible wheeling services, in interstate commerce consistent with Order Nos. 636 and 637.

The Leaf River Energy Center (the “Project”) is designed to meet the diverse needs of energy marketers, liquefied natural gas importers, electric power generators, local distribution companies, industrial end users and pipelines for high-performance natural gas storage services and related services such as park and loan, imbalance trading and gas wheeling. The Project was conceived with the growth in demand for gas storage and, specifically, for high-deliverability gas storage, in mind. It will include four storage caverns with a total working gas capacity of 32 billion cubic feet (“Bcf”), supported by total cushion gas capacity of 9.9 Bcf. It is strategically located in south-central Mississippi, close to onshore and offshore gas supply sources and a well-established natural gas pipeline corridor that will soon host at least one new pipeline that will bring additional gas supplies into Mississippi. The Project is, moreover, favorably located relative to several existing and proposed LNG receiving terminals. It will have interconnections through a dedicated, integrated header system with five major interstate pipelines.

The Project’s construction and operation will have minimal adverse impacts on the environment, nearby landowners or their communities. Its header system will parallel existing pipelines for most of its length and will make extensive use of existing rights-of-way (“ROW”) during construction. With the possible exception of the threatened gopher tortoise, which may be present at the extreme eastern end of the Project’s pipeline header system, there are no threatened or endangered species anticipated in the Project area. The Project’s

construction is unlikely to disturb any cultural resources. Its construction and operation should present no other environmental issues of any consequence.

Leaf River respectfully requests that the Commission issue a final order granting the requested authorizations on or before May 1, 2008. The basis for this request for expedited processing is explained in detail in **Part XVI**, below. Expedited consideration and approval of this Application will not prejudice the interests of the potentially affected public. Leaf River has informed landowners in the vicinity of the Project of its plans without encountering any substantial opposition.

I. **EXECUTIVE SUMMARY**

The Leaf River Project involves the development of a high-deliverability salt dome natural gas storage facility in Smith, Jasper and Clarke Counties. The Project's gas storage caverns will be solution mined in a domal salt structure known as the New Home Salt Dome, located in Smith and Jasper Counties, Mississippi.

When the construction proposed here is complete, the Project will include four storage caverns with a total working gas capacity of 32 Bcf, supported by total cushion gas of 9.9 Bcf. It will be capable of withdrawing and delivering gas at a rate of up to 2.5 Bcf per day and of receiving and injecting gas at a rate of up to 1.0 Bcf per day.

In addition to its underground caverns and the storage cavern surface facilities, the Project will incorporate (a) a Gas Handling Facility, (b) a header system linking the Project with five mainline gas transmission pipelines, (c) sites upon which the Project's

Water Supply Wells (“WSWs”) and Salt Water Disposal (“SWD”) wells will be located, and (d) interconnections with each of the five pipelines.¹

The Gas Handling Facility will be located within a 9.95-acre parcel. It will include seven 4,800 horsepower natural gas engine-driven compressors, gas dehydration equipment and other associated facilities.

The Project’s header system will be fully integrated with the Gas Handling Facility and will be operated in concert with the Project’s gas storage facilities. It will include four metering and pipeline interconnection sites that will link the Project with five interstate pipelines. The Project will also include Cavern Piping Corridors, two Temporary Fabrication Areas, and various access roads. It will be supported by several non-jurisdictional electric power service drops.

Leaf River will solution mine its gas storage caverns using water withdrawn from four WSWs to be drilled and completed under authority of permits issued by the Mississippi State Department of Environmental Quality, Office of Land and Water Resources (“MDEQ”). The water supply source the Project will tap is not used locally as a source of potable water. The brine created by circulating fresh water in the salt formation will be disposed of by injecting it into one of four SWD wells in a zone that appears to be suitable for injection disposal of salt water, in compliance with requirements imposed by the Mississippi State Oil and Gas Board (“MSOGB”).

¹ On August 17, 2007, the Commission issued an order granting Leaf River’s request for exemption from certificate requirements to drill one fresh water supply test well and two stratigraphic test wells and perform certain testing activities to confirm the feasibility of developing the Project. *Leaf River Energy Center LLC*, 120 FERC ¶ 61,168 (2007) (“*Exemption Order*”). As drilling and testing activities continue under the *Exemption Order*, Leaf River expects to confirm that these test wells will be fit for conversion and incorporation into the Project as a WSW, SWD well and storage cavern well.

Leaf River concluded a successful Open Season on December 6, 2006. It received through that Open Season strong expressions of interest on the part of marketers, producers, electric generators, and local distribution companies in subscribing to the Project's storage capacity. Since the conclusion of the Open Season, Leaf River has continued to receive additional expressions of interest in Project capacity, including from two LNG developers. A number of these responses have proposed commitments to take service of multiple years' duration. Taken together, the expressions of interest Leaf River has received during and subsequent to its Open Season represent written requests for storage services corresponding to some 30 Bcf of the 32 Bcf of capacity to be made available by the Project. Leaf River plans to hold a binding Open Season beginning on November 1, 2007 and concluding on November 15, 2007.

Leaf River is the owner of record of the land on which the Gas Handling Facility, WSWs and SWD wells will be located. It leases the property upon which the four storage caverns will be located. The company has identified and is in the process of obtaining all necessary ROW for the Project's header system and will begin shortly to negotiate interconnection agreements with each of Southern Natural Gas Company ("Sonat"), Gulf South Pipeline Company, LP ("Gulf South"), Tennessee Gas Pipeline Company ("Tennessee"), Transcontinental Gas Pipe Line Corporation ("Transco") and Destin Pipeline Company, L.L.C. ("Destin"), the owners and/or operators of the five pipelines with which the Project will be interconnected. Leaf River is also proceeding to obtain all required federal, state and local authorizations and permits for the Project as described in **Exhibit J**, which has been prepared in accordance with Order No. 687.²

² *Regulations Implementing the Energy Policy Act of 2005; Coordinating the Processing of Federal Authorizations for Applications under Sections 3 and 7 of the Natural Gas and Maintaining a Complete*

Construction and operation of the Project will have minimal impacts on the natural environment and on adjacent landowners. The Project will be located primarily in Smith and Jasper Counties, with some of the east end of the West East Lateral to extend into Clarke County. Its facilities will occupy and traverse terrain that generally consists of rolling hills, with some bluffs and ridges. The nearest residence to the Gas Handling Facility is some 1800 feet away. Leaf River has found no wetlands at the cavern well sites or the Gas Handling Facility site; only a single small wetland area will be permanently affected by Project construction (specifically, by improvement of one of the proposed access roads leading to the WSW/SWD well sites). Other than evidence that some threatened gopher tortoises may have inhabited areas at the extreme eastern end of its pipeline header system, Leaf River has found no evidence that there are threatened or endangered species or cultural resources in the Project area that would be adversely affected by Project construction and operation.

Leaf River is proposing to provide open-access firm and interruptible storage and hub services, including interruptible wheeling service, and is requesting the Commission's authorization to charge market-based rates for those services. Leaf River does not propose to provide transportation services separate and apart from its storage and hub services; rather, it seeks authorization to treat its header system as an integral part of its storage facilities, in the same manner as this Commission has found acceptable in cases involving numerous other independent gas storage facilities having configurations similar to Leaf River's. *See* discussion at **Part X.A** below. The market power study, prepared by Keith A. Reutter, Ph.D., demonstrates that approval of market-based rates for Leaf River's

Consolidated Record, Order No. 687, 71 Fed. Reg. 62,912 (Oct. 27, 2006), FERC Stats. & Regs. ¶ 31,232 (2006) (codified at 18 C.F.R. Pts. 153, 157, 375 and 385).

proposed firm and interruptible storage, park and loan, hourly balancing and interruptible wheeling services is appropriate and consistent with authorizations the Commission has granted many of Leaf River's likely competitors. *See Exhibit I.*

The Project will introduce additional competition in the storage market that will increase the number and quality of the alternatives available to natural gas consumers and their suppliers. It is, accordingly, fully consistent with Commission policies supporting “the development of new natural gas storage capacity to ensure that adequate storage capacity will be available to meet anticipated market demand and to mitigate natural gas price volatility, while continuing to protect customers from the exercise of market power.”³

II. **APPLICANT**

The exact legal name of the applicant is Leaf River Energy Center LLC. Leaf River is a limited liability company organized and existing under the laws of the State of Delaware. Its principal offices are located at 61 Wilton Road, Westport, Connecticut, 06880, and its telephone number is (203) 557-4264. Leaf River maintains a web site at which details concerning the Project are available; its URL is <http://www.ngsenergy.com/leafriver/>. Leaf River was formed on November 22, 2006 for the purpose of developing, constructing and operating a proposed natural gas storage facility in Smith, Jasper, and Clarke Counties, Mississippi.

Leaf River is a wholly-owned subsidiary of NGS Energy Fund, LP (“NGS”). NGS is a Delaware limited partnership whose general partner is Westport Energy Advisors LLC. NGS is the ultimate parent company of Windy Hill Gas Storage, LLC (“Windy Hill”),

³ *Rate Regulation of Certain Natural Gas Storage Facilities*, Order No. 678, 71 Fed. Reg. 36,612 (June 27, 2006), FERC Stats. & Regs. ¶ 31,220 at P 10, *order on clarification and reh'g*, Order No. 678-A, 117 FERC ¶ 61,190 (2006) (codified at 18 C.F.R. Pt. 284).

the owner of an interstate natural gas storage project to be located in Morgan County, Colorado, that is currently under construction. It is also the parent of Tres Palacios Gas Storage LLC (“Tres Palacios”), owner of an interstate natural gas storage project to be located in Matagorda and Wharton Counties, Texas.

Upon receipt of the authorizations requested herein, Leaf River will become a “natural-gas company” within the meaning of Section 2(6) of the NGA⁴ and, as such, will be subject to the jurisdiction of the Commission. Leaf River will perform natural gas services in interstate commerce under the terms of its FERC Gas Tariff, a *pro forma* copy of which is included in **Exhibit P**.

Communications regarding this Application should be addressed to:

James F. Bowe, Jr.*
William E. Rice
Delia D. Patterson
Dewey & LeBoeuf LLP
975 F Street, NW
Washington, DC 20004
(202) 862-1000 (phone)
(202) 862-1093 (fax)
jbowe@dl.com

Laura L. Luce*
Geof Storey
Leaf River Energy Center LLC
c/o NGS Energy Fund, LP
61 Wilton Road
Westport, CT 06880
203 557-4264 (phone)
203 341-0830 (fax)
lluce@ngsenergy.com

* Leaf River requests that these persons be included on the Commission’s official service list.

⁴ 15 U.S.C. § 717a(6).

III.
EXISTING OPERATIONS

Leaf River has no existing jurisdictional or non-jurisdictional operations in the natural gas pipeline and storage industry.

IV.
RELATED APPLICATIONS

Leaf River has no applications for a certificate of public convenience and necessity pending before this Commission. Leaf River does not believe it is necessary to file any other application with this Commission for authorization to undertake the construction of and to operate the facilities described here.

The Project described in this Application will be a complete and usable facility. Other than certain non-jurisdictional electric power supply facilities, no other jurisdictional or non-jurisdictional facilities or projects are required in order to enable Leaf River to conduct the operations or to render the services described herein.

V.
DESCRIPTION OF PROPOSED FACILITIES

A. Jurisdictional Facilities

1. Gas Storage Caverns and Cavern Wells

Leaf River proposes to drill four cavern wells (CW-01 through CW-04) in the New Home Salt Dome. Through these wells it will develop four caverns to be used in interstate natural gas storage service. Leaf River will develop the individual caverns sequentially, by means of proven direct and reverse circulation solution mining techniques, under authority of permits issued by the MSOGB. Leaf River has the right to develop these caverns by virtue of leases it has obtained from the various owners of surface and mineral interests in the New Home Salt Dome and lands overlying it.

The cavern leaching process will be carefully controlled. It will be monitored through the use of periodic sonar surveys to ensure that each cavern roof is properly shaped and the production casing string seat is protected. Once Leaf River has developed the cavern space to the approximate capacity specified in the Project's design, it will use a sonar survey to confirm cavern shape and capacity. Leaf River will then commence reverse circulation production to shape the cavern roof for structural integrity, while protecting the casing seat. After obtaining the desired cavern design shape, Leaf River will perform a final sonar survey and submit it to the MSOGB. Then, Leaf River will pressurize and subject each cavern to a mechanical integrity test that it will perform in accordance with MSOGB requirements. Following confirmation of cavern integrity and approval by the MSOGB and clearance from this Commission, Leaf River will convert each cavern to natural gas storage service. The planned cavern design and construction techniques are discussed at length in **Resource Report 6**.

Leaf River's proposed CW-01 will be located at 89.3265 Longitude and 31.8665 Latitude. The top of CW-01 will be approximately 4,073 feet below the ground surface, with the cavern extending down to approximately 5,723 feet. Ingress and egress from the CW-01 well site area will be provided by means of a newly constructed roadway. *See Resource Report 1, Figure 1.1-3A1.*

Leaf River's proposed CW-02 will be located at 89.3244 Longitude and 31.8641 Latitude. The top of CW-02 will be approximately 4,050 feet below the ground surface, with the cavern extending down to approximately 5,700 feet. Ingress and egress from the CW-02 well site area will be provided by means of a newly constructed roadway. *See Resource Report 1, Figure 1.1-3A1.*

Leaf River's proposed CW-03 will be located at 89.3185 Longitude and 31.8635 Latitude. The top of CW-03 will be approximately 4,096 feet below the ground surface, with the cavern extending down to approximately 5,746 feet. Ingress and egress from the CW-03 well site area will be provided by means of a newly constructed roadway. *See Resource Report 1, Figure 1.1-3A1.*

Leaf River's proposed CW-04 will be located at 89.3193 Longitude and 31.8606 Latitude. The top of CW-04 will be approximately 4,075 feet below the ground surface, with the cavern extending down to approximately 5,725 feet. Ingress and egress from the CW-04 well site area will be provided by means of widening and upgrading a previously constructed pathway as well as constructing additional new roadway. *See Resource Report 1, Figure 1.1-3A1.*

2. Water Supply Wells and Saltwater Disposal Wells for Use in Leaching Process

Leaf River proposes to drill and complete four WSWs (WSW-01 through WSW-04) and four SWD wells (SWD-01 through SWD-04) that will be located within a 260-acre parcel of land that Leaf River owns. This site is located approximately 1.1 miles northeast of the Gas Handling Facility. The WSWs and SWD wells will be connected through a system of piping, valves, instruments and controls to be used to conduct the solution mining and brine disposal activities associated with development of the four caverns.

In planning the Project, Leaf River consulted local experts and the MDEQ to discuss potential water supply source zones.⁵ It was generally agreed that the Wilcox

⁵ In order to further define the water quality and aquifer characteristics of the Wilcox Formation, Leaf River plans to drill a water supply test well and conduct tests, pursuant to the *Exemption Order* and its MDEQ permit.

