

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

PETITION OF THE COMMISSION)	
PIPELINE SAFETY PROGRAM)	PS11-
MANAGER AND STAFF FOR A)	
DECLARATORY RULING)	
REGARDING THE PROPER)	PETITION FOR
CLASSIFICATION OF THE)	DECLARATORY RULING
NORTHWESTERN ENERGY)	
ABERDEEN PIPELINE)	

COMES NOW, the South Dakota Public Utilities Commission Pipeline Safety Program Manager and Staff (herein "Staff") by and through its undersigned Staff Attorney pursuant to ARSD 20:10:01:34, and files this Petition for a Declaratory Ruling.

Pursuant to ARSD 49-34B-3 the South Dakota Public Utilities Commission adopts 49 CFR part 192 and is charged with enforcing the same. The proper interpretation of 49 CFR 192.3 is currently in question as it pertains to a pipeline feeding a gas turbine generating plant and a beef processing plant. Specifically, the affected parties question whether the line should be classified as a transmission line or a distribution line. Staff respectfully requests the Commission rule, based on the facts and argument below along with expected input from affected parties, whether the line is properly classified as a transmission line or a distribution line.

BACKGROUND

NorthWestern Energy is constructing an approximately six mile long pipeline from one of its town border stations in Aberdeen. The pipeline will feed a gas turbine electricity generating facility as well as a new beef processing plant in Aberdeen. The nominal six inch diameter, 0.280 inch wall, Grade X52 pipeline will operate at less than 20% of specified minimum yield strength (SMYS), a maximum allowable operating pressure (MAOP) of 650 psi and carry odorized gas. The new pipeline will begin at the town border station near Northern Border's interstate pipeline. The new pipeline will terminate at the generating facility and the adjacent beef processing plant. Currently, no other customers are planned for this line. If, however, a need arises, valves exist to tie the line to NorthWestern's Aberdeen system. The gas consumption volume capability of the generating facility is roughly equivalent to one large ethanol plant with an estimated annual volume of 1/10th of a large ethanol plant and the gas consumption of the beef processing plant is roughly equivalent to 1/4th of a large ethanol plant.

Past practice in South Dakota has been to classify all lines under 20 % of SMYS, that originate at interstate transmission lines and end at a large volume customer, as

distribution. This practice has been followed despite two other transmission line definitions that could require the line be classified as transmission. As a result of the distribution classification practice, there are a number of ethanol plants classified as distribution lines.

Consistent with past practice NorthWestern intends to classify the Aberdeen line as distribution. Current Staff questions, however, whether past practice is the best approach. As explained in more detail below, the pipeline could be classified as transmission due to its large volume customers. Past classification of pipelines of this nature was implemented by previous staff and no Commission actions exist regarding the interpretation. Staff, therefore, believes to change past practice, it is most appropriate to seek a Commission ruling.

THE EFFECT OF TRANSMISSION VS. DISTRIBUTION

The obligations of a pipeline operator change depending upon the classification of the line. For example Subpart O of 49 CFR part 192 covers gas transmission pipeline integrity management. The subpart describes the minimum requirements for an integrity management program. The subpart has detailed requirements that apply only to transmission lines. The proper classification of the line creates a domino effect of subsequent regulatory requirements.

As mentioned previously, all intrastate transmission lines with similar characteristics as the line at issue here are currently classified as distribution. Staff does not intend for this ruling, should the Commission determine lines of this nature to be transmission, to apply to those lines currently in operation. The effects could be very costly for the operators of those lines. Rather, Staff seeks clarity regarding future lines.

49 CFR 192.3

The regulation at issue is as follows:

Transmission line means a pipeline, other than a gathering line, that: (1) Transports gas from a gathering line or storage facility to a gas distribution center, storage facility, or large volume customer that is not down-stream from a gas distribution center; (2) operates at a hoop stress of 20 percent or more of SMYS; or (3) transports gas within a storage field.

ARGUMENT

While Staff believes the line should be classified as transmission it acknowledges equally good argument exist to support a distribution classification. To facilitate a robust discussion, Staff provides both arguments below.

TRANSMISSION CLASSIFICATION

Staff relies on several PHMSA interpretations as the basis for its argument proposing a transmission classification. Specifically, a PHMSA interpretation dated December 9, 1977 (Exhibit 1) concludes the interstate piping system in the US is considered a network connected to gathering lines and storage. As a result, the subject pipeline is connected to gathering and storage, thus meeting the transmission line definition in the Code. A subsequent November 30, 1978 PHMSA interpretation (Exhibit 2) indicates the generating facility and beef processing plant are considered large volume customers. A large volume customer has attributes similar to a distribution company including gas volume and the operation of piping facilities. The generating plant and beef processing plant are similar in gas volume to a distribution company and thus the subject pipeline serves a transmission function.

