



## Pipelines Worry About Proposed “Energy Corridors”

The Department of Interior’s efforts to designate “energy corridors” in parts of 11 Western states continues to produce controversy as the department works toward an end-of-year 2008 deadline for finalizing a list proposed last November. That list contained 166 corridors that pipelines could use for new projects with the expectation that those projects would get quick, coordinated federal approval. The 2005 Energy Policy Act requires the DOI to designate an unspecified number of corridors.

But the DOI has been getting an earful in the 11 states from environmental activists, landowners, local officials and even pipeline companies who are quibbling with the merits of many of the 166 proposed corridors included in the draft Programmatic Environmental Impact Statement (PEIS) the DOI published in November 2007.

For example, Brenda Linster, land and regulatory advisor for midstream services for EnCana Oil and Gas, thinks the north-south corridor proposed in Colorado, along the route of the existing TransColorado pipeline, has numerous problems, and wouldn’t work for the 22-mile section of pipeline EnCana has asked the Bureau of Land Management to build. That is a wet-gas pipeline subject to BLM, not FERC authority. That 22-mile section – from Collbran Valley to Parachute in Western Colorado – would be the last piece in a larger network which will help EnCana feed into the Meeker gas plant, a 1.8 bcf hub in northwestern Colorado. EnCana had considered running those 22 miles along the route of the TransColorado but rejected that route because of multiple difficulties, including problems with crossing the Colorado River. Linster explains that EnCana is concerned that the Bureau of Land Management, through whose property the 22-mile pipeline will run, will force EnCana to use the TransColorado route.

But Linster makes a broader point, too; that the Interior Department, in designating these 166 proposed energy corridors, has not looked closely enough at potential environmental, endangered species and landowner problems which could negate the utility of those corridors.

Brent Arnold, a spokesman for Kern River Gas Transmission Company, worries that the designations in Las Vegas do not include the North McCullough Pass area south of Las Vegas. “This pass already has existing transmission lines and rights-of-way for pipeline routed through it, and it would be advantageous to have north and south McCullough passes designated to allow for siting flexibility in this highly congested area,” he explains. In addition, where the PEIS proposed corri-

dor leaves Nevada and enters into California, the designation changes from a multi-modal classification to an electric-only classification, which would exclude pipelines. “This area already contains several gas pipelines, and the designation of this corridor as electric-only would potentially cause routing difficulties through that area,” he adds.

### Coast Guard Bill Could Impact LNG Siting

The House passed a Coast Guard bill containing provisions which some see as impeding construction of new liquid natural gas (LNG) plants. One provision in the Coast Guard Authorization Act of 2007 (H.R. 2830), which the House passed on April 24 by a vote of 395-7, establishes criteria to assure the Coast Guard can enforce security zones around the LNG terminal. That would be a new requirement. In addition, before the Federal Energy Regulatory Commission could approve construction of a new LNG terminal, the Department of Homeland Security would have to give its okay.

The more controversial of the two amendments specified that the Coast Guard must be able to handle security arrangements for LNG facilities on its own, though it can depend on local and state authorities if they meet certain criteria. Those criteria are substantial. They require that local governments have the training, resources, personnel, equipment and experience necessary to deter a transportation security incident to the maximum extent practicable.

The day before the House approved the bill, Admiral T.W. Allen, commandant of the Coast Guard, sent a letter to Rep. James Oberstar (D-MN), chairman of the House Transportation and Infrastructure Committee, saying that requiring that the Coast Guard to provide security around LNG terminals and tankers is contrary to the existing assistance framework, at odds with accepted risk management practices, and would divert finite Coast Guard assets from other high-priority missions. “I recommend a broader discussion of security measures for all extremely hazardous cargoes,” Allen wrote. “In the Statement of Administration Policy on H.R. 2830, the Administration has stated that, if the bill is presented to the President with this provision, his senior advisors would recommend that he veto the bill.”

Rep. Ed Markey (D-MA), who has the Falls River LNG project in his district, sponsored the amendment requiring the DHS to do an “impact statement” before FERC could approve an LNG project. “The need for this kind of commonsense coordination between DHS and FERC has been highlighted recently by the situation in Falls River, MA, where

the FERC has approved a license for an LNG facility that the Coast Guard says shouldn’t be built because the waterway to the facility is not suitable. Despite this action by the Coast Guard, which effectively blocks the facility, the FERC license remains in place. This lack of coordination makes no sense and my amendment will ensure that this doesn’t happen in future siting decisions,” says Markey.

### New MLP Policy Positive For Pipelines

Look for interstate gas pipelines to have an easier time getting FERC approval for higher rates now that the commission has decided to include master limited partnerships in the proxy groups which are used by the commission in determining a pipeline’s return on equity (ROE). That ROE is a key statistic in the very complicated equation FERC uses in coming up with the rate a pipeline can charge a shipper.

The ROE issue has been especially controversial since the FERC decided against allowing MLPs in the proxy group in a Kern River rate case. An MLP would be a company such as Boardwalk Pipeline Partners LP which owns Texas Gas Transmission LLC and Gulf South Pipeline Company LP. A decision last July by the U.S. Court of Appeals for the D.C. Circuit in the Petal Gas Storage case vacated and remanded FERC’s rulings in two earlier decisions where the commission excluded MLPs from the proxy group.

“Trends in the natural gas industry mandated that we change our traditional approach of requiring that the proxy group be composed of corporations owning pipelines that constitute a high proportion of their business,” FERC Chairman Joseph T. Kelliher said. “To insist on excluding MLPs from the natural gas pipeline proxy group in the face of these developments, would seem to be perverse.”

Joan Dreskin, general counsel for INGAA, calls the policy statement “very positive” in many respects. “It recognizes the reality that MLPs are here. It provides certainty to the industry on how to calculate rates of return. What it doesn’t do, which is good, is determine the composition of proxy groups,” she explains. The commission allows the pipeline and its shippers to jointly negotiate a proxy group.

The only negative in the decision, according to Dreskin, was FERC’s decision to embrace the proposal offered by the American Public Gas Association to use a long-term growth projection for MLPs equal to 50 percent of the long-term growth in GDP. That compares with a 100 percent rate for C Corporations such as Williams, for example. ■