Formation, particularly the Upper and Middle Wilcox zones, showed the best potential as a suitable water supply source. The Wilcox Formation is not used for potable water supply in the Project area, and in fact is even being used for salt water disposal in some locations. Moreover, the Wilcox Formation typically is not continuous, which results in withdrawals in one location not having an impact on the Wilcox Formation in another area. Accordingly, the four WSWs will be drilled and completed in the Wilcox Formation to supply raw water for solution mining, or leaching, the salt from the salt dome. The WSWs will not draw from the Lower Catahoula and Sparta Aquifers, which are used in the Project area as primary sources of potable water for public consumption.

The WSWs will be spaced to minimize interference. Each WSW pad will be located near a SWD well; however, each type of well will be completed in different zones. Leaf River will drill each WSW to a depth of approximately 4,300 to 4,500 feet. Each WSW pad will occupy a 1.2 acre tract. A water supply pipeline will link the WSWs with the Gas Handling Facility.

Brine produced from the cavern leaching process will be transported through a dedicated brine disposal pipeline to the SWD wells, which will be located adjacent to the WSWs. Each SWD well will be completed in the Tuscaloosa Formation. The Tuscaloosa is not an underground source of drinking water and typically possesses characteristics of porosity, permeability and thickness that make it an ideal choice as a disposal zone.⁶ Leaf River will complete each SWD well to a depth of approximately 8,000 feet. Each SWD well pad will occupy a 1.2-acre tract. The four SWD wells will be properly spaced to avoid

⁶ In order to further define the zone and assess the zone's properties, Leaf River is drilling a stratigraphic test well and plans to drill another stratigraphic test wells and run tests, pursuant to the *Exemption Order* and its MSOGB permits.

potential well interference and will be drilled to a depth sufficient to intersect the largest interval of the Tuscaloosa Formation.

Leaf River will create two access roads to the SWD/WSW pad locations. One access road will run north, adjacent to the pipeline and header ROW, starting to the south of SWD-03 and WSW-03, and a second access road will start from County Road (“CR”) 124 north of SWD-01 and WSW-01 and follow an existing road to gain access to SWD-01, WSW-01, SWD-02, WSW-02, SWD-04 and WSW-04. *See Figures 2.1-1A2 and 2.1-1A3.* These access roads avoid wetlands altogether apart from a small area where one access road will cross, and therefore permanently impact, part of a wetland. *See Figure 2.3-27.* The access roads’ widths will be kept to the minimum practical that will still allow access by workover rigs.

The locations of the WSWs, SWD wells and associated brine disposal facilities are depicted in **Figures 1.1-6A7, 2.1-A2, and 2.1-A3.** *See Resource Report 1.*

3. Gas Handling Facility

The bulk of the Project facilities will be located at the Gas Handling Facility site, a 9.95-acre parcel Leaf River owns in fee that is located approximately 6.5 miles northeast of Taylorsville, in Smith County, Mississippi. The Gas Handling Facility will be permanently fenced and maintained. It will house the compressor station, gas dehydration equipment and other associated infrastructure necessary to support the direction and routing of natural gas to and from the storage caverns. The main compressor building will house seven 4,800 horsepower natural gas-driven compressors, as well as ancillary support equipment.

Leaf River will design, build and operate a new permanent substation within this 9.95-acre site that will provide electric power to the Gas Handling Facility. Southern

Pine Electric Power Association (“SPEPA”) will own the substation and will have override operation capability. Leaf River will construct the substation on a parcel of approximately 150 feet by 300 feet and will incorporate a high-reliability design utilizing two fully-redundant transformers and associated bus and switch structures. The substation will deliver about 15 MVA at 115 kV/4160 and 4160/480 and will have capacity for future expansion, if needed.

An existing 30-foot wide access road extending north from CR 5 will be used for access to the Gas Handling Facility site. From this access road, Leaf River will construct two entrances, as required by federal safety regulations, to allow ingress and egress to the Gas Handling Facility. *See Resource Report 1, Figure 1.1-3A1*

The Gas Handling Facility is depicted in **Figures 1.1-3A1, 1.1-3A2, and 1.1-5**. *See Resource Report 1.*

4. Cavern Piping Corridors

Cavern Piping Corridors will connect the cavern well sites and the Gas Handling Facility and storage cavern sites. These Cavern Piping Corridors will consist of a permanent corridor approximately 30 feet wide for most of their length. They will be up to 70 feet wide in areas requiring greater access. The Cavern Piping Corridors are shown in **Figure 1.1-3A1**. *See Resource Report 1.*

5. Header System and Interconnections

The Project will extend by means of a natural gas pipeline header system to interconnections with five interstate gas transmission pipelines. These include pipelines owned and/or operated by Sonat, Gulf South, Tennessee, Transco and Destin. The Project’s header system will include dual bi-directional 24-inch natural gas pipelines and a length of

single 24-inch gas pipeline. For ease of reference, Leaf River has divided this header system into two components:

- The “Dome Lateral,” which will consist of a 6.61-mile long segment extending from the Gas Handling Facility in Smith County into Jasper County, will include two sections. Section One will basically parallel the Smith-Jasper County line north from the Gas Handling Facility for approximately 2 miles, crossing one mile of company-owned and one mile of privately-owned property. Section One will include a 16-inch water pipeline and a 16-inch brine pipeline that will connect the leaching equipment at the Gas Handling Facility with the WSWs and SWD wells, as well as a non-jurisdictional power transmission corridor that runs directly adjacent and to the west of the pipeline corridor. Section Two will begin at an existing overhead power ROW that turns to the northeast. Section Two will include a dual 24-inch gas pipeline header and will parallel the existing overhead power line ROW until it terminates at the West East Lateral.
- The “West East Lateral,” which will consist of (i) a 6.88-mile long segment of single high-pressure 24-inch gas pipeline to the west of the junction at which the Dome Lateral and West East Lateral intersect and (ii) a segment of 30.35 miles of looped bi-directional 24-inch pipeline to the east of the Dome Lateral junction.

The header system will be operated in conjunction with the Gas Handling Facility to permit gas to be received from or delivered into the interconnecting pipelines and injected into or withdrawn from storage. The header system will include no end-user interconnections and will function exclusively as the means by which Leaf River provides storage and wheeling services nominated by its customers. Leaf River’s proposed header system and its role in providing wheeling services are discussed in greater detail in **Part XI, Statement G** below.

The Project’s cavern piping and compressor headers will be designed to operate at or below 3300 psig; its gas process piping, compressor suction headers and the header system will operate at or below 1480 psig. The Project’s design and its header system will accommodate gas movements involving –

- Cavern injections of gas receipts from pipelines operating at pressures higher than cavern pressure.
- Cavern injections of gas receipts from pipelines operating at pressures lower than cavern pressure.
- Cavern injections of gas receipts from separate pipelines operating at different pressures.
- Cavern withdrawals and deliveries into a pipeline with pressure reduction.
- Cavern withdrawals and deliveries into separate pipelines with differing degrees of pressure reduction required.
- Cavern withdrawals and deliveries into pipelines with compressor pressure boost.
- Cavern withdrawals and deliveries into separate pipelines requiring differing levels of compressor pressure boost for different prevailing pipeline pressures.
- Wheeling of gas from one pipeline to another where deliveries require the operation of Gas Handling Facility compressors to provide a pressure boost to overcome receiving pipeline prevailing pressure.

Such flexibility in the capacity to transfer gas among a storage facility and multiple interconnecting pipelines by means of a header system is typical of high-deliverability gas storage facilities operating in the Gulf Coast region, including several with which Leaf River will compete.⁷

i. Dome Lateral

The Dome Lateral runs generally north from the Gas Handling Facility for a distance of 6.61 miles. It will be constructed in a 100-foot wide ROW (50 feet permanent, 50 feet temporary, with extra temporary work space at specific road and water crossings), except in sensitive areas, such as wetlands, where the ROW will be reduced to 75 feet in width. In

⁷ These facilities include, among others, the Pine Prairie Energy Center, the Southern Pines Energy Center, the Mississippi Hub storage facilities, the Caledonia Gas Storage Field, the Katy Storage and Transportation facility, the Moss Bluff Gas Storage facility and the Bobcat Gas Storage facility.

order to minimize its environmental impact, the Dome Lateral will follow an existing Mississippi Power Company power line for all but two miles of its route.

The Dome Lateral is shown at **Figures 1.1-6A7, 1.1-6A2, and 1.1-8A26** through **1.1-8A31**.

ii. West East Lateral

The West East Lateral will intersect with the Dome Lateral at that lateral's terminus and will run generally west and east. The West East Lateral will be constructed in a 100-foot wide ROW (50 feet permanent, 50 feet temporary, with extra temporary work space at specific road and water crossings), except in sensitive areas, such as wetlands, where the ROW will be reduced to 75 feet in width.

The West East Lateral will follow the corridor to be occupied by the proposed Gulf South Southeast Expansion Project.⁸ This means that all of the West East Lateral will be located within the Southeast Expansion Project pipeline corridor and, for virtually all of its length, will be installed immediately adjacent to the Southeast Expansion Project pipeline facilities. The part of the Gulf South pipeline route that Leaf River will follow will parallel an existing Crosstex Gulf Coast Transmission Ltd. ("Crosstex") gas transmission pipeline and will continue to the east-southeast for approximately 33.05 miles until joining a corridor occupied by Transco pipeline facilities. The pipeline route would then turn east-northeast and continue for approximately 5.3 miles to the Destin and Transco Meter and Regulator Station and Interconnect Site.

Where applicable, the Gulf South survey information has been used as input into the development of the Leaf River Resource Reports and has been supplemented by Leaf

⁸ *Gulf S. Pipeline Co.*, 120 FERC ¶ 61,291 (2007). Leaf River has negotiated with Gulf South for the right to lay the West East Lateral in Gulf South's ROW or abutting its permanent ROW as ground conditions allow.

River studies where needed. The corresponding Gulf South Resource Reports have been included as attachments to, and are incorporated by reference in, Leaf River's Resource Reports.

The West East Lateral is shown at **Figures 1.1-6A1 through 1.1-6A6 and 1.1-8A1 through 1.1-8A25**.

6. Meter and Regulator Stations and Interconnect Sites

Four Meter and Regulator Stations with five interconnects at four sites will connect the Project's header system to five interstate gas transmission pipelines. Each Meter and Regulator Station will be serviced by a bi-directional natural gas pipeline interconnect. *See Resource Report 1, Figures 1.1-9A and 1.1-9B*. The Meter and Regulator Sites will occupy tracts of approximately 0.5 to 1.5 acres each. Service corridors required to provide vehicular access, pipeline, utility and transmission services to the Meter and Regulator Sites will also be built. Each pipeline interconnect will include a pipeline corridor for a bi-directional pipeline, an individual pipeline hot tap and the required temporary and permanent ROW. The ROW for each pipeline interconnect lateral will be 100 feet in width (50 feet permanent and 50 feet temporary, with extra work space at specific road and water crossings).

7. Temporary Fabrication Areas

Leaf River proposes to set aside two Temporary Fabrication Areas. Approximately 20.80 acres adjacent to the Gas Handling Facility will serve as Temporary Fabrication Area No. 1. An area of approximately 20 acres located adjacent to WSW-01 and SWD-01 will serve as Temporary Fabrication Area No. 2. These Temporary Fabrication Areas will be used for fabrication, construction parking, material storage and construction

offices. The Temporary Fabrication Areas are shown on **Figures 1.1-3A1** and **1.1-8A28**.

See **Resource Report 1**.

B. Non-Jurisdictional Facilities

The Project requires several non-jurisdictional permanent electric power service drops to support construction and operations. **Resource Report 1, Table 1-9** contains a listing and description of the non-jurisdictional facilities associated with the Project. All of these facilities are described in **Resource Report 1** and are shown on **Figures 1.1-17A, 1.1-17B, and 1.1-17C**.

The Project will be supported by several non-jurisdictional electric power service drops extending to the Gas Handling Facility, WSW and SWD sites and the various Meter and Regulator Sites. Project operations will require three-phase, high-voltage electrical service to the Gas Handling Facility site to power facilities to be used in gas compression and well pumps, as well as to supply other construction power needs. An overhead utility easement of about two miles in length will link the new power substation to electric transmission facilities traversing the area. The Project will also require standard domestic-type 120/240 VAC service to the various Meter and Regulator Sites. Leaf River is currently negotiating with the local electric utilities, SPEPA, Southern Mississippi Electric Power Association (“SMEPA”) and East Mississippi Electric Power Association (“EMEPA”) to provide electric service for the Project. Leaf River considers the service drops, though non-jurisdictional from FERC’s perspective, to be a component of the Project for environmental review purposes.

1. Application of the Four-Factor Test

The Commission employs a four-factor test to determine the extent to which it must extend its environmental review to non-jurisdictional facilities.⁹ This test enables the Commission to determine whether there is sufficient federal control and responsibility over a project as a whole to warrant environmental analysis of portions of a project that are outside of the Commission's direct sphere of responsibility.

Leaf River has applied the four-factor test to the non-jurisdictional facilities to be built by SPEPA, SMEPA and EMEPA. Application of this test establishes that the Commission does not have sufficient control and responsibility over these facilities to "federalize" them for environmental review purposes and that the Commission need not duplicate environmental analyses of the proposed facilities being performed by others.

It is worth noting at the outset that the Project itself will not qualify as major federal action significantly affecting the quality of the human environment.¹⁰ The first of the four factors (the "merely a link" factor) does not appear relevant in this case involving a natural gas storage project that is not a "corridor-type" project in the same way a typical pipeline or utility transmission project is. As for the second factor, the locations of the non-

⁹ See *Algonquin Gas Transmission Co.*, 59 FERC ¶ 61,255 (1992) ("*Algonquin*"). The "four factors" adopted in *Algonquin* are: (i) whether the regulated activity comprises "merely a link" in a corridor type project (e.g., a transportation or utility transmission project); (ii) whether there are aspects of the upland facility in the immediate vicinity of the regulated activity which affect the location and configuration of the regulated activity; (iii) the extent to which the entire project will be within the federal agency's jurisdiction; and (iv) the extent of cumulative federal control and responsibility over the non-jurisdictional project. *Id.* at 61,934. The Army Corps of Engineers' formulation of the "four factor" test was upheld in *Sylvester v. Corps of Engineers*, 884 F.2d 394 (9th Cir. 1989). The Commission's four-factor test is incorporated in the Commission's Part 380 Regulations Implementing the National Environmental Policy Act, as modified by Order No. 603. 18 C.F.R. § 380.12(c)(2)(ii).

¹⁰ See *Algonquin*, 59 FERC at 61,935-36.

jurisdictional facilities have not determined the location or configuration of the Project facilities; if anything, the reverse is true.¹¹

Construction of the electric distribution lines and service drops – the activity relevant to the third factor – is not subject to this Commission’s jurisdiction, but will be entirely within the jurisdiction of state and local authorities. SPEPA, SMEPA and EMEPA will, of course, be obligated to comply with all applicable federal, state and local laws and regulations pertaining to their distribution lines and service drops.

Finally, there is no federal direction, planning, financial or permitting involvement in the construction of the non-jurisdictional electric transmission facilities and service drops.¹² These facilities will either be utility property or private property and will be planned, developed, permitted and financed as such.

Consistent with its precedent¹³ and the flexibility inherent in application of the four-factor test, this Commission need not include the described non-jurisdictional electric distribution lines and service drops within its environmental purview as it evaluates the environmental impacts of the Project. Nevertheless, Leaf River plans to provide general information concerning the locations of the non-jurisdictional electric transmission lines and service drops so the Commission may better understand the Project’s environmental setting and overall environmental impact.

