UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

104 FERC ¶ 61,017

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, and Nora Mead Brownell.

Southern Star Central Gas Pipeline, Inc. (formerly Williams Gas Pipelines Central, Inc.)	Docket Nos. RP03-135-000 RP03-135-001

ORDER DENYING REHEARING AND ESTABLISHING HEARING

(Issued July 2, 2003)

1. On December 31, 2002, the Commission accepted and suspended, effective January 1, 2003, a November 27, 2002 filing of Southern Star Central Gas Pipeline, Inc. (Southern Star, formerly Williams Gas Pipelines Central, Inc.).[1] Because the parties raised a number of issues about Southern Star's proposed fuel and loss reimbursement percentages, the Commission directed Williams to respond to the data requests and questions submitted by the parties and directed its staff to convene a technical conference. The Missouri Public Service Commission (MoPSC) requested rehearing. This order addresses both the rehearing request and the parties' comments following the technical conference. For the reasons discussed below, the Commission denies rehearing and sets the issues raised by Southern Star's filing for hearing. This decision benefits the public because it ensures just and reasonable rates for Southern Star's customers.

Background

2. Southern Star files annually to revise its fuel and loss reimbursement percentages, effective January 1 of each year, based on actual fuel and losses for the twelve-month period which ends September 30 of the previous year, adjusted for any over or under recovery during the same period. On November 27, 2002, Southern Star submitted its annual recalculation of its fuel and loss reimbursement percentages under Article 13 of its General Terms and Conditions (GT&C), effective January 1, 2003. Southern Star revised its: (1) storage injection fuel and loss reimbursement percentage reflecting an increase from .81% to 5.91%; (2) production area percentage reflecting an increase from 1.64% to 2.22%; and (3) market area percentage reflecting an increase from .69% to 1.01%. In addition to the revised tariff sheet reflecting these percentages, Southern Star's work papers showed the calculation of actual fuel and losses during the twelve-month

[1]Williams Gas Pipeline Central, 101 FERC ¶ 61,407 (2002).

period ending September 30, 2002, and over or under recovery of fuel and losses during the same period. MoPSC protested the filing, arguing that Southern Star failed to justify its proposed increase in the storage injection fuel and loss reimbursement percentage, which it stated is six times higher than the current reimbursement percentage. MoPSC also requested the Commission to require Southern Star to add two separately-stated production area fuel retention percentages (*i.e.*, a loss percentage and a fuel use percentage) and provide information regarding those transactions for which fuel use was waived during the reporting period.

3. The Commission accepted and suspended the revised tariff sheet, effective January 1, 2003, subject to refund. The Commission found the parties raised a number of issues about Southern Star's proposed fuel and loss reimbursement percentages requiring further investigation. Accordingly, the Commission directed Southern Star to respond to the data requests and questions submitted by the parties. The Commission also directed its staff to convene a technical conference in order to provide the parties with an opportunity to fully discuss these concerns. On January 30, 2003, MoPSC requested rehearing of the December 31 order, arguing the Commission should have required Southern Star to: (1) add two separately-stated production area fuel retention percentages (*i.e.*, a fuel use percentage and gas loss percentage) to its rate sheet tariffs and (2) provide detailed information regarding zero-fuel transactions.

4. A technical conference was held on February 11, 2003 to address the various issues raised by the parties. On February 21, 2003, Southern Star, MoPSC, Indicated Shippers, the Kansas Corporation Commission (KCC) and Aquila Inc. d/b/a Aquila Networks (Aquila) filed initial comments following the technical conference. On March 7, 2003, these same parties (except Indicated Shippers), Missouri Gas Energy, a Division of Southern Union Company (MGE) and Kansas Gas Service, a division of Oneok, Inc. (Kansas Gas) filed reply comments.

Discussion

A. <u>Comments Following Technical Conference</u>

5. The comments of the parties following the technical conference reveal that a number of complex issues are still in dispute. These include both whether Southern Star has justified the significant increase in its fuel and loss reimbursement percentages in the instant filing and whether its existing mechanism for recovering these costs is just and reasonable. The parties request that the Commission establish settlement procedures or set the matter for evidentiary hearing in order to resolve these issues. As discussed below, the Commission is establishing a hearing on these issues.

1. Fuel and Loss Reimbursement Percentages

6. Indicated Shippers raise questions about the transmission losses reflected in Southern's Star's filing, arguing that Southern Star failed to justify the big increase in its transportation fuel rates. Specifically, Indicated Shippers contend Southern Star did not explain why fuel usage rose during 2002, even though throughput dropped significantly[2] and the fact that during every other consecutive year period, a drop in throughput resulted in lower fuel usage. Indicated Shippers further state that the increase in fuel usage is puzzling due to Southern Star's abandonment of a 64-mile segment of its pipeline (the Pampa line),[3] which they contend should have resulted in a downward impact on fuel usage. Indicated Shippers argue that the pattern of transmission gas losses (shown in Table 2 in its comments) during each of the past six years suggests that the losses are attributable to systemic operational problems and that Southern Star's response to these losses is inadequate.

