Excerpts from Guardian Pipeline, L.L.C. Certificate Application, Docket No. CP00-36-000 November 30, 1999

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COMMISSION

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GUARDIAN PIPELINE, L.L.C.

CP00-_____-000

FERC APPLICATION

B. Market Demand for Guardian.

1. Natural Gas Consumers in Wisconsin Want and Need a Competitive Pipeline Alternative.

Development of the Chicago Hub and pursuit of the benefits of competition between and choice among natural gas service providers gave rise to the Guardian Pipeline project.

The Wisconsin natural gas market is wholly dependent on deliveries from interstate pipelines, as there are no known native natural gas resources in Wisconsin. Historically, substantial portions of the Wisconsin market have been served by a single predominant natural gas pipeline transporter, ANR.[17] As a result, Wisconsin shippers have not had and do not now have the benefits of pipeline-to-pipeline competition or choice among truly unbundled, competitive upstream transportation, storage and related service providers. If shippers lack competition and choice in the marketplace, the benefits of the Commission's pro-competitive, post-Order No. 636 policies will not be realized fully by gas consumers in Wisconsin.

Guardian had its genesis in an RFP-type process initiated by Wisconsin Gas in June of 1998.[18] In that RFP, Wisconsin Gas solicited proposals from companies interested in providing interstate natural gas transportation service to Wisconsin Gas. Wisconsin Gas advised

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[17] As of March 1999, ANR reported serving firm peak day entitlements in Wisconsin of approximately 2,200 MDth on its system of pipelines extending throughout the state. *See ANR Pipeline Company Abbreviated Application for a Certificate of Public Convenience and Necessity*, Docket No. CP99-241, Vol. I at 8 ("*ANR's CP99-241 Application*").

[18] Wisconsin Gas' existing long-term contracts with ANR begin expiring on their own terms on October 31, 2003, and Guardian has been advised that shippers must give notices of intent as to the roll-over of the contracts on or before October 31, 2002.

potential respondents that its major existing supplier, ANR, would also be competing to retain Wisconsin Gas' business. CMS and Viking, two of the Guardian sponsors, independently participated in that bidding process. After reviewing the several bids received, Wisconsin Gas advised CMS and Viking that their respective bids might be enhanced through a joint project. The joint project ultimately became Guardian. After six months of negotiations, Guardian was advised that Wisconsin Gas had chosen Guardian, and Wisconsin Gas signed a binding precedent agreement for 650,000 Dth per day.[19] Also, WICOR elected to take a one-third equity interest in the project.

Since that time, additional shippers have elected to sign binding precedent agreements with Guardian. *See* Exhibit I. Commitments to contracts for firm service on Guardian demonstrate that the market wants a competitive pipeline, as well as increased capacity and services, and the choice among upstream transportation, storage and related service providers that Guardian will provide. As such, Guardian reflects the kind of market choice desired by the pro-competition, post-Order No. 636 industry, and Commission certification of Guardian would help make that competitive market process a reality. Exhibit Z-IX sets forth a list of gas consumers, consumer groups (such as the Citizens Utility Board), associations, (such as the Wisconsin Utilities Association - an association of all utilities in Wisconsin), government officials (including Congressmen Tom Barrett, Gerald D. Kleczka and Wisconsin Governor Tommy G. Thompson) and others (including LDCs in addition to Wisconsin Gas, such as Alliant

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[19] The precedent agreement was subject to approval by the PSCW. As noted above, *supra* Section I.B.5, on June 30, 1999, the PSCW approved the precedent agreement. A copy of the June 30, 1999 order is attached as Exhibit Z-VI. A copy of the Wisconsin Gas precedent agreement is included in Exhibit I.

Energy and Wisconsin Fuel & Light) who have evidenced support for Guardian and the introduction of pipeline competition and choice into Wisconsin.

2. Guardian Reflects Market Choice.

The Guardian project reflects market support for and interest in construction of a new pipeline to Wisconsin from the Chicago Hub. Guardian submits that Commission approval of Guardian will honor the choice of market participants, consistent with prior Commission decisions.

