

RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL
HEARINGS SECTION

Oil & Gas Docket No. 06-0279915

**RULE 73 APPLICATION FILED BY TGG PIPELINE, LTD TO DISCONNECT AND
CEASE PROVIDING SERVICES TO SABINE OIL & GAS LLC**

FINAL ORDER

The Commission finds that after statutory notice the caption proceeding was heard by the examiners on April 3, 2013. The proceeding having been duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas the Commission makes the following Finding of Fact and Conclusions of Law.

FINDINGS OF FACT

1. TGG operates intrastate pipelines within the State of Texas and its P-5 Permit number is 5850984. TGG operates the TGG Legacy System ("Legacy System"). The Legacy System is an intrastate gas gathering pipeline and the applicable T-4 Permit number is 04009.
2. Producers that are connected to the Legacy System produce from gas wells that are connected to the system primarily from either the Cotton Valley Formation or the Haynesville Formation.
3. The producers connected to the Legacy System have redelivery options to any of four processing plants that are also connected to the pipeline system: DCP Crossroads, CenterPoint Waskom, DCP Carthage and Marlin.
4. All transportation on the Legacy System is provided on an interruptible basis
5. Except for delivers made on behalf of one shipper, all natural gas delivered on the Legacy System is delivered as a blended stream and is delivered in equivalent quantities.
6. The gas delivered on the Legacy System contains a mix of methane (CH₄) and Natural Gas Liquids ("NGLs").
7. The NGLs, include, but are not limited to, ethane (C₂H₆), propane (C₃H₈) and butane (C₄H₁₀).
8. Methane and NGLs are priced differently.

9. As the transporter, TGG's compensation is based upon total volumes transported not the content of the gas.
10. The NGLs are measured in gallons per Mcf (GPM) and it is a measure of the gallons of the liquid hydrocarbon components contained in one Mcf of natural gas.
11. Producers that are connected to the Legacy System produce a mix of gas that, relative to each other, ranges from lean to rich. On a relative basis, lean gas contains a lower content of NGLs than rich gas.
12. Natural gas production from the Cotton Valley formation is richer than natural gas production from the Haynesville formation.
13. The Legacy System receives gas at approximately forty-one delivery points that is richer than the gas received at the remaining delivery points.
14. Generally, for transportation of gas on the Legacy System the processor does not receive the actual gas introduced into the system by the shipper with whom the processor contracted. The processor receives an equivalent quantity.
15. The quantity of the individual components of gas in the equivalent quantity redelivered to the processors is not equal to the quantity of the individual components of gas delivered into the Legacy System by shippers.
16. Sabine Oil and Gas, LLC ("Sabine"), formerly NFR Energy LLC ("NFR"), is a shipper on the Legacy System and has fifteen producing gas wells connected to the TGG Legacy System: (1) Hemby Well #3 (254417), (2) Hemby Well #4 (256352), (3) Hope #1 (244249), (4) Woodfin #1H (250062), (5) Carolyn Bell Deep 1H (257780), (6) Carolyn Bell Deep 2H (258360), (7) Rollie Sims Deep 1H (258162), (8) Rollie Sims Deep 2H (260128), (9) Mary Waldron Deep 1H (258519), (10) Mary Waldron Deep 2H (260976), (11) Allen #5 (260966), (12) Foote #3H (261361), (13) Foote #4H (261618), (14) Foote #5H (262134), and (15) Grace Young 2H (260018).
17. TGG has two transportation contracts with Sabine to transport on the Legacy System: (1) the 2009 Contract and (2) the 2010 Contract.
18. Except for production from the Hope #1 (244249) and Allen #5 (260966) all of Sabine's production is from the Haynesville Shale formation. Those two wells produce from the Cotton Valley.
19. Sabine delivers its production into the Legacy System at ten distinct delivery points. Only two delivery points receive what TGG has classified as rich gas. Thus, of the forty-one delivery points that TGG has classified as receiving rich gas, only two receive gas that is produced by Sabine.