¹¹ *See id.*

¹² *See id.* at 61,935; *See also SG Res. Miss., L.L.C.*, 101 FERC ¶ 61,029 at P 38 (2002) (“SGRM”); *Tenn. Gas Pipeline Co.*, 95 FERC ¶ 61,169 at 61,548-49 (2001).

¹³ *See cases cited in preceding footnote.*

VI. **ENVIRONMENTAL IMPACT**

The Resource Reports provided in **Exhibit F-1** demonstrate that the Project's environmental impacts will be minimal, that all adverse impacts can be avoided or mitigated, and that the proposed Project is an environmentally acceptable means of providing the additional storage capacity, injection capability and deliverability that is needed in the regions the Project will serve. The Resource Reports also show that the minimal required disruption of the natural environment is outweighed by the Project's benefits to society. The information provided in **Exhibit F-1** has been prepared in accordance with 18 C.F.R. Part 380 to meet the Commission's requirements pertaining to environmental impact analyses.

The total amount of ROW that the Project will permanently affect is approximately 275.49 acres; of this area, most will be simply cleared and, after construction, will be replanted with native grasses or other appropriate vegetation. Approximately 317.99 additional acres of ROW will be subject to temporary impacts during the Project's construction. More detailed descriptions of the Project's permanent and temporary effects are provided in **Resource Report 1** and **Resource Report 8**.

Other than indications that some threatened gopher tortoises may have once inhabited, and may still inhabit, burrows located at the extreme east end of its West East Lateral, Leaf River's environmental investigations have not revealed evidence of the presence of any species that has been federally listed as threatened or endangered. *See generally* **Resource Report 3, Section 3.6**. Nor have they revealed evidence suggesting the existence of any cultural resources in the areas to be disturbed by Project construction and operation. *See generally* **Resource Report 4, Section 4.4.5**.

Where pipeline construction or other construction activities may affect wetlands, Leaf River will follow the Commission's Wetland and Waterbody Construction Mitigation Procedures (the "Procedures") and all requirements of the applicable U.S. Army Corps of Engineers permit. Leaf River intends to adopt the Commission's Procedures and its Upland Erosion Control, Revegetation and Maintenance Plan for use in construction and maintenance of the Project's facilities. Environmental mitigation measures will be incorporated into Leaf River's construction specifications.

The Gas Handling Facility equipment has been designed to meet all applicable federal and state air emissions limitations and anticipated permit requirements. *See generally Resource Report 9, Section 9.2.* Project-generated sound and air emissions will fall within all applicable state and federal guidelines.

VII. **ENGINEERING AND CONSTRUCTION**

Leaf River will manage the overall Project engineering effort with support from independent engineering firms. Final engineering tasks will be performed by licensed engineering firms, under professional service agreements with Leaf River.

Design and construction of all facilities will meet or exceed the safety-related requirements imposed by the applicable provisions of the Natural Gas Pipeline Safety Act of 1968, as amended, 49 U.S.C. §§ 60101-60503 (2000) and the U.S. Department of Transportation's pipeline construction and safety standards set forth in Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards, 49 C.F.R. Part 192, and all local codes and permits applicable to natural gas pipeline or storage facilities. Leaf River will also comply with all applicable requirements of the MSOGB pertaining to the

drilling of its gas storage caverns and SWDs and the requirements of the MDEQ with respect to the drilling of its WSWs. *See generally* **Exhibit M**.

Construction-related impacts on the environment and nearby communities will be limited. They will consist predominantly of short-term air and noise emissions relating to vehicular traffic, well drilling operations and pipeline construction activities. These impacts are described in **Resource Report 9**. Air emissions will be mitigated as described in **Resource Report 9, Section 9.2.5**; construction-related noise emissions should generally be acceptable given the substantial distances between the construction sites and the nearest noise-sensitive receptors (*see* **Resource Report 9, Section 9.3.5**). Leaf River will take appropriate steps to ensure that noise levels generated by the drilling equipment deployed at the Project do not exceed acceptable levels. *See* **Resource Report 9, Section 9.3.6**.

Leaf River will contract with qualified outside oilfield services, pipeline construction and compressor facility construction firms to perform all required construction activities.

VIII. **MARKETS**

The Leaf River Project will provide precisely the sorts of high-deliverability storage and hub services today's natural gas markets require to address increasing demand, declining domestic production, changes in domestic gas supply sources, increasing LNG imports and heightened gas price volatility. It will make these services available through five interstate pipelines that serve the Gulf Coast, the Southeast, the Mid-Atlantic region and the Northeast. The need for the Project has been confirmed by the expressions of interest Leaf River has received through its non-binding Open Season completed at the end of 2006.

A. Market Demand for High-Deliverability Gas Storage Generally

There is a significant market demand for new natural gas storage capacity, including in particular salt dome gas storage capacity. Business development and economic growth in the Gulf Coast and southeast region of the United States remains robust. Much of this development and growth will lead to an increased demand for energy resources in general, and for natural gas in particular. Generally speaking, increases in demand for natural gas induce increases in demand for natural gas transportation infrastructure, including underground natural gas storage capacity and deliverability. An additional source of demand for incremental natural gas storage in the Southeast United States is the development of new sources of natural gas supply in East Texas, North Texas, Oklahoma and Arkansas.

The Commission itself has recognized that more gas storage capacity is needed. In Order No. 678, which implements Section 312 of the Energy Policy Act of 2005, the Commission stated that one of its goals is to reduce natural gas price volatility and encourage development of natural gas storage capacity.¹⁴

Approval of the Project will further the Commission's policy goals of encouraging the development of new natural gas storage capacity and will help satisfy the growing demand for natural gas storage services. High-deliverability salt cavern storage facilities, such as the proposed Project, are well suited to serve these growing needs.¹⁵

B. Market Response to the Leaf River Open Season

Leaf River last year completed an Open Season for firm storage services to gauge the market's level of interest in contracting for the Project's services. The materials

¹⁴ Order No. 678, FERC Stats. & Regs. ¶ 31,220 at P 10.

¹⁵ See Energy Information Administration, *U.S. Underground Natural Gas Storage Developments: 1998-2005*, at 7 (Oct. 2006) (available at http://www.eia.doe.gov/pub/oil_gas/natural_gas/feature_articles/2006/ngstorage/ngstorage.pdf).

made available in this Open Season are reproduced at **Exhibit I**. The Open Season was widely publicized in trade publications, and the market's response was encouraging.

The purpose of the Open Season was to gauge interest in the Project rather than to negotiate precedent agreements. Consequently, Leaf River requested non-binding expressions of interest in its Open Season materials. Experience shows that energy market participants prefer to execute firm storage agreements and assume the associated long-term financial liabilities only after a proposed storage facility has secured the required permits and approvals. Moreover, Commission precedent affords Leaf River the latitude to accommodate prospective customers by asking only for non-binding expressions of interest. The Commission "no longer require[s] an applicant to present contracts for any specific percentage of the new capacity."¹⁶ It has specifically acknowledged that requiring any specific contractual commitments is unrealistic for grassroots storage project developments in today's market environment.¹⁷

During its Open Season (which ran from October 20, 2006 through December 6, 2006), electric utilities and gas LDCs, LNG terminal developers, industrial consumers and marketers expressed interest in the Project. Such expressions have continued to come in following the Open Season's December 6, 2006, close. Leaf River has received serious expressions of interest in taking service that would require commitment of some two thirds of the working gas capacity proposed in this Application. These expressions of interest

¹⁶ *Certification of New Interstate Natural Gas Pipeline Facilities; Statement of Policy*, 88 FERC ¶ 61,227 at 61,748, 89 FERC ¶ 61,040 (1999), *clarified*, 90 FERC ¶ 61,128, *further clarified*, 92 FERC ¶ 61,094 (2000) ("*Certification Policy Statement*"); *see also, e.g., Cross Bay Pipeline Co.*, 97 FERC ¶ 61,165 at 61,761 (2001) ("[T]he existence of precedent agreements is no longer a prerequisite to the Commission's determination that a proposal is in the public convenience and necessity.").

¹⁷ *SG Res. Miss. L.L.C.*, 108 FERC ¶ 61,051 at PP 12, 13, 15 (2004) (granting a waiver of a certificate condition requiring the filing of an executed long-term storage service agreement before construction of the Southern Pines Energy Center could commence).

demonstrate that there is substantial market demand for the Project's services. Leaf River plans to hold a binding Open Season beginning on November 1, 2007 and concluding on November 15, 2007. Leaf River anticipates that interest will grow further once the Project begins construction.

Leaf River will award all capacity on a basis that is not unduly discriminatory, as required by Commission policy.

IX.
PUBLIC CONVENIENCE AND NECESSITY: THE PROJECT SATISFIES ALL
CERTIFICATION POLICY STATEMENT REQUIREMENTS

The Leaf River Energy Center is required by the public convenience and necessity. It will meet a well-documented need for additional high-performance natural gas storage capacity and will make this capacity available in an area that is fast becoming an important crossroads for natural gas supply.

The Project's location in south-central Mississippi is close to the proposed routes of new natural gas pipelines that will bring additional gas supplies into Mississippi and will extend from the Gulf Coast sites of several authorized and proposed LNG receiving and regasification terminals. Its location will position the Project to supply natural gas storage services that will facilitate increased deliveries of natural gas and regasified LNG into the Gulf Coast region and will support the redelivery of these supplies into pipelines serving the major natural gas demand centers of Florida, the Southeast, the Mid-Atlantic and the Northeast. Given the Project's central location relative to new west-to-east Gulf Coast pipeline projects and to numerous existing and proposed LNG terminals, the Project will be well situated to balance large volume deliveries of natural gas into the region with the variable demand for natural gas in the Gulf Coast region and in the other regions the Gulf Coast supplies. The Leaf River Energy Center will form an important part of the new

delivery infrastructure being pushed by the development of new gas supply sources and being pulled by steadily increasing demand for natural gas in Florida and in the Southeast, Mid-Atlantic and Northeast regions.

The Leaf River Project proposal readily meets each of the criteria the Commission now employs in determining whether there is sufficient need for a proposed interstate natural gas project and whether the development of the proposed project will serve the public interest. Those criteria, articulated in the Commission's *Certification Policy Statement*, require first, that the applicant must be prepared to support a project financially without relying on subsidization from any existing customers.¹⁸ Leaf River is prepared to assume all financial risk associated with development of the Project, as is evidenced by its request that the Commission authorize market-based rates for the Project's storage services. Moreover, Leaf River is a new entrant into the natural gas storage market, and so it has no existing customers to burden with subsidies in order to provide financial support for the proposed Project. Thus the Project meets the *Certification Policy Statement*'s threshold "no subsidy" test.

The *Certification Policy Statement* next requires the Commission to determine whether an applicant has made sufficient efforts to eliminate, or minimize, adverse effects that the Project could have on the applicant's existing customers, competing companies or their existing customers, or landowners and communities affected by the project.¹⁹ Leaf River has no existing customers. The Project will have no adverse impacts on existing storage facilities or their customers, as it will be located in an extremely competitive market area, as is demonstrated in the Market Power Study provided at **Exhibit I**. Furthermore, as a

¹⁸ *Certification Policy Statement*, 88 FERC at 61,746-47.

¹⁹ *Id.* at 61,747-50.

new market entrant charging market-based rates, the Project will not compete unfairly with existing interstate pipeline and storage facilities with captive customers or with facilities in the area that also charge market-based rates. Rather, the Project will increase the competitive alternatives available to customers for high-deliverability storage services.

There are no specifically designated sensitive wildlife habitats affected by the Project, nor do Project facilities cross any sensitive habitat administered by federal, state or local agencies. Leaf River has reviewed the available habitats and found that the gopher tortoise is the only federally-listed species that could potentially be present in a small portion of the Project area. Surveys Leaf River has conducted indicate that there are no gopher tortoise burrows or other gopher tortoise activity at any of the Project components in Smith or Jasper Counties. Leaf River has noted some uninhabited gopher tortoise burrows in Clarke County, which it will investigate further as described in more detail in **Resource Report 3**.

No jurisdictional wetlands were identified at the cavern wells sites nor at the Gas Handling Facility site. Some palustrine emergent, palustrine scrub/shrub and palustrine forested wetlands were noted along the pipeline ROW; impacts of Project construction on these wetlands will typically be temporary. Construction of an access road leading to the WSW/SWD locations will permanently affect only a small wetland area. Leaf River will seek a Nationwide Permit from the U.S. Army Corps of Engineers for authorization to impact these wetlands. More detailed information on the wetlands is provided in **Resource Report 2**.

The Project will impose no significant adverse effects on landowners. Leaf River is the owner of record of the land for the Project's Gas Handling Facility, WSWs, and

SWDs, leases the property the storage caverns will occupy, and is in the process of acquiring all ROW for its header system. Leaf River has encountered no substantial landowner opposition to the Project, and it anticipates acquiring the bulk of the required property interests through negotiation.

With respect to the individual *Certification Policy Statement* criteria—

- The proposed Project clearly will enhance competitive alternatives for storage customers, as it is a new facility that will provide additional high-deliverability natural gas storage through five separate interstate gas pipelines serving the Gulf Coast, Southeast, Northeast and the Mid-Atlantic regions of the United States.
- Through its request for approval of market-based rates, Leaf River has indicated its willingness to accept responsibility for all financial risks associated with constructing and operating the Project.
- Leaf River has no current customers to burden with financial subsidies.
- Leaf River owns the largest single tract required for the Project. It is in the process of acquiring all of the rights required to construct the Project's header system. Therefore, the Project does not expect to find it necessary to exercise the right of eminent domain.
- The Project will not interfere with any existing land uses in the Project area and will have only minimal adverse effects on the natural environment. *See generally* **Resource Reports 1, 2, 3, 4, 7, 8 and 9.**
- The Project will produce important local benefits in the form of construction-related employment, permanent employment in support of Project operations and substantial property tax revenues. *See* **Resource Report 5.**
- Leaf River has encountered no substantial opposition from local landowners or state or local jurisdictional agencies.

The Project's adverse effects, such as traffic and noise from construction activities, air emissions and operational noise from the completed facility, have been or will be well mitigated. The Project's benefits to its prospective customers, natural gas markets generally, the local community and the general public far outweigh any of these minimal

adverse effects. Certification, construction and operation of the Project are, therefore, required by the present and future public convenience and necessity.

X.
PROPOSED STORAGE SERVICES; TARIFF

Leaf River will offer firm and interruptible storage and hub services on an open-access basis under terms and conditions that are consistent with the requirements set forth in Order No. 636 and Subpart A of 18 C.F.R. Part 284. Those terms and conditions are set forth in the *pro forma* FERC Gas Tariff appended as **Exhibit P**.

