128 FERC ¶ 61,198
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Suedeen G. Kelly, Marc Spitzer,
and Philip D. Moeller.

Southern Natural Gas Company	Docket Nos. CP09-36-000 CP09-36-001
Southeast Supply Header, LLC Southern Natural Gas Company	CP09-40-000

ORDER GRANTING ABANDONMENT AUTHORITY
AND ISSUING CERTIFICATES

(Issued August 27, 2009)

1. On December 15, 2008, Southern Natural Gas Company (Southern) filed an application pursuant to sections 7(b) and 7(c) of the Natural Gas Act (NGA) and Part 157 of the Commission's regulations seeking authorization for its South System Expansion III Project (SSEIII Project) to provide up to 375,000 dekatherms (Dth) per day of firm transportation capacity for Southern Company Services, Inc. (SCS) which SCS will use to serve Georgia Power Company's (Georgia Power) Plant Jack McDonough electric generation facility near Atlanta in Cobb County, Georgia. On February 10, 2009, Southern filed an amendment to its application in order to modify the scope of its SSEIII Project to reflect an existing shipper's request to relocate certain receipt and delivery points.

2. On December 19, 2008, Southeast Supply Header, LLC (SESH) and Southern filed an application pursuant to section 7(c) seeking authorization for their Joint Pipeline Expansion Phase II Project (JPE Phase II Project). The purpose of the JPE Phase II Project is to expand the jointly-owned segment of the existing SESH pipeline in order to increase Southern's capacity in that segment from 140,000 Dth per day to 500,000 Dth per day. Southern will use a part of this capacity to provide service for SCS. For the reasons discussed below, the Commission is issuing the requested authorizations, subject to conditions.

I. Background

3. Southern is a natural gas company within the meaning of the NGA engaged in the operation of an interstate pipeline system for the transportation of natural gas in the states

of Texas, Louisiana, Mississippi, Alabama, Georgia, South Carolina, Florida and Tennessee.

4. SESH is a joint venture between affiliates of CenterPoint Energy Gas Transmission (CEGT) and Spectra Energy Transmission, LLC, each of which holds a 50 percent interest in SESH. The Commission approved the SESH Project in orders issued on May 17, 2007, and September 17, 2007.[1] SESH's pipeline system consists of approximately 274 miles of pipeline commencing at interconnections with Gulf South Pipeline Company LP (Gulf South) and CEGT at the Perryville Hub near Delhi, Louisiana (Perryville Receipt Points). The SESH pipeline continues through Mississippi and Alabama before terminating at an interconnection with Gulfstream Natural Gas System, L.L.C. near Coden, Alabama.

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5. SESH's pipeline system includes three mainline and two booster compressor stations. The first 117.19 miles of the pipeline (Joint Pipeline) are jointly-owned by SESH and Southern and include the Perryville Receipt Points, the Delhi and Gwinville Compressor Stations, and an interconnection with Southern's pipeline system near the Gwinville Compressor Station in Jefferson Davis County, Mississippi. The current capacity of the Joint Pipeline is 1,140,000 Dth per day with Southern's undivided ownership interest providing Southern with 140,000 Dth per day of capacity from the Perryville Receipt Points to the Gwinville interconnection with Southern. SESH is the operator of the Joint Pipeline. Pursuant to the Joint Operating Agreement between Southern and SESH, dated December 6, 2006, the capacity of the Joint Pipeline can be expanded to 1,500,000 Dth per day with Southern's capacity rights increasing to 500,000 Dth per day.

6. On November 29, 2006, Georgia Power, an affiliate of SCS, announced plans to expand the generating capacity of its existing Plant Jack McDonough electric generation facility by adding two 840 megawatt natural-gas-fueled generators. Georgia Power also announced plans to retire its two coal-fired units totaling 540 megawatts of generating capacity at the facility and replace those units with a single 840 megawatt gas fuel unit. The total generating capacity at the facility would increase from 540 megawatts to over 2,500 megawatts.

7. On February 5, 2007, Southern announced that it had reached an agreement with SCS to expand Southern's pipeline system to provide up to 375,000 Dth per day of firm transportation capacity to serve the expanded Plant Jack McDonough facility. In December 2007, Southern conducted an open season for bids for firm transportation capacity on the SSEIII Project. SCS was the only bidder for capacity. Pursuant to the

[1] *Southeast Supply Header, LLC*, 119 FERC ¶ 61,153 (2007) (May 2007 Order), Preliminary Determination on Non-Environmental Issues; 120 FERC ¶ 61,257 (2007) (September 2007 Order), Order Issuing Certificates.

agreement between SCS and Southern, SCS bid for 125,000 Dth per day of capacity in each of the three phases of the SSEIII Project.

II. Proposal

A. Southern's SSEII Project

8. Southern and SCS have entered into a long-term firm precedent agreement, for Southern to provide up to 375,000 Dth per day of firm transportation capacity to the Plant Jack McDonough generating facility in three phases, through May 31, 2032. In Phase I, with an anticipated in-service date of January 1, 2011, Southern is to provide 125,000 Dth per day of firm transportation capacity from Southern's "Southern LNG-Elba" and "Destin Enterprise" receipt points. For Phase II, with an anticipated in-service date of June 1, 2011, Southern is to provide a total of 250,000 Dth per day of firm transportation capacity from Southern's "Southern LNG-Elba" receipt point and Southern's "SESH-CenterPoint to Southern" and "SESH-Gulf South to Southern" receipt points located on the Joint Pipeline at the Perryville Hub. For Phase III, with an anticipated in-service date of June 1, 2012, Southern is to provide a total of 375,000 Dth per day of firm transportation capacity from Southern's "Sabine," "Columbia Gulf-Shadyside," and "Southern LNG-Elba" receipt points and the Perryville Hub receipt points on the Joint Pipeline.

9. To provide the requested firm transportation service for SCS, Southern proposes in Docket No. CP09-36-000, as amended in Docket No. CP09-36-001, to expand its existing pipeline system in three phases.[2] Specifically, Southern proposes in Phase I to: (a) construct and operate the 31.2-mile, 36-inch diameter Thomaston-Griffin Loop to be located in Upson, Lamar and Spalding Counties, Georgia, paralleling Southern's existing Thomaston-Griffin 2nd Loop Pipeline from Milepost 0.00 to Milepost 31.2;[3] (b) abandon

[2] The modifications to the proposed facilities in the amended application reflect Southern's accommodation of Atlanta Gas Light Company's (Atlanta Gas) request to relocate existing contractual volumes to different receipt and delivery points. *See* pages 4 and 5 of the amendment application in Docket No. CP09-36-001. Atlanta Gas shifted 118,713 Mcf/d from South Thomaston Delivery Point to the South Atlanta #1 delivery meter. This necessitated the upsizing of the Thomaston-Griffin loop. Atlanta Gas shifted 15,000 Mcf of receipts from Southern's South Main System to Southern's North Main System and shifted 20,000 Mcf per day of firm deliveries from the South Main to the North Main systems, respectively, resulting in the reduction of the lengths of several loops.

[3] Southern originally proposed a 30-inch diameter loop, but increased the diameter of the pipeline to 36-inches in its proposed amendment filed in Docket No. CP09-36-001 in order to accommodate Atlanta Gas's request to shift existing delivery volumes from the South Thomaston Delivery Point to the South Atlanta #1 Delivery Point.

and replace 10.9 miles of the existing 18-inch diameter South Atlanta-Austell Pipeline with 30-inch diameter pipeline in Fulton and Clayton Counties, Georgia, between Milepost 0.00 and Milepost 10.9 (South Atlanta-Austell Replacement); and (c) install the Plant McDonough Meter Station at Milepost 10.9 on the South Atlanta-Austell Pipeline near Union City in Fulton County, Georgia. Southern proposes an in-service date of January 1, 2011, for the looping and replacement pipe and an in-service date of May 1, 2010, for the Plant McDonough Meter Station. The earlier in-service date for the meter station is necessary to provide test gas to Georgia Power's generating facility.