20. Sabine's daily transportation on the system approximates 12,000 to 14,000 MMBtu per day.
21. The majority of Sabine's production is considered lean natural gas relative to the other producers on the system.
22. TGG delivers all of Sabine's gas to the DCP Carthage Plant.
23. Sabine's product does not physically arrive at the DCP Carthage redelivery point. TGG redelivers equivalent quantities on behalf of Sabine to DCP Carthage.
24. The GPM content of the gas that is delivered into the system by Sabine is lower than the GPM content of the equivalent quantities of gas that are redelivered to the DCP Carthage plant.
25. Sabine is credited for a larger volume of NGLs than what Sabine delivers into the Legacy System.
26. TGG has offered to continue delivery on behalf of Sabine to DCP Carthage subject to a component balancing agreement or similar reconciliation arrangement.
27. Sabine has not agreed to a component balancing agreement or similar reconciliation arrangement.
28. TGG has notified Sabine of its intent to restrict Sabine's nominations to those points of delivery physically accepting a gas composition which most resembles the gas delivered by Sabine to TGG's points of receipt.
29. TGG has offered to continue delivery on behalf of Sabine to DCP Carthage subject to a component balancing agreement or similar reconciliation arrangement.
30. The fact that Sabine is paid on a blended stream has impacted the operations of the pipeline. Other customers who have rich Cotton Valley Gas perceive that they have been harmed.
31. Some customers have left the system, others have threatened litigation and TGG has been unable to attract new customers to the system.
32. The departure of customers, prospective litigation, and TGG's inability to attract new transportation customers impacts the viability of TGG's Legacy System.
33. In order to more accurately identify the deliveries of gas into the Legacy System and assure that every shipper is compensated for the full value of the product delivered, TGG proposed a component balancing arrangement that would be applicable to all shippers and all processors (Component Balancing Agreement).

34. Except for Sabine, all shippers were in favor of a component balancing mechanism on the Legacy System.
35. All processors are supportive of the component balancing agreement on the Legacy System.
36. Waskom attempts to match the compensation to the GPM content of the shipper's product. That plant already employs an allocation process in calculating compensation provided to shippers that takes into account the GPM content at the inlet.
37. Sabine has not reached an agreement with TGG; Sabine and TGG have been in negotiations over a component balancing agreement since June of 2012.
38. Without Sabine's participation, TGG is unable to implement a component balancing agreement or NGL allocation on a system-wide basis.
39. As an alternative, TGG proposed that the service provided to Sabine under the transportation agreement be modified pursuant to the contractual terms contained in TGG's contract with Sabine.
40. TGG proposed that Sabine's gas delivered to the Legacy System be redelivered to either DCP Crossroads or Waskom.
41. Sabine's nominations received at those processing plants would closely match the NGLs from the producer's own production.
42. TGG continues to provide transportation service and only seeks a modification of the service provided.
43. The modification will not result in Sabine being shut-in.
44. TGG contended that the modified transportation service is contemplated by the contractual terms of the applicable contracts between TGG and Sabine.
45. TGG is willing to redeliver Sabine's production to all delivery points on the system subject to a component balancing mechanism or similar reconciliation arrangement.

Conclusions of Law

1. Proper notice was issued by the Railroad Commission to appropriate persons legally entitled to notice.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this hearing have been performed.
3. Rule 73 is applicable to the physical disconnection or termination of service that results in an operator being shut-in where the pipeline operator no longer provides transportation

service and the pipeline operator is unwilling to deliver gas produced by the well operator.

The Commission finds that, after statutory notice in the above-numbered docket, a hearing on April 3, 2013, the examiners have made and filed a report and proposal for decision containing finding of fact and conclusions of law, which was served on all parties of record, and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

Therefore it is **ORDERED** by the Railroad Commission of Texas that:

Rule 73 does not apply to the facts of this case and that this proceeding is hereby dismissed.

This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T CODE §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

SIGNED this 10th day of September, 2013.

RAILROAD COMMISSION OF TEXAS



CHAIRMAN BARRY T. SMITHERMAN



COMMISSIONER DAVID PORTER



COMMISSIONER CHRISTI CRADDICK

ATTEST



SECRETARY