A. Description of Proposed Services

Leaf River proposes to offer a variety of firm and interruptible storage services, including all of the services commonly offered by independent storage providers. These services are generally modeled on the services offered by Leaf River's affiliate, Tres Palacios Gas Storage LLC ("Tres Palacios"), whose FERC Gas Tariff the Commission has reviewed and found to comply with the requirements of Part 284 of the Commission's regulations.²⁰

1. Traditional Storage Services; No-Notice Service

Leaf River's *pro forma* Tariff includes two rate schedules covering traditional storage services: Firm Storage Service (Rate Schedule FSS) and Interruptible Storage Service (Rate Schedule ISS). These rate schedules are similar to firm and interruptible storage service rate schedules most gas storage service providers offer.²¹ The *pro forma* Tariff also includes a firm "no notice" storage service, which is defined in Rate Schedule

²⁰ See generally *Tres Palacios Gas Storage LLC*, 120 FERC ¶ 61,253 at P 35 (2007) ("*Tres Palacios*"). See also *Windy Hill Gas Storage, LLC*, 119 FERC ¶ 61,291 at P 2 (2007) ("*Windy Hill Amending Order*").

²¹ Rate Schedule FSS differs slightly from firm storage service rate schedules offered by other storage providers in that it does not provide for overrun service. The Commission has found that storage providers are not required to offer overrun service. *Windy Hill Amending Order*, 119 FERC ¶ 61,291 at P 50; *Tres Palacios*, 120 FERC ¶ 61,253 at P 56.

NNSS. This service will permit customers to adjust their injections into, and withdrawals from, Leaf River's storage as their requirements dictate, without having to give Leaf River advance notice of such changes.

2. Hub Services

Leaf River proposes to provide a number of interruptible hub services, as well as firm park and loan services. Leaf River's *pro forma* FERC Gas Tariff provides for firm parking service under Rate Schedule FP, firm loan service under Rate Schedule FL, and interruptible hourly balancing service under Rate Schedule IHBS. It also provides for interruptible parking under Rate Schedule IP, interruptible loaning under Rate Schedule IL, and interruptible wheeling service under Rate Schedule IW.

a. Park and Loan Services

Leaf River will offer traditional interruptible parking and loaning services under Rate Schedules IP and IL. These services will allow a customer to deposit gas temporarily in Leaf River's storage facility or to borrow gas from Leaf River to meet the customer's balancing or other needs.

Leaf River's proposed FP and FL services would allow Leaf River and a customer to agree to park or loan a fixed quantity of gas for a fixed time period. The proposed FP service would cover three time periods: (1) an injection period, during which the customer would inject the agreed-upon park quantity, (2) a storage period, during which the customer would retain its gas in Leaf River storage, and (3) a withdrawal period, during which the customer would withdraw parked gas from storage. FL service would be the reverse of FP service. Leaf River and its customers would negotiate the duration of the injection, storage and withdrawal periods in advance and would specify them in the customer's service agreement. Customers under the FP and FL Rate Schedules would not

have the right to withdraw gas from storage during the injection or storage period, nor would they have the right to inject gas during the withdrawal or storage periods. Nevertheless, their capacity, injection and withdrawal rights will be firm in the sense that they would not be subordinate to other classes of service. Leaf River will reserve capacity, injection capability and withdrawal capability sufficient to support the levels of firm park and loan services it contracts to supply; it will only provide firm park and loan service to the extent it has otherwise unsubscribed capacity and gas in storage not dedicated to another service.²²

b. Hourly Balancing Service

Leaf River's proposed IHBS service would allow a customer to sculpt its daily nominations on an hourly basis. This service is intended to meet the needs of natural gas-fired electric generating facilities that purchase firm hourly service where the delivering pipeline can accommodate hourly variations in takes; however, other end-use customers might also find value in hourly service flexibility. Rate Schedule IHBS is responsive to FERC policies and regulations that require natural gas companies to afford their shippers the opportunity to obtain imbalance management services from off-system providers,²³ and it is similar to hourly balancing services other FERC-jurisdictional companies offer.²⁴

²² Given this commitment, Leaf River's proposal to offer firm park and loan services is unlike the proposal the Commission rejected in *Questar Pipeline Co.*, 99 FERC ¶ 61,129 (2002) ("*Questar*"), where a pipeline proposed to offer firm parking service using capacity not being used from time to time by firm storage customers. Leaf River's proposal is also unlike the proposal the Commission rejected in *National Fuel Gas Supply Corp.*, 78 FERC ¶ 61,036 (1997) ("*National Fuel*"), where applicant sought to offer firm advance service (a form of loan service) using gas in storage dedicated to no-notice service. Leaf River has undertaken to offer firm park and loan services only via otherwise unsubscribed capacity and gas in storage not dedicated to another service. In accepting Bluewater's proposal to offer firm parking and loan services, the Commission noted that Bluewater's commitment to support these services using unsubscribed firm capacity overcame the deficiencies the Commission found in the *Questar* and *National Fuel* cases. *Bluewater*, 117 FERC ¶ 61,122 at P 37; *see also Windy Hill Amending Order*, 119 FERC ¶ 61,291 at PP 35, 37; *Tres Palacios*, 120 FERC ¶ 61,253 at PP 37, 39.

²³ 18 C.F.R. § 284.12(b)(2)(iii).

²⁴ Rate Schedule IHBS is similar to El Paso Natural Gas Company's approved Rate Schedule IHSW, *see El Paso Natural Gas Co.*, 114 FERC ¶ 61,305 (2006), *reh'g pending*, and to Bluewater's approved Rate

c. Interruptible Wheeling Service

Leaf River proposes to provide under Rate Schedule IW an interruptible wheeling service through which it will transfer gas through its header system and its Gas Handling Facility from one interconnected pipeline to another. As indicated in **Part XI**, Leaf River lacks market power over the provision of such services and therefore plans to offer Rate Schedule IW service at market-based rates. The Commission has authorized a number of independent storage companies with header system configurations comparable to Leaf River's to provide interruptible wheeling service over their header facilities at market-based rates. Among these are cases involving independent storage providers that interconnect with seven, eight and even a dozen major pipelines by means of header systems even more extensive than Leaf River's. These precedents and their significance are described in detail in **Part XI, Statement G** and **Statement H** below.

3. Comparison of Leaf River's Tariff with Other Accepted FERC Gas Tariffs

Leaf River's proposed Rate Schedules FSS, NNSS, ISS, FP, FL, IHBS, IP, IL and IW are nearly identical to the corresponding rate schedules in Tres Palacios' and Windy Hill's Commission-approved FERC Gas Tariffs.²⁵ They are, likewise, similar to tariffs which Bluewater Gas Storage, LLC ("Bluewater")²⁶ and Pine Prairie Energy Center, LLC

Schedule IHBS, *see Bluewater*, 117 FERC ¶ 61,122. The Commission has accepted nearly identical IHBS Rate Schedules proposed by Leaf River's affiliates. *Windy Hill Amending Order*, 119 FERC ¶ 61,291 at P 42; *Tres Palacios*, 120 FERC ¶ 61,253 at P 43.

²⁵ *Tres Palacios*, 120 FERC ¶ 61,253 at P 35; *Windy Hill Amending Order*, 119 FERC ¶ 61,291 at P 2.

²⁶ Bluewater's FERC Gas Tariff was modeled upon Egan Hub Storage, LLC's FERC Gas Tariff. In most respects, the Bluewater Tariff tracks the *pro forma* Tariff of Bluewater's affiliate, Pine Prairie Energy Center, LLC, filed in Docket Nos. CP04-379-000, *et al.*, which the Commission has found "generally complies with Part 284 of the regulations." *Bluewater Gas Storage, LLC*, Docket Nos. CP06-351-000, *et al.*, "Abbreviated Application for Certificate of Public Convenience and Necessity," at 41-42 (submitted May 26, 2006); *see also Pine Prairie Energy Center, LLC*, 109 FERC ¶ 61,215 at P 42 (2004) ("*Pine Prairie*").

have been authorized to place into effect.²⁷ For the reasons the Commission found those tariffs consistent with its regulations and policies, the Commission should find that Leaf River's *pro forma* Tariff is consistent with the public convenience and necessity and with the relevant Commission policies.

B. Creditworthiness Provisions

Leaf River has drafted its *pro forma* Tariff's creditworthiness provisions to comply with the Commission's *Creditworthiness Policy Statement*,²⁸ using as its model the creditworthiness provisions included in Tres Palacios' *pro forma* Tariff. Leaf River's *pro forma* Tariff includes provisions concerning the posting of security for the value of gas loaned to a customer under Rate Schedules FL or IL which track comparable provisions in the Tres Palacios' *pro forma* Tariff. Also, like Tres Palacios' Tariff, Leaf River's *pro forma* Tariff includes provisions with regard to the amount of credit Leaf River will extend to a creditworthy customer. Leaf River proposes to extend higher levels of credit to customers with higher credit ratings.²⁹

Many existing FERC Gas Tariffs only distinguish between "creditworthy" and "non-creditworthy" customers. A customer deemed "creditworthy" under most tariffs is not required to post any security and will be extended credit equal to the value of its service charges and, if applicable, the value of loaned gas. In contrast, a customer deemed "non-creditworthy" is typically required to post security for three months' worth of service charges and, if applicable, the value of any gas loaned.

²⁷ *Pine Prairie Energy Center, LLC*, 120 FERC ¶ 61,198 (2007).

²⁸ *Policy Statement on Creditworthiness for Interstate Natural Gas Pipelines and Order Withdrawing Rulemaking Proceeding*, 70 Fed. Reg. 37,717 (June 30, 2005), FERC Stats. & Regs. ¶ 31,191 (2005) (the "*Creditworthiness Policy Statement*").

²⁹ See **Exhibit P**, General Terms & Conditions ("GT&C"), Section 31.

In its certificate application, Tres Palacios discussed its concern that, while this “all or nothing” approach to security may be appropriate for service charges, it does not provide adequate protection in light of the substantial credit exposure that it may bear due to increases in the value of loaned gas.³⁰ The value of service charges can be determined with relative certainty, is generally not subject to market volatility and is typically only a fraction of the gas commodity value at risk in a loan transaction. In contrast, the value of borrowed gas varies dramatically in response to market forces and is often many times greater than the value of service charges.

Leaf River’s concerns regarding credit for loaned gas are the same as Tres Palacios’ concerns. Like Tres Palacios, Leaf River proposes to determine an “Unsecured Collateral Limit” applicable to each level of Standard & Poor’s and Moody’s Investors Service’s credit ratings which will be set out in its Tariff.³¹ A customer’s Unsecured Collateral Limit would change with changes in the customer’s credit rating. Leaf River will also determine the “Credit Exposure” for each customer (typically equal to three months’ worth of service charges plus the value of any loaned gas).³² Leaf River will recalculate each customer’s Credit Exposure daily while that customer has gas on loan to reflect changes in the market value of the loaned gas. Leaf River proposes to require a customer to post security equal to the positive difference, if any, between the customer’s Credit Exposure and the customer’s “Unsecured Collateral Limit.” A customer whose Unsecured Collateral Limit is greater than its Credit Exposure would not be required to post security.

³⁰ See *Tres Palacios Gas Storage LLC*, Docket Nos. CP07-90-000, *et al.*, “Abbreviated Application for Certificate of Public Convenience and Necessity Authorizing Construction and Operation of High Deliverability Natural Gas Storage Project, for Blanket Certificates and for Approval of Market-Based Rates under Section 7 of the Natural Gas Act,” at 33-36 (filed Feb. 23, 2007).

³¹ *Id.* at Section 31.5.

³² *Id.* at Section 31.3.

Leaf River's proposal to extend more credit to customers with higher credit ratings is consistent with credit practices employed in the natural gas commodity trading sector.³³ The Commission has recognized that it is appropriate to look to credit support standards employed in natural gas trading to establish credit support requirements applicable to gas loan transactions.³⁴

The Commission recently reviewed Tres Palacios' proposed creditworthiness tariff language and found it to be "consistent with the Commission's Creditworthiness Policy Statement in that it is objective and transparent."³⁵ In approving Tres Palacios' proposed creditworthiness provisions, the Commission stated:

The refinement to [Windy Hill's creditworthiness] provisions that Tres Palacios proposed in this case would determine the amount of credit extended to creditworthy customers based on each customer's credit rating. This refinement will provide Tres Palacios with additional flexibility to address the potential for Tres Palacios' credit exposure for loaned gas to increase dramatically due to the volatile gas commodity market. Therefore, consistent with the Creditworthiness Policy Statement and previous Commission orders, the Commission will accept the proposed creditworthiness tariff provisions.³⁶

Leaf River's *pro forma* Tariff creditworthiness provisions are identical in all substantive respects to the Tres Palacios creditworthiness language approved by the Commission. Therefore, Leaf River's proposed creditworthiness provisions are fully consistent with the requirements of the *Creditworthiness Policy Statement*.

³³ See generally NAESB, Model Credit Support Addendum to the Base Contract for Sale and Purchase of Natural Gas (adopted Oct. 9, 2003), at <http://www.gisb.org>; Int'l Swap Dealers Ass'n, Inc., Credit Support Annex to the ISDA Master Agreement (Dec. 17, 2002), at <http://www.isda.org>.

³⁴ *BGS Kimball Gas Storage, LLC, and Bluewater Gas Storage, LLC*, 117 FERC ¶ 61,122 ("Bluewater"), order granting reh'g on other grounds, 117 FERC ¶ 61,351 at PP 9-11(2006).

³⁵ *Tres Palacios*, 120 FERC ¶ 61,253 at P 64; see also *Creditworthiness Policy Statement*, FERC Stats. & Regs. ¶ 31,191 at P 10.

³⁶ *Tres Palacios*, 120 FERC ¶ 61,253 at P 64.

C. Compliance with FERC and NAESB Requirements

1. General Compliance with Applicable Requirements

Leaf River's *pro forma* FERC Gas Tariff complies generally with the requirements of Order No. 637 and with the current NAESB standards³⁷ to the extent they apply to natural gas companies that, like Leaf River, are engaged exclusively in the operation of storage facilities.³⁸ Leaf River's Tariff provides that it will furnish its proposed services on an open-access basis, under non-discriminatory terms and conditions. Firm service customers may use the capacity release mechanism contained in Leaf River's Tariff, and the Tariff also provides for non-discriminatory curtailment of capacity, if necessary. Leaf River will make appropriate arrangements to transmit and receive information electronically for all storage transactions, and it will provide all information required by NAESB standards through an Internet-based Electronic Delivery Mechanism ("EBB/EDM"), consistent with Order Nos. 587, *et seq.*, subject to Leaf River's request for waiver of the NAESB standards regarding Electronic Data Interchange/Electronic Delivery Mechanism ("EDI/EDM") and Flat File/Electronic Delivery Mechanism ("FF/EDM") discussed below.³⁹

³⁷ Leaf River's *pro forma* Tariff is compliant with Order No. 587-S, through which the Commission adopted Version 1.7 of the NAESB Standards and standards ratified by NAESB to implement Order No. 2004 (Standards of Conduct for Transmission Providers) and standards ratified by NAESB to implement gas quality requirements. Leaf River will modify its Tariff before placing it into effect to reflect the then-current Commission-adopted NAESB standards.