7. Southern Star responds that Indicated Shippers' analysis and calculation of the increase in the transportation fuel rates is flawed. Southern Star explains that Indicated Shippers appear to have applied the production area increase to the market area throughput and the market area increase to the production area throughput. Southern Star argues that the majority of the increase is a result of the surcharge or true-up component.[4]

8. The parties also attack the large increase in the storage injection fuel and loss reimbursement percentage. MoPSC believes Southern Star has failed to explain the extent to which it has investigated the unusually high storage losses and provided no justification as to why the 2002 year storage losses are significantly higher than any of the past years. Indicated Shippers also want the Commission to reject the proposed storage fuel rate and require Southern Star to retain an independent consultant to review Southern Star's operations to evaluate how to minimize gas losses.

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[2]See Indicated Shippers Initial Comments at 4-5, Table 2.

[3]Indicated Shippers explain that the abandonment was completed on July 26, 2001, which was just four days before the beginning of the twelve-month period covered by Southern Star's current fuel tracker filing. Indicated Shippers Initial Comments at 5 (citing 94 FERC ¶ 62,210 (2001); Southern Star's August 2, 2001 letter to the Commission in Docket No. CP00-394-000).

[4] See Southern Star Reply Comments at 9-11.

9. Next, MoPSC argues that the time frame Southern Star used for conducting the shut-in tests underlying the storage injection fuel and loss reimbursement percentages is inconsistent with Southern Star's tariff obligation, particularly with regard to the fall tests. MoPSC states that the tests in the fall were conducted over an unusually long time period that may have included parts of the injection season.[5] MoPSC believes that this could have affected the losses measured by the shut-in pressure test because the later injections would fail to recognize this factor and other external factors such as the weather.[6] Southern Star responds that, although tests are traditionally conducted near the end of the injection or withdrawal cycles of each storage field, in recent years the timing of shut-in tests has been shifted to accommodate the fields, customers and the demands of the pipeline. To accommodate such changes, Southern Star states that it conducts the tests at a time when the fields are close to being empty or full and there is enough flexibility on the system that the field can be shut-in for the required length of time.

10. Southern Star also explains that its 2002 injection season was not typical of historic injection seasons because storage inventory levels were significantly higher than normal and October was a withdrawal month. Southern Star states it has reviewed these loss calculations and the process is in full compliance with its tariff and the same as it has used in prior years. Southern Star also states it operates its storage fields in compliance with the operational plans approved by this Commission. Southern Star asserts that the storage inventory losses are normal and not associated with any storage gas that has migrated outside of the storage fields. Southern Star explains that it closely monitors all activity in and around these fields, follows the trends, and takes timely corrective action against any third party threatening the integrity of existing fields.[7] Southern Star asserts that the method it uses, pursuant to its tariff, to calculate storage inventory losses is consistent from year-to-year. Southern Star explains that it employs a true-up mechanism

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[5]See MoPSC Initial Comments at 4-5 and MGE Reply Comments at 3.

[6]MoPSC Initial Comments at 6-7.

[7]Southern Star describes the operations of its storage fields and the process it uses for calculating the annual loss or gain for the fields. According to Southern Star, it has eight (8) storage fields with 500 injection/withdrawal wells. Gas is metered into and out of the storage fields daily. Southern Star states that twice a year it shuts-in each one of the storage fields and takes dead weight pressure tests of the wells. Then, the tests are averaged to determine the average pressure of the field for use in the material balance calculation of the field inventory which is compared to the physical inventory to determine the annual loss or gain.

which compares actual storage fuel and loss quantity for the year to the storage fuel-in-kind retained to ensure no over recovery from customers.

11. Finally, MoPSC and MGE are concerned that Southern Star's dispatch decisions may be influenced by the impact of the Webb Field Settlement in Docket No. IN01-2-000. The parties explain that the settlement prohibited Southern Star from including any of the costs associated with losses from the Webb field in its calculation for the storage fuel and loss percentages. The parties are concerned that this prohibition may have given Southern Star an incentive to cycle the Webb field before any other storage fields are cycled.[8]

2. Justness and Reasonableness of Mechanism

12. MoPSC, KCC and Indicated Shippers ask the Commission to require several changes in Southern Star's tariff and its Operation Plan. Among other things, Kansas Gas, MoPSC and Aquila want Southern Star to develop a procedure for normalizing storage losses in order to avoid the extreme cost swing it has experienced. MoPSC suggests the Commission require Southern Star to change the method of calculating storage losses by using a rolling three-year average of shut-in well pressure test data in lieu of the 2002 data relied upon by Southern Star.