10. In Phase II of the SSEIII Project Southern proposes to: (a) construct and operate the 12.0 mile, 36-inch diameter Gwinville Loop paralleling Southern's existing South Main System from Milepost 0.00 to Milepost 12.0 in Jefferson Davis and Simpson Counties, Mississippi;[4] (b) construct and operate the 7.7 mile, 36-inch diameter Enterprise Loop paralleling Southern's existing South Main System between Milepost 89.8 and Milepost 97.5 in Lauderdale County, Mississippi, and Choctaw and Sumter Counties, Alabama; (c) install a 10,310 horsepower (hp) gas-fired centrifugal compressor unit at its existing Bay Springs Compressor Station in Jasper County, Mississippi; and (d) make minor modifications to the existing Enterprise Compressor Station in Clarke County, Mississippi, and the existing Gallion Compressor Station in Hale County, Alabama. Southern proposes an in-service date of June 1, 2011, for the Phase II facilities.

11. Finally, in Phase III, Southern proposes to: (a) construct and operate the 2.4-mile, 36-inch diameter Bay Springs Loop paralleling Southern's South Main System between Mileposts 64.8 and 67.2 in Clarke County, Mississippi; (b) construct and operate the 5.2 mile Gallion Loop paralleling Southern's South Main System between Mileposts 149.9 and 155.1 in Hall and Perry Counties, Alabama;[5] (c) abandon and replace 11.7 miles of Southern's existing 16-inch diameter South Main Pipeline with 42-inch diameter pipeline between Mileposts 221.6 and 233.3 in Elmore County, Alabama, and (d) install a 7,000 hp electric motor driven reciprocating compressor unit at the existing Ellerslie

[4] The Gwinville Loop as originally proposed was to be 14.3 miles long. The shift of certain existing receipt and delivery volumes by Atlanta Gas from Southern's South Main System to Southern's North Main System reduced the loop to 12.0 miles.

[5] The Gallion Loop as originally proposed was to be 9.75 miles long. The shift of certain existing receipt and delivery volumes by Atlanta Gas from Southern's South Main System to Southern's North Main System reduced the loop to 5.2 miles.

Compressor Station in Harris County, Georgia. Southern proposes an in-service date of June 1, 2012, for the Phase III facilities.[6]

B. SESH and Southern's JPE Phase II Project

12. To provide upstream transportation for SCS on the Joint Pipeline, the applicants propose in Docket No. CP09-40-000 to expand the capacity of the Joint Pipeline. Specifically, the applicants propose to install: a Solar Mars 100 gas turbine-driven compressor unit rated at 12,916 hp at the existing Delhi Compressor Station located on the Joint Pipeline in Richland Parish, Louisiana, and a Solar Mars 100 gas turbine-driven compressor unit rated at 12,736 hp at the existing Gwinville Compressor Station located on the Joint Pipeline in Jefferson Davis County, Mississippi.[7] The JPE Phase II Project will increase Southern's capacity in the joint pipeline from 140,000 Dth per day to 500,000 Dth per day and is proposed to go into service on June 1, 2011, to coincide with Phase II of Southern's SSEIII Project.

[6] In its April 27, 2009 response to staff's April 16, 2009 data request, Southern discussed the feasibility of installing waste heat generation at the Bay Springs and Ellerslie Compressor Stations. Southern states that neither station meets the criteria set forth in the Interstate Natural Gas Association of America (INGAA) white paper titled, Waste Heat Energy Recovery Opportunities of Interstate Natural Gas Pipelines, February 2008 (INGAA White Paper). Specifically, the Ellerslie Compressor Station consists of a mix of gas-fired and electric-driven compressor units which are not adaptable to waste-heat recovery. The Bay Springs Compressor Station, while having in excess of 15,000 horsepower of gas-fired turbine compression, is expected to operate at an approximate 25 percent load factor based upon historic data, which is much less than the 60 percent load factor identified in the INGAA White Paper as necessary to support waste-heat generation.

[7] In its May 5, 2009 response to staff's April 16, 2009 data request, SESH discussed the feasibility of installing waste heat compression at the Delhi and Gwinville Compressor Stations. SESH does not believe installation of waste heat recovery at either station is appropriate at this time. Specifically, SESH stated that due to the short operational history associated with the Gwinville Compressor Station (less than a year) and the location of other SESH compression, it is unlikely that it will operate at the minimum 60 percent load factor threshold identified in the INGAA White Paper. In regard to the Delhi Compressor Station, SESH states that even if the compression were to operate at a sufficient load factor, it is not possible to install waste-heat generation because there is not sufficient space at the compressor station site and the site is surrounded by third party facilities.

C. Rates

13. Southern estimates that the SSEIII Project, as amended, will cost $351,713,029.[8] SESH and Southern estimate that the JPE Phase II Project will cost $67,687,059. Southern will pay the entire cost of the SSEIII and JPE Phase II Projects. Southern proposes to charge SCS a levelized incremental rate for service on both the Joint Pipeline and Southern's system. Southern proposes to assign 45 percent of its cost of service of its portion of the Joint Pipeline (225,000 Dth per day/500,000 Dth per day) to the incremental rate for SCS. Southern proposes to charge existing system rates for the remaining 135,000 Dth per day of unsubscribed capacity created by the JPE Phase II Project but does not seek a pre-determination for rolled-in rate treatment at this time.

III. Public Notice and Interventions

14. Notice of Southern's application in Docket No. CP09-36-000 and amendment in Docket No. CP09-36-001 were published in the *Federal Register* on January 14, 2009 (74 Fed. Reg. 2,065) and February 24, 2009 (74 Fed. Reg. 8,243), respectively. Peoples Gas System, a Division of Tampa Electric Company (Peoples Gas), Southern Cities,[9] and SCS filed timely, unopposed motions to intervene in response to the January 14, 2009 notice in Docket No. CP09-36-000. Florida Power & Light Company (Florida Power) and Atlanta Gas Light Company (Atlanta Gas) filed motions to intervene out-of-time. Atlanta Gas also filed comments in support of Southern's amendment. Notice of the SESH/Southern application in Docket No. CP09-40-000 was published in the *Federal Register* on January 14, 2009 (74 Fed. Reg. 2,064). Peoples Gas and Tampa Electric Company filed timely motions to intervene and Florida Power filed a late intervention. Timely, unopposed motions to intervene are granted by operation of Rule 214 of the Commission's regulations.[10] We will grant the late interventions for good cause shown, and because they will not delay or disrupt the proceeding. No protests or adverse comments were filed.

[8] Southern's original cost estimate prior to the amendment was $351,915,769. The combination of upsizing the Thomaston-Griffin Loop and reducing the length of the Gwinville and Gallion Loops resulted in a minimal change in the original cost estimate.

[9] Southern Cities is an *ad hoc* group of municipally-owned public utilities engaged in the distribution of natural gas. For this proceeding Southern Cities include the City of Tallahassee, Florida, and the Cities of Cordele, Dublin, Cartersville, Cuthbert, Hawkinsville, La Grange, and Tallapoosa, Georgia.

[10] 18 C.F.R. § 385.214 (2009).