³⁸ *Regulation of Short-Term Natural Gas Transportation Services and Regulation of Interstate Natural Gas Transportation Services*, Order No. 637, 65 Fed. Reg. 10,156 (Feb. 25, 2000), FERC Stats. & Regs. ¶ 31,091 (2000), *order on reh'g*, Order No. 637-A, 65 Fed. Reg. 35,706 (June 5, 2000), FERC Stats. & Regs. ¶ 31,099 (2000), *reh'g denied*, Order No. 637-B, 65 Fed. Reg. 47,284 (Aug. 2, 2000), 92 FERC ¶ 61,062 (2000), *aff'd in part and remanded in part*, *Interstate Natural Gas Assoc. of Am. v. FERC*, 285 F.3d 18 (D.C. Cir.), *order on remand*, 101 FERC ¶ 61,127 (2002) (codified at 18 C.F.R. Pts. 154, 161, 250 and 284).

³⁹ *Standards for Business Practices of Interstate Natural Gas Pipelines*, Order No. 587, 61 Fed. Reg. 39,053 (July 26, 1996), FERC Stats. & Regs. ¶ 31,038 (1996), Order No. 587-B, 62 Fed. Reg. 5,521 (Feb. 6, 1997), FERC Stats. & Regs. ¶ 31,046 (1997), Order No. 587-C, 62 Fed. Reg. 10,684 (Mar. 10, 1997), FERC Stats. & Regs. ¶ 31,050 (1997), Order No. 587-G, 63 Fed. Reg. 20,072 (Apr. 23, 1998), FERC Stats. & Regs. ¶ 31,062 (1998), Order No. 587-H, 63 Fed. Reg. 39,509 (July 23, 1998), FERC Stats. & Regs. ¶ 31,063 (1998), Order No. 587-I, 63 Fed. Reg. 53,565 (Oct. 6, 1998), FERC Stats. & Regs. ¶ 31,067 (1998), *order on reh'g*,

2. Request for Waivers of Certain Order No. 637 and NAESB Requirements

a. Segmentation

With Order No. 637, the Commission promulgated regulations requiring natural gas companies to allow shippers to segment their firm capacity paths into separate parts “to the extent such segmentation is operationally feasible.”⁴⁰ Because Leaf River’s system consists of a single integrated storage facility that operates in one compact geographic location, there is nothing to segment. The Commission has found that the segmentation requirements do not apply to natural gas companies engaged solely in the business of natural gas storage that, like Leaf River, do not provide stand-alone transportation services.⁴¹ Accordingly, Leaf River has not included any provisions in its *pro forma* Tariff regarding capacity segmentation. Leaf River respectfully requests that the Commission find that segmentation is operationally infeasible on its system and grant Leaf River an exemption from the segmentation requirements of Order No. 637.

b. Crediting Customers for Retained Gas

Order No. 637 provides that a pipeline may include transportation penalties in its tariff only to the extent necessary to prevent the impairment of reliable service.⁴² Leaf River’s *pro forma* Tariff includes provisions permitting Leaf River to retain customers’ gas

Order No. 587-K, 64 Fed. Reg. 17,276 (Apr. 9, 1999), FERC Stats. & Regs. ¶ 31,072 (1999), Order No. 587-M, 65 Fed. Reg. 77,285 (Dec. 11, 2000), FERC Stats. & Regs. ¶ 31,114 (2000), Order No. 587-N, 67 Fed. Reg. 11,906 (Mar. 18, 2002), FERC Stats. & Regs. ¶ 31,125 (2002), Order No. 587-O, 67 Fed. Reg. 30,788 (May 8, 2002), FERC Stats. & Regs. ¶ 31,129 (2002), Order No. 587-R, 68 Fed. Reg. 13,813 (Mar. 21, 2003), FERC Stats. & Regs. ¶ 31,141 (2003), Order No. 587-S, 70 Fed. Reg. 28,204 (May 17, 2005), FERC Stats. & Regs. ¶ 31,179 (2005).

⁴⁰ 18 C.F.R. § 284.7(d).

⁴¹ *E.g.*, *Pine Prairie*, 109 FERC ¶ 61,215 at P 44; *SGRM*, 101 FERC ¶ 61,029 at P 28; *Egan Hub Partners, L.P.*, 98 FERC ¶ 61,284 (2002); *Clear Creek Gas Storage Co.*, 96 FERC ¶ 61,071 (2001); *Sw. Gas Storage Co.*, 96 FERC ¶ 61,166 (2001).

⁴² 18 C.F.R. § 284.12(b)(2)(v).

improperly left in storage in certain circumstances at a purchase price equal to a portion of the proceeds realized in an auction sale. The Commission has found such gas retention penalties to be appropriate and consistent with the mandates of Order No. 637,⁴³ but has required that the value of such retained gas, net of costs, be credited to the natural gas company's customers.⁴⁴ Accordingly, Leaf River has provided in its *pro forma* FERC Gas Tariff for crediting to its customers the net value of retained gas. See **Exhibit P**, GT&C, Section 32. Leaf River respectfully requests that the Commission find its proposed gas retention penalties and crediting mechanism to be reasonable and consistent with Order No. 637.

c. Netting and Trading of Imbalances

A pipeline having imbalance penalty provisions in its tariff must provide, to the extent operationally practicable, parking and lending or other services that permit its shippers to manage transportation imbalances. 18 C.F.R. § 284.12(b)(2)(iii). Pipelines are likewise required to provide their shippers the opportunity to obtain imbalance management services from other providers. Leaf River's *pro forma* FERC Gas Tariff does not include imbalance penalties. Accordingly, the Commission's regulations do not require Leaf River to provide imbalance management services. Nonetheless, Leaf River proposes to provide a variety of services its customers will be able to use for imbalance management, including parking, lending, wheeling and hourly balancing. In addition, Leaf River states affirmatively in its *pro forma* Tariff that it will not inhibit the provision of imbalance management services by third parties. See **Exhibit P**, Original Sheet No. 3. Thus, although it is not subject to the imbalance management requirements of Order No. 637, Leaf River submits that its *pro forma*

⁴³ See *Pine Prairie*, 109 FERC ¶ 61,215 at P 46; *Blue Lake Gas Storage Co.*, 96 FERC ¶ 61,164 (2001).

⁴⁴ See *Ozark Gas Transmission, L.L.C.*, 96 FERC ¶ 61,160 (2001).

Tariff would fully meet those requirements. Because Leaf River's *pro forma* Tariff does not include imbalance penalty provisions, however, Leaf River respectfully requests that it be granted an exemption from compliance with Order Nos. 587-G and 587-L regarding netting and trading of imbalances.⁴⁵

d. EDI/EDM and FF/EDM Requirements

The NAESB standards require service providers to support EDI/EDM and FF/EDM.⁴⁶ Leaf River hereby requests a limited waiver in the form of an extension of time to comply with the NAESB standards related to EDI/EDM and FF/EDM requirements so as to allow Leaf River to postpone implementation until 90 days following Leaf River's receipt of a request to send information via EDI/EDM. The Commission has granted waivers of the EDI/EDM and FF/EDM standards to interstate pipelines and storage service providers that have not received requests to send information via EDI/EDM and FF/EDM and do not expect any such requests.⁴⁷ Leaf River has not received any requests to send information via EDI/EDM and FF/EDM, and Leaf River does not expect any such requests in the foreseeable future. Leaf River's Internet web site will, however, include postings of capacity release information that the Commission requires to be available to the public and will comply with the NAESB EBB/EDM standards.

⁴⁵ Pipelines that do not include imbalance penalties in their tariffs may request an exemption from compliance with Order Nos. 587-G and 587-L. *Standards for Business Practices of Interstate Natural Gas Pipelines*, 92 FERC ¶ 61,266 (2000). The Commission has granted such an exemption in numerous cases involving independent gas storage operators. *E.g.*, *Pine Prairie*, 109 FERC ¶ 61,215 at P 47.

⁴⁶ See NAESB Standards 4.2.11, 4.2.12, 4.2.18, 4.2.19, 4.3.8-15, 4.3.55, 4.3.80-84, 4.3.88 and 5.3.30.

⁴⁷ See *Tres Palacios*, 120 FERC ¶ 61,253 at P 52; *Unocal Windy Hill Gas Storage, LLC*, 115 FERC ¶ 61,218 at P 48 (2006) ("*Windy Hill*"); *MoBay Storage Hub, Inc.*, 117 FERC ¶ 61,298 at P 46 (2006) ("*MoBay*"); *Saltville Gas Storage Co.*, 109 FERC ¶ 61,200 at PP 36-37 (2004).

D. Holding of Off-System Capacity and Waiver of the “Shipper Must Hold Title” Rule

Leaf River requests a generic waiver of the Commission’s “shipper must hold title” policy and authorization to reflect this waiver in its *pro forma* Tariff in order to enable Leaf River to use off-system capacity it may obtain from time to time in order to provide storage services. Leaf River envisions obtaining interstate pipeline capacity that would link the Leaf River Project with major citygate markets in the Leaf River market area and, through this acquired capacity, offering “delivered storage” services via third- party pipeline delivery points in those markets.⁴⁸ As the Commission required in *Texas Eastern Transmission Corp.*,⁴⁹ Leaf River’s *pro forma* Tariff addresses the generic waiver requirement by including an affirmative statement that Leaf River will only transport gas for others using off-system capacity pursuant to its open-access tariff and subject to Commission-approved rates. See **Exhibit P**, GT&C, Section 30. The Commission has authorized other natural gas companies, including a number of independent gas storage companies authorized to offer services at market-based rates, to include such provisions in their tariffs.⁵⁰

Independent storage companies having market-based rate authorization may use off-system capacity only in certain limited ways. The Commission now requires that (1) an independent storage company may only use off-system capacity in conjunction with movements of gas to and from its storage facility; (2) the storage company may only use off-

⁴⁸ Leaf River does not, however, envision becoming a seller of gas into such markets except as may occasionally be required for operational reasons.

⁴⁹ 95 FERC ¶ 61,056 (2001).

⁵⁰ See, e.g., *Tres Palacios*, 120 FERC ¶ 61,253 at P 48; *Port Barre Investments, L.L.C. d/b/a Bobcat Gas Storage*, 116 FERC ¶ 61,052 at PP 38-41 (2006 (“*Bobcat*”)); *Pine Prairie*, 109 FERC ¶ 61,215 at P 48; *SGRM*, 101 FERC ¶ 61,029 at PP 30-33; see also *Algonquin LNG, Inc.*, 95 FERC ¶ 61,285 (2001); *Natural Gas Pipeline Co. of Am.*, 96 FERC ¶ 61,025 (2001) (approving requests by six natural gas companies).

system capacity within the area covered by the company's market power study; and (3) the storage company must file annual reports describing its use of off-system capacity.⁵¹ Leaf River agrees to be subject to these conditions.

E. Integration of Leaf River's Header System into Its Storage Facility

Leaf River does not propose to provide transportation services separate and apart from the natural gas storage and storage-related services described in this Application. Accordingly, Leaf River submits that it is appropriate, and consistent with the treatment the Commission has accorded numerous other merchant gas storage facilities, to consider the Project's header system to be merely an extension of the Project's storage facilities, and not to require that Leaf River offer separately tariffed transportation services.

Leaf River will use its header system exclusively for the purpose of moving natural gas to and from interconnected transmission pipelines through its Gas Handling Facility and either into or out of storage or to a second interconnected transmission pipeline. It will make use of its Gas Handling Facility and storage caverns in connection with all movements of gas it undertakes, whether pursuant to a storage service rate schedule or pursuant to its wheeling service rate schedule. It will provide no transportation service that is independent of its storage operations, and it will not serve any end users by means of its header pipeline system.⁵²

⁵¹ See, e.g., *Tres Palacios*, 120 FERC ¶ 61,253 at P 50; *Windy Hill*, 115 FERC ¶ 61,218 at P 46; *Bobcat*, 116 FERC ¶ 61,052 at P 41, *Freebird Gas Storage, LLC*, 111 FERC ¶ 61,054 at P 41 (2005) ("*Freebird*"); *Caledonia Energy Partners, L.L.C.*, 111 FERC ¶ 61,095 at P 31 (2005) ("*Caledonia*"); *Starks Gas Storage, L.L.C.*, 111 FERC ¶ 61,105 at P 57 (2005) ("*Starks*").

⁵² Cf. *Petal Gas*, 97 FERC ¶ 61,097 (requiring 59-mile lateral including an end-user delivery point and pipeline interconnects to be treated as a stand-alone pipeline offering tariffed cost-based transportation services).

Several of the natural gas storage projects that will compete directly with Leaf River incorporate pipeline header systems that are comparable in length to the approximately 44 miles of header Leaf River proposes here:

COMPANY⁵³	LOCATION	MILES OF PIPELINE HEADER	NUMBER OF INTERCONNECTS
Pine Prairie	LA	54	8
Tres Palacios	MS	42	12
Egan Hub	LA	41	8
Bluewater	MI	35	6
SGRM	MS	29	3
Liberty	LA	23.3	7
Moss Bluff	TX	20	5
Bobcat	LA	16.1	6

The Commission has authorized each of these companies, as well as many others, to offer interruptible wheeling services at market-based rates using their extensive header systems.⁵⁴

There is no basis for treating Leaf River any differently.

⁵³ See *Tres Palacios*, 120 FERC ¶ 61,253 (granting certificate authorization for a storage project including a 41.72-mile long, dual branch header system interconnecting with twelve pipelines and authorizing the applicant to charge market-based rates for wheeling services); *Pine Prairie*, 109 FERC ¶ 61,215, *amended*, 116 FERC ¶ 61,316 (2006) (granting certificate authorization for a storage project including a dual 24” bi-directional pipeline header system arranged in three branches totaling more than 54 miles in length, interconnecting with 8 pipelines, and authorizing the applicant to charge market-based rates for wheeling services); *SGRM*, 101 FERC ¶ 61,029, *amended*, 118 FERC ¶ 61,048 (2007) (granting certificate authorization for a storage project including a 29-mile long, dual branch header system (consisting of one 3.13 miles long 24-inch diameter pipeline and 26.1 miles of dual 24-inch diameter bi-directional natural gas pipelines) interconnecting with three pipelines and authorizing the applicant to charge market-based rates for wheeling services); *Bluewater*, 117 FERC ¶ 61,122 at PP 30-31 (authorizing Bluewater Gas Storage, LLC, to provide wheeling services among six pipelines at market-based rates using a 35 mile header); *Bobcat*, 116 FERC ¶ 61,052 at PP 26, 30 (2006) (granting applicant authority to charge market-based rates for interruptible wheeling service among six pipelines at market-based rates using a 16.1-mile long header system); *Liberty*, 113 FERC ¶ 61,247 (granting applicant authority to charge market-based rates for wheeling service among seven pipelines at market-based rates using a 23.3-mile long header system); *Moss Bluff*, 80 FERC ¶ 61,181 at 61,744 and 61,747 (authorizing applicant to provide wheeling services among six third-party pipelines at market-based rates; Moss Bluff’s website (http://www.spectraenergy.com/businesses/us/facilities/moss_bluff/) states that its facility interconnects with five pipelines via a 20-mile long header); *Egan Hub Partners, L.P.*, 77 FERC ¶ 61,016, *amended*, 79 FERC ¶ 62,174 (1997) (authorizing applicant to provide wheeling services at market-based rates; Egan Hub’s website (<http://www.spectraenergy.com/businesses/us/facilities/egan/>) states that the storage project includes a 41-mile long header interconnecting with eight interconnecting pipelines). In each of these cases, the header system is treated, in effect, as an extension of the storage facility, not as a separate interstate pipeline offering stand-alone transportation services subject to cost-based rates.

