



5151 San Felipe, Suite 2500  
 Houston, TX 77056

Direct: 713.267.4759  
 Fax: 713.267.4755  
 jdowns@nisource.com

**Jim Downs**  
 Director of Regulatory Affairs

October 31, 2008

Ms. Kimberly D. Bose, Secretary  
 Federal Energy Regulatory Commission  
 888 First Street, N.E.  
 Washington, DC 20426

Re: Hardy Storage Company, LLC, Docket No. RP09-42-000  
*Retainage Adjustment Mechanism Annual Filing*

Dear Secretary Bose:

Pursuant to Section 154.7 of the Federal Energy Regulatory Commission's ("Commission") regulations,<sup>1</sup> and Section 33 of the General Terms and Conditions ("GTC") of its FERC Gas Tariff, Original Volume No. 1 ("Tariff"), Hardy Storage Company ("Hardy") herewith submits for filing an original and five (5) copies of the following tariff sheet for inclusion in its Tariff, with a proposed effective date of December 1, 2008:

First Revised Sheet No. 13

**Statement of Nature, Reasons and Basis**

By this letter, Hardy submits its annual filing pursuant to the provisions of GTC Section 33, "Retainage Adjustment Mechanism" (RAM). Normally, this filing would have been made on or before October 1, 2008 to be effective on November 1, 2008. However, on September 30, 2008, Hardy requested a one-month extension to address anomalies in retainage data. The Commission approved that request on October 8, 2008.<sup>2</sup>

First Revised Sheet No. 13 sets forth the retainage factors applicable to Hardy's storage services, as revised by this filing. GTC Section 33.2 requires Hardy to adjust these retainage factors annually. These retainage factors consist of the company use gas ("CUG"), lost and unaccounted for gas ("LAUF") and an over/under-recovered surcharge component for the deferral period. Pursuant to GTC Section 33.4(a), the current component reflects the estimate of total CUG and LAUF gas quantities required during the 12-month period commencing on December 1, 2008. As described in GTC Section 35.4(b), the over/under-recovered surcharge component, reflects the reconciliation of "actual" CUG and LAUF quantities with gas quantities actually retained by Hardy for the preceding calendar year; i.e., the deferral period. For this

<sup>1</sup> 18 C.F.R. § 154.7 (2008).

<sup>2</sup> *Hardy Storage Company, LLC*, Docket No. RP08-637, unpublished letter order issued Oct. 8, 2008.

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filing, the deferral period is March 1, 2007 thru December 31, 2007. Normally, the deferral period is for a full calendar year, but Hardy was not in operation for the entire calendar year 2007. Hardy underwent testing in March of 2007 and was then placed into service on April 1, 2007. As a result, the deferral period did not begin until March 1, 2007, when testing commenced on Hardy's system. Hardy is seeking in this filing to amortize the actual CUG and LAUF under-recovered quantities incurred in the deferral period over a three-year period.

As explained in more detail below, Hardy is proposing a total retainage rate of 3.227%. This number represents a 2.242% current projection component for CUG, with an over-collection surcharge percentage associated with CUG of -0.130%. The LAUF current projection component is 0.437%, with an under-collection surcharge of 0.678%. This represents a total increase of 0.697% over Hardy's existing retainage rates. For further details, see Appendix A.

In 2007, Hardy under-collected a net volume of 227,525 Dth, largely related to LAUF. Because of the size of this under-recovery, Hardy is seeking a waiver of GTC Section 33 requirement that it recover these quantities over a one-year period. Instead, Hardy proposes to amortize the 2007 net under-recovery over a three year period.<sup>3</sup> Hardy submits that good cause exists to allow it to amortize the net under-recovery over three years. By amortizing the net under-collection over three years, shippers will avoid a significant increase in their retainage rates that would otherwise occur if Hardy recovered its surcharge over annual estimated transportation quantities.<sup>4</sup> Moreover, Hardy believes the causes for the 2007 LAUF quantities were largely due to the initial start up and operation of a brand new storage field, as well as the adjustment of measurement equipment that has occurred at Hardy over the course of operating the new field. The facility adjustments made at Hardy, as well as the continued experience obtained in operating the field and facilities, have helped correct the LAUF issues experienced in 2007. By smoothing the net 2007 under-recovery over three years, shippers will avoid significant increases in their retainage rates, as well as allowing Hardy the ability to recover these lost quantities over a reasonable period of time. Therefore, the Commission should grant Hardy a waiver of Section 33.4(b) that requires it to calculate the under-recovery surcharge based upon the Current Transportation Quantities over a one year period, and instead allow it to recover the net under collection of its surcharge over a three year period. The Commission has granted such waivers in similar circumstances.<sup>5</sup>

