

December 29, 2005

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

Re: Tennessee Gas Pipeline Company
Tariff Filing
Docket No. RP06-____-000

Dear Ms. Salas:

Tennessee Gas Pipeline Company (“Tennessee”), pursuant to Section 4 of the Natural Gas Act (“NGA”), 15 U.S.C. § 717c, Part 154 of the Regulations of the Federal Energy Regulatory Commission (“Commission”) (18 C.F.R. Part 154), hereby tenders an original and five copies of Sixth Revised Sheet No. 95B and Third Revised Sheet No. 96 for inclusion in Tennessee’s FERC Gas Tariff, Fifth Revised Volume No. 1 (the “Tariff”), to be effective on February 1, 2006.

Statement of the Nature, Reasons and Basis for the Filing

Tennessee is submitting the identified tariff sheets in order to revise the firm storage penalty provision for a) unauthorized withdrawals below a customer’s minimum Storage Balance as defined in Section 3.4(b) of Rate Schedule FS, and b) net withdrawals of a shipper’s inventory, during the months November through March, which exceed one hundred ten percent (110%) of Ratchet II daily levels times the number of days in the month, as set forth in Section 3.4(c) of Rate Schedule FS,¹ collectively referred to hereafter as “Unauthorized Storage Withdrawals.” Tennessee proposes to change the current penalty from \$25 per Dth to \$15 per Dth plus the applicable Regional Daily Spot Price for each Dth, applicable during periods when Tennessee has declared a Balancing Alert.² Tennessee is not proposing any changes to the penalty applicable to Unauthorized Storage Withdrawals during periods when Tennessee issues a Critical Day notice or an Action Alert. Tennessee submits that this limited change is reasonable and necessary given that the current penalty charge may not be sufficient to deter conduct this

¹The maximum net withdrawal restriction is not applicable to customers who make seasonal elections as defined in Section 3.4(c) of Rate Schedule FS.

² See Article VIII, Section 5.4 of the General Terms and Conditions (“GT&C”) of the Tariff.

current winter season, when circumstances justify issuance of a Balancing Alert, given the recent extraordinary increases in natural gas prices coupled with the impact that Hurricanes Katrina and Rita have had on Tennessee's system in particular and the flowing gas supply situation in general.

Tennessee has the right to issue Operational Flow Orders ("OFOs") in order to alleviate conditions which threaten or could threaten the safe operations or system integrity of Tennessee's system, or to maintain operations required to provide efficient and reliable firm service.¹ The OFO tariff provisions provide Tennessee with tools designed to address three stages of threats to the system. Action Alerts and Critical Day notices were designed to address low to medium level threats to the system, respectively. Where Action Alerts and Critical Days are not sufficient to address the situation fully or under circumstances in which the operational integrity of the system is more severely threatened, Tennessee may issue Balancing Alerts.² As referenced above, the current penalty for non-compliance with a Balancing Alert's directives is \$15 per Dth plus the applicable Regional Daily Spot Price for each Dth during periods of time when a Balancing Alert is in effect.

Under Tennessee's Rate Schedule FS, whether Tennessee calls an Action Alert, Critical Day or Balancing Alert, a storage customer is penalized a flat rate of \$25 per Dth on Unauthorized Storage Withdrawals. In light of the decline in available Gulf Coast supplies resulting from the hurricanes, the impact that the hurricanes had on Tennessee's own system and the increasing price of gas along Tennessee system, Tennessee has become concerned that a fixed penalty of \$25 would not provide a sufficient deterrent to Unauthorized Storage Withdrawals, particularly if the price of gas were to exceed \$25. As noted in a recent pipeline filing addressing this situation, "To the extent that a shipper on the . . . system has a choice of shorting the system, and paying the penalty price versus buying the gas at any price above \$25, the shipper that makes an economically rational decision will generally choose the \$25 per dth penalty."³ On Tennessee's system, the incentive to opt for Unauthorized Storage Withdrawals at the fixed price is even more compelling since, even if Tennessee were to issue its highest alert, the Balancing Alert, to prevent Unauthorized Storage Withdrawals, the storage customer is not subject to its index penalty provisions in the event of non-compliance. It is subject only to the fixed penalty.