13. The parties also raise questions about Southern Star's true-up mechanism. MoPSC believes that the impact of the losses on customers will not eventually be "trued-up" because it argues that Southern Star's true-up mechanism is only effective to the extent the fuel loss percentage determination is accurate.[9] Despite Southern Star's statement that its true-up mechanism works,[10] MoPSC states that it is concerned with Southern Star's admission that a confluence of anomalies contributed to the extreme

[8] They state this conclusion is supported by the fact that the Webb field experienced very low losses in 2002 as compared to the Webb field losses in prior years. In fact, they state that the Webb field has the lowest percentage loss of any of Central's storage fields, *i.e.*, 0.4%. They argue that Southern Star is avoiding the cost consequences of a Commission approved settlement. They suggest the Commission require Southern Star to set up a mechanism that sets forth its plan to prioritize the distribution of gas throughout its storage fields.

[9] MoPSC Initial Comments at 8 and Reply Comments at 2.

[10] Southern Star Comments at 9.

losses percentages and with the fact that the forward-price of gas has increased to in excess of $7.00 Dth causing a severe impact on ratepayers.

14. Southern Star argues the parties have the burden of showing that the current tracker mechanism is "unjust and unreasonable" and have offered no such proof; therefore, the Commission should reject the relief they seek.

3. Conclusion

15. The Commission finds that the existing record in this proceeding does not provide an adequate basis to resolve the numerous difficult issues raised by the parties both concerning Southern Star's support for its proposed fuel and loss reimbursement percentages and the justness and reasonableness of its existing mechanism for recovering these costs. Therefore, as requested by MoPSC, KCC, and Indicated Shippers, the Commission will set these issues for an evidentiary hearing before an Administrative Law Judge (ALJ).

B. Request for Rehearing

16. In its January 30, 2003 request for rehearing (and in its comment following the technical conference), MoPSC argues the Commission should require Southern Star to add two separately-stated production area fuel retention percentages (*i.e.*, a fuel use percentage and gas loss percentage). MoPSC asserts that in past cases the Commission has required interstate pipelines to include, in their tariffs, a separately stated fuel use charge and a gas loss charge.

17. The purpose of the separately stated charges is to allow the pipeline to waive applicable fuel use charges where it can be shown a particular transaction does not require the use of fuel, but not waive the charge for fuel loss. The Commission has recognized that, while it may be possible to show no fuel is associated with certain transactions, such as those where no compressor is present, it is unreasonable to believe that gas loss levels can be tied to certain capacity and not others of the same type.[11] Accordingly, fuel loss charges generally cannot be waived.

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[11] Request for Rehearing at 3 (citing Mississippi River Transmission Corp., 98 FERC ¶ 61,119 (2002), Koch Gateway Pipeline Co., 81 FERC ¶ 61, 313 at 62,444 (1997)).

18. MoPSC points out that Section 13.3 of Southern Star's tariff provides that certain Rawlins-Hesston line transactions between specified receipt and delivery points would be assessed a zero fuel charge, while continuing to pay the applicable loss charges.[12] But, according to MoPSC, Sheet No. 6B of Southern Star's tariff does not reflect a separate production area loss reimbursement percentage. Since Southern Star's filing contains supporting work papers that separately identify both the fuel and loss components of the production area reimbursement percentage, MoPSC believes a separately stated production area loss factor can easily be added to Southern Star's tariff.

19. MoPSC also argues the Commission failed to require Southern Star to provide detailed information regarding its zero-fuel transactions. MoPSC states it might be appropriate for Southern Star to provide a detailed listing of the monthly production area volumes by shipper for which a zero fuel charge is applied. MoPSC believes this would help in the reconciliation of Southern Star's claimed fuel retention to the computed amount of fuel retention using Southern's reported throughput and tariff reimbursement rates in effect during the period.

20. The Commission will also include the issues raised on rehearing in the hearing established by this order. Since that hearing is to address issues concerning the justness and reasonableness of Southern Star's existing mechanism for the recovery of the costs of fuel use and lost and unaccounted for gas, the Commission finds that it is appropriate to consider all such issues together in one proceeding, rather than attempt to make changes to Southern Star's existing mechanism on a piecemeal basis. Accordingly, we decline to take the action at this time that MoPSC is requesting and rehearing is denied.

<u>The Commission orders</u>:

(A) Pursuant to the authority of the Natural Gas Act, particularly Sections 4, 5, 8, and 15 thereof, and the Commission's rules and regulations, a public hearing is to be held in the instant proceeding concerning the lawfulness of Southern Star's proposed rates.

(B) A presiding ALJ, to be designated by the Chief ALJ, pursuant to 18 C.F.R. § 375.304, must convene a prehearing conference in this proceeding to be held within 20 days after issuance of this order, in a hearing room of the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, D.C. 20426. The prehearing conference is for the purpose of clarifying the positions of the participants and establishing any

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[12] Request for Rehearing at 2 (citing Williams Natural Gas Co., 75 FERC ¶ 61,023 (1996)).

procedural dates necessary for the hearing. The presiding ALJ judge is authorized to conduct further proceedings in accordance with this order and the rules of practice and procedure.

(C) For the reasons discussed above, MoPSC's request for rehearing is denied.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.