UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Laclede Pipeline Company Docket No. IS06-201-000

ORDER ACCEPTING TARIFFS

(Issued March 31, 2006)

1. On March 1, 2006, in accordance with the requirements of the Interstate Commerce Act (ICA), Laclede Pipeline Company, (Laclede) submitted an initial tariff filing in Docket No. IS06-201-000 proposing terms and conditions of service and initial rates for the transportation of Liquid Petroleum Gas (propane) on its pipeline system, to become effective April 1, 2006.[1] Laclede primarily serves as a common carrier to supply its affiliate, Laclede Gas Company (Laclede Gas), an entity regulated by the Missouri Public Service Commission (MoPSC), for its design peaking service. Laclede provides a cost-of-service justification for its proposed initial rates. MoPSC filed a motion to intervene and a protest to Laclede's filing. For the reasons appearing below, Laclede's filing is accepted and the protest of MoPSC is denied.

Background

2. Laclede is a seasonal small common carrier propane products pipeline established in the 1960's to acquire and supply propane for peaking service to its affiliate, Laclede Gas. The source of the propane is in Illinois and the movement of the propane via the pipeline is to Missouri. It has in the past provided commodity exchanges for third parties. Recently, those third parties have expressed a desire to obtain transportation, which imposes on Laclede an obligation to file a tariff.[2] As of the date of the instant filing, Laclede certifies that it currently has no shippers or subscribers. Until the instant

[1] Laclede Pipeline Company FERC Tariff No. 1 and FERC Tariff No. 2.

[2] Response of Laclede Pipeline Company to Motion to Intervene and Protest of Missouri Public Service Commission, at 2.

filing by Laclede, there has never been a rate on file with the Commission for any of these movements. Laclede also provides justification for its initial rate in the form of a cost of service.

Intervention and Protest

3. On March 16, 2006, MoPSC filed a motion to intervene and protest in Laclede's instant filing and questioned whether Laclede: (1) should file a FERC tariff if it only transports products it uses; (2) would over collect its costs; (3) transported petroleum products in interstate commerce without a tariff; (4) demonstrated that a 12 percent return on equity is just and reasonable; and, (5) supported its discounted volume incentive rates of $0.10 and $0.15 per barrel as contrasted with the $5.19 per barrel rate charged to others.

4. In its protest, MoPSC states that it is intervening in this proceeding to protect its interests as they may appear and generally to insure that the citizens of Missouri can receive safe, adequate, and reliable natural gas service at reasonable prices with reasonable terms and conditions.

Answer to MoPSC's Protest

5. In it answer, Laclede responds to MoPSC's argument regarding whether the Commission requires it to file a tariff if it transports its own products for its own use. Laclede states that in the past it has occasionally provided commodity exchanges with third parties. According to Laclede, these transactions do not include common carrier transportation and are solely proprietary transactions. Laclede further explains that the third parties in question have recently expressed a desire to obtain transportation, which Laclede believes clearly imposes the obligation to file a tariff with the FERC.[3]

6. Further, regarding MoPSC's concerns about recovery of costs, Laclede states that it will only recover those costs that it is authorized to recover under its tariffs, which are designed to recover only its cost of service using revenues from both Laclede Gas and

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[3] The Commission has consistently held in cases that fit the circumstances of the *Champlin II* case [*U.S. v. Champlin Refining Co.*, 341 U.S. 290 (1951), which provides that interstate pipelines that only provide service to themselves may not have to file tariffs] that such pipelines must notify the Commission of changes in operational status. This includes, *inter alia*, when potential shippers express an interest in receiving transportation service, so the Commission can reevaluate its decision not to require a tariff filing. See *Hunt Refining Co. and East Mississippi Pipeline Co.*, 70 FERC ¶ 61,035 (1995); *Sinclair Oil Corp.*, 4 FERC ¶ 62,026 (1978).

third parties. Laclede concludes that there is absolutely nothing in those tariffs (nor has the MoPSC alleged there is anything in those tariffs) that would allow Laclede to over recover those costs.

7. Laclede urges the Commission to dismiss MoPSC's request that Laclede "disgorge" revenues collected if it did not have a tariff on file with the FERC because MoPSC has closely supervised Laclede's past activities through its regulation of the activities of Laclede Gas that serve Missouri consumers and knows Laclede did not violate the ICA. Further, Laclede contends that challengers should address the reasonableness of transportation prior to the establishment of a tariff through the complaint process governed by the ICA section 13.

8. Finally, Laclede asks the Commission to dismiss the cost of service issues regarding return on equity (ROE) and the discounted volume incentive rates of $0.10 and $0.15 per barrel because Laclede calculated the ROE based on standard Commission DCF methodology and developed the discount rate with a financial incentive so the rate would be competitive.

Discussion

9. The Commission rejects the arguments in MoPSC's protest and accepts Laclede's FERC Tariff No. 1 and FERC Tariff No. 2. The Commission finds there is sufficient evidence presented that would require Laclede to file a FERC Tariff and rates given the anticipated operating environment of Laclede.

10. Based on the cost of service provided by Laclede, the Commission also rejects MoPSC's contention that Laclede will over collect its costs. Laclede's methodology provides a cost mechanism to account for revenues collected by third party shippers, and demonstrates that Laclede will not over collect its cost of service. In fact, Laclede's filing shows that, absent third party revenue credited to Laclede's cost of service, Laclede Gas would pay $5.70 per barrel, or $0.51 per barrel more than the rate of $5.19.[4]

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[4] Laclede states that its total cost of service is $1,139,991 and total throughput is 882,000 barrels, so a true per barrel initial rate for the system would be $1.29 per barrel. Laclede says that it cannot charge that to third party shippers, and can only get $0.15 per barrel from them because of competition. That results in revenue of $102,300 (682,000 barrels at $0.15 per barrel) from third party shippers, leaving a remaining cost of service to be recovered from Laclede Gas of $1,037,691. Spreading that over the remaining 200,000 barrels results in a $5.19 per barrel rate to be charged to Laclede Gas. Of course, if there were no third party shippers, then Laclede Gas would have to cover the whole cost of service, and assuming that its throughput would still be only 200,000 barrels, that would result in a rate of $5.70 per barrel.

11. Regarding MoPSC's argument that the Commission should require Laclede to disgorge revenues collected in the absence of a FERC tariff on file, we find this issue is beyond the scope of this proceeding.

12. As to MoPSC's challenge of Laclede's proposed cost of service, the Commission determined that the rates submitted by Laclede are just and reasonable because the initial rates were derived on a cost of service basis consistent with the Commission's regulations governing the filing of initial rates in 18 C.F.R Section 346.2.

The Commission orders:

FERC Tariff No. 1 and FERC Tariff No. 2 are accepted effective April 1, 2006, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.