⁵⁴ *Id.*

Accordingly, Leaf River's header facilities should be deemed to be nothing more than an extension of Leaf River's gas storage facilities. As have its competitors, Leaf River should be permitted to use these header facilities to support its provision of storage and wheeling services without having to offer separate transmission services under separate rate schedules.

F. Use of Index Prices in Assessing Penalties

Leaf River proposes to use the "Transco Zone 4" daily index as published in *Gas Daily* for calculating Action Alert and operational flow order penalties. See **Exhibit P**, GT&C, Section 5.5(f). This aspect of Leaf River's Tariff satisfies the criteria which the Commission has established for inclusion of price indices in jurisdictional gas pipeline tariffs.⁵⁵ The average daily volume for the Transco Zone 4 index for the 90-day time period June 1 through August 29, 2007, was 160,000 MMBtu per day.⁵⁶ This average daily volume exceeds by a wide margin the minimum threshold of 25,000 MMBtu per day which the Commission has established.⁵⁷

⁵⁵ In order for an index of a price at a particular location to be used in a jurisdictional tariff, the index location must meet one or more of the following criteria:

Daily or hourly indices should meet at least one of the following conditions on average for all non-holiday weekdays within a 90-day review period:

1. Average daily volume traded of at least 25,000 MMBtus for gas or 2,000 MWh for power.
2. Average daily number of transactions of five or more.
3. Average daily number of counterparties of five or more.

Price Discovery in Natural Gas and Electric Markets, 109 FERC ¶ 61,184 (2004) (Ordering Paragraph D).

⁵⁶ *Platts Gas Daily*, Daily Price Survey, Transco, Zone 4 (averaged for the 63 business days during the 90-day period June 1 through August 29, 2007).

⁵⁷ *Id.*

XI.
REQUEST FOR MARKET-BASED RATE AUTHORITY

Leaf River requests authorization to charge market-based rates for the storage and related services it will provide. It here supports its request for market-based rate authorization by demonstrating that (i) it lacks market power and (ii) market forces will constrain Leaf River's rates for storage and hub services (including interruptible wheeling service) to just and reasonable levels.

For more than a decade, the Commission has granted interstate natural gas storage providers lacking market power authorization to charge market-based rates.⁵⁸ In 2006, in Order No. 678,⁵⁹ the Commission modified the market power test it had traditionally used to include two separate methods by which a natural gas storage provider may support its proposal to charge market-based rates. Order No. 678 included a modified market power test that permits consideration of non-storage competitive alternatives in the relevant product market. It also included, in response to new NGA Section 4(f), a new method under which applicants having market power may nevertheless be authorized to charge market-based rates for storage services if market-based rate authorization is required to encourage construction of storage capacity in an area needing storage services and customers are adequately protected. The Commission has held that the traditional *Ratemaking Policy Statement* market power test, which does not include consideration of competitive alternatives other than other storage facilities and services, is a more demanding test than the Order No. 678

⁵⁸ *Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines and Regulation of Negotiated Transportation Services of Natural Gas*, 74 FERC ¶ 61,076, *reh'g denied*, 75 FERC ¶ 61,024, *reh'g denied*, 75 FERC ¶ 61,066 (1996), *petitions for review denied sub nom. Burlington Res. Oil & Gas Co. v. FERC*, 172 F.3d 918 (D.C. Cir. 1998) ("*Ratemaking Policy Statement*").

⁵⁹ Order No. 678, FERC Stats. & Regs. ¶ 31,220.

market power test.⁶⁰ Leaf River has elected to demonstrate its lack of market power by applying the traditional, more demanding, *Ratemaking Policy Statement* test.

The *Ratemaking Policy Statement* requires that an applicant for market-based rate authorization identify the products being offered and the relevant geographic markets within which it proposes to offer its products or services. The required analysis then continues with the identification of the numbers and types of alternatives available to potential customers and measures the size and concentration of the market to assess the probability that the applicant could possess market power. Finally, the level of market concentration is projected by calculating a Herfindahl-Hirschman Index (“HHI”) for the proposed project. An HHI of 1,800 or less permits the Commission to assume that there are sufficient alternative suppliers of the products or services being offered in the relevant market to preclude the applicant from exercising market power. In such a case, the Commission will grant the applicant authorization to charge market-based rates.

Leaf River commissioned Keith A. Reutter, Ph.D., Principal Economist, Nathan Associates, Inc., to conduct a market power analysis in accordance with the Commission’s *Ratemaking Policy Statement*. Dr. Reutter’s Prepared Statement, describing his analysis and its results, is provided in **Exhibit I**. The specific statements which Order No. 678⁶¹ requires in support of an application for market-based rate authorization are provided immediately below.

Statement A - Geographic Market

The relevant geographic market in Leaf River’s case consists of East Texas, Louisiana, Mississippi and Alabama (the “Gulf States Market”). This definition is in line

⁶⁰ *Bluewater*, 117 FERC ¶ 61,122 at n.10.

⁶¹ 18 C.F.R. § 284.503.

with the Commission’s position that market areas should be defined as narrowly as possible, on the theory that if an applicant does not have market power in the narrowest market, it cannot have market power in a broader market.⁶² The Commission has used the Gulf States Market definition in analyzing other Gulf Coast area storage providers’ applications for market-based rate authorization.⁶³

Statement B - Product Market

The products Leaf River will offer include firm and interruptible natural gas storage, hub and wheeling services.⁶⁴ These services are described in detail in **Part X.A** above and in Statement C below.

Statement C - Applicant’s Facilities and Services

By means of its proposed storage caverns and header system facilities, Leaf River will offer firm storage service under Rate Schedule FSS, interruptible storage service under Rate Schedule ISS, no-notice storage service under Rule Schedule NNSS, firm gas park service under Rate Schedule FP, firm gas loan service under Rate Schedule FL, interruptible park service under Rate Schedule IP, interruptible loan service under Rate Schedule IL, interruptible hourly balancing service under Rate Schedule IHBS, and

⁶² See, e.g., *Petal Gas Storage, L.L.C.*, 97 FERC ¶ 61,097 at 61,520 (2001) (“*Petal Gas*”).

⁶³ See, e.g., *Tres Palacios*, 120 FERC ¶ 61,253 at PP 26, 31 (finding that Tres Palacios’ East Texas, Louisiana, Mississippi and Alabama proposed market definition properly identifies good alternatives to Tres Palacios); *Mississippi Hub, LLC*, 118 FERC ¶ 61,099 at P19 (2007) (accepting as the relevant geographic market for a storage facility to be located in Mississippi “the Gulf Coast production area comprising East Texas, Louisiana, Mississippi and Alabama”); *Katy Storage & Transp., L.P.*, 106 FERC ¶ 61,145 at PP 8, 17 (2004) (“*Katy*”) (accepting as relevant geographic markets the “Texas market” and the “Gulf Coast market” in analyzing market power of a storage facility located in Katy, Fort Bend County, just west of Houston, Texas); *Bobcat*, 116 FERC ¶ 61,052 at PP 10, 22 (2006) (accepting the “Gulf Coast Production Area,” consisting of East Texas, Louisiana, Mississippi and Alabama, as the relevant geographic market for a gas storage facility to be located in St. Landry Parish, Louisiana); *Liberty Gas Storage LLC*, 113 FERC ¶ 61,247 at P 49 (2005) (“*Liberty*”) (accepting as the relevant geographic market for a gas storage facility to be located in Calcasieu and Beauregard Parishes, in Western Louisiana a “Gulf Coast Production Area” market including East and South Texas, Louisiana, Mississippi and Alabama).

⁶⁴ See **Exhibit I**, Exhibit No._(KAR-1) at 4.

interruptible wheeling service under Rate Schedule IW. Leaf River's header system will link the Leaf River storage facility with five interstate pipelines. Leaf River will use its header system exclusively to receive gas into its storage facilities, withdraw gas from its storage facilities for redelivery, and to wheel gas between interconnecting pipelines. Leaf River will offer no stand-alone transportation services and will not be directly connected to any end-use markets.

Statement D - Competitive Alternatives

Leaf River has elected to demonstrate its lack of market power through application of the traditional *Ratemaking Policy Statement* market power test. Accordingly, it has limited its presentation to the identification of alternative natural gas storage services available from underground natural gas storage facilities located in the Gulf States Market. A listing of these facilities appears in **Exhibit I**, Exhibit No. __ (KAR-3).

Statement E - Potential Competition

The relevant geographic market currently hosts 26 competing natural gas storage facilities with total working gas capacity of 646.96 Bcf.⁶⁵ When completed, the Project will add an additional 32 Bcf of working gas capacity to the Gulf States Market, bringing the total to 678.96 Bcf. Leaf River will represent only 4.7% of the total working gas capacity and 12.5% of the total storage deliverability available in the Gulf States Market.⁶⁶

As the Commission has found in numerous cases, there are no significant barriers to entry in the natural gas storage market in the Gulf Coast production region.⁶⁷

⁶⁵ See **Exhibit I**, Exhibit No. __ (KAR-3).

⁶⁶ See **Exhibit I**, Exhibit No. __ (KAR-4).

⁶⁷ See, e.g., *Bobcat*, 116 FERC ¶ 61,052 at P 25 (noting, that there are “over 20 new storage projects or expansions of existing storage facilities in the Gulf Coast region”, and that “[i]n light of this information, [the Commission] concludes that barriers to entry to the storage markets in the relevant market area are low”); *Katy*,

Confirming this, some 16 natural gas storage facilities are currently under development or are currently being expanded in the Gulf States Market.⁶⁸ The ease with which would-be natural gas storage providers can enter the Gulf States Market can be expected to deter Leaf River from attempting to exercise market power.⁶⁹

Statement F - Maps

The maps showing Leaf River's proposed facilities and pipeline interconnections are included as **Figures 1.1-1 through 1.1-8A31**.

Statement G - Market Power Measures

When complete, the Project will account for only approximately 4.7% of total working gas capacity in the relevant geographic market. The Project's peak day deliverability will amount to only approximately 12.5% of the total peak day deliverability available in that market. The HHI for storage services in the Gulf States Market is 1,415 for working gas capacity and 884 for peak day deliverability. These HHIs are significantly below the 1,800 level cited in the *Ratemaking Policy Statement* and, therefore, no further market power analysis is required.⁷⁰

106 FERC ¶ 61,145 at P 19 (stating that the proposed increase in storage capacity in the production area is due in part to the ease of entry into the market and a high level of competition in the market); *Unocal Keystone Gas Storage, LLC*, 106 FERC ¶ 61,033 at P 16 (2004) ("*Unocal Keystone*") (stating that the proposed increase in storage capacity in the production area is due in part to the ease of entry into the market and a high level of competition in the market).

⁶⁸ See **Exhibit I**, Exhibit No. (KAR-11).

⁶⁹ See, e.g., *Bobcat*, 116 FERC ¶ 61,052 at P 25.

⁷⁰ The Commission's regulations require calculation of HHI values to reflect the applicant's market share inclusive of its affiliates' facilities in the relevant market. 18 C.F.R. § 284.503(b)(7). In September of this year, Tres Palacios received certificate authority to build and operate a natural gas storage facility in Matagorda and Wharton Counties, southwest of Houston, Texas. *Tres Palacios*, 120 FERC ¶ 61,253. Though Tres Palacios is affiliated with Leaf River, and arguably is located within the Gulf States Market, Tres Palacios' expected capacity and deliverability are not included in the analysis contained herein because Tres Palacios is not yet in operation. Had Tres Palacios' capacity and deliverability been included in the Leaf River market power analysis, however, Leaf River's storage capacity and deliverability HHIs would have been 1347 and 1069, respectively — both well below the Commission's threshold values of 1,800. Therefore, the combined capabilities of Leaf River and Tres Palacios would not result in the affiliated storage projects being able to

In addition to traditional storage services, Leaf River proposes to provide interruptible hub services including parking, loaning, wheeling and hourly balancing. Parking and loaning services are essentially variations of storage service; accordingly, Leaf River's market power analysis covering its traditional storage services also demonstrates that Leaf River lacks market power over the provision of parking and loaning services.⁷¹

Leaf River has performed a separate analysis to evaluate the potential that it could exercise market power over the provision of interruptible wheeling services. This analysis employs the "bingo card" review which the Commission has accepted in other cases,⁷² including several involving facilities with which Leaf River expects to compete directly.⁷³ Leaf River's "bingo card" analysis presents a matrix of the alternative interconnection paths among the various pipelines with which Leaf River will interconnect; it shows that Leaf River's bingo card is completely filled in, demonstrating that there are alternative interconnection paths for every possible flow among these pipelines.⁷⁴ Leaf River's market share for wheeling delivery capacity in the Gulf States Market will be 22%⁷⁵

exercise market power in the Gulf States Market. Moreover, as shown in **Exhibit I**, Exhibit No. _(KAR-11), the Gulf States Market has a number of proposed and expanding gas storage facilities at various stages of completion. Many of these facilities are expected to be on-line prior to the in-service dates for Leaf River and Tres Palacios. When these additional facilities become operational, they will act to dilute (e.g., lower) the market share and HHI calculations for Leaf River and Tres Palacios associated with Gulf States Market. Another Leaf River affiliate, Windy Hill, is developing a bedded salt storage facility in Colorado, well outside of Leaf River's relevant geographic market.

⁷¹ *Katy*, 106 FERC ¶ 61,145 at P 20; *see also Unocal Keystone*, 106 FERC ¶ 61,145 at P 16.

⁷² *E.g., Moss Bluff Hub Partners, L.P.*, 80 FERC ¶ 61,181 (1997) ("*Moss Bluff*"); *Egan Hub Partners, L.P.*, 77 FERC ¶ 61,016 (1996).

⁷³ *See, e.g., Bobcat*, 116 FERC ¶ 61,052 at PP 26-30 (authorizing Bobcat Gas Storage to provide interruptible wheeling services at market-based rates); *Katy*, 106 FERC ¶ 61,145 at P 20 (authorizing Katy Storage and Transportation to provide interruptible wheeling services at market-based rates); *Liberty*, 113 FERC ¶ 61,247 at P 49 (authorizing Liberty Gas Storage to offer interruptible wheeling services at market-based rates).

⁷⁴ *See Exhibit I*, Exhibit No. _(KAR-5).

⁷⁵ *See Exhibit I*, Exhibit No. _(KAR-8).

and its market share for receipt capacity will be 25%.⁷⁶ The HHI values for wheeling at alternate hubs and market centers in the Gulf States Market will be 1,376 for delivery capacity and 1,584 for receipt capacity, both of which are well below the 1,800 threshold identified in the *Ratemaking Policy Statement*. There are, therefore, ample competitive alternatives for the interruptible wheeling services Leaf River proposes to provide.