For example, in *Southern Natural Gas Co.*,[20] the Commission respected market participants' decisions to support a new project based on the Commission's assumption that "market forces operating in fair competition will promote the most efficient allocation of supplies and transportation capacity and the expectation that [pipelines] will compete for [a customer's] business."[21] There, the Commission found competition to be a fair justification of a rolled-in project. Here, Guardian's competition is preeminently fair as it is an incrementally-priced project.

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[20] 85 F.E.R.C (CCH) ¶ 61,134 (1998).

[21] *Id.* at 61,503. As the Commission explained, "[T]he economic assumptions underlying our court-approved bypass policy are equally applicable where two LDCs are seeking to bypass an interstate pipeline in order to create an [alternative] for transportation service from a second pipeline, as in this proceeding. Those economic assumptions, as applied in this proceeding, are that Southern's proposed project will allow increased direct access to transportation markets, impose the need to discipline costs to maintain customers, allow the pipelines to compete for markets served inefficiently, provide leverage to parties seeking to obtain services priced efficiently, and assure the benefits of competition to all market participants. . . . We assume that fair competition furthers the public interest in general terms and over time, even though a particular bypass arrangement may contain certain undesirable costs." *Id.* (citations omitted).

Additionally, in a decision involving a proposal by a pipeline to construct a direct interconnect with a user in the service territory of an LDC, the Commission approved that pipeline's proposal over the objections of the LDC, stating:

> Under current Commission policy, we strive to honor the decision by an end-user on whether it is economic to undertake direct service from a pipeline supplier. This policy allows all participants in the natural gas market greater access to the market. The Commission has stated previously that it is not willing to shield LDCs from the effects of competitive forces, because it believes that in the final analysis, all consumers will benefit from the Commission's pro-competitive policies.[22]

The Commission very recently reiterated its commitment to these types of pro-competitive policies in its Preliminary Determination on Non-environmental Issues issued in *Questar Southern Trails Pipeline Company*.[23] In *Questar Southern Trails*, the Commission stated that, where the new pipeline has no existing pipeline customers that need protection and shippers have agreed to rates, terms and revenue responsibilities on that new pipeline, "the Commission will not second-guess the shippers' decisions."[24] The Commission made this finding over the objections of an existing, now competing, service provider who opposed the entry of a new market participant. Notwithstanding that *Questar Southern Trails* involved an optional certificate, the same pro-competitive policies the Commission enunciated in *Questar Southern Trails* apply to Guardian.

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[22] *ANR Pipeline Co.*, 71 F.E.R.C. (CCH) ¶ 61,289, at 62,117 (1995) (citations omitted).

[23] 89 F.E.R.C. ¶ 61,050 (1999).

[24] *Id.* at 61,144.

Guardian is a prime example of a market participant (*e.g.*, a Wisconsin LDC, Wisconsin Gas) seeking pipeline competition and choice by contracting for an alternative to its existing pipeline service provider. Approval of this proposal fits squarely within the Commission's stated objective "to provide appropriate incentives for efficient customer choices and the optimal level of construction, without biasing those choices through regulatory policies."[25] Guardian proposes to meet the market's demands for choice, competition and additional capacity.

3. Guardian Has Precedent Agreements For 94 Percent Of Its Capacity.

The quintessential demonstration of market demand comprises shipper contracts. The Commission recognizes shipper contracts to be "strong evidence of market demand and potential public benefits."[26] Since Guardian was announced, shippers have executed with Guardian four (4) precedent agreements for 702,500 Dth/day of firm capacity. The precedent agreements executed for service on Guardian are indicated on the chart below:

[25] *Statement of Policy*, 88 F.E.R.C. at 61,744.

[26] *Id.* at 61,749.

Shippers	Volume (Dth/day)	Term (years)	Primary Delivery Point(s)
Wisconsin Gas*	650,000	10	Ixonia (500,000) Eagle (150,000)
Alliant Energy	10,000	10	Northern Natural
WPS Energy Services, Inc.	2,500	10	Ixonia
Shipper A**	40,000	10	Northern Natural

* Affiliate of Guardian.