IV. Discussion

15. Because the facilities proposed by Southern and SESH will be used to transport natural gas in interstate commerce subject to the jurisdiction of the Commission, their construction and operation are subject to the requirements of section 7(c) of the NGA. The proposed abandonment of facilities by Southern is subject to the requirements of NGA section 7(b).

A. Application of the Certificate Policy Statement

16. The Commission's September 15, 1999 Certificate Policy Statement provides guidance as to how the Commission evaluates proposals for certificating major new construction.[11] The Certificate Policy Statement established criteria for determining whether there is a need for a proposed project and whether the proposed project will serve the public interest. The Certificate Policy Statement explains that in deciding whether to authorize the construction of major new pipeline facilities, the Commission balances the public benefits against the potential adverse consequences. The Commission's goal is to appropriately consider the enhancement of competitive transportation alternatives, possibility of overbuilding, subsidization by existing customers, applicant's responsibility for unsubscribed capacity, avoidance of unnecessary disruptions of the environment, and the unneeded exercise of eminent domain in evaluating new pipeline construction.

17. Under this policy, the threshold requirement in establishing the public convenience and necessity for existing pipelines proposing expansion projects is that the pipeline must be prepared to financially support the project without relying on subsidization from existing customers. The next step is to determine whether the applicant has made efforts to eliminate or minimize any adverse effect the project might have on the applicant's existing customers, existing pipelines in the market and their captive customers, or landowners and communities affected by the route of the new pipeline. If residual adverse effects on these interest groups are identified after efforts have been made to minimize them, the Commission will evaluate the project by balancing the evidence of public benefits to be achieved against the residual adverse effects. This is essentially an economic test. Only when the benefits outweigh the adverse effects on economic interests will the Commission proceed to complete the environmental analysis where other interests are considered.

18. Southern's proposals satisfy the threshold requirement that the pipeline must be prepared to financially support the project without relying on subsidization from its

[11] *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999); *order on clarification*, 90 FERC ¶ 61,128 (2000); *order on clarification*, 92 FERC ¶ 61,094 (2000) (Certificate Policy Statement).

existing customers. As explained below, we are approving Southern's proposal to charge incremental rates for service on its SSEIII Project and to charge its existing Zone 1 rates for the remaining capacity created on the Joint Pipeline in the JPE Phase II Project. To protect existing Southern shippers and consistent with the May 2007 Order,[12] Southern will not be allowed to roll the costs associated with the expansion of the Joint Pipeline into its existing rates in a future section 4 rate proceeding unless it is able to demonstrate at such time that doing so will not result in the subsidization of the facilities by existing shippers or that the benefits to the system outweigh the costs. We will also require Southern to keep separate books and accounting of costs attributable to the proposed incremental and system service. With regard to SESH's existing customers, because Southern is paying for the expansion of the Joint Facilities, SESH's existing shippers will not subsidize the expansion.

19. The projects will not adversely affect Southern and SESH's existing customers or other pipelines and their customers. The proposed facilities are designed to provide incremental service without degradation of service to Southern's and SESH's existing firm customers. In addition, there is no evidence that service on other pipelines will be displaced or bypassed. Thus, we conclude that the proposals will not have adverse impacts on existing pipelines or their customers.

20. Similarly, the evidence does not indicate adverse economic impacts on landowners. The applicants have designed their projects to minimize impacts. Specifically, the majority of construction of the SSEIII Project will occur within or adjacent to Southern's existing right-of-way which will limit the amount of additional permanent easements that will be required. Southern is also replacing two segments of small diameter pipeline with larger diameter pipeline to reduce impacts. Finally, the compressor modifications proposed by Southern in the SSEIII Project and by Southern and SESH in the JPE Phase II Project will all take place at existing compressor stations.

21. The proposed expansions of the Southern system and the Joint Pipeline are necessary to provide fuel for Georgia Power's expanded Plant Jack McDonough generating facility. The Commission finds that the projects will provide substantial benefits, including lowering the estimated fuel rate on Southern's system, without any adverse impacts on shippers or other pipelines. Therefore, the proposal is consistent with the Certificate Policy Statement and section 7(c) of the NGA. Accordingly, balancing the factors set forth in the Certificate Policy Statement, we conclude that approval of the SSEIII Project and the JPE Phase II Project is required by the pubic convenience and necessity.

22. Consistent with our standard practice, we will condition our certificate authorization so that construction cannot commence until after Southern executes

[12] *See* May 2007 Order, 119 FERC ¶ 61,153 at P 31.

contracts that reflect the levels and terms of service represented in its precedent agreements.[13]

B. Rates

1. Existing Rates on the Joint Pipeline

23. As certificated in the May and September 2007 Orders, Southern provides up to 140,000 Dth per day of firm service under its Commission-approved Zone 1 rates on the Joint Pipeline. Specifically, Southern offers Firm Transportation Service (FT), Firm Transportation-No Notice Service (FT-NN), Interruptible Transportation Service (IT), and Park and Loan Service (PAL) pursuant to its FERC Gas Tariff. The May and September 2007 Orders approving the SESH project and Southern's initial rates on the Joint Pipeline found that Southern would not be allowed to roll the costs of the Joint Pipeline facilities into its existing rates in a future section 4 rate proceeding unless it could demonstrate at such time that doing so would not result in the subsidization of the facilities by existing shippers or that the benefits to the system outweigh the costs.[14]

2. Proposed Incremental Rates

24. Southern proposes to charge SCS incremental rates using a levelized cost of service rate design for the 375,000 Dth per day of incremental capacity service on the SSEIII Project and 225,000 Dth per day of the total 360,000 Dth per day of the incremental capacity of the JPE Phase II Project. Southern proposes to combine the costs for the 225,000 Dth per day of incremental capacity on the SESH Joint Pipeline with the costs for the 375,000 Dth per day on the SSEIII Project, charging an incremental initial firm reservation rate under Rate Schedule FT for Zone 3 service of $14.03 per Dth, and a firm transportation commodity rate of $0.030 per Dth.[15]

25. The proposed $14.03 per Dth incremental reservation rate for SCS in Southern's Zone 3 is based on a cost of service of $63,121,024 and billing determinants of 375,000 Dth per day utilizing a 100 percent load factor. The $63,121,024 annual cost of service

[13] *See, e.g.,* May 2007 Order, 119 FERC ¶ 61,153; *Gulf South Pipeline Company, L.P.*, 119 FERC ¶ 61,281 (2007).

[14] May 2007 Order, 119 FERC ¶ 61,153 at P 31; September 2007 Order, 120 FERC ¶ 61,257 at P 14.

[15] The $0.030 per Dth firm transportation commodity charge represents a weighted average rate reflecting all three phases of the SSEIII project.

reflects a projected estimated plant cost of $351,915,769[16] for the SSEIII Project[17] and levelized cost of service components, which include: (1) levelized depreciation and (2) a regulatory asset consisting of two parts, (a) depreciation regulatory asset and (b) the capacity phase-in regulatory asset. In deriving the incremental rate, Southern included an allocation of $17,517,605 in its cost of service for the 45 percent of Southern's capacity in the Joint Pipeline that will be used for service to SCS. Southern's cost of service is based on Commission-approved cost of service factors in effect at the time of the filing: (1) a straight line on-shore depreciation rate of 1.55 percent; (2) a 14.6 percent pretax return; and (3) a capital structure of 57.9 percent equity and 42.1 percent debt.[18]

26. We will approve Southern's proposed incremental rate for the service to SCS on both the SSEIII Project and a portion of the JPE Phase II Project.