As noted above, Tennessee is not proposing to wholesale modify its Rate Schedule FS penalty structure. Tennessee is proposing a surgical change to address specifically situations where Tennessee invoked its highest form of OFO in order to protect its system integrity. Nor has Tennessee proposed a heretofore unheard-of penalty for unauthorized withdrawals, or simply

1 See Article VIII, Section 2 of the GT&C.

2 See Article VIII, Sections 3, 4 and 5 of the GT&C.

3 Answer of Transcontinental Gas Pipe Line Corporation in Docket No. RP06-65, dated November 29, 2005, p. 5.

lacked on an index component to the \$25 penalty. Rather, Tennessee is proposing that the Balancing Alert penalty apply to Unauthorized Storage Withdrawals when a Balancing Alert is in effect. Although a shipper in violation of the storage withdrawal restrictions may indeed pay more for violations under the Balancing Alert structure as opposed to the fixed penalty, this is entirely reasonable and consistent with Commission precedent. As the Commission stated in Transcontinental Gas Pipe Line Corporation, 113 FERC ¶ 61,224 (2005), “[p]enalties are designed to provide an economic disincentive to shippers that might take actions which could threaten the operational integrity of the pipeline in the absence of such penalties. For a penalty to be effective, it must be at a level sufficient to make its incurrence economically undesirable when compared with other choices.”⁴ In fact, the Transco precedent is directly analogous here: 1) there is a present condition of increased gas prices and the possibility of even higher prices in the near future are the same; 2) Tennessee’s current penalties for Unauthorized Storage Withdrawals are capped at levels that may no longer act as a deterrent for actions that might threaten pipeline operations; 3) Tennessee’s proposed penalty structure for unauthorized withdrawals would be applicable only where Tennessee’s operational integrity is threatened as evidenced by issuance of a Balancing Alert and assessed only on those customers who take actions that may compromise pipeline operations; and 4) Tennessee is not proposing to modify its penalty crediting provisions,⁵ thus the penalty revenues will be credited to shippers who abide by the relevant tariff provisions.⁶ Therefore, as the Commission found in Transco, and in other recent cases where the Commission modified fixed or capped penalty pricing, Tennessee respectfully requests that tariff revisions be approved as just and reasonable.⁷

Material Enclosed

In accordance with 18 C.F.R. § 154.7, included with this transmittal letter are the following items:

- (1) the tariff sheets identified above;
- (2) an electronic version of the tariff sheets on a 3 ½-inch diskette;
- (3) a redlined version of the tariff sheets pursuant to 18 C.F.R. § 154.201(a) showing the change relative to Tennessee’s currently effective tariff sheet;
- (4) a form of notice suitable for publication in the Federal Register in accordance

⁴ Transcontinental Gas Pipe Line Corporation, 113 FERC ¶ 61,224 , slip op. at 3 (2005) (“Transco”),

⁵ See Article XXXVIII of the GT&C.

⁶ Transco, slip op. at 3-5.

⁷ See, e.g., Columbia Gas Transmission Company, 113 FERC ¶ 61,204 (2005); Columbia Gas Corporation, 113 FERC ¶61,191(2005); Viking Gas Transmission Co., 112 FERC ¶ 61,098 (2005); Midwestern Gas Transmission Co., 112 FERC ¶ 61,345 (2005); Texas Eastern Transmission, LP, 113 FERC ¶ 61,145 (2005).

Ms. Magalie R. Salas
Federal Energy Regulatory Commission
December 29, 2005
Page 4

with 18 C.F.R. § 154.209; and

- (5) an electronic version of the Federal Register Notice on a 3 ½-inch diskette.

Service and Correspondence

The undersigned certifies that a copy of this filing has been mailed to each of Tennessee's customers and affected state regulatory commissions. In addition, a copy of this filing is available for public inspection during regular business hours in Tennessee's office at 1001 Louisiana, Houston, Texas 77002.

Pursuant to 18 C.F.R. Section 385.2011 of the Commission's regulations, the undersigned states that the paper copy of the attached tariff sheets contains the same information as is contained on the electronic media, that the undersigned knows the contents of the paper copy and the electronic media, and that the contents as stated in the copy and the electronic media are true to the best knowledge and belief of the undersigned.

The names, titles and mailing address of the persons to whom correspondence and communications concerning this filing should be directed are as follows:

*Marguerite N. Woung-Chapman
General Counsel
Affairs
Tennessee Gas Pipeline Company
1001 Louisiana
Houston, TX 77002
TEL. (713) 420-4018
FAX. (713) 420-1655

Byron Wright
Vice President, Rates and Regulatory

*Milton Palmer
Director of Rates and Regulatory Affairs
Tennessee Gas Pipeline Company
1001 Louisiana
Houston, TX 77002
TEL. (713) 420-3297
FAX (713) 420-1605

(* Persons designated for service in accordance with Rule 203 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 395.203.)

Ms. Magalie R. Salas
Federal Energy Regulatory Commission
December 29, 2005
Page 5

Effective Date

Tennessee respectfully requests that the Commission grant all waivers of its regulations necessary to accept this filing and approve the proposed tariff sheets to be effective February 1, 2006. Tennessee conditions its request on the Commission's acceptance of this filing without modification. If the Commission conditions the acceptance of this filing in any way, Tennessee reserves the right to withdraw the proposed tariff sheets and to seek to place such sheets into effect at a later date.