Staff argues a distribution classification ignores the presence of the large volume customers. In addition to the attached interpretations, various PHMSA interpretations state downstream use indicates the classification of the upstream pipeline. Further, the transmission definition in 49 CFR 192.3 clearly anticipates transmission lines of less than 20 percent SMYS. Finally, Staff supports the resulting regulations imposed if the line is classified as a transmission line. The classification will, for example require more frequent patrolling, leakage surveys and the implementation of an integrity management program which improve the inherent safety of the subject pipeline.

DISTRIBUTION CLASSIFICATION

It is arguable that large volume distribution lines operated at under 20 % SMYS are safer. If these lines are classified as transmission, the lines may be designed at higher percentages of SMYS. It can be argued this increase is less safe. It is worth noting, however, that if lines are designed at over 20% of SMYS SDCL 49-41B, the siting chapter, applies. In an effort to avoid additional regulation, it is possible that despite a "transmission classification" operators will not increase SMYS and will keep SMYS under 20%.

Alternatively, it has been argued that because there are two customers on this line, the large volume customer transmission definition does not apply and it must be classified as distribution. Classification as distribution is consistent with past practice and to change the classification will increase the operator's burden and costs. The costs of increased patrolling, leakage surveys and the integrity management program will be passed on to the customer. Finally, the code definition of a distribution line is, "a pipeline other than a gathering or transmission line." 49 CFR 192.3.

CONCLUSION

Pipeline safety operators work hard to properly follow the extensive regulations they are subject to. Staff appreciates their cooperation in the effort to properly interpret and enforce the same. Staff recognizes operators are following a past pipeline safety practice.

Staff also believes, due to increased pipeline safety scrutiny across the nation, it is appropriate for the commission to evaluate that past practice. Staff looks forward to input from industry, debate and discussion with the Commission.

Signed and dated this 18th day of November, 2011



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Exhibit 1

Interpretation 192.3 (Transmission Line) 10

December 9, 1977

Ms Mary E. Brazelton
Executive Secretary
Public Service Commission
of the District of Columbia
1625 I Street, N.W.
Washington, D.C. 20006

Dear Ms. Brazelton:

This responds to your letter of November 18, 1977, asking us to clarify an apparent difference of opinion on whether the Washington Gas Light Company (WGL) operates transmission lines in the District of Columbia.

After reviewing the matter, it appears that the issue may involve a misunderstanding of the definition of the term "transmission line" as set forth in 49 CFR 192.3. This definition provides, in relevant part, that a pipeline is a "transmission line" if it "transports gas from a gathering line or storage facility to a distribution center of storage facility." Referring to this definition, the WGL concludes in its letter to you dated October 31, 1977, that it does not have any transmission lines in the District of Columbia in part because it "has no gathering lines or gas storage fields within the District." This conclusion does not follow, however, because neither ownership of, nor the presence of, gas storage fields or gathering lines in the District is determinative of whether lines operated by the WGL in the District are properly classified as transmission lines.

In the October 7, 1977, colloquy, Mr. Heverly referred to WGL-operated pipelines running between interstate transmission lines outside the District and distribution centers inside the District as "transmission lines." In our view, his interpretation is correct. With the classification scheme of Part 192, the true beginnings of these lines are not the interstate lines, themselves, but the sources of the interstate lines. These WGL-owned lines are merely extensions of transmission lines which begin at junctures with gathering lines or storage fields located outside the District.

We trust that this analysis will be useful to the Commission in carrying out its enforcement responsibilities.

Sincerely,

Cesar DeLeon
Acting Director
Office of Pipeline
Safety Operations

Exhibit 2

Interpretation 192.3 (Transmission Line) 13

November 30, 1978

Mr. A. D. Simpson, III
East Tennessee Natural Gas Company
P.O. Box 2511
Houston, Texas 77001

Dear Mr. Simpson:

As a result of your September 6, 1978, letter supplying additional information about the Kingsport Lateral System, we have reconsidered our Interpretation of August 2, 1978, that the portion of the Kingsport Lateral System used to deliver gas to the General Shale Corporation is not a "transmission line."