3. System Rates on the Joint Pipeline

27. For the remaining 135,000 Dth per day of capacity resulting from the JPE Phase II Project, Southern proposes to charge its existing system rate, but is not seeking a presumption in this proceeding supporting rolled-in rate treatment in a future section 4 proceeding. The 135,000 Dth per day is currently unsubscribed capacity for which Southern plans to hold an open season prior to the in-service date of the expansion.[19]

[16] *See* Southern's original application in Docket No. CP09-36-000 at Exhibit K, Sheet 1 of 7 and on Line 1 of Exhibit P Sheet 3(a) of 8. Southern did not revise the rate calculation to reflect the slightly reduced costs, roughly $200,000, resulting from the facility modifications in its amended application in CP09-36-001. In its April 10, 2009 response to Rates Question 5 of staff's April 10, 2009 data request, Southern stated that it intends to make a filing at least 30 days before the SSEIII Project goes into service updating the costs and revising the incremental rate if necessary. The Commission cautions that if Southern intends to revise its initial rates prior to the in-service date of the project, it must submit its application for an amendment sufficiently in advance of the in-service date to provide the Commission time to review and act on that filing prior to Southern filing tariff sheets to implement those rates.

[17] Southern will finance the proposed facilities from available cash on hand as well as future cash from operations and possibly future debt and/or equity financing.

[18] *Southern Natural Gas Co.*, Docket No. RP04-523-000 (July 13, 2005) (unpublished letter order approving uncontested offer of settlement). Since this application was filed, Southern submitted, on March 2, 2009, a section 4 general rate case in Docket No. RP09-427-000, which was set for hearing and technical conference. *See Southern Natural Gas Co.*, 127 FERC ¶ 61,003 (2009).

[19] *See* Southern's March 11, 2009 response to Rates Question 7 of staff's February 19, 2009 data request.

Consistent with our finding in the May and September 2007 Orders, the Commission will permit Southern to charge as initial rates for the 135,000 Dth per day of unsubscribed capacity its existing rates under Rate Schedules FT, FT-NN, IT, and PAL for service in Zone 1.[20] Further, Southern will not be permitted to roll the costs associated with the 135,000 Dth per day of capacity into its existing rates in a future section 4 rate proceeding unless it is able to demonstrate that doing so will not result in the subsidization of the facilities by existing shippers.[21] Such a demonstration will protect Southern's existing customers from subsidizing unsubscribed capacity, and provide the proper assignment of costs for such facilities.

4. Allocation of Joint Pipeline Expansion Costs

28. As noted, Southern proposes to increase its firm transportation capacity on the Joint Pipeline by 360,000 Dth per day, from 140,000 Dth per day to 500,000 Dth per day and to allocate the total costs of its portion of the Joint Pipeline between the 225,000 Dth of incremental service per day for SCS and the 275,000 Dth per day to be available for service at existing system rates. Southern argues that such an allocation of the Joint Pipeline costs is appropriate because the cheap expansibility provided by the JPE Phase II Project[22] will benefit both the system customers and SCS. Southern proposes to allocate 45 percent (225,000 Dth per day/500,000 Dth per day) of the total cost of its expanded Joint Pipeline facilities to the incremental expansion for SCS and the remaining 55 percent (140,000 Dth per day + 135,000 Dth per day/500,000 Dth per day) to system shippers.

29. The critical element in reviewing a bifurcated rate design, with both system and incremental rates, is to ensure that there is a proper assignment of costs, and that the respective shippers pay for the service they receive.[23] Southern's existing pipeline transportation customers should not pay any costs for the expansion of the pipeline system if they do not benefit or receive service from the incremental facilities. The

[20] May 2007 Order, 119 FERC ¶ 61,153 at P 29 & 31; September 2007 Order, 120 FERC ¶ 61,257.

[21] May 2007 Order, 119 FERC ¶ 61,153 at P 33; September 2007 Order, 120 FERC ¶ 61,257 at P 14.

[22] Southern's initial capacity, 140,000 Dth per day, in the Joint Pipeline cost approximately $174 million while the JPE Phase II Project capacity, 360,000 Dth per day, is estimated to cost approximately $68 million. *See* Southern's March 11, 2009 response to Rates Question 3 of staff's February 19, 2009 data request.

[23] *See Tennessee Gas Pipeline Co.*, 113 FERC ¶ 61,335, at P 17-23 (2005); *Dominion Gas Transmission Inc.*, 101 FERC ¶ 61,047, at P 8-10 (2002).

proposed expansion has the potential to benefit existing shippers by providing increased access to alternatives to Gulf Coast production.

30. However, to assure that costs are properly allocated, the Commission will require Southern to keep separate books and accounting of costs attributable to the proposed incremental and system service. Further, the books should be maintained with applicable cross-reference as required by section 154.309 of the Commission's regulations. This information must be in sufficient detail so that the data can be identified in Statements G, I, and J in any future NGA section 4 or 5 rate case and the information is provided consistent with Order No. 710 on incremental facilities.[24] Such measures protect existing customers. Further, the Commission will accept Southern's proposal to charge its existing rates for Zone 1 system service expansion on the Joint Pipeline as directed in the May and September 2007 Orders. Southern will not be allowed to roll the costs of the Joint Pipeline facilities into its existing rates in a future section 4 rate proceeding unless it is able to demonstrate at such time that doing so will not result in the subsidization of the facilities by existing shippers.[25]

5. Interruptible Rates

31. While Southern provides interruptible transportation service on the Joint Pipeline for its system customers, it has not proposed to provide the incremental service on an interruptible basis. In its tariff filing implementing the incremental rate to be submitted not less than 30 days and not more than 60 days prior to commencing service, Southern is required to provide for interruptible transportation service over the capacity dedicated to incremental service and to explain how the revenues from such service will be credited.

[24] *Revisions to Forms, Statements, and Reporting Requirements for Natural Gas Pipelines*, Order No. 710, FERC Statutes and Regulations, ¶ 31,267, at P 23 (2008), stated in regard to incremental facilities that pipelines were required to:

> report the following: (1) the name of the facility; (2) the docket number under which the facility was approved; (3) the type of rate treatment (e.g., incremental or another rate treatment); (4) the amount of plant in service; (5) the amount of accumulated depreciation; (6) the amount of accumulated deferred income taxes; (7) amount of operating expenses; (8) the amount of maintenance expenses; (9) the amount of depreciation expense; (10) incremental revenues; and (11) other expenses.

[25] May 2007 Order, 119 FERC ¶ 61,153 at P 31.

6. Fuel

32. Southern proposes to roll the fuel costs for both the expansion of the Joint Pipeline and the SSEIII Project into its existing fuel rate, contending that such an approach will result in a lower fuel rate on Southern's system. We will allow Southern to charge its system Zone 1 fuel rate for the system service provided on the Joint Pipeline and the intrazone fuel rate for Zone 3 for the incremental service provided for SCS as its initial fuel charge for service over the Joint Pipeline and SSEIII Project. To protect existing customers from paying higher fuel costs as a result of the incremental service for SCS, we will require Southern to explain and provide the actual fuel use and the Lost and Unaccounted Fuel (LAUF) associated with the incremental service in its annual tracker filing required by section 35 of the General Terms and Conditions in Southern's tariff. Existing shippers will then be able to review the costs included in Southern's tracker filings to ensure that they will not subsidize the incremental service.

7. Cost Overruns

33. The issue of cost overruns for construction projects has become a greater concern as costs have escalated.[26] For the Joint Pipeline expansion, Southern proposes to allocate construction costs, including cost overruns, between its existing system rates and SCS's incremental service on a pro-rata basis based on capacity. Southern states that it will report any cost overruns or underruns in a future section 4 rate proceeding, in which such costs will be included in the base or test period. For costs associated with the SSEIII Project, Southern states it intends to file an amendment providing a cost update (including any overruns or underruns) and proposing an updated levelized incremental rate applicable to the SSEIII Project at least thirty days before the SSEIII Project goes into service. We emphasize that in any future filing to recover construction costs, Southern and SESH will be required to support its proposal.