** The Shipper A precedent agreement, including the identity of the shipper, has been redacted to maintain the confidentiality of the shipper, because that agreement remains subject to approval of the shipper's board of directors or management committee. In addition to protecting this shipper, Guardian believes that it will suffer competitive harm if the identity of this shipper is made public, because competing pipelines may try to interfere with Guardian's contracting efforts and relations.

These precedent agreements, included in Exhibit I, represent about 94 percent of Guardian's initial design capacity. This level of shipper commitment demonstrates market support for the proposed pipeline. Additionally, Guardian continues to negotiate with other potential shippers for firm transportation service on its pipeline. Guardian will file with the Commission additional precedent agreements after they are executed.

C. Market Growth.

Public data demonstrate that demand for gas in Wisconsin and northern Illinois will increase substantially over the next several years. As discussed below, the estimated growth in residential, commercial, industrial and gas-fired electric generation by 2005 is projected to be about 913,000 Dth per day. This projection is on the conservative side as it does not reflect

VII.

PROPOSED SERVICES, RATES, COSTS AND FINANCING

A. Description of Proposed Services and Rates.

Guardian will offer both firm and interruptible services on an open access, nondiscriminatory basis pursuant to Part 284 of the Commission's regulations, with services available at both recourse and negotiated rates.

1. Firm Services.

Guardian will offer firm transportation service under Rate Schedule FT-1, and proposes to have the authority to negotiate, on a nondiscriminatory basis, with shippers to charge rates for firm service that deviate from its maximum recourse Rate Schedule FT-1 rates. Beyond the GISB-required flexibility inherent in a post-Order No. 636 standard firm transportation service, and as explained in Section VI.A.2 above, each Guardian firm shipper will have, at no premium cost, the added flexibility of nominating at a designated receipt point up to ten percent (10%) of its maximum daily quantity on one-hour notice, with such nomination being accorded Guardian's highest priority.[57] Guardian's Rate Schedule FT-1 recourse rate is a traditional cost-of-service based rate, designed under the straight fixed variable ("SFV") method, based on 100 percent of Guardian's design capacity (750,000 Dth per day), all as fully established in Exhibit P.

Guardian's GT&C provide for the negotiation, on a nondiscriminatory basis, of rates that differ from Guardian's generally applicable recourse rates.[58] Guardian's negotiated

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[57] *See* Exhibit P, Pro Forma Tariff, GT&C §17.2(e).

[58] *See* Exhibit P, Pro Forma Tariff, GT&C § 26.2.

rates may be less than, equal to, or greater than its cost-based maximum rates and may also be designed on a basis other than SFV, all as contemplated by and consistent with Commission policy.[59] During Guardian's open season, as required by the Commission's Alternative Ratemaking Policy Statement,[60] Guardian offered to all interested shippers the option to elect recourse rates based on the traditional cost-of-service and SFV rate design or, on a nondiscriminatory basis, to elect negotiated rates at either (i) a 10-year or 15-year fixed rate, or (ii) an annual declining rate for a minimum term of 10 years up to a maximum term of 15 years. All negotiated rates will be 100 percent reservation charge rates, with transporter's use gas as the only variable or usage charge, plus ACA.

Guardian agrees to comply with the Commission's reporting requirements as to negotiated rates between Guardian and its shippers. Guardian will file with the Commission either its negotiated rate contracts or tariff sheets reflecting the essential elements of its negotiated rate agreements.[61] Guardian will record each volume transported, billing determinant, rate component, surcharge, and revenue associated with its negotiated rates so that these may be filed and separately identified, and in particular separately totaled, as part of and in the form of

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[59] *Alliance Pipeline L.P.*, 80 F.E.R.C. (CCH) ¶61,149, at 61,597 (1997); *Vector*, 85 F.E.R.C. at 61,302; *Noram Gas Transmission Co.*, 75 F.E.R.C. (CCH) ¶ 61,322, at 62,026 (1996).

[60] *Statement of Policy and Request for Comments, Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines, Regulation of Negotiated Transportation Services of Natural Gas Pipelines*, Docket Nos. RM95-6-000, RM96-7-000 (January 31, 1996).

[61] *See, e.g., Vector*, 85 F.E.R.C. at 61,304. *See also* Section 26.2(c) of the GT&C of Guardian's Pro Forma Tariff (Exhibit P).