### Current Component Items

In this filing, the CUG and LAUF portions of the current component for each of the retainage factors are based upon the calculated estimate for the 12-month period commencing December 1, 2008, which is then divided by the projected storage injection quantities for each factor. Beginning on April 1, 2009, the storage facility will be operating at 100% of the

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<sup>3</sup> The requested adjustment is reflected in Appendix A, Page 2, Lines 21-29 and Footnote 6.

<sup>4</sup> If Hardy did not amortize the under-collection over three years, and instead based the rate on the estimated annual transportation quantities, the Hardy under-collection surcharge rate would increase from 0.548% to 1.645% or by 200% percent. Using \$10.00 gas prices, this would increase the average price of storing natural gas on Hardy's system by \$ 0.11 per Dth.

<sup>5</sup> *Columbia Gulf Transmission Co.*, 123 FERC ¶ 61,216, at P 15 (2008).

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approved application's SCQ levels of 12,361,000 Dth. Hardy believes that the CUG will increase since the storage fields will be operating at full capacity. Thus, Hardy's CUG projections are based on this level of storage service.

With respect to the estimate for LAUF quantities, Hardy has included a projected annual level of 59,748 Dth which Hardy believes is consistent with the LAUF experienced over the first half-year of 2008, annualized to reflect a full twelve-months. For further details, see Appendix A, Page 2, Footnote 1.

### **Over/Under Recovered Surcharge Component Items**

Hardy experienced higher than anticipated LAUF quantities in 2007 which Hardy believes is related to the commencement of operations on a new system. Hardy has undertaken significant measures to review and address the company use gas ("CUG") and LAUF quantities on its system, including retesting of meters and aerial searches of the pipeline and storage wellhead areas to look for leaks. As a result of these efforts, Hardy has made two system changes to address this LAUF issue:

#### **Meter Pulsation Corrections**

Hardy performed diagnostic testing on its ultrasonic meters and noted that meter # 839148 was experiencing pulsation issues. Meter #839148 is located near the Lost River Compressor Station, which was creating discharge pressure pulsation spikes at that meter, and therefore was the cause for the pulsation. Significant pulsation reduces meter accuracy, and therefore should be minimized. Hardy's meters, which are ultrasonic are susceptible to pulsation. To address these pulsation issues experienced at meter #839148, Hardy installed additional structural support, which minimizes the physical movement caused by the Lost River Compressor Station.

#### **Straightening Vanes at Hardy's Measurement Facilities**

Asymmetrical flow profiles (also known as "swirl") were encountered at both the Inkerman (#839146) and Lost River (#839128) meter stations. Swirl patterns in gas flow also creates meter accuracy issues. In order to correct the swirl condition at these meters and create a symmetrical gas flow, Hardy installed a straightening vane at each meter. Subsequent meter inspections have shown a normal gas flow pattern.

Hardy believes that these two corrections will continue to help reduce the LAUF quantities on its system. Moreover, Hardy has already seen improvement in LAUF quantities in 2008. From January 1, 2008 to July 31, 2008, LAUF on Hardy's system totaled 34,852 Dth, a significant reduction in LAUF from the 2007 quantities. In addition, Hardy has thoroughly reviewed its accounting records to ensure the accuracy of its CUG and LAUF. Hardy will continue to monitor its system and records to properly manage and ensure the accuracy of its CUG and LAUF.

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The deferral period for this annual filing is the period from March 1, 2007 through December 31, 2007. Appendix A, Page 5 sets forth Hardy's actual experience during the deferral period for storage. As reflected therein, Hardy was in a net under-recovery position as of 227,525 Dth.<sup>6</sup> CUG was over-collected by 50,334 Dth, while LAUF was under-collected by 277,859 Dth. Consequently, in this filing Hardy is implementing a net under-recovered surcharge component for storage to revise future quantities to be retained.