8. SESH

34. SESH and Southern estimate the total construction cost for the Joint Pipeline Expansion to be $67,687,059 and propose a cost of service of $13,337,758. SESH explains that since Southern is solely responsible for paying and realizing the benefits of the proposed JPE Phase II Project, SESH is not proposing in this proceeding any change

[26] For example, Southern, for its portion of the Joint Pipeline, reported in its March 11, 2009 response to Rates Question 4 of staff's February 19, 2009 data request, construction costs of $173,645,441, which represents an increase of $113,651,441 or 189 percent from the $59,994,000 estimated in Exhibit K of the December 18, 2006 filing in Docket No. CP07-44-000.

to its existing Commission-approved rates. SESH, as the operator of the Joint Pipeline, reported construction costs in Exhibit K of its application in Docket No. CP09-40-000, but is not proposing to recover those costs in its rates.

35. SESH, in accordance with the May 2007 Order, is required to file a cost and revenue study specified in section 154.313 of the regulations at the end of its first three years of actual operation to justify its existing recourse rate. That filing will detail how SESH is keeping separate books and records, identifying the cost attributable to service for Southern and SESH on the SESH pipeline system, providing such information as specified in section 154.313 of the regulations, including among other things, the cost of plant-in-service, operating costs, including operation and maintenance and administrative and general expenses, and throughput.

36. This proposal will increase compression and fuel use on the Joint Pipeline, providing service solely for Southern. Consistent with section 4.4 of the Joint Operating Agreement and section 22.2 of the General Terms and Conditions of SESH's tariff, SESH and Southern are responsible for the fuel usage based on their respective throughput on the Joint Pipeline. SESH will continue to recover only its portion of fuel associated with the Joint Pipeline as prescribed by the Transporter's Use and System Balancing Adjustments mechanism in its tariff, isolating such costs to ensure the proper assignment of fuel.

C. Abandonment

37. Southern proposes to abandon and replace 11.7 miles of its existing 16-inch South Main Pipeline and 10.9 miles of its existing 18-inch South Atlanta-Austell Pipeline. Southern proposes to treat the abandonment as a normal retirement and account for the abandonment of its facilities by debiting Account 108, Accumulated Provision for Depreciation of Gas Plant in Service, and crediting Account 101, Gas Plant in Service, consistent with Gas Plant Instruction No. 10.[27]

38. Additionally, Southern proposes to credit Account 409.2, Income Taxes, Other Income and Deductions, for the reduction of current income taxes related to the tax loss from abandonment, and debit Account 410.2, Provision for Deferred Income Taxes, Other Income and Deductions, for the reversal of the related deferred federal and state income taxes. However, the reduction in current income taxes associated with a tax loss from a normal retirement relates to utility operating income, rather than other income and deductions. Therefore, Southern is directed to credit Account 409.1, Income Taxes, Utility Operating Income, for the reduction of current income taxes, and debit the reversed deferred income taxes to Account 410.1, Provision for Deferred Income Taxes, Utility Operating Income.

[27] 18 C.F.R. Part 201 (2009).

39. As conditioned, we approve Southern's proposed abandonment.

D. Accounting

1. Allowance for Funds Used During Construction (AFUDC) Accrual Period

40. Southern filed its application for a certificate of public convenience and necessity to construct and operate the project on December 15, 2008. Southern proposes to start the accrual of AFUDC beginning March 2008, or 9 months prior to filing its certificate application, and continuing through May 2012.[28] The amount of AFUDC accrued prior to the filing of the certificate application is $229,335.

41. Southern states that it believes that the capitalization of AFUDC prior to filing its certificate application is justified because Southern received its pre-filing docket number[29] in March 2008 as part of pre-filing procedures and construction expenditures were continuously incurred on a planned and progressive basis starting from March 2008.[30]

42. Under the Commission's accounting regulations, a company may begin accruing AFUDC on project costs when construction costs are continuously incurred on a planned progressive basis, but for a company constructing a natural gas pipeline, interest should not be accrued for the period of time prior to the date of the application to the Commission for a certificate to construct facilities unless specifically justified. This long standing guidance is in accordance with the requirements of Accounting Release No. 5 (Revised) (AR-5),[31] Capitalization of Interest During Construction, which states, in part,

> Interest during construction may be capitalized starting from the date that construction costs are continuously incurred on a planned progressive basis. Interest should not be accrued for the period of time prior to: . . . the date of the application to the Commission for a certificate to construct facilities by a natural gas company. Interest accruals may be allowed by the Commission for the period prior to the above dates if so justified by the company ...

[28] *See* Southern's March 11, 2009 response to staff's February 19, 2009 data request related to Accounting Question No. 1.

[29] PF08-13-000.

[30] *See* Southern's April 20, 2009 response to staff's April 10, 2009 data request related to Question No. 9.

[31] *Accounting Release No. 5 (Revised), Capitalization of Interest During Construction*, Effective January 1, 1968, FERC Stats. & Regs. ¶ 40,005.

43. Southern's receipt of its pre-filing docket number in March 2008, does not justify the accrual of AFUDC prior to the December 15, 2008 date the certificate application was filed with the Commission.

44. Although Southern states that construction expenditures were continuously incurred on a planned and progressive basis starting from March 2008, Southern did not provide sufficient detail to demonstrate that the costs incurred were in fact construction costs rather than costs related to preliminary survey and investigation type activities, before it filed its certificate application on December 15, 2008.

45. Accordingly, the Commission rejects Southern's proposed inclusion of the accrual of AFUDC prior to the date of filing for a certificate to construct the facility. Southern is directed to reverse the AFUDC accrued between March 2008 and December 15, 2008, the date of the certificate application filing. Additionally, Southern is directed to adjust all cost of service items dependent upon Gas Plant in Service such as Income Taxes, Depreciation Expense, return, and Interest Expense to appropriately reflect the effects from the reversal of the AFUDC accrued prior to the date of the certificate application filing. As discussed above, Southern is required to file its revised rates and work papers with sufficient time for the Commission to act on the revised rates prior to filing the tariff sheets to implement those rates.

2. Regulatory Asset

46. In order for Southern to provide new levelized, incremental rates throughout the term of its project, Southern proposes to use a levelized cost-of-service and defer the difference between what a traditional-cost-of-service would otherwise yield for the given calendar year and the proposed levelized cost-of-service as a regulatory asset.[32] Southern proposes to recognize the regulatory asset by debiting Account 182.3, Other Regulatory Assets, and crediting Account 407.4, Regulatory Credits, and to extinguish or amortize the regulatory asset by crediting Account 182.3, and debiting Account 407.3, Regulatory Debits, as the amounts are recovered in rates.

[32] This regulatory asset consists of two parts referred to as the depreciation regulatory asset, for the difference between book depreciation and the amount of depreciation provided for in Southern's levelized cost-of-service, and the capacity phase-in regulatory asset, for the difference between Southern's conventional cost-of-service and the amount achieved by the application of contract billing determinants during the phase-in period for Phase I and Phase II at a single levelized rate.