Any questions regarding this filing may be directed to the undersigned at (713) 420-4018.

Respectfully submitted,

TENNESSEE GAS PIPELINE COMPANY

/s/ Marguerite N. Woung-Chapman
Marguerite N. Woung-Chapman
Its Attorney

Company: Tennessee Gas Pipeline Company Fifth Revised Sheet No. 12
Tariff: FERC NGA Gas Tariff Superseding
Volume: Fifth Revised Volume No. 1 Sub Fourth Revised Sheet No. 12
Docket No.:
Issued On: December 4, 2007
Effective On January 1, 2008

[Tariff Sheet for .pdf tariff filing for posting in eLibrary](#)
[Attachment to xml tariff file to FERC eTariff](#)

RATE SCHEDULE FS
FIRM STORAGE SERVICE (continued)

March 1 of each calendar year will be automatically charged an overrun withdrawal rate per DTH beneath the limit. In the event that Transporter calls a Critical Day or issues an Action Alert pursuant to Article VIII of the General Terms and Conditions, a Shipper will be penalized \$25.00 per DTH on further withdrawals below the minimum that are not authorized. In the event that Transporter calls a Balancing Alert pursuant to Article VIII of the General Terms and Conditions, a Shipper will be penalized \$15.00 plus the applicable Regional Daily Spot Price for each dekatherm on further withdrawals below the minimum that are not authorized. Regional Spot Price means the highest spot price published in Gas Daily for the day(s) on which, and for the region(s) in which, the Balancing Alert is in effect; provided that if the Balancing Alert is in effect on days on which no Gas Daily is published, the applicable price(s) reflected in the most recently published Gas Daily shall be used in assessing the charge. However, to the extent the overruns are explicitly authorized by Transporter, both the authorized overrun charge and the applicable \$25.00 per DTH penalty or the \$15.00 per DTH penalty plus the applicable Regional Daily Spot Price penalty will be waived.

- (c) For the months November through March, maximum net withdrawals of a shipper's inventory must be less than or equal to 110% of Ratchet II daily level times the number of days in the month. This restriction will not apply to shippers who make seasonal elections (effective December - February) to forfeit in relation to the transportation contracts designated under Rate Schedule FT-A, FT-G or FT-GS, release rights for capacity, including the primary receipt point(s), upstream of Shipper's FS service point. Shippers making seasonal elections must provide written notice of such election to Transporter by October 20.

The maximum net withdrawal restriction also will not apply to Shippers who make seasonal elections to release proportionate amounts of firm storage capacity, deliverability rights (including conditional deliverability rights), and firm transportation capacity upstream of Shippers' FS service point during the months of December through February. In the event of such a proportionate release: (a) the Releasing Shipper will retain conditional deliverability rights in proportion to the firm storage capacity, deliverability rights (including conditional deliverability rights), and firm transportation capacity upstream of Shippers' FS service point that it retains; and (b) the Replacement Shipper shall be entitled to the conditional deliverability rights included in the proportionate release and subject to the same conditions for conditional deliverability as the Releasing Shipper, provided that the Replacement Shipper does not re-release either the firm storage or the designated transportation contract during the period December through February. Shipper must provide written notice of such proportionate releases to Transporter at least 5 days prior to the effective date of such releases.

Transporter is not required to provide notice to Shippers exceeding one hundred ten percent (110%) of Ratchet II withdrawals. For Shippers who did not make a seasonal election, in the event that Transporter calls a Critical Day or issues an Action Alert pursuant to Article VIII of the General Terms and Conditions, all volumes exceeding such limit will be subject to an unauthorized overrun charge of \$25.00 per DTH. For Shippers who did not make a seasonal election, in the event that Transporter calls a Balancing Alert pursuant to Article VIII of the General Terms and Conditions all volumes exceeding such limit will be subject to an unauthorized overrun charge of \$15.00 per DTH plus the applicable Regional Daily Spot Price for each dekatherm; unless Shipper receives advance approval from Transporter, in Transporter's sole discretion, that Shipper may exceed 110% of Ratchet II withdrawals. Transporter will use reasonable efforts to accommodate withdrawals exceeding 110% of Ratchet II upon receipt of a Shipper's request. Regional Spot Price means the highest spot price published in Gas Daily for the day(s) on which, and for the region(s) in which, the Balancing Alert is in effect; provided that if the Balancing Alert is in effect on days on which no Gas Daily is published, the applicable price(s) reflected in the most recently published Gas Daily shall be used in assessing the charge.