Statement H - Other Factors

Approval of market-based rates for Leaf River's proposed firm and interruptible storage and hub services, including interruptible wheeling services, will be pro-competitive. Indeed, Leaf River would be placed at a substantial competitive disadvantage relative to other merchant storage service providers operating in the Gulf States Market if it were to be denied authorization to charge market-based rates for all of its proposed services. Mississippi Hub (central Mississippi), SG Resources Mississippi (southeast Mississippi), Caledonia Energy Partners (northern Mississippi), Liberty Gas Storage (western Louisiana), Bobcat Gas Storage (south-central Louisiana), Pine Prairie Energy Center (south-central Louisiana), and numerous other independent gas storage projects close to Leaf River's location have been granted authorization to offer their services (including interruptible wheeling service) at market-based rates. Leaf River would be effectively excluded from the market for these services and, in particular, from the market for interruptible wheeling services, if it were required to offer services under cost-based rates.

Leaf River also notes that its proposed interruptible wheeling and other hub services are consistent with FERC policies encouraging the development of market centers or hubs to facilitate competitive transactions and to encourage efficient use of pipeline

⁷⁶ See **Exhibit I**, Exhibit No. (KAR-9).

facilities.⁷⁷ Only if it is granted market-based rate authorization for all of its proposed services, however, will Leaf River be in a position to advance these policies.

Statement I - Prepared Testimony

The statement of Keith Reutter, Ph.D., is attached hereto as **Exhibit I**.

Conclusion

In accordance with the *Ratemaking Policy Statement*, Leaf River has shown that the Project's prospective market shares and HHIs are sufficiently low, and that sufficient competitive alternatives exist, to justify the Commission's authorization of market-based rates for the Project's proposed firm and interruptible storage and hub services, including interruptible wheeling service.

XII.

TRANSMISSION PROVIDER STANDARDS OF CONDUCT

On November 17, 2006, the U.S. Court of Appeals for the District of Columbia Circuit vacated the Commission's Standards of Conduct as applied to interstate natural gas pipelines and remanded the matter to FERC.⁷⁸ In an interim rule, FERC promulgated rules from the Standards of Conduct that were not challenged on appeal and

⁷⁷ See *Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation Under Part 284 of the Commission's Regulations; and Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol*, Order No. 636, 57 Fed. Reg. 13,267 (Apr. 16, 1992), FERC Stats. & Regs. ¶ 30,939 at 30,427-28 (1992), *order on reh'g*, Order No. 636-A, 57 Fed. Reg. 36,128 (Aug. 12, 1992), FERC Stats. & Regs. ¶ 30,950 (1992), Order No. 636-B, 57 Fed. Reg. 57,911 (Dec. 8, 1992), 61 FERC ¶ 61,272 (1992), *reh'g denied*, 62 FERC ¶ 61,007 (1993), *aff'd in part and vacated and remanded in part, sub nom. United Dist. Cos. et al. v. FERC*, 88 F.3d 1105 (D.C. Cir. 1996), *cert. denied*, 117 S. Ct. 1723 (1997), *order on remand*, Order No. 636-C, 78 FERC ¶ 61,186 (1997), *reh'g denied*, Order No. 636-D, 83 FERC ¶ 61,210 (1998); 18 C.F.R. § 284.7(b)(3).

⁷⁸ *Standards of Conduct for Transmission Providers*, Order No. 2004, 68 Fed. Reg. 69,134 (Dec. 11, 2003), FERC Stats. & Regs. ¶ 31,155 (2003), *order on reh'g*, Order No. 2004-A, 69 Fed. Reg. 23,562 (Apr. 29, 2004), FERC Stats. & Regs. ¶ 31,161, *order on reh'g*, Order No. 2004-B, 69 Fed. Reg. 48,371 (Aug. 10, 2004), FERC Stats. & Regs. ¶ 31,166, *order on reh'g*, Order No. 2004-C, 70 Fed. Reg. 284 (Jan. 4, 2005), FERC Stats. & Regs. ¶ 31,172 (2004), *order on reh'g and clarif.*, Order No. 2004-D, 110 FERC ¶ 61,320 (2005), *vacated and remanded as its applies to natural gas pipelines sub nom. Nat'l Fuel Gas Supply Corp. v. FERC*, 468 F.3d 831 (D.C. Cir. 2006) (codified at 18 C.F.R. Part 358).

“temporarily re-adopt[ed] the standards of conduct provisions promulgated under Order No. 497.”⁷⁹ It also stated that waivers or exemptions provided under Order No. 2004 “are not negatively impacted by the National Fuel decision”⁸⁰ and hence presumably remain available. Nevertheless, out of an abundance of caution, Leaf River requests an exemption from the Commission’s Standards of Conduct.

Given that it has no interconnections with any affiliated “Transmission Providers,” has no market power and has no captive ratepayers, Leaf River is eligible for an exemption from the Commission’s Standards of Conduct for Transmission Providers.⁸¹ Assuming that it will be granted authority to charge market-based rates as requested herein, Leaf River will qualify for this exemption.⁸²

The Commission has held that an independent storage company must seek confirmation of its entitlement to the Section 358.3(a)(3) exemption by application.⁸³ Accordingly, Leaf River respectfully requests that the Commission confirm that Leaf River meets the requirements for the independent storage provider exemption set forth at 18 C.F.R. § 358.3(a)(3) and that the Standards of Conduct are, therefore, not applicable to Leaf River. The Commission has granted similar requests for exemption under Section 358.3(a)(3)

⁷⁹ *Standards of Conduct for Transmission Providers*, Order No. 690, 72 Fed. Reg. 2,427 (Jan. 19, 2007), FERC Stats. & Regs. ¶ 31,237 at P 6, *order on clarification and reh’g*, Order No. 690-A, 72 Fed. Reg. 14, 235 (Mar. 27, 2007), FERC Stats. & Regs. ¶ 31,243 (2007) (codified at 18 C.F.R. Pt 358) (“*Interim Standards of Conduct*”).

⁸⁰ Order No. 690, FERC Stats. & Regs. ¶ 31,237 at P 16.

⁸¹ *Id.*

⁸² *See* Order No. 2004-A, FERC Stats. & Regs. ¶ 31,161 at PP 38-39.

⁸³ *Bear Creek Storage Co., et al.*, 108 FERC ¶ 61,011 at P 2 (2004) (“[T]he Commission, upon application, will exempt independent storage companies that are not interconnected with the facilities of affiliated pipelines, cannot exercise market power, have no exclusive franchise, no captive ratepayers, no cost-of-service, no guaranteed rate of return, and no ability to cross-subsidize at-risk businesses with rate-payer contributions.”) (emphasis added).

proffered by independent storage providers presenting substantially the same circumstances as Leaf River's.⁸⁴

XIII. **REQUESTS FOR WAIVERS OF PART 157 REQUIREMENTS**

This Application includes the exhibits and other information specified in Part 157 of the Commission's regulations with the exception of information that is inapplicable or unnecessary given the nature of the proposed Project.⁸⁵ In accordance with those regulations, Leaf River requests the following waivers for the reasons stated:

- Given that Leaf River has no existing interstate pipeline operations and is requesting authorization to charge market-based rates for its proposed storage services, Leaf River respectfully requests that the Commission waive the requirements of 18 C.F.R. § 157.6(b)(8) that call for submission of information it normally requires to make an upfront determination of the appropriate rate treatment for a proposed project.
- Leaf River respectfully requests that the Commission waive the requirement that it file with this Application Exhibit K (Cost of Facilities), Exhibit L (Financing), Exhibit N (Revenues, Expenses and Income) and Exhibit O (Depreciation and Depletion). 18 C.F.R. §§ 157.14(a)(13), (14), (16) and (17). This request is made because Leaf River has demonstrated that it meets the Commission's criteria for market-based rates and is seeking authority to charge market-based rates. Information in these exhibits is required when an applicant seeks authorization for cost-based rate authority, rather than the market-based rate authority requested here.
- Leaf River respectfully requests that the Commission grant a waiver of the requirement to provide Total Gas Supply Data (**Exhibit H**), 18 C.F.R. § 157.14(a)(10), which is inapplicable

⁸⁴ *Tres Palacios*, 120 FERC ¶ 61,253 at P 70 (confirming that Tres Palacios qualifies for the Section 358.3(a)(3) exemption); *Windy Hill Amending Order*, 119 FERC ¶ 61,291 at P 70 (same); *Blewater*, 117 FERC ¶ 61,122 at P 57 (same); *Pine Prairie Energy Center, LLC*, 114 FERC ¶ 61,033 at P 7 (2006) (same); *Cent. N.Y. Oil & Gas Co.*, 109 FERC ¶ 61,231 at P 6 (2004) (same).

⁸⁵ 18 C.F.R. § 157.7.

to Leaf River's proposed natural gas storage operations. Leaf River's customers will supply their own gas for storage.

- Leaf River respectfully requests that the Commission waive the application of the Accounting and Reporting requirements set forth at 18 C.F.R. Part 201 and 18 C.F.R. § 260.2.⁸⁶ This request is made because Leaf River has demonstrated that it meets the Commission's criteria for market-based rates and is seeking authority to charge market-based rates. The accounting information is appropriate for a cost-of-service-based rate structure, but is inapplicable when market-based rates are authorized.
- Leaf River respectfully requests that the Commission grant a waiver of the requirement pertaining to straight fixed-variable rate design set forth at 18 C.F.R. §§ 284.7(e) and 284.10. This requirement is not applicable to market-based rates.

Leaf River respectfully requests that the Commission grant such additional waivers of its regulations as may be necessary.

XIV. **COMPLIANCE WITH LANDOWNER NOTIFICATION REQUIREMENTS**

Leaf River has taken various steps to ensure that all potentially affected nearby landowners are fully informed regarding the proposed Project. Leaf River will notify all "affected landowners," as defined in Section 157.6(d)(2)(iii), "regardless of whether there is a residence on their property."⁸⁷ Leaf River will comply fully with the notice and related distribution requirements of 18 C.F.R. § 157.10 (as modified by Order Nos. 603 and 603-

⁸⁶ Notwithstanding Leaf River's request for waiver of the requirements of Section 260.2 (requiring the filing of FERC Form 2-A), Leaf River will provide the information necessary for the Commission's assessment of annual charges. Leaf River will file pages 520 and 520a of Form 2-A, reporting the gas volume information which the basis for imposing an Annual Charge Adjustment ("ACA") charge. *See, e.g., Tres Palacios*, 120 FERC ¶ 61,253 at P 34 (granting Tres Palacios waiver of the requirement to file Form 2-A with the exception of information needed to impose an ACA charge); *Bluewater*, 117 FERC ¶ 61,122 at P 49 (same); *Windy Hill*, 115 FERC ¶ 61,218 at P 38 (same); *Caledonia*, 111 FERC ¶ 61,095 at P 20 (same).

⁸⁷ *Revisions to Landowner Notification and Blanket Certification Regulations, Notice of Proposed Rulemaking*, 119 FERC ¶ 61,304 at P 5 (2007). As of the date of this filing, the Commission has not issued a final rule [alternative: the final rule is not yet effective]. Leaf River, however, has decided to proactively take an inclusive approach to landowner notification, thereby addressing the Commission's concern that its "existing landowner notification requirement fails to capture all potentially affected landowners." *Id.*

A⁸⁸), and with the landowner notification requirements of 18 C.F.R. § 157.6, as modified by Order No. 609 and 609-A.⁸⁹ Leaf River will notify all affected landowners of this Application using the form of letter set forth in **Exhibit Z1**, using the address list appended thereto. Leaf River will make complete copies of this Application available at the Floyd J. Robinson Memorial Library in Smith County, the Bay Springs Municipal Library in Jasper County, and the Quitman Public Library in Clarke County, within three business days of the date the Application is issued a docket number.

XV.
REQUEST FOR BLANKET CERTIFICATE AUTHORIZATIONS

A. Part 284 Subpart G Blanket Certificate

Leaf River proposes to provide storage services from the Project on behalf of others on an open-access basis. To that end, it requests that it be issued a blanket certificate under Subpart G of 18 C.F.R. Part 284. The requested blanket certificate would authorize Leaf River, without prior notice to or approval by the Commission, to provide natural gas storage services in interstate commerce for any duration for any shipper for any end use by that shipper or any other person, as provided in 18 C.F.R. § 284.221, subject to pre-granted abandonment as provided in 18 C.F.R. § 284.221(d). Leaf River submits that issuance of this certificate is required by the public convenience and necessity. 18 C.F.R. § 284.221(b)(2).

As required by 18 C.F.R. § 284.221(b)(1)(ii), Leaf River here states that it will comply with all conditions specified in 18 C.F.R. § 284.221(c).

⁸⁸ *Revision of Existing Regulations Under Part 157 and Related Sections of the Commission's Regulations Under the Natural Gas Act*, Order No. 603, 64 Fed. Reg. 26,571 (May 14, 1999), FERC Stats. & Regs. ¶ 31,073 at 30,787-89, *order on reh'g*, Order No. 603-A, 64 Fed. Reg. 54,522 (Oct. 7, 1999), FERC Stats. & Regs. ¶ 31,081 at 30,924-25 (1999) (codified at 18 C.F.R. Pts. 2, 153, 157, 284, 375, 380, and 385).

⁸⁹ *Landowner Notification, Expanded Categorical Exclusions, and Other Environmental Filing Requirements*, Order No. 609, 64 Fed. Reg. 57,374 (Oct. 25, 1999), FERC Stats. & Regs. ¶ 31,082 (1999), *order on reh'g*, Order No. 609-A, 65 Fed. Reg. 15,234 (Mar. 22, 2000), FERC Stats. & Regs. ¶ 31,095 (2000) (codified at 18 C.F.R. Pts. 153, 157, 380).

B. Part 157 Subpart F Blanket Certificate

Leaf River may have occasion to engage in certain routine construction and operational activities that may be authorized on a self-implementing basis pursuant to Subpart F of Part 157 of the Commission's regulations. Accordingly, in accordance with the provisions of 18 C.F.R. § 157.204, Leaf River hereby requests that it be issued a blanket certificate authorizing it to engage in any of the activities specified in 18 C.F.R. §§ 157.208 through 157.218 (as amended by Order No. 603⁹⁰ and Order No. 686,⁹¹ and as those provisions may be further amended from time to time). Leaf River submits that issuance of this blanket certificate is required by the present and future public convenience and necessity because it will permit Leaf River to undertake routine construction activities, to make miscellaneous rearrangements of its facilities, to change delivery points and to render certain storage services, without having in each case to undergo the time-consuming and costly process of obtaining this Commission's advance approval.⁹²

Leaf River hereby certifies that in exercising its rights under its Subpart F blanket certificate, it will comply with the terms, conditions and procedures specified in 18 C.F.R. Part 157, Subpart F.

XVI. **REQUEST FOR EXPEDITED TREATMENT**

Leaf River respectfully requests that the Commission consider this Application on an expedited basis. The Leaf River Project is located within Mississippi's

⁹⁰ Order No. 603, *supra* note 88.

⁹¹ *Revisions to the Blanket Certificate Regulations and Clarification Regarding Rates*, Order No. 686, 71 Fed. Reg. 63,680 (Oct. 31, 2006), FERC Stats. & Regs. ¶ 31,231 (2006), *order on reh'g and clarification*, Order No. 686-A 72 Fed. Reg. 37,431 (July 10, 2007), FERC Stats. & Regs. ¶ 31,249, *order on reh'g*, Order No. 686-B, 120 FERC ¶ 61,249 (2007) (codified at 18 C.F.R. Pt. 157).

⁹² *See generally* 18 C.F.R. § 157.204(c).