47. Southern's use of a levelized cost-of-service and recording of a regulatory asset is a mechanism that allows Southern to defer and recover costs in future rates. Under the Uniform System of Accounts (USofA), it is appropriate to record a regulatory asset for costs that would otherwise be chargeable to expense when it is probable that the costs will be recovered in future rates.[33] Southern's additional capacity under this expansion is fully subscribed under a long-term transportation service agreement and the regulatory asset is expected to be extinguished at the end of the twenty year levelization period. Accordingly, Southern's proposed accounting is consistent with the requirements of the USofA and is hereby approved.[34]

E. Environment

48. On May 16, 2008, we issued a Notice of Intent to Prepare an Environmental Assessment for the South System Expansion III Project and Joint Pipeline Expansion Phase II Project and Request for Comments on Environmental Issues (NOI). On August 7, 2008, Commission staff issued a Supplemental Notice of Intent to Prepare an Environmental Assessment for the South System Expansion III Project and Request for Comments on Environmental Issues (Supplemental NOI), following a scope change in that project. We received responses to the NOI and Supplemental NOI from the U.S. Fish and Wildlife Service; the U.S. Department of Agriculture, Natural Resources Conservation Service; the State of Alabama, Alabama Historical Commission; the Georgia Department of Natural Resources, Historic Preservation Division; and the Mississippi Department of Wildlife, Fisheries, and Parks. Eight individuals commented about the SSEIII Project. No individuals commented about the JPE Phase II Project. Comments received were related to impacts on wildlife, vegetation, wetlands, groundwater, and noise; pipeline safety, and evaluation of route alternatives. These comments were addressed in the environmental assessment (EA).

49. The EA was issued on June 12, 2009 for public comment and placed into the public record. The EA addresses geology, soils, water resources, wetlands, fisheries, wildlife, vegetation, land use, cultural resources, air quality, noise, safety, and

[33] The term "probable," as used in the definition of regulatory assets, refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved. *Revisions to Uniform Systems of Accounts to Account for Allowances under the Clean Air Amendments of 1990 and Regulatory-Created Assets and Liabilities and to Form Nos. 1, 1-F, 2 and 2-A*, Order No. 552, FERC Stats. & Regs., Regulations Preambles ¶ 30,967 (1993).

[34] *See, e.g., TransColorado Gas Transmission Co.*, 67 FERC ¶ 61,301, at 62,064, *order on reh'g*, 69 FERC ¶ 61,066 (1994); *Mojave Pipeline Co.*, 69 FERC ¶ 61,244 (1994), *order issuing certificate and denying reh'g*, 72 FERC ¶ 61,167 (1995), *order vacating prior orders and dismissing motions*, 75 FERC ¶ 61,108 (1996).

alternatives. We received one joint comment on the EA from Southern and SESH, and one comment from the Mississippi Department of Wildlife, Fisheries, and Parks (MDWFP).

50. Southern and SESH clarified the schedule for construction of the JPE Phase II Project. This project's construction would begin in the fourth quarter of 2010 and would have an in-service date of June 1, 2011. Further, they clarified the description of some of the equipment that would be installed. The additional compressor proposed to be installed at the existing Delhi Compressor Station is a Solar Mars 100 (not a Solar Taurus 100) unit rated at 12,916 hp. The additional compressor proposed to be installed at the existing Gwinville Compressor Station will also be a Solar Mars 100 unit, but rated at 12,736 hp. The noise analysis completed in section 8.2 of the EA was for the Solar Mars 100 units, and both the air and noise analyses were conducted for compressor units with these ratings. The clarifications provided by Southern and SESH do not affect the analyses, conclusions, or recommendations in the EA.

51. The MDWFP concludes that if best management practices are implemented, particularly measures to prevent or at least minimize negative impacts to water quality, the proposed project likely poses no adverse threat to state or federally listed threatened or endangered species or their habitats. Southern and SESH have agreed to implement best management practices that are consistent with the FERC Upland Erosion Control, Revegetation, and Maintenance Plan and Wetland and Waterbody Construction and Mitigation Procedures during construction and restoration of their projects.

52. Based on the discussion in the EA, we conclude that if constructed and operated in accordance with Southern's application and amendment filed February 10, 2009, SESH's application, and the environmental conditions in the Appendix to this order, approval of these proposals would not constitute a major federal action significantly affecting the quality of the human environment.

53. Any state or local permits issued with respect to the jurisdictional facilities authorized herein must be consistent with the conditions of this certificate. The Commission encourages cooperation between interstate pipelines and local authorities. However, this does not mean that state and local agencies, through application of state or local laws, may prohibit or unreasonably delay the construction or operation of facilities approved by this Commission.[35]

54. The Commission, on its own motion, received and made a part of the record all evidence, including the application, and exhibits thereto, submitted in support of the authorization sought herein. Upon consideration of the record,

[35] *See, e.g., Schneidewind v. ANR Pipeline Co.*, 485 U.S. 293 (1988); *National Fuel Gas Supply v. Public Service Comm'n*, 894 F.2d 571 (2d Cir. 1990); and *Iroquois Gas Transmission System, L.P.*, 52 FERC ¶ 61,091 (1990) and 59 FERC ¶ 61,094 (1992).

The Commission orders:

(A) A certificate of public convenience and necessity is issued to Southern in Docket Nos. CP09-36-000 and CP09-36-001 to construct and operate the SSEIII Project, as described more fully in the order, application and amendment.

(B) Southern is authorized to abandon the facilities described herein and in Southern's application and amendment in Docket Nos. CP09-36-000 and CP09-36-001, respectively.

(C) A certificate of public convenience and necessity is issued to SESH and Southern in Docket No. CP09-40-000 to construct and operate the JPE Phase II Project, as described more fully in the order and application.

(D) The certificate authority granted in Ordering Paragraphs (A) and (C) shall be conditioned on the following:

(1) Southern and SESH completing the authorized construction of the proposed facilities and making them available for service within three years of the issuance of this order pursuant to section 157.20(b) of the Commission's regulations.

(2) Southern and SESH complying with all applicable Commission regulations under the NGA including but not limited to Parts 154 and 284, and paragraphs (a), (c), (e), and (f) of section 157.20 of the regulations.

(3) Southern and SESH complying with the environmental conditions in the Appendix to this order.

(E) Southern shall execute firm service agreements reflecting levels and terms of service equivalent to those represented in its precedent agreements prior to Southern and SESH commencing construction of the SSEIII Project and the JPE Phase II Project.

(F) Southern and SESH shall notify the Commission's environmental staff by telephone, e-mail, or facsimile of any environmental noncompliance identified by other federal, state, or local agencies on the same day that such agency notifies Southern or SESH. Southern and SESH shall file written confirmation of such notification with the Secretary of the Commission within 24 hours.

(G) Southern's proposals to charge levelized incremental rates for the SSEIII Project and to charge the existing system rate for the unsubscribed capacity on the Joint Pipeline are approved.

(H) Southern must file actual tariff sheets in accordance with section 154.207 of the Commission's regulations not less than 30 days and not more than 60 days prior to commencing service.

(I) Southern must maintain separate and identifiable accounts for volumes transported, billing determinants, rate components, surcharges, and revenues associated with its incremental service for SCS in sufficient detail, so that they can be identified in Statements G, I, and J in any future NGA section 4 or section 5 rate case. Southern shall adhere to the accounting requirements discussed in the body of the order.

(J) Consistent with the discussion in this order and the May and September 2007 Orders, SESH is required to maintain books and records separating the costs between Southern's and SESH's service, and to make a rate filing after the first three years of operation showing actual costs and revenues supporting the rates.

(K) Southern shall revise its recourse rates in accordance with the discussion in the body of this order and file the rates and work papers supporting the revised recourse rates in conjunction with the revised filing of tariff sheets required in Ordering Paragraph H.

(L) Southern must notify the Commission within 10 days of the abandonment of facilities authorized by Ordering Paragraph (B).

By the Commission.

(SEAL)

Kimberly D. Bose

Kimberly D. Bose,
Secretary.