### **Motion**

Pursuant to Section 154.7(a)(9) of the Commission's regulations, Hardy moves to place the proposed tariff sheets into effect at the requested effective date. If the Commission conditions the acceptance of this filing in any way, Hardy reserves the right to move the tariff sheet into effect at a later date.

### **Waiver**

Hardy respectfully requests that the Commission grant any waivers which it may deem necessary to accept this filing, and to place the filed tariff sheet into effect as requested herein.

### **Material Submitted Herewith**

In accordance with Section 154.7(a)(1) of the Commission's regulations, the following material is submitted herewith:

- (1) The proposed revised tariff sheets being filed, and a diskette containing the tariff sheets labeled "TF103108.ASC"; and
- (2) A marked version of the revised tariff sheets in accordance with Section 154.201(a) of the Commission's regulations.

### **Posting and Certification of Service**

Pursuant to Sections 154.2(d), 154.7(b) and 154.208(b) of the Commission's regulations, a copy of this filing is being sent by electronic mail or first-class mail, postage prepaid, by Hardy to Hardy's firm customers, interruptible customers, and affected state commissions. This filing is also available for public inspection during regular business hours in a convenient form and place at Hardy's offices at 5151 San Felipe, Suite 2500, Houston, Texas 77056; 1700 MacCorkle Avenue S.E., Charleston, WV 25325-1273; and 10 G Street, NE, Suite 400, Washington, DC 20002.

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<sup>6</sup> Hardy's original Retainage rates were approved in the Section (c) application, at which time, Hardy did not include any LAUF within the Retainage calculation.

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**Subscription**

Pursuant to Section 154.4(b) of the Commission's regulations, the undersigned certifies that: (1) he knows the contents of the filing; (2) the paper copies of the filing contain the same information as that contained on electronic media; (3) the contents are true to the best of his knowledge and belief; and (4) that he possesses full power and authority to sign the filing.

**Service on Hardy**

It is respectfully requested that all Commission orders and correspondence, as well as pleadings and correspondence from other persons concerning this filing, be served upon the following:

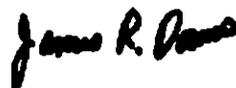
\*James R. Downs, Director of Regulatory Affairs  
Claire Burum, Sr. Vice President, Rates & Regulatory Affairs  
Hardy Storage Company, LLC  
5151 San Felipe, Suite 2500  
Houston, Texas 77056  
Phone: (713) 267-4759  
Email: [jdowns@nisource.com](mailto:jdowns@nisource.com)

\*Alyssa Anne Schindler, Attorney  
NiSource Corporate Services Company  
5151 San Felipe, Suite 2500  
Houston, TX 77056  
Phone: (713) 267-4752  
Email: [aschindler@nisource.com](mailto:aschindler@nisource.com)

\*Julee C. Stephenson, Director of Regulatory & Government Affairs  
Hardy Storage Company, LLC  
10 G Street, NE, Suite 400  
Washington, DC 20002  
Phone: (202) 216-9766  
Email: [jstephenson@nisource.com](mailto:jstephenson@nisource.com)

\*Persons designated to receive service in accordance with Rule 203 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.203 (2008).

Respectfully submitted,



James R. Downs  
Director of Regulatory Affairs

Enclosures

Hardy Storage Company, L.L.C.

Retainage Adjustment MechanismSummary of Storage Retainage Rate  
Effective December 1, 2008

| LINE<br>NO. | DESCRIPTION  | Total<br>(1)  |
|-------------|--|---------------|
| 1           | <u>Proposed Retainage Percentage</u>                 |               |
| 2           | <u>(Over)/Under Collection Surcharge Components:</u> |               |
| 3           | CUG  | -0.130%       |
| 4           | LAUF   | <u>0.678%</u> |
| 5           | Total (Over)/Under Collection Surcharge Component    | 0.548%        |
| 6           | <u>Current Projection Components:</u>                |               |
| 7           | CUG  | 2.242%        |
| 8           | LAUF   | <u>0.437%</u> |
| 9           | Total Current Projection Component                   | <u>2.679%</u> |
| 10          | Total Proposed Retainage Percentage                  | 3.227%        |
| 11          | Currently Effective Retainage Percentage             | <u>2.530%</u> |
| 12          | Increase (Decrease) (Lines 10 - 11)                  | <u>0.697%</u> |