Gulf Opportunity (“GO”) Zone and, as a consequence, is entitled to certain accelerated depreciation benefits so long as it is able to place components of the Project in service by December 31, 2008. Thus, the Project’s economics stand to be materially affected by its degree of success in bringing new qualifying infrastructure into service in Mississippi’s GO Zone by the end of next year. The Project expects to be able to qualify for GO Zone benefits if it receives certificate authorization *on or before May 1, 2008*. The eight-month review period this request implies is consistent with the periods within which the Commission has considered and approved many other independent storage certificate applications, including the Tres Palacios certificate application it has recently granted.⁹³ Leaf River submits that its request for expedition is justified for two independent reasons.

First, under the Gulf Zone Opportunity Act of 2005, the Project real property may not qualify for an additional first-year depreciation deduction equal to 50% of the cost of the real property investment unless some portion of the Project is “placed in service” by December 31, 2008.⁹⁴ Commencement of construction no later than June 1, 2008 is critical to Leaf River’s chances of placing, at the very least, its proposed leaching plant in service to satisfy the GO Zone Act requirement. Leaf River has been advised that it will be able at a minimum to claim GO Zone accelerated depreciation benefits for its cavern leaching plant if that plant commences operation by the statutorily mandated deadline of December 31, 2008.

⁹³ *Tres Palacios*, 120 FERC ¶ 61,253 (7 months); *See also Bobcat*, 116 FERC ¶ 61,052 (5 months); *MoBay*, 117 FERC ¶ 61,298 (6 months); *Pine Prairie*, 109 FERC ¶ 61,215 (5 months); *SGRM*, 101 FERC ¶ 61,029 (5 months).

⁹⁴ Gulf Opportunity Zone Act of 2005, Pub. L. No. 109-135, 119 Stat. 2577, 2582-83(d) (2005) (the “GO Zone Act”). The GO Zone Act provides certain tax incentives to encourage revitalization, rebuilding and business investment in the Gulf Opportunity Zone, which is comprised of counties and parishes in Alabama, Louisiana, and Mississippi that were affected by Hurricanes Katrina, Rita and Wilma. Smith, Jasper and Clarke Counties, Mississippi are all within Mississippi’s GO Zone.

Receiving this tax incentive is important to Project economics as it would represent a tax savings to Leaf River in present value terms of many millions of dollars.

Second, the requested May 1, 2008, approval date will enable Leaf River to bring into commercial operation as much as 5 Bcf of natural gas storage capacity by the third quarter of 2009. This is important because one of the major market opportunities for Leaf River is to serve LNG terminal operators, as well as customers taking gas from new and expanding LNG receiving facilities along the Gulf Coast. Substantial additional offtake capacity from Gulf Coast LNG facilities is expected to be placed into service by 2008. Thus, Leaf River's proposed initial in-service date is designed to match this anticipated expansion of Gulf Coast LNG import capacity. Moreover, a number of the prospective customers that have responded to Leaf River's Open Season have requested the opportunity to commence gas injections by the third quarter of 2009.

Accordingly, Leaf River respectfully requests that the Commission expedite its consideration and approval of this Application, and that it issue its order approving this Application by no later than May 1, 2008.

XVII. **OTHER MATTERS**

Leaf River requests that this Application be considered under the shortened procedures referenced in Section 385.802 of the Commission's Rules, 18 C.F.R. § 385.802. If so considered, and assuming that the authorizations and waivers requested herein are granted, Leaf River requests that the intermediate decision procedure be omitted. Leaf River also hereby waives oral hearing and the opportunity to file exceptions to the Commission's decision. In conformance with 18 C.F.R. § 284.221(b)(ii), Leaf River states that, with respect to the requested authorizations pursuant to Subpart G of Part 284, it will comply with

the general conditions set forth in Section 284.221(c) and Part 284, Subpart A of the Commission's regulations.

Pursuant to 18 C.F.R. §§ 388.112 and 388.113, this Application consists of four volumes:

Volume I: Public Information, including the Abbreviated Application and Exhibits except for those items designated Non-Internet Public ("NIP"), Critical Energy Infrastructure Information ("CEII") or Privileged Information.

Volume II: NIP Information, including certain location information in **Exhibit F-I** that does not qualify as CEII.

Volume III: CEII, consisting of **Exhibits G, G-I and G-II** and certain detailed facility drawings.

Volume IV: Privileged Information, consisting of the reports addressing cultural resources and fish, vegetation, and wildlife matters, as well as certain proprietary information relating to New Home Salt Dome geology.

Leaf River respectfully requests NIP treatment of Volume II, CEII designation of Volume III and privileged treatment of Volume IV. In accordance with Order No. 630⁹⁵ and Order No. 683,⁹⁶ the information in Volume II qualifies for NIP treatment because it contains facilities location information that does not qualify for protection as CEII, including USGS 7.5-minute series topographic maps showing the locations of Leaf River's proposed facilities. Pursuant to the Commission's guidelines for environmental report preparation and with the provisions of 18 C.F.R. §§ 388.107(d) and (h), Leaf River requests that the reports addressing cultural resources and fish, vegetation and wildlife matters, as well as a drawing

⁹⁵ *Critical Energy Infrastructure Information*, Order No. 630, 68 Fed. Reg. 9,857 (Mar. 3, 2003), FERC Stats. & Regs. ¶ 31,140, *order on reh'g*, Order No. 630-A, 68 Fed. Reg. 46,456 (Aug. 6, 2003), FERC Stats. & Regs. ¶ 31,147 (2003) (codified at 18 C.F.R. Pts. 375 and 388); *Critical Energy Infrastructure Information*, Order No. 662, 70 Fed. Reg. ¶ 37,031 (June 28, 2005), FERC Stats. & Regs. ¶ 31,189 (2005) (codified at 18 C.F.R. Pt. 388).

⁹⁶ *See Critical Energy Infrastructure Information*, Order No. 683, 71 Fed. Reg. 58,273 (Oct. 3, 2006), FERC Stats. & Regs. ¶ 31,228 (2006), *order on reh'g*; Order No. 683-A, 119 FERC ¶ 61,029 (2007) (codified at 18 C.F.R. Pt. 388).

which contains cultural resources survey information included in Volume IV, be treated as privileged information. In addition, in accordance with Order No. 630 and Order No. 683, Leaf River respectfully requests CEII designation for Volume III, because this volume contains information of such detail and specificity that, when combined with publicly-available information, it qualifies as CEII as that term is defined in 18 C.F.R. § 388.113(c)(1).

As required by 18 C.F.R. §§ 157.6(a)(3), 385.2011 and 388.112(b)(2) and related guidance, Leaf River is submitting for filing in this docket CDs containing electronic versions of the various documents making up Leaf River's Application. Leaf River is also submitting on separate electronic media a form of notice suitable for publication in the Federal Register.

XVIII. **EXHIBITS**

This abbreviated Application is filed pursuant to 18 C.F.R. § 157.7. As that regulation contemplates, Leaf River has omitted certain exhibits and information that are inapplicable or unnecessary to fully describe the nature and extent of the proposed Project. Leaf River respectfully submits that an abbreviated application is justified and that the data and information contained are sufficient to provide a full and complete understanding of Leaf River's requests and their impacts.

Following is a listing of the exhibits and documents filed with this Application, exhibits that have been omitted and the reasons for those omissions, and exhibits incorporated by reference.

Exhibit A Articles of Incorporation and By-Laws (or other similar documents)

Leaf River is a limited liability company organized under the laws of the State of Delaware. As a limited liability company, Leaf River does not create and

file articles of incorporation or bylaws. Leaf River is providing a conformed copy of its Limited Liability Company Agreement, which is the legal governance document for a limited liability company.

Exhibit B State Authorizations

Attached hereto.

Exhibit C Company Officials

Attached hereto.

Exhibit D Subsidiaries and Affiliation

Attached hereto.

Exhibit E Other Pending Applications and Filings

None.

Exhibit F Location of Facilities

Attached hereto.

Exhibit F-I Environmental Data

In accordance with 18 C.F.R. §§ 157.6 and 157.13, Leaf River incorporates by reference Gulf South's Wetland Delineation Report filed in Docket Nos. CP07-32-000, *et al.* on December 11, 2006. Leaf River specifically directs the Commission's attention to survey information Gulf South provides for the area between and including Gulf South's 45.65 and milepost 83.00; the vast majority of the West East Lateral will be installed immediately adjacent to the Southeast Expansion Project facilities between these mileposts. Leaf River also includes with this filing copies of certain Gulf South Resource Reports filed on December 11, 2006 in Docket Nos. CP07-32-000, *et al.*, which provide information on Leaf River's proposed West East Lateral corridor within Gulf South's 45.65 and milepost 83.00.

In accordance with 18 C.F.R. § 388.112, the following information will be separated into a separate volume (Volume II) and clearly marked "**NON-INTERNET PUBLIC**":

1. Figure 1.1-3A1 Gas Storage Site - Aerial
2. Figure 1.1-3A2 Gas Storage Site - Topographic

3. Figures 1.1-6A1 through 1.1-6A7 Project Location and Route Map
4. Figures 1.1-8A1 through 1.1-8A31 Detailed Route and Wetland Alignment Sheets - Aerial
5. Figures 1.1-9A and 1.1-9B Typical Meter and Regulator Station and Site Layouts
6. Figures 1.1-13A through 1.1-13G Horizontal Direction Drill Construction Drawings
7. Figures 1.1-16A1 through 1.1-16A31 Classification Maps - Aerial
8. Figures 1.1-17A through 1.1-17C Non-jurisdictional Facilities - Aerial
9. Figures 2.1-A1 through 2.1-A6-Public and Private Water Supply Wells
10. Figures 2.3-1 through 2.3-31 National Wetland Inventory Maps - Aerial
11. Figures 3.2-1 through 3.2-31 Ground Cover and Land Use Alignment Sheets - Aerial
12. Figures 7.1-1A1 through 7.1-1A7 Soils Maps, Dome Lateral and West East Lateral
13. Figures 8-1 through 8-4 Residential Detail - Aerial
14. Figures 10.2-1A1 through 10.2-5A4 - Alternatives Maps

A written statement requesting NIP treatment for the information in this volume, and justification for special treatment of this information, will be provided with this volume, in accordance with 18 C.F.R. § 388.112(b)(1).

The reports addressing cultural resources and fish, vegetation and wildlife matters are being submitted under seal in a separate volume with a cover page and every page containing privileged information clearly labeled in bold lettering: “**CONTAINS PRIVILEGED INFORMATION—DO NOT RELEASE**” in accordance with 18 C.F.R. §§ 388.112 and 380.12(f)(4). Copies of these materials with the privileged information removed are submitted in the public volume of this Application and are marked “Privileged Information Removed Pursuant to 18 C.F.R. § 388.112.”

A written statement requesting privileged treatment for the information in this Volume, and justification for special treatment of this information, will be provided with this Volume, in accordance with 18 C.F.R. § 388.112(b)(1).

Exhibit G Flow Diagrams

An original with two copies of flow diagrams will be submitted under seal in a separate volume with a cover page and every page containing privileged information clearly labeled in bold lettering: “**CONTAINS CRITICAL ENERGY INFRASTRUCTURE INFORMATION—DO NOT RELEASE**” in accordance with 18 C.F.R. § 388.112.⁹⁷

A written statement requesting CEII treatment for the information in this Volume, and justification for special treatment of this information will be provided with this Volume, in accordance with 18 C.F.R. § 388.112(b)(1).

Exhibit H Total Gas Supply Data

Omitted. Does not pertain to Leaf River’s storage operations. Shippers will obtain their own gas supply.

Exhibit I Market Data

Attached hereto.

Exhibit J Federal Authorizations

Attached hereto.

Exhibit K Cost of Facilities

Omitted in light of Leaf River’s request for market-based rate authority.

Exhibit L Financing

Omitted in light of Leaf River’s request for market-based rate authority.

Exhibit M Construction, Operation and Management

Attached hereto.

Exhibit N Revenues, Expenses and Income

Omitted in light of Leaf River’s request for market-based rate authority.

⁹⁷ “[F]low diagrams and other drawings or diagrams showing similar details such as volumes and operating pressures like those found in Exhibit G . . .” qualify as CEII. Order No. 630 at P 31.

Exhibit O Depreciation and Depletion

Omitted in light of Leaf River's request for market-based rate authority.

Exhibit P Tariff

Attached hereto.

Exhibit Z1 Landowner Notification Materials

Attached hereto.

XIX. **CONCLUSION**

WHEREFORE, for the reasons set forth above, Leaf River respectfully requests that the Commission act expeditiously on this Application and issue to Leaf River, under Section 7 of the NGA:

1. a certificate of public convenience and necessity, pursuant to Subpart A of 18 C.F.R. Part 157, authorizing Leaf River to construct, own, operate and maintain natural gas facilities necessary to provide firm and interruptible storage services as described herein;
2. a blanket certificate pursuant to Subpart G of 18 C.F.R. Part 284, authorizing Leaf River to provide open-access firm and interruptible storage services on behalf of others;
3. authorization to provide firm and interruptible storage services at market-based rates;
4. a blanket construction certificate pursuant to Subpart F of 18 C.F.R. Part 157; and
5. approval of the *pro forma* FERC Gas Tariff included in **Exhibit P**.

In addition, Leaf River respectfully requests that the Commission waive compliance with certain Section 157.14 filing requirements and the requirements to submit certain other cost-related information, as discussed in **Part XIII** of this Application, and

grant any other waivers that are necessary and appropriate for the authorizations requested herein.

Leaf River respectfully requests that the Commission issue its order granting the requested authorizations by no later than May 1, 2008.

Respectfully submitted,

LEAF RIVER ENERGY CENTER LLC

By _____

James F. Bowe, Jr.

James F. Bowe, Jr.
William E. Rice
Delia D. Patterson
DEWEY & LEBOEUF LLP
975 F Street, N.W.
Washington, D.C. 20004-1405
202 862-1000 (phone)
202 862-1093 (fax)

Of Counsel

Dated: October 9, 2007

Leaf River states that the Project will include four storage caverns with a total working gas capacity of 32 billion cubic feet (Bcf), supported by cushion gas capacity of 9.9 Bcf. Leaf River represents that construction and operation of the Project will have minimal impacts on the natural environment and on adjacent landowners.

Leaf River states that the market power study included with its Application demonstrates that Leaf River will not have market power in any relevant market. It asserts that the Commission can therefore conclude that Leaf River will be unable to charge or collect rates for its services that exceed just and reasonable levels.

Questions concerning this Application may be directed to James F. Bowe, Jr., Dewey & LeBoeuf LLP, 975 F Street, N.W., Washington, D.C. 20004-1405, 202-862-1000 (phone)/202-862-1093 (fax), jbowe@dl.com.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a notice of intervention or motion to intervene, as appropriate. Such notices, motions, or protests must be filed on or before the comment date. Anyone filing a motion to intervene or protest must serve a copy of that document on the Applicant. On or before the comment date, it is not necessary to serve motions to intervene or protests on persons other than the Applicant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at <http://www.ferc.gov>. Persons unable to file electronically should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

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Comment Date: 5:00 pm Eastern Time on (insert date).

Kimberly D. Bose
Secretary