Statements G, I and J in future rate case filings.[62] Guardian has conducted and will continue to conduct its rate negotiations in accordance with the Commission's policies and regulations as they may be in effect from time to time, including the Commission's Alternative Ratemaking Policy Statement.

Guardian's negotiated rates provide shippers with the opportunity for rate certainty for gas service from the Chicago Hub to markets in Wisconsin and northern Illinois. Guardian's negotiated rate structure provides Guardian's shippers with rate certainty for their contract terms and places all construction cost, operating cost and volume risk on Guardian. By providing such rate certainty, Guardian's negotiated rates yield the benefits that the Commission envisioned would accompany negotiated rate-making.[63]

2. Interruptible and Overrun Services.

In addition to the firm rate schedule described above, Guardian will offer shippers interruptible service under Rate Schedule IT-1. Rate Schedule IT-1 provides for transportation of natural gas on an interruptible basis, when and to the extent Guardian determines that capacity

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[62] Guardian's proposed accounting method is the method approved by the Commission in its Order Issuing Certificate, *Maritimes & Northeast, L.L.C.*, 84 F.E.R.C. (CCH) ¶ 61,130, at 61,681, 61,684 (1998) ("We will clarify that Maritimes' explanation in its application of how it will account for revenues received from negotiated rates . . . complies with the Commission's requirements."). *See also Alliance*, 80 F.E.R.C. at 61,593.

[63] These benefits were noted by the Commission in its *Notice of Inquiry on Regulation of Interstate Natural Gas Transportation Services*, Docket No. RM98-12-000, F.E.R.C. Stats. & Regs. [Proposed Regs.] (CCH) ¶ 35,533, at 35,736 (1998) (stating that "[l]ong-term contracts can provide revenue stability and reduce financial risks to the pipeline") and *Notice of Proposed Rulemaking on Regulation of Short-Term Natural Gas Transportation Services*, Docket No. RM98-10-000, F.E.R.C. Stats. & Regs. [Proposed Regs.] (CCH) ¶ 32,533 at 33,471, 33,472. ("The negotiation of rates and services . . . has the ability to increase the attractiveness of long-

is available, up to the level nominated by an interruptible shipper pursuant to its Rate Schedule IT-1 Service Agreement. All points of receipt and delivery on Guardian will be available to shippers transporting gas under Rate Schedule IT-1.

Guardian's maximum Rate Schedule IT-1 rate is the 100 percent load factor equivalent of the maximum or recourse FT-1 rate. Guardian has allocated $1,000,000 of costs to its interruptible service under Rate Schedule IT-1. Because Guardian has allocated costs to Rate Schedule IT-1, Guardian proposes to retain revenues, if any, for service performed under Rate Schedule IT-1.[64] Also, Guardian proposes to have the authority to contract with shippers, on a nondiscriminatory basis, to charge rates for interruptible services that deviate from its maximum interruptible rate. Guardian will conduct any such transactions in accordance with the Commission's then-effective policy on the negotiation of rates and services.[65]

Rate Schedule FT-1 also includes an overrun provision for daily volumes in excess of contract levels. The rate for authorized overrun service (AOS) is equal to the 100 percent load factor of the maximum or recourse FT-1 rate, unless Guardian, on a non-discriminatory basis, agrees otherwise.

Guardian further proposes an unauthorized overrun rate of the higher of $15 per Dth or 200 percent of the reported price for gas deliveries into the Chicago market for the flow

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term capacity" and the negotiating of service may be a "valuable risk management tool for pipelines and customers with respect to long-term contracts.").

[64] Guardian's proposal is consistent with Commission decisions on this point. *See, e.g., Portland Natural Gas Transmission System*, 80 F.E.R.C. (CCH) ¶ 61,134, at 61,451 (1997) (no revenue crediting required because certain costs were allocated to IT service).