Of particular importance is your point that the present definition of "transmission line" in 49 CFR 192.3 was not preceded by a proposed definition of the term in the notices of proposed rulemaking upon which Part 192 is based. Since the term "transmission line" was used in those notices and the notices were, in general, based on the U.S.A.S. B31.8 Code (1968 ed.), we agree that the notices must have been drafted with the B31.8 definition of "transmission line" in mind. Under these circumstances, it would be improper to conclude as we did in the August 2, 1978, Interpretation that the adopted definition of "transmission line" in Part 192 was intended to alter the meaning intended by the B31.8 Code.

Since the term "transmission line" in Part 192 is intended to have the same meaning as that in the B31.8 Code, it follows that the term "distribution center," which marks the end of a "transmission line" in the adopted definition, must be interpreted to include a "large volume customer," a term which marked the end of a "transmission line" under the B31.8 Code.

To apply this interpretation, we must determine what B31.8 meant by "large volume customer." There is no question that as we previously stated, a "distribution center" occurs at a "point where gas enters piping used primarily to deliver gas to customers who purchase it for consumption." Basically, this includes points where title to gas is transferred from a transmission company to a distribution company. Since in the B31.8 Code, the terms "distribution center" and "large volume customer" were both used to define the end of a "transmission line," it is logical to conclude that except for the factor of resale, a "large volume customer" meant a customer with attributes similar to those of a distribution company. Foremost among these attributes are the receipt of similar volumes of gas and the operation of piping facilities common to a distribution company. Thus, a customer fitting this description would also represent a "distribution center" under Part 192.

To properly answer your original inquiry, we have looked at whether the General Shale Corporation qualifies as a "large volume customer" within the meaning of the B31.8 Code. Based on the information you have submitted, we find that General Shale (1) receives gas in a quantity almost as large as that delivered to the neighboring distribution company, Volunteer Natural Gas Company; and (2) operates piping similar to that operated by a distribution company. Since these factors characterize a "large volume customer" within the meaning of "distribution center" under the adopted "transmission line" definition, the portion of the Kingsport Lateral System serving General Shale, or the General Shale lateral, is a "transmission line" under Part 192. Further, based on the information provided in your May 17, 1978, letter, concerning class locations, it appears that at least 50 percent of the length of the General Shale lateral is in a Class 1 location, and therefore, the lateral is exempt from orodization [sic] under section 192.625(b)(3).

To ensure that our interpretation of "transmission line," particularly the "distribution center" aspect regarding "large volume customers" is applied uniformly, we intend to publish it in the Federal Register. At the same time, we will invite public comments on the impact of this interpretation on the regulated industry and on public safety, and also on our judgment as to what constitutes a "large volume customers." If the comments warrant it, we may change our interpretation or propose to change the definition of "transmission line."

Sincerely,

Cesar De Leon
Associate Director for
Pipeline Safety Regulation
Materials Transportation Bureau

October 11, 1978

August 2, 1978, OPR Interpretation for
East Tennessee Natural Gas Company
(§192.625(b)(1) & (2) and §192.3)

Associate Director for Operations
and Enforcement, DMT-10

Associate Director for Pipeline
Safety Regulation, DMT-30

Lacking a diagram and the SMYS and the operating pressures of the pipelines discussed, two assumptions were made in reviewing the interpretation made for East Tennessee

Natural Gas (East Tennessee) by OPSR on August 2, 1978. The first assumption was that the Kingsport Lateral is the 12-inch pipeline supplying the Volunteer Natural Gas Company, Kingsport, Tennessee. The second was that the pipelines under discussion are operating at pressures less than 20 percent of SMYS.

We understand the interpretation to state that the point where the Kingsport Lateral takes off from the East Tennessee "3300" line (point A in the attached sketch) could be a distribution center since this may be the point where gas enters piping used primarily to deliver gas to customers who purchase for consumption as opposed to customers who purchase it for resale. However, point B (in the attached sketch) may be the introduction of the distribution center based on the portion of gas (on a volumetric consideration) which is transported to the direct consumption customers of East Tennessee.

If odorization results in making gas unsuitable to either direct consumption customer, the company may wish to apply for a waiver from the odorization provision to that customer pursuant to the provisions of Section 3(e) of the Natural Gas Pipeline Safety Act of 1968.