## Hardy Storage Company, L.L.C.

Retainage Adjustment MechanismDerivation of Retainage Percentage Applicable to Storage  
Effective December 1, 2008

| Line No. | Description  | Amount            |               |
|----------|--|-------------------|---------------|
|          |  | (1)               |               |
| 1        | <u>Company Use Gas (CUG)</u>   |                   |               |
| 2        | Compressor Station Power - Dth   | 201,250           |               |
| 3        | Other Utility Operations - Dth   | 88,903            |               |
| 4        | Total CUG - Dth  | <u>290,162</u>    |               |
| 5        | Unaccounted For Gas (LAUF) - Dth   | <u>59,748</u>     | 1/            |
| 6        | Total CUG and LAUF - Dth (Lines 4 + 5)   | <u>349,910</u>    |               |
| 7        | <u>Quantities - Dth</u>  |                   |               |
| 8        | <u>CUG Requirements:</u>   |                   |               |
| 9        | Injection Quantities - Dth   | 12,381,000        | 2/            |
| 10       | Retainage Requirements - Dth   | 349,910           |               |
| 11       | Storage Well Losses - Dth  | 2,401             | 3/            |
| 12       | Surcharge Requirements - Dth   | <u>227,525</u>    | 4/            |
| 13       | Injection Quantities Received - Dth (Lines 9 + 10+ 11+ 12)                             | <u>12,940,836</u> |               |
| 14       | <u>Quantities - Dth</u>  |                   |               |
| 15       | <u>LAUF Requirements:</u>  |                   |               |
| 16       | Injection Quantities - Dth   | 13,063,790        | 5/            |
| 17       | Retainage Requirements - Dth   | 349,910           |               |
| 18       | Storage Well Losses - Dth  | 2,401             | 3/            |
| 19       | Surcharge Requirements - Dth   | <u>227,525</u>    | 4/            |
| 20       | Injection Quantities Received - Dth (Lines 16 + 17+ 18+ 19)                            | <u>13,663,626</u> |               |
| 21       | <u>Storage (Over)/Under Collection Surcharge Rate Calculation:</u>                     |                   |               |
| 22       | <u>CUG Component:</u>  |                   |               |
| 23       | (Over)/Under Collection Quantities   | (18,778)          | 6/            |
| 24       | Injection Quantities   | <u>12,940,836</u> |               |
| 25       | CUG (Over)/ Under Collection Surcharge Component                                       | <u>-0.130%</u>    |               |
| 26       | <u>LAUF Component:</u>   |                   |               |
| 27       | (Over)/Under Collection Quantities   | 92,820            | 6/            |
| 28       | Injection Quantities   | <u>13,663,626</u> |               |
| 29       | LAUF (Over)/ Under Collection Surcharge Component                                      | <u>0.678%</u>     |               |
| 30       | <u>Current Projection Retainage Rates:</u>   |                   |               |
| 31       | <u>CUG Component:</u>  |                   |               |
| 32       | Projection Quantities  | 290,162           |               |
| 33       | Injection Quantities   | <u>12,940,836</u> |               |
| 34       | Current Projection CUG Component   | <u>2.242%</u>     |               |
| 35       | <u>LAUF Component:</u>   |                   |               |
| 36       | Projection Quantities  | 59,748            |               |
| 37       | Injection Quantities   | <u>13,663,626</u> |               |
| 38       | Current Projection LAUF Component  | <u>0.437%</u>     |               |
|          | <u>1/ Calculation of Hardy's projected of LAUF:</u>                                    |                   |               |
|          | LAUF for January 2008 - July 2008  | 34,852            | Dth           |
|          | Divide by Number of Months   | <u>7</u>          |               |
|          | Projected Monthly Hardy Storage LAUF   | 4,979             | Dth           |
|          | To Annualize: Number of Months   | <u>12</u>         |               |
|          | Hardy Storage projection LAUF  | <u>59,748</u>     | Dth           |
|          | 2/ For further details, please see Appendix A, Page 4, Column 1, Line 1, herein.       |                   |               |
|          | 3/ For further details, please see Appendix A, Page 3, Line 5, herein.                 |                   |               |
|          | 4/ For further details, please see Appendix A, Page 5, Column 13, Line 10, herein.     |                   |               |
|          | 5/ For further details, please see Appendix A, Page 4, Column 3, Line 1, herein.       |                   |               |
|          | 6/ Proposal: to collect the 2007 deferral period under-collection over a 3 year period |                   |               |
|          | For calculation details, please see the following:                                     |                   |               |
|          | Total 2007 Deferral Period Under-collection from March thru December                   | (50,334)          | 277,860       |
|          | Proposed Amortization Period: number of years  | <u>3</u>          | <u>3</u>      |
|          | Annual level of collection   | <u>(18,778)</u>   | <u>82,620</u> |