[65] *See* note 58, *supra*.

date on which the gas is transported, multiplied by the quantities in excess of the allowed variance.[66] The unauthorized overrun level proposed by Guardian is necessary to prevent gaming by shippers during periods of extraordinary demand, and it is consistent with Commission policy.[67]

B. Costs and Financing.

Guardian estimates that the total capital cost of constructing its proposed pipeline and appurtenant facilities will be approximately $224.3 million, excluding AFUDC. *See* Exhibit K. Of the total estimated capital construction cost, $196.3 million relates to pipeline and ancillary facilities, and $28.0 million relates to a compressor station. Guardian estimates that AFUDC will total $13.5 million, such that the total capital cost including AFUDC will be approximately $237.8 million.

[66] *See* Exhibit P. Guardian's Pro Forma Tariff, Rate Schedule FT-1, §7. The "delivered price" to determine the unauthorized overrun rate midpoint will be the "Gas Price Index," which is defined in Guardian's Tariff as for each "reported Day, the midpoint in the range of prices reported for 'Chicago – LDCs, large end-users,' as published in *Gas Daily*, or, if no longer published, an equivalent index or indicator, which substitution shall be posted on Transporter's Website . . . ." *See* Exhibit P, Guardian's Pro Forma Tariff, GT&C, Definitions.

[67] *See, e.g., Northern Natural Gas Co.*, 77 F.E.R.C. (CCH) ¶ 61,282, at 62,232 (1996) ("[W]e favor pipelines' being able to ensure system integrity and to deter gaming or other conduct that would endanger that integrity."); *Panhandle Eastern Pipe Line Co.*, 77 F.E.R.C. (CCH) ¶ 61,202, at 61,876-77 (1997), *reh'g den.*, 82 F.E.R.C. (CCH) ¶ 61,163 (1998). *See also Short-Term NOPR*, Docket No. RM98-10-000, FERC Stats. & Regs. at 33,467-71 (where the Commission set forth its proposal to require pipelines: (1) to provide timely information regarding imbalance and overrun status of each Shipper and the imbalances of their systems as a whole; (2) to have in place only those penalties necessary to protect system operations; (3) to provide services that facilitate Shippers' abilities to manage imbalances, so that penalty situations can be avoided; and (4) to adopt incentives and procedures that will minimize the use and potential negative impact of OFOs).

Excerpts from Guardian Pipeline, L.L.C.
Certificate Application, Docket No. CP07-8-000
October 11, 2006

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

In the Matter of	)	
	)	Docket No. CP07-
GUARDIAN PIPELINE, L.L.C.	)	

APPLICATION FOR CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY

Pursuant to Section 7(c) of the Natural Gas Act ("NGA"), 15 U.S.C. § 717f(c), and the rules and regulations of the Federal Energy Regulatory Commission ("Commission"), 18 CFR § 157 et seq. and § 385 et seq., and the Commission's "Policy Statement" in Docket No. PL99-3-000,[1] Guardian Pipeline, L.L.C. ("Guardian"), hereby files an application for a Certificate of Public Convenience and Necessity authorizing Guardian to expand and extend its existing pipeline system through the construction and operation of approximately 110 miles of new mainline, two electric motor driven compressor stations, seven meter stations, and other appurtenant facilities hereinafter referred to as "G-II" or "Project."

Guardian respectfully requests that the Commission complete its review of this application to permit issuance of a preliminary determination on non-environmental issues by March 31, 2007 and a final certificate no later than October 31, 2007, in recognition of Guardian's planned November 1, 2008 in-service date for the proposed facilities. In support of this application, Guardian states and shows the following:

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[1] *Statement of Policy, Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999), *clarified,* 90 FERC ¶ 61,128, *further clarification*, 92 FERC ¶ 61,094 (2000) ("Policy Statement").

Resources. The electric power line facilities related to the Sycamore Compressor Station will be subject to the regulations of the Illinois Commerce Commission.

The estimated cost to construct and install the jurisdictional facilities described herein is approximately $261.436 million, as detailed in Exhibit K attached hereto. Attached hereto at Exhibit L is the proposed financing plan for the construction of G-II.

Construction is scheduled to commence in March, 2008, with an in-service date of November 1, 2008. The construction is not expected to have any significant adverse impact on the quality of human health or the environment. This proposed time-line considers a host of factors requiring substantial lead time and planning, including sufficient time to secure the necessary pipeline rights-of-way and environmental permits and clearances.

VI.