Marked Tariff Sheet for .pdf tariff filing for posting in eLibrary
Attachment to xml tariff file to FERC eTariff

RATE SCHEDULE FS
FIRM STORAGE SERVICE (continued)

March 1 of each calendar year will be automatically charged an overrun withdrawal rate per DTH beneath the limit. In the event that Transporter calls a Critical Day or issues an Action Alert ~~or a Balancing Alert~~ pursuant to Article VIII of the General Terms and Conditions, a Shipper will be penalized \$25.00 per DTH on further withdrawals below the minimum that are not authorized. In the event that Transporter calls a Balancing Alert pursuant to Article VIII of the General Terms and Conditions, a Shipper will be penalized \$15.00 plus the applicable Regional Daily Spot Price for each dekatherm on further withdrawals below the minimum that are not authorized. Regional Spot Price means the highest spot price published in Gas Daily for the day(s) on which, and for the region(s) in which, the Balancing Alert is in effect; provided that if the Balancing Alert is in effect on days on which no Gas Daily is published, the applicable price(s) reflected in the most recently published Gas Daily shall be used in assessing the charge. However, to the extent the overruns are explicitly authorized by Transporter, both the authorized overrun charge and the applicable \$25.00 per DTH penalty or the \$15.00 per DTH penalty plus the applicable Regional Daily Spot Price penalty will be waived.

(c) For the months November through March, maximum net withdrawals of a shipper's inventory must be less than or equal to 110% of Ratchet II daily level times the number of days in the month. This restriction will not apply to shippers who make seasonal elections (effective December - February) to forfeit in relation to the transportation contracts designated under Rate Schedule FT-A, FT-G or FT-GS, release rights for capacity, including the primary receipt point(s), upstream of Shipper's FS service point. Shippers making seasonal elections must provide written notice of such election to Transporter by October 20.

The maximum net withdrawal restriction also will not apply to Shippers who make seasonal elections to release proportionate amounts of firm storage capacity, deliverability rights (including conditional deliverability rights), and firm transportation capacity upstream of Shippers' FS service point during the months of December through February. In the event of such a proportionate release: (a) the Releasing Shipper will retain conditional deliverability rights in proportion to the firm storage capacity, deliverability rights (including conditional deliverability rights), and firm transportation capacity upstream of Shippers' FS service point that it retains; and (b) the Replacement Shipper shall be entitled to the conditional deliverability rights included in the proportionate release and subject to the same conditions for conditional deliverability as the Releasing Shipper, provided that the Replacement Shipper does not re-release either the firm storage or the designated transportation contract during the period December through February. Shipper must provide written notice of such proportionate releases to Transporter at least 5 days prior to the effective date of such releases.

Transporter is not required to provide notice to Shippers exceeding one hundred ten percent (110%) of Ratchet II withdrawals. For Shippers who did not make a seasonal election, in the event that Transporter calls a Critical Day or issues an Action Alert ~~or a Balancing Alert~~ pursuant to Article VIII of the General Terms and Conditions, all volumes exceeding such limit will be subject to an unauthorized overrun charge of \$25.00 per DTH. For Shippers who did not make a seasonal election, in the event that Transporter calls a Balancing Alert pursuant to Article VIII of the General Terms and Conditions all volumes exceeding such limit will be subject to an unauthorized overrun charge of \$15.00 per DTH plus the applicable Regional Daily Spot Price for each dekatherm; unless Shipper receives advance approval from Transporter, in Transporter's sole discretion, that Shipper may exceed 110% of Ratchet II withdrawals. Transporter will use reasonable efforts to accommodate withdrawals exceeding 110% of Ratchet II upon receipt of a Shipper's request. Regional Spot Price means the highest spot price published in Gas Daily for the day(s) on which, and for the region(s) in which, the Balancing Alert is in

Company: Tennessee Gas Pipeline Company
Tariff: FERC NGA Gas Tariff
Volume: Fifth Revised Volume No. 1

Fifth Revised Sheet No. 12
Sub Fourth Revised Sheet No. 12
Effective: January 1, 2008
Issued: December 4, 2007
Page 2

effect; provided that if the Balancing Alert is in effect on days on which no Gas Daily is published, the applicable price(s) reflected in the most recently published Gas Daily shall be used in assessing the charge.

~~(d) — Conditional deliverability may be transported under a specifically designated service agreement under Rate Schedule FT A, FT C or FT GS. All injections and withdrawals can be transported under existing firm agreements up to the TQ stated in the agreement. Such quantities shall have the same curtailment status as transportation to primary delivery points from primary receipt points. Available authorized overrun service under the designated transportation agreement may be used to transport conditional deliverability subject to the scheduling restrictions contained in Article III of the General Terms and Conditions. Any authorized overrun activity is subject to restriction without prior notice by Tennessee. Designations shall be made on a monthly basis but can be revised during the month to respond to changes in Shipper's operational requirements upon one day prior notice.~~