NOTE: DIAGRAM ATTACHED

Cesar De Leon
Associate Director for
Pipeline Safety Regulation
Materials Transportation Bureau

August 2, 1978

Mr. A. D. Simpson, III
East Tennessee Natural Gas Company
P.O. Box 2511
Houston, Texas 77001

Dear Mr. Simpson:

By letter of May 17, 1978, you requested our opinion on whether 49 CFR 192.625(b)(1) and (2) requires East Tennessee to odorize that portion of its Kingsport Lateral System that is used to deliver gas to the General Shale Corporation.

As shown on Exhibit A to your May 17 letter, the Kingsport Lateral System consists of an arrangement of interlocking pipelines used to deliver gas to several industrial customers from East Tennessee's 3300 line. That portion of the System serving General Shale consists of the Kingsport Lateral, about 2,642 feet of the Mead Corporation Lateral, and the General Shale Lateral.

To answer you correctly, we asked for an explanation of East Tennessee's basis for classifying that portion of the System serving General Shale as a "transmission line" under Part 192. This information was provided by your letter of June 9, 1978.

You have made at least three separate arguments: First, you point out that under the industry code in effect before the adoption of 49 CFR Part 192 (the ANSI B31.8 Code), a "transmission line" was defined as " pipe installed for the purpose of transmitting gas from a source or sources of supply to one or more distribution centers or to one or more large volume customers. . ." Because of the volume being delivered to General Shale (4196 Mcf/d), presumably we are to conclude that the pipeline involved is a transmission line under the ANSI definition. Regardless of such a conclusion, however, the term "transmission line" is defined in Part 192 (§192.3), and it is that definition that we must look to first in determining which gas pipelines are subject to Part 192 standards that apply to transmission lines. Only if the "transmission line" definition is considered ambiguous in any respect would we look for clarifying information in background documents such as the B31.8 Code.

Your next argument relates to the statutory definition of the term "interstate transmission facilities." You state that all East Tennessee's facilities fall within that statutory definition and, therefore, are by implication "transmission pipelines." Notwithstanding this implication, the term "transmission line" in Part 192 is not defined in terms which relate to an "interstate transmission facility." Therefore, it cannot be correctly concluded that if a pipeline fits the statutory definition of "interstate transmission facility," it is consequently a "transmission line" under Part 192. Further, while we disagree with your interpretation of the 1976 amendment to the statutory definition of "interstate transmission facility," we concur with your view that there is no relation between that amendment and the classification of pipelines as "transmission lines" under Part 192.

Your last argument relates to the definition of the term "transmission line" in Section 192.3. Under Section 192.3, if a gas pipeline which is not a gathering line (1) either transports gas from a gathering line or storage facility to a distribution center or storage facility,(2) operates at 20 percent or more of SMYS, or (3) transports gas within a storage field, it is a "transmission line." Otherwise it is a "distribution line." Considering all the information presented (including the excerpted Technical Pipeline Safety Standards Committee transcript), it appears that by this definition, that portion of the Kingsport Lateral System used to deliver gas to the General Shale Corporation would be a transmission line in its entirety only if the point of delivery qualifies as a "distribution center." Since this latter term is not defined, it must be interpreted in light of its ordinary meaning and usage in the industry.

You have argued that the point of delivery to General Shale is a "distribution center" because the downstream piping is "a distribution network which delivers gas to the various points of utilization in the General Shale plant." We are not persuaded, however, that the natural gas transmission industry commonly refers to a point of delivery to an industrial customer as a "distribution center." The word "distribution" itself has a plural

connotation, and the ANSI definition of "transmission line" which you cited distinguishes "distribution centers" from "large volume customers."

We have not found a written definition of the term "distribution center" in ANSI B31.8 or in other relevant background material. Nevertheless, we believe that the term commonly refers to that point where gas enters piping used primarily to deliver gas to customers who purchases it for consumption as opposed to customers who purchase it for resale. In this sense, the connection of the Kingsport Lateral with the 3300 Line is a "distribution center," and the downstream piping comprises either mains or service lines which must be odorized under the requirements of Section 192.625(a).

We recognize that under this interpretation, the lines serving General Shale have a different classification than existed under ANSI B31.8 prior to the adoption of Part 192. However, we have no reason to believe that the Part 192 definition of "transmission line" - inasmuch as it deletes the reference to large volume customers contained in the ANSI definition - was not intended to alter prior classifications. Indeed, just the opposite seems true, as indicated by the preamble to Part 192 where it is stated with respect to Section 192.3, "We have defined those terms which are being used in a different sense than the commonly understood meaning.

Sincerely,

Cesar De Leon
Associate Director for
Pipeline Safety Regulation
Materials Transportation Bureau