DESCRIPTION OF THE MARKET

The demand for clean burning natural gas in Wisconsin has been growing at a rapid pace. Natural gas consumption has increased in the State of Wisconsin by more than 25 percent since 1990 and now totals nearly 400 billion cubic feet annually[2]. More than two-thirds of all Wisconsin households heat with natural gas. Despite relatively mild winters, residential use of natural gas increased 19 percent from 1990 to 2004 as the number of customers increased by approximately 40 percent. During that same period, the number of commercial and industrial gas customers increased by nearly 43 percent. Combined natural gas use in the commercial and industrial sectors, excluding electric generation, also increased by more than 18 percent from

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[2] Wisconsin Division of Energy. 2005. *Wisconsin Energy Statistics 2005*. Wisconsin Department of Administration, Madison, Wisconsin; Wisconsin Division of Energy. 2006. *Wisconsin Energy Statistics 2006 Preliminary Draft*. Wisconsin Department of Administration, Madison, Wisconsin.

1990 to 2004.[3] Each year the Energy Information Administration (EIA) of the U.S. Department of Energy (DOE) assesses key energy issues, including economic growth, energy prices, energy consumption, energy intensity, electricity generation, energy production and imports, and carbon dioxide emissions. The EIA estimates that total energy consumption in the East North Central region, which includes Wisconsin, Illinois, Indiana, Ohio, and Michigan, will rise from 16.268 quadrillion British thermal units (Btu) in 2003 to about 20.238 quadrillion Btu in 2025. Total consumption of natural gas in the East North Central region during this same period is expected to rise from 3.730 quadrillion Btu in 2005 to 5.047 quadrillion Btu in 2025, which represents an average increase in natural gas consumption of 1.4 percent per year over 22 years.[4]

As stated above, G-II was proposed in response to an RFP issued by the Wisconsin LDCs in November 2004. Among the goals in the LDCs' RFP was an expansion of LDC access to competitive supplies and services for the benefit of their utility customers. A 15-month competitive bidding process was used by We Energies and WPSC, the state's two largest natural gas utilities, to select Guardian to meet their needs for transporting additional volumes of natural gas in eastern Wisconsin through the construction of G-II. As will be shown in the Wisconsin LDCs' own filings to the PSCW for construction of the interconnecting pipeline facilities (which Guardian will file as a supplement to this application for informational purposes as Exhibit Z-2), their market studies indicate growth in natural gas demand and the related transportation capacity needed to meet that demand. Not surprisingly given the growing demand for natural gas, the

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[3] Wisconsin Division of Energy. 2005. *Wisconsin Energy Statistics 2005*. Wisconsin Department of Administration, Madison, Wisconsin.

[4] Energy Information Administration. 2006a. *Annual Energy Outlook 2006*. U.S. Department of Energy, Washington, District of Columbia. Energy Information Administration. 2006b. *East North Central Regional Energy Profile.* U.S. Department of Energy, Washington, District of Columbia.

existing pipeline capacity in Wisconsin is constrained (with the existing Guardian facilities presently 98 percent subscribed.) Accordingly, expanding natural gas transmission capacity in Wisconsin is vital to the state's economic development and long-term competitiveness since there is insufficient available incremental natural gas capacity to serve Wisconsin consumers and businesses.

Currently, ANR Pipeline Company is the only pipeline serving the eastern Wisconsin market north of Milwaukee. G-II will establish a second interstate natural gas pipeline serving eastern Wisconsin which will benefit consumers through increased competition and increased reliability in gas transportation services.

Negotiations between Guardian and the LDCs resulted in the execution of separate Precedent Agreements between Guardian and WPSC; and between Guardian and two We Energies entities (Wisconsin Gas LLC and Wisconsin Electric Power Company). (Such Precedent Agreements, as amended, are attached hereto as Exhibit I and collectively referred to as the "Precedent Agreements").

Guardian conducted an open season for G-II from June 29, 2006 through July 21, 2006 to solicit interest for the remaining 40,200 Dth/d of firm transportation capacity on G-II. No parties participated in the open season.