Appendix

1. Southern and SESH shall both follow the construction procedures and mitigation measures described in their applications, supplemental filings (including responses to staff information requests), and as identified in the EA, unless modified by this Order. Southern and SESH must each:

   a. request any modification to these procedures, measures, or conditions in a filing with the Secretary;
   b. justify each modification relative to site-specific conditions;
   c. explain how that modification provides an equal or greater level of environmental protection than the original measure; and
   d. receive approval in writing from the Director of Office of Energy Projects (OEP) before using that modification.

2. The Director of OEP has delegation authority to take whatever steps are necessary to ensure the protection of all environmental resources during construction and operation of the projects. This authority shall allow:

   a. the modification of conditions of this Commission's Order; and
   b. the design and implementation of any additional measures deemed necessary (including stop work authority) to assure continued compliance with the intent of the environmental conditions as well as the avoidance or mitigation of adverse environmental impact resulting from project construction and operation.

3. **Prior to any construction**, Southern and SESH shall each file an affirmative statement with the Secretary, certified by a senior company official, that all company personnel, environmental inspectors (EIs), and contractor personnel will be informed of the EI's authority and have been or will be trained on the implementation of the environmental mitigation measures appropriate to their jobs before becoming involved with construction and restoration activities.

4. The authorized facility locations shall be as shown in the EA, as supplemented by filed alignment sheets, and shall include all of the staff's recommended facility locations. **As soon as they are available, and prior to the start of construction**, Southern and SESH shall each file with the Secretary any revised detailed survey alignment maps/sheets at a scale not smaller than 1:6,000 with station positions for all facilities approved by this Order. All requests for modifications of environmental conditions of this Order or site-specific clearances must be written and must reference locations designated on these alignment maps/sheets. Southern's and SESH's exercise of eminent domain authority granted under NGA Section 7(h) in any condemnation proceedings related to this Order must be

consistent with these authorized facilities and locations. Southern's and SESH's right of eminent domain granted under NGA Section 7(h) does not authorize it to increase the size of its natural gas pipeline to accommodate future needs or to acquire a ROW for a pipeline to transport a commodity other than natural gas.

5. Southern and SESH shall each file with the Secretary detailed alignment maps/sheets and aerial photographs at a scale not smaller than 1:6,000 identifying all route realignments or facility relocations, staging areas, pipe storage yards, new access roads, and other areas that would be used or disturbed and have not been previously identified in filings with the Secretary. Approval for each of these areas must be explicitly requested in writing. For each area, the request must include a description of the existing land use/cover type, documentation of landowner approval, whether any cultural resources or federal-listed threatened or endangered species would be affected, and whether any other environmentally sensitive areas are within or abutting the area. All areas shall be clearly identified on the maps/sheets/aerial photographs. Each area must be approved in writing by the Director of OEP **before construction in or near that area.**

   This requirement does not apply to route variations required herein, extra workspace allowed by the Upland Erosion Control, Revegetation, and Maintenance Plan, or minor field realignments per landowner needs and requirements which do not affect other landowners or sensitive environmental areas such as wetlands.

   Examples of alterations requiring approval include all route realignments and facility location changes resulting from the following:

   a. implementation of cultural resources mitigation measures;
   b. implementation of endangered, threatened, or special concern species mitigation measures;
   c. recommendations by state regulatory authorities; and
   d. agreements with individual landowners that affect other landowners or would affect sensitive environmental areas.

6. **Within 60 days of the acceptance of this certificate and before construction,** Southern and SESH shall each file an Implementation Plan with the Secretary for review and written approval by the Director of OEP. Southern and SESH must each file revisions to their plan as schedules change. The plan shall identify:

   a. how Southern and SESH will implement the construction procedures and mitigation measures described in its application and supplements (including responses to staff data requests), identified in the EA, and required by this Order;

b. how Southern and SESH will incorporate these requirements into the contract bid documents, construction contracts (especially penalty clauses and specifications), and construction drawings so that the mitigation required at each site is clear to onsite construction and inspection personnel;
c. the number of environmental inspectors (EI) assigned per spread and how Southern and SESH will ensure that sufficient personnel are available to implement the environmental mitigation;
d. company personnel, including EIs and contractors, who will receive copies of the appropriate material;
e. the location of the environmental compliance training Southern and SESH will give to all personnel involved with construction and restoration (initial and refresher training as the project progresses and personnel change), with the opportunity for OEP staff to participate in the training session(s);
f. the company personnel (if known) and specific portion of Southern's and SESH's organizations having responsibility for compliance;
g. the procedures (including use of contract penalties) Southern and SESH will follow if noncompliance occurs; and
h. for each discrete facility a Gantt or Program Evaluation and Review Technique chart (or similar project scheduling diagram) and dates for:
   (1) the completion of all required surveys and reports;
   (2) the mitigation training of onsite personnel;
   (3) the start of construction; and
   (4) the start and completion of restoration.

7. Southern and SESH shall employ at least one EI per construction spread. The EIs shall be:
   a. responsible for monitoring and ensuring compliance with all mitigative measures required by the Order and other grants, permits, certificates, or other authorizing documents;
   b. responsible for evaluating the construction contractor's implementation of the environmental mitigation measures required in the contract (see condition 6 above) and any other authorizing document;
   c. empowered to order correction of acts that violate the environmental conditions of this Order and any other authorizing document;
   d. responsible for documenting compliance with the environmental conditions of this Order as well as any environmental conditions/permit requirements imposed by other federal, state, or local agencies; and
   e. responsible for maintaining status reports.

8. Beginning with the filing of its Implementation Plan, Southern and SESH shall each file updated status reports with the Secretary on a **weekly** basis until all construction and restoration activities are complete for each phase of the project.

On request, these status reports will also be provided to other federal and state agencies with permitting responsibilities. Status reports shall include:

   a. an update on Southern's and SESH's efforts to obtain the necessary federal authorizations;
   b. the current construction status of each spread, work planned for the following reporting period, and any scheduling changes for stream crossings or work in other environmentally sensitive areas;
   c. a listing of all problems encountered and each instance of noncompliance observed by the EI(s) during the reporting period (both for the conditions imposed by the Commission and any environmental conditions/permit requirements imposed by other federal, state, or local agencies);
   d. corrective actions implemented in response to all instances of noncompliance, and their cost;
   e. the effectiveness of all corrective actions implemented;
   f. a description of any landowner/resident complaints that may relate to compliance with the requirements of this Order and the measures taken to satisfy their concerns; and
   g. copies of any correspondence received by Southern and SESH from other federal, state, or local permitting agencies concerning instances of noncompliance and Southern's and SESH's responses.

9. Southern and SESH must receive written authorization from the Director of OEP **before commencing service** from its project. Such authorization will only be granted following a determination that rehabilitation and restoration of areas affected by its project are proceeding satisfactorily.

10. **Within 30 days of placing the certificated facilities in service**, Southern and SESH shall each file an affirmative statement with the Secretary, certified by a senior company official:

   a. that the facilities have been constructed in compliance with all applicable conditions, and that continuing activities will be consistent with all applicable conditions; or
   b. identifying which of the certificate conditions Southern and SESH have complied with or will comply with. This statement shall also identify any areas affected by the project where compliance measures were not properly implemented, if not previously identified in filed status reports, and the reason for noncompliance.