Hardy Storage Company, L.L.C.

Retainage Adjustment MechanismDerivation of System Wide Storage Gas Lost Quantities  
Effective December 1, 2008

| <u>LINE NO.</u> | <u>DESCRIPTION</u>  | <u>QUANTITIES</u> |
|-----------------|---|-------------------|
| 1               | Number of Storage Wells                                     | 24                |
| 2               | Losses per Well per Month - Mcf                             | 8                 |
| 3               | Monthly Losses - Mcf (Lines 1 x 2)                          | <u>192</u>        |
| 4               | Annual Losses - Mcf (Line 3 x 12)                           | <u>2,304</u>      |
| 5               | Annual Losses Converted to Dth at 1042 Btu (LINE 4 x 1.042) | <u>2,401</u>      |

Hardy Storage Company, L.L.C.

Retainage Adjustment MechanismDetail of Storage Injection Projection  
December 2008 - November 2009

| Line No. | Description       | Injection Quantities |                   |                   |
|----------|-------------------|----------------------|-------------------|-------------------|
|          |                   | Hardy Storage        | Hampshire Gas     | Total             |
|          |                   | (1)                  | (2)               | (3)               |
|          |                   | Dth                  | Dth               | Dth               |
| 1        | System Injections | <u>12,361,000</u> 1/ | <u>722,790</u> 2/ | <u>13,083,790</u> |

1/ Reflects the April 1, 2009 injection quantities per Docket No. CP05-150, Exhibit I, Customer Precedent Agreements.

|                           |                   |     |
|---------------------------|-------------------|-----|
| Baltimore Gas & Electric  | 1,855,507         | Dth |
| Cities of Charlottesville | 114,078           | Dth |
| Piedmont Natural Gas      | 4,950,965         | Dth |
| Washington Gas Light      | 5,640,450         | Dth |
| Total                     | <u>12,361,000</u> | Dth |

2/ Reflects the 2007 Hampshire Gas Company injection period.

|           |                |
|-----------|----------------|
| April     | 10,960         |
| May       | 399,245        |
| June      | 191,287        |
| July      | 19             |
| August    | 121,276        |
| September | 2              |
| October   | 1              |
| Total     | <u>722,790</u> |

Hardy Storage Company, L.L.C.

Retainage Adjustment Mechanism

Deferral Period from March 2007 thru December 2007  
(Over)/Under Collection Recovery