Guardian did not solicit capacity turnback (reverse open season) as part of the open season to allow current shippers to release all or a portion of their current firm entitlements since the 537,200 Dth/day of incremental capacity was not fully subscribed during the time of the open season. Thus, the purpose of the Commission's turnback policy - to minimize the need for new construction to serve unsatisfied demand and to ensure that expansion projects are appropriately sized, *Pricing Policy for New and Existing Facilities Constructed by Interstate Natural Gas*

Pipelines, 71 FERC (CCH) ¶ 61,241 (1995) - would not be served if existing shippers were to turnback capacity.

Each of the Precedent Agreements provides for the execution of an FT-2 Service Agreement for an initial term of fifteen years, conditioned upon the satisfaction of certain conditions precedent, including the receipt of the necessary regulatory approvals.

The following table summarizes the G-II Shippers' subscribed capacity and the terms of their commitments.

Project Shipper	Maximum Daily Quantity (Dth/day)	Length of Contract (Years)
Wisconsin Gas LLC[5]	90,105	15
Wisconsin Electric Power Company	201,656	15
Wisconsin Public Service Corporation	205,245	15

G-II Shippers also were provided a Ramp-Down Provision[6] as part of their Precedent Agreement which allowed the Project Shippers to reduce their Maximum Daily Quantity (MDQ). The non-discriminatory availability of a Ramp-Down Provision is further described in Section VII of this application. Specifically, G-II Shippers were provided two separate Ramp-Down Provision options as more fully detailed in Exhibit B of the Precedent Agreements.[7] All

[5] As part of the Precedent Agreement, Wisconsin Gas LLC agreed to extend its existing Rate Schedule FT-1 Service Agreement and existing Rate Schedule EAW Service Agreement for a ten-year period commencing December 7, 2012 and ending December 6, 2022 at a rate of $0.120 Dth/day and $0.00 Dth/day, respectively.

[6] "Ramp-Down Provision" in the Precedent Agreements provides that for each year of the last four-year period of the Initial Term (the "Ramp-Down Period"), the MDQ shall be reduced by a certain percentage ("Ramp-Down Percentage") of the MDQ in effect immediately prior to the beginning of the Ramp-Down Period, as further detailed in Exhibit B of the Precedent Agreements.

[7] In addition, in the event a "Partial In-Service Date" occurs as defined in Article 1 of the Precedent Agreements, a G-II Shipper may opt for an MDQ Reduction Right of twenty percent beginning in the twelfth year of service, as more fully detailed in Exhibit B of the Precedent Agreements.

three G-II Shippers elected a ramp-down percentage of ten percent (an "MDQ Reduction Right").[8] Accordingly, beginning in the twelfth year of service, each G-II Shipper's MDQ automatically is reduced by 10% of its originally contracted MDQ. Additionally, each G-II Shipper has the right to reduce its MDQ by an additional 10% each remaining year of the Ramp-Down Period.

Since each of the G-II Shippers requested rate certainty for their respective contractual commitments over the entire term, the executed Precedent Agreements reflect a negotiated fixed rate for each year of the initial term of the Service Agreement (Fixed Rate Option or FRO) as detailed below. Such negotiated fixed rates are inclusive of charges for service under Rate Schedules EAW and MA and are consistent with the Commission's Negotiated Rate Policy.[9]

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[8] Note that Guardian has a more specific definition of "MDQ Reduction Right" in the Precedent Agreements, for purposes of contracting language clarity. Regardless of the specific labels used in Exhibit B to the Precedent Agreements, the Ramp-Down Provisions effectually grant the G-II Shippers the right to reduce their MDQs in the latter years of their initial terms.

[9] Statement of Policy on Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines and Regulation of Negotiated Transportation Services of Natural Gas Pipelines, 74 FERC ¶ 61,076 (1996) ("Policy Statement").

