

Chapter 6

Legal Issues in Underground Gas Storage

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Synopsis

§ 6.01.	Background and History of Underground Storage.....	181
	[1] — Introduction	181
	[2] — Storage Capacity	182
	[3] — Types of Underground Storage Capacity.....	183
	[a] — Salt Caverns	183
	[b] — Depleted Oil or Gas Reservoirs	183
	[c] — Aquifers.....	184
§ 6.02.	Ownership of Imported Gas	185
	[1] — <i>Hammonds v. Central Kentucky Natural Gas Co.</i> and the <i>Ferae Naturae</i> Doctrine	185
	[2] — Rejection of the <i>Ferae Naturae</i> Doctrine.....	186
	[a] — <i>White v. New York State Natural Gas</i> <i>Corp.</i>	186
	[b] — Rejection of <i>Ferae Naturae</i> Doctrine Based on Properties of Oil and Gas.....	186
	[i] — <i>Lone Star Natural Gas Co. v. Murchison</i>	187
	[ii] — <i>Humble Oil & Refining Company</i> <i>v. West</i>	187
	[iii] — <i>Texas American Energy Corp. v.</i> <i>Citizens Fidelity Bank & Trust Co.</i>	188
	[3] — Ownership of Migrated Gas	189
	[a] — <i>Anderson v. Beech Aircraft Corp.</i>	189
	[b] — <i>Union Gas System, Inc. v Carnahan</i>	190
	[c] — <i>Reese Exploration, Inc. v. Williams</i> <i>Natural Gas Co.</i>	191
	[d] — <i>Columbia Gas Transmission Corp. v.</i> <i>Exclusive Natural Gas Storage Easement</i>	192
	[4] — Statutes Regulating Ownership of Injected Natural Gas	193
	[a] — Overview of Statutes.....	193
	[b] — Kansas Statute	194
	[c] — Oklahoma Statute	195
§ 6.03.	Grant of Right to Use Underground Reservoir	195

- [1] — Introduction 195
- [2] — English Rule Versus American Viewpoint 195
- [3] — Severance Documents Are Key 196
 - [a] — *Tate v. United Fuel Gas Co.* 197
 - [b] — *Miles v. Home Gas Co.*..... 198
 - [c] — *Pomposini v. T.W. Phillips Gas & Oil Co.* 198
 - [d] — Prescriptive Easement 199
- [4] — Condemnation Statutes 201
 - [a] — Overview of State Condemnation Statutes 201
 - [b] — Condemnation Under the Natural Gas Act..... 203
 - [c] — Overview of Damages in Condemnation 204
 - [i] — Recovery of Expenses for Preparation to Drill 205
 - [ii] — Compensation for Notice Gas 206
- § 6.04. Proposed Rate Regulation of Certain Underground Storage Facilities 207**
 - [1] — Background to Proposed Regulation 207
 - [a] — Need for Additional Storage 208
 - [b] — Overview of Current Storage Rates 208
 - [c] — Determination of Market Power..... 210
 - [2] — Section 312 of the Energy Policy Act of 2005 211
 - [3] — Proposed Rulemaking by the FERC 211
 - [a] — Proposed Reform of Market-Power Test 212
 - [b] — Market-Based Rates for New Storage Capacity 213
 - [i] — New Facility 213
 - [ii] — Protection of Customers..... 214
 - [iii] — Periodic Review 214
 - [4] — Comments on Proposed Rulemaking..... 214
 - [a] — Proposed Reform of Market Power Test 215
 - [i] — Comments Supporting Reform 215
 - [ii] — Comments Asserting Modifications Are Unwarranted..... 216
 - [iii] — Five-Year Market Power Review 217
 - [b] — Market-Based New Storage Facilities or New Capacity? 218
 - [c] — Generic Safeguards..... 219
- § 6.05. Conclusion 221**

§6.01. Background and History of Underground Storage.

[1] — Introduction.

Underground storage is the process which effectively balances a variable demand market with a nearly constant supply of energy provided by a pipeline system. Natural gas production in the United States does not vary much on a day to day or season by season basis. Demand for natural gas, however, varies by season. During the warm spring and summer months, supply exceeds demand. During the winter heating months, demand often exceeds supply. If unlimited gas reserves were available near the areas of largest consumption, fulfilling customers' needs would not be a problem. Instead, some of the most populous areas of the United States—the Northeast, the lower Great Lakes area, and the West Coast—consume more gas than they can produce. The natural gas must, therefore, be transported through pipelines from the largest gas producing areas of the United States, such as the Permian Basin and the Gulf Coast, to the areas of the country that have the greatest need.

The cost of building pipelines to all areas that experience seasonal spikes in gas demand would be prohibitive. Even beyond the cost, it would be impractical to build pipelines that would barely be used during certain times of the year, only to receive full capacity during the peak demand winter months. To resolve the demand versus supply issue, gas must be stored in areas where it will be needed.

Storage reservoirs have been developed to permit pipelines to operate near their design capacity regardless of seasonal fluctuations in demand. During the summer months, the transported natural gas exceeding demand is injected into the reservoirs. In winter, gas is withdrawn from the storage fields to supplement the throughput from pipelines.

The gas supply and transportation market has changed over the years and so has the use of storage fields. Traditionally, local distribution centers entered into firm, long-term gas supply or transportation contracts. Now, most of them rely on a combination of long-term and short-term contracts