| Line No. | Description                                  | March 07<br>(1)<br>Dth | April<br>(2)<br>Dth | May<br>(3)<br>Dth | June<br>(4)<br>Dth | July<br>(5)<br>Dth | August<br>(6)<br>Dth | September<br>(7)<br>Dth | October<br>(8)<br>Dth | November<br>(9)<br>Dth | December<br>(10)<br>Dth | Subtotal<br>(11)<br>Dth | Priors<br>(12)<br>Dth | Total<br>(13)<br>Dth |
|----------|--|------------------------|---------------------|-------------------|--------------------|--------------------|----------------------|-------------------------|-----------------------|------------------------|-------------------------|-------------------------|-----------------------|----------------------|
| 1        | <b>Storage</b>                               |                        |                     |                   |                    |                    |                      |                         |                       |                        |                         |                         |                       |                      |
| 2        | <u>Company Use Gas (CUG)</u>                 |                        |                     |                   |                    |                    |                      |                         |                       |                        |                         |                         |                       |                      |
| 3        | Storage Retainage - Gas                      | 0                      | (19,438)            | (34,458)          | (22,180)           | (22,594)           | (29,639)             | (29,123)                | (22,957)              | (471)                  | 0                       | (180,869)               | 0                     | (180,869)            |
| 4        | Company Use Gas                              | 3,850                  | 14,049              | 10,457            | 19,281             | 12,897             | 10,903               | 22,514                  | 22,416                | 8,348                  | 6,040                   | 130,535                 | 0                     | 130,535              |
| 5        | (Over)/Under Collection                      | 3,850                  | (5,389)             | (24,001)          | (2,928)            | (9,697)            | (18,736)             | (6,609)                 | (541)                 | 7,877                  | 6,040                   | (50,334)                | 0                     | (50,334)             |
| 6        | <u>Unaccounted For Gas (UAG)</u>             |                        |                     |                   |                    |                    |                      |                         |                       |                        |                         |                         |                       |                      |
| 7        | Unaccounted For Retainage                    | 0                      | 0                   | 0                 | 0                  | 0                  | 0                    | 0                       | 0                     | 0                      | 0                       | 0                       | 0                     | 0                    |
| 8        | Unaccounted For Actual Volumes               | 20,098                 | 66,668              | (15,479)          | 58,187             | 18,082             | 38,880               | 61,598                  | 24,789                | (3,993)                | 9,033                   | 277,859                 | 0                     | 277,859              |
| 9        | (Over)/Under Collection                      | 20,098                 | 66,668              | (15,479)          | 58,187             | 18,082             | 38,880               | 61,598                  | 24,789                | (3,993)                | 9,033                   | 277,859                 | 0                     | 277,859              |
| 10       | <b>Total Storage (Over)/Under Collection</b> | <b>23,948</b>          | <b>61,289</b>       | <b>(39,480)</b>   | <b>55,239</b>      | <b>8,185</b>       | <b>20,144</b>        | <b>54,987</b>           | <b>24,248</b>         | <b>3,884</b>           | <b>15,073</b>           | <b>227,525</b>          | <b>0</b>              | <b>227,525</b>       |

Hardy Storage Company, LLC  
FERC Gas Tariff  
Original Volume No. 1

First Revised Sheet No. 13  
Superseding  
Original Sheet No. 13

RETAINAGE PERCENTAGE

(Over)/Under Collection Surcharge Percentages:

|   |               |
|---|---------------|
| Company Use Gas                         | -0.130%       |
| Lost and Unaccounted For Gas            | <u>0.678%</u> |
| Total (Over)/Under Collection Surcharge | <u>0.548%</u> |

Current Percentages:

|                              |               |
|------------------------------|---------------|
| Company Use Gas              | 2.242%        |
| Lost and Unaccounted For Gas | <u>0.437%</u> |
| Total Current Percentages    | <u>2.679%</u> |
| Total Retainage Percentage   | <u>3.227%</u> |

Hardy Storage Company, LLC  
Original Volume No. 1

First Revised Sheet No. 13  
Original Sheet No. 13  
Effective: April 1, 2007  
Issued: March 19, 2007  
Page 1

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RETAINAGE PERCENTAGE

Retainage ~~2.53%~~

(Over)/Under Collection Surcharge Percentages:

|  |                |
|--|----------------|
| <u>Company Use Gas</u>                         | <u>-0.130%</u> |
| <u>Lost and Unaccounted For Gas</u>            | <u>0.678%</u>  |
| <u>Total (Over)/Under Collection Surcharge</u> | <u>0.548%</u>  |

Current Percentages:

|                                     |               |
|-------------------------------------|---------------|
| <u>Company Use Gas</u>              | <u>2.242%</u> |
| <u>Lost and Unaccounted For Gas</u> | <u>0.437%</u> |
| <u>Total Current Percentages</u>    | <u>2.679%</u> |
| <u>Total Percentage</u>             | <u>3.227%</u> |