11. Southern and SESH shall each develop and implement an environmental complaint resolution procedure. The procedure shall provide landowners with clear and simple directions for identifying and resolving their environmental

mitigation problems/concerns during construction of the project and restoration of the right-of-way (ROW). Prior to construction, Southern and SESH shall mail the complaint procedures to each landowner whose property would be crossed by the project.

a. In its letter to affected landowners, Southern and SESH shall:
   (1) provide a local contact that the landowners should call first with their concerns; the letter should indicate how soon a landowner should expect a response;
   (2) instruct the landowners that if they are not satisfied with the response, they should call Southern's and SESH's Hotlines; the letter should indicate how soon to expect a response; and
   (3) instruct the landowners that if they are still not satisfied with the response from Southern's and SESH's Hotlines, they should contact the Commission's Enforcement Hotline at (888) 889-8030, or at hotline@ferc.gov.

b. In addition, Southern and SESH shall each include in their weekly status reports a copy of a table that contains the following information for each problem/concern:

   (1) the date of the call;
   (2) the identification number from the certificated alignment sheets of the affected property and approximate location by milepost (MP);
   (3) the description of the problem/concern; and
   (4) an explanation of how and when the problem was resolved, will be resolved, or why it has not been resolved.

12. **Prior to construction**, Southern shall file with the Secretary revised site-specific residential plans for the seven properties listed in table A.5-1 of the EA to maintain 25 feet between the residence and construction workspaces, or explain why they cannot be so modified, for review and written approval of the Director of the OEP.

13. Southern shall revise section III.G of the Southern Plan to conform to the corresponding section of our Plan which states that Southern shall make available on each construction spread the SWPP Plan prepared for compliance with the U.S. Environmental Protection Agency's National Stormwater Program General Permit requirements. The revised Southern Plan shall be filed with the Secretary for review and written approval by the Director of OEP prior to construction.

14. Southern shall revise section V.B.1.b of the Southern Procedures to conform to the corresponding section of our Procedures which states that, unless expressly permitted or further restricted by the appropriate state agency in writing on a site-

specific basis, in-stream work (except that required to install or remove equipment bridges) must occur during the following time windows: coldwater fisheries - June 1 through September 30; and coolwater and warmwater fisheries - June 1 through November 30. The revised Southern Procedures shall be filed with the Secretary for review and written approval by the Director of OEP prior to construction.

15. Southern shall remove section V.B.3.f from the Southern Procedures or modify it to clarify the construction personnel responsible for the review and approval process involved in making changes to waterbody and wetlands crossing methods. The revised Southern Procedures shall be filed with the Secretary for review and written approval by the Director of OEP prior to construction.

16. **Prior to construction**, Southern shall file with the Secretary a table that updates the location, distance, and direction of all water wells within 150 feet of construction workspaces.

17. **Prior to construction**, Southern shall provide an update for the milepost (MP) locations of any contaminated areas that would be crossed by the project.

18. **Prior to construction**, Southern shall file with the Secretary site-specific plans for the additional temporary workspaces that would be within 50 feet of waterbodies (at MP 9.0 of the South Atlanta-Austell Replacement and MP 225.9 on the Elmore Replacement) for review and written approval by the Director of OEP.

19. **Prior to beginning construction in Georgia**, Southern shall:

   a. provide the U.S. Fish and Wildlife Service (USFWS), Georgia Field Office, with a survey report for the shiny-rayed pocketbook mussel (Lampsilis subangulata), the oval pigtoe mussel (Pleurobema pyrifome), and the Altamaha shiner (Cyprinella xaenura) that includes surveys in all of the USFWS's recommended waterbodies;
   b. file the survey report and the results of its consultation with the USFWS, Georgia Field Office, with the Secretary;
   c. indicate whether and how it would implement any USFWS recommended mitigation measures; and
   d. receive written authorization from the Director of OEP to begin construction.

20. **Prior to beginning construction of the Elmore Replacement in Elmore County, Alabama**, Southern shall:
   a. provide the USFWS, Alabama Ecological Field Office, with a survey report for the fine-lined pocketbook mussel (Lampsilis altilis);

b. file the survey report and the results of its consultation with the USFWS, Alabama Ecological Field Office, with the Secretary;
c. indicate whether and how it would implement any USFWS recommended mitigation measures; and
d. receive written authorization from the Director of OEP to begin construction.

21. **Prior to beginning construction in Mississippi**, Southern shall:

a. file an update to the consultations with the USFWS, Mississippi Field Office; and
b. receive written authorization from the Director of OEP to begin construction for each phase of project construction in Mississippi.

22. Southern shall not implement any treatment plan/measures (including archeological data recovery), begin construction of facilities, or begin use of any staging, temporary work areas, and access roads until:

a. Southern files detailed reroute, right-of-way restriction, and or monitoring plans for identified potentially significant cultural sites;
b. Southern files plans for any sites which can not be avoided for additional evaluative testing, and treatment plans developed in consultation with the relevant state historic preservation officer (SHPO) and the Advisory Council on Historic Preservation (if appropriate); and
c. the Director of OEP reviews and approves all plans, and notifies Southern in writing that treatment plans/procedures may be implemented and/or construction may proceed.

All material filed with the Commission containing location, character, and ownership information about cultural resources must have the cover and any relevant pages therein clearly labeled in bold lettering: "CONTAINS PRIVILEGED INFORMATION—DO NOT RELEASE."

23. Southern **shall not begin construction** of facilities or begin use of any staging, temporary work areas, and access roads in areas which have not been surveyed **until**:

a. Southern completes required cultural surveys of areas to which access was denied and files reports and SHPO comments on the reports;
b. Southern indicates whether realigned access roads, alternate routes, right-of way, and area of potential effect would require survey, and if so, files a cultural resources survey report and the SHPO's comments on the report;

c. Southern files with the Secretary cultural resources survey and evaluation reports; any necessary treatment plans; Native American consultations; and the Georgia, Alabama and Mississippi SHPO comments on the reports and plans; and
d. the Director of OEP reviews and approves all cultural resources survey reports and plans, and notifies Southern in writing that treatment plans/procedures may be implemented and/or construction may proceed.

All material filed with the Commission containing location, character, and ownership information about cultural resources must have the cover and any relevant pages therein clearly labeled in bold lettering: "CONTAINS PRIVILEGED INFORMATION—DO NOT RELEASE."

24. Southern shall file noise surveys with the Secretary **no later than 60 days** after placing the new compressor units at the existing Bay Springs and Ellerslie Compressor Stations in service. If the noise attributable to the operation of the new compressor units at the stations at full load exceeds a day-night average sound level (L_{dn}) of 55 decibels on the A-weighted scale (dBA) at any nearby noise sensitive areas (NSAs) or the noise from all the Bay Springs or Ellerslie Compressor Station equipment operated at full capacity exceeds the previously existing noise levels that are at or above an L_{dn} of 55 dBA at the nearby NSAs, Southern shall install additional noise controls to meet these levels **within one year** of the in-service date. Southern shall confirm compliance with these requirements by filing a second noise survey with the Secretary **no later than 60 days** after it installs the additional noise controls.

25. SESH shall file noise surveys with the Secretary **no later than 60 days** after placing the new compressor units at the existing Delhi and Gwinville Compressor Stations in service. If the noise attributable to the operation of the new units at the station at full load exceeds an Ldn of 55 dBA at any nearby NSAs, SESH shall install additional noise controls to meet that level **within one year** of the in-service date. SESH shall confirm compliance with the Ldn of 55 dBA requirement by filing a second noise survey with the Secretary no **later than 60 days** after it installs the additional noise controls.

26. Southern shall incorporate the South Atlanta – Austell Replacement Variance between MPs 3.70 and 4.38 in its project facilities. **Prior to construction**, Southern shall update the environmental resource information along this segment of the project, including the revised site-specific plan for the residence at MP 3.9 and updated alignment sheets, for review and written approval by the Director of OEP.