FRO Reservation Rates		
Year	Daily ($/Dth)	Monthly ($/Dth)
1	0.1733	5.2712
2	0.1750	5.3229
3	0.1768	5.3777
4	0.1786	5.4324
5	0.1803	5.4841
6	0.1821	5.5389
7	0.1840	5.5967
8	0.1858	5.6514
9	0.1877	5.7092
10	0.1895	5.7640
11	0.1914	5.8218
12	0.1933	5.8795
13	0.1953	5.9404
14	0.1972	5.9982
15	0.1992	6.0590

G-II Shippers also must pay Transporter's Use Gas, the Electric Power Cost Recovery Rate, the Annual Charge Adjustment surcharge (ACA), and any other applicable surcharges. Consistent with Rate Schedule FT-1, no commodity rates shall be assessed under Rate Schedule FT-2, unless mandated by a governmental authority. In the event Guardian is required to charge a G-II Shipper a rate higher than the effective FRO due to the imposition of a charge that a G-II Shipper is not required to pay under the FRO, and in the event Guardian and the G-II Shipper do not otherwise agree, then each FRO Rate set forth above shall be reduced by the amount of the difference between the higher rate and the FRO Rate.

As set forth in Section 11.4 of WPSC's Precedent Agreement, as amended, WPSC also will pay an estimated incremental rate of $.0018/Dth, to be added to the above-referenced FRO

Reservation Rate to recover the costs associated with a Shipper Design Request[10] regarding the construction of the Southwest Green Bay Meter Station.

Additionally, Guardian and each of the G-II Shippers agreed to execute Service Agreements for service under Rate Schedule EAW with an MDQ equivalent at all times to the effective MDQ under the corresponding Rate Schedule FT-2 Service Agreement (EAW Service Provision). Guardian and each of the G-II Shippers agreed to a negotiated rate of $0.00/Dth for the term of their respective Rate Schedule EAW Service Agreement.

Guardian also agreed in each Precedent Agreement to file for a market aggregation service[11] which is being proposed herein as a new Rate Schedule MA, as more fully detailed in Section VII of this application. Guardian and each of the G-II Shippers agreed that each shipper's MDQ under Rate Schedule MA would be equal to the effective MDQ in their respective Rate Schedule FT-2 Service Agreement (MA Provision). The negotiated rate for the service under Rate Schedule MA is $0.00/Dth for the term of each G-II Shipper's Rate Schedule MA Service Agreement.

Guardian also agreed in the "Termination Section" of the Precedent Agreements to pay, under certain circumstances, each of the G-II Shippers certain dollars in the event the Full In-Service Date (defined in Article I of the Precedent Agreements of G-II) is delayed.

The Precedent Agreements contain language relating to creditworthiness and financial assurances which is required in order to provide Guardian with the ability to recover the facility costs related to G-II, in the event the Service Agreements are terminated for non-payment or a

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[10] Defined in Section 11.3 of WPSC' Precedent Agreement, as amended.

[11] Referred to as MPN Service in the Precedent Agreements.

Shipper fails to maintain creditworthiness (Creditworthiness Provision). These provisions are consistent with the requirements of the Commission's policy statement addressing creditworthiness issues, which provide that the shippers for whom an expansion is built can be expected to provide collateral up to that shipper's proportionate share of the project's cost.[12]

Guardian seeks a preliminary determination that although the EAW Service Provision, MA Provision, and Creditworthiness Provision may constitute a material deviation from the form of service agreement, such provisions are not unduly discriminatory. Each of these special contract provisions should be permitted for inclusion in the respective negotiated rate service agreements. Consistent with current Commission policy, Guardian intends to file tariff sheets reflecting the negotiated rate service agreements, identifying any material deviations or non-conforming provisions, at the time specified in the regulations or in a Commission Order issued in this proceeding. As part of this application, Guardian is identifying these specific provisions so that the Commission can address them in its certificate order and not reconsider them later once the provisions have been incorporated in executed service agreements.

VII.

PROPOSED RATES AND TARIFF

Guardian proposes to establish a recourse rate for the firm transportation to be provided on G-II pursuant to a new firm transportation rate schedule referred to as Rate Schedule FT-2[13] and contained in Exhibit P attached hereto. The proposed Rate Schedule FT-2 is designed to provide enhanced hourly flow rights so that a shipper may transport up to ninety percent of its

[12] *Creditworthiness Standards for Interstate Natural Gas Pipelines*, Policy Statement, 111 FERC (CCH) ¶ 61,412 at PP 17-19 (2005).

[13] Upon approval, such rate schedule also will be made available to any shippers desiring to utilize available capacity on Guardian's existing mainline system.