125 FERC ¶ 61,388
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Southern Star Central Gas Pipeline, Inc. Docket No. RP09-115-000

ORDER ACCEPTING TARIFF SHEET, SUBJECT TO CONDITION

(Issued December 30, 2008)

1. On November 26, 2008, Southern Star Central Gas Pipeline, Inc. (Southern Star) filed Ninth Revised Tariff Sheet No. 12 to its FERC Gas Tariff, Original Volume No. 1 and supporting workpapers to reflect annual adjustments to its fuel and loss reimbursement percentages applicable to all rate schedules. Southern Star requests that the proposed tariff sheet become effective January 1, 2009. The Commission accepts Southern Star's proposed tariff sheet, subject to Southern Star filing a revised tariff sheet within 30 days of the date this order issues consistent with the discussion below.

I. <u>Details of Filing</u>

2. Section 13 of Southern Star's tariff's General Terms and Conditions requires shippers to reimburse Southern Star for fuel and losses in kind. The section also requires Southern Star to file annually to revise its reimbursement percentages, effective January 1 of each year. Southern Star is required to submit specific calculations for its Production Area, Market Area, and for Storage under section 13. Southern Star proposes the following changes in its fuel and loss reimbursement percentages:

- 0.28 percent increase in the Production Area Percentage from 1.56 percent to 1.84 percent;

- 0.09 percent decrease in the Market Area Percentage from 1.05 percent to 0.96 percent; and

- 2.24 percent decrease in the Storage Percentage from 5.86 percent to 3.62 percent.

3. Southern Star focuses its comments on the Storage reimbursement percentage. Southern Star explains that its Storage fuel and loss percentage calculation is based on

actual fuel and any over- or under-recovery for the most recent 12-month period, divided by the most recent three-year average of actual customer storage injections.[1] The Storage Injection fuel percentage reflects a decrease of 0.58 percent, resulting from an increase in the fuel percentage of 0.24 percent and a decrease in the fuel surcharge of 0.82 percent. The Storage Injection loss percentage reflects a decrease of 1.66 percent, resulting from a decrease in the loss percentage of 1.15 percent and a decrease in the loss surcharge of 0.51 percent.

4. Southern Star notes that the combination of a decrease in actual storage fuel and an over-recovery of storage fuel during the most recent 12 months, partially offset by an increase in the three-year average of actual customer storage injections, resulted in an increase in the fuel component of the of the Storage reimbursement percentage of 0.24 percent. At the same time, Southern Star states that the combination of a decrease in the three-year average of storage losses and an increase in the three-year average of actual customer storage injections resulted in a decrease in the loss component of the Storage percentage of 1.15 percent. Southern Star also explains that the actual storage losses for the 2008 storage cycle were 136,736 Dths, which resulted in a decrease in the rolling three-year average of storage losses to 1,236,091 Dths. Southern Star states that the cumulative under-collection of storage losses did not exceed the 500,000 Dth tolerance band established in the above-cited settlement. Therefore, Southern Star notes that no storage loss under- or over-recovery surcharge was used in the calculation of the storage fuel and loss percentage.

5. Southern Star states that the combination of the Production Area and Market Area surcharges decreases, a minor increase in system losses, and an increase in fuel used in both areas resulted in an increase in fuel reimbursement percentages for the Production Area and a decrease in the Market Area.

6. Southern Star's filing includes the additional information related to its storage losses that the parties requested in its prior fuel adjustment proceedings. Specifically, Appendix D includes Southern Star's storage losses by field since 1994, the spring and fall shut-in test results for the last three years, and the total injections, withdrawals and inventory balances for the last three years.

7. Southern Star next states that the terms of the settlement resolving its prior year's reimbursement adjustment require Southern Star to (1) clearly identify any gas losses that are associated with incidents reported to the Department of Transportation and which Southern Star proposes to recover through a tracker filing, and (2) refrain from

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[1] *See Southern Star Central Gas Pipeline, LLC*, 109 FERC ¶ 61,378 (2004) (approving section 13 of the GT&C as part of a settlement in Docket Nos. RP03-135-000 and RP04-93-000).

classifying as "fuel" any quantity not actually consumed as fuel. In light of this obligation, Southern Star identifies a loss of 49,032 Dth that resulted from a storage lateral line failure at the South Welda storage field. Southern Star states that pursuant to the terms of the above-mentioned settlement, Southern Star removed this volume from storage fuel and added it to storage gas losses.

8. Finally, Southern Star notes that the Kansas Corporation Commission requires pipelines to perform comprehensive analyses of the integrity of their storage field and associated facilities. Southern Star states that it has completed this analysis on seven of its storage fields and is in various stages of analysis on the one remaining field. Southern Star further states that to date, it has found no indication at any of its fields that it is experiencing unusual or abnormally high losses.

II. <u>Notice of Filing and Responsive Pleadings</u>

9. Notice of Southern Star's filing was issued on December 1, 2008. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R. §154.210. Pursuant to Rule 214, 18 C.F.R. § 385.214 (2008), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. The Missouri Public Service Commission (MoPSC) filed a protest and a request for a technical conference.

10. On December 10, 2008, Southern Star filed an answer to the protest. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept Southern Star's answer because it has provided information that assisted us in our decision-making process.

11. MoPSC questions whether Southern Star's proposed reimbursement percentages are just and reasonable, according to the Commission's policy as stated in *Colorado Interstate Gas Co*.[2] MoPSC contends that Southern Star has not justified the recovery of the increased lost and unaccounted-for volumes attributable to the South Welda lateral failure, noting that Southern Star provided no specific information about the cause of the failure. MoPSC states that Southern Star's previous annual fuel filing,[3] in which MoPSC

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[2] *See Colorado Interstate Gas Co.,* 121 FERC ¶ 61,161 (2007), *reh'g denied*, 123 FERC ¶ 61,183 (2008).

[3] *Southern Star Central Pipeline, Inc.*, 121 FERC ¶ 61,306 (2007).

and other parties raised similar concerns regarding gas losses, resulted in a settlement that removed a significant amount of the losses from the projected rates for 2008. MoPSC argues that the circumstances of the South Welda loss are consistent with circumstances in which the Commission prohibited recovery of a loss through a tracking mechanism. Specifically, MoPSC argues that the South Welda loss was not a usual recurring loss and notes that the cause of the loss is known. Therefore, MoPSC argues that the South Welda loss should be excluded from Southern Star's reimbursement percentages.

12. MoPSC also requests that the Commission suspend Southern Star's proposed reimbursement percentage for five months and that when the suspension period expires, the revised percentages should become effective subject to refund pending investigation of those percentages. MoPSC further requests the Commission establish technical conference procedures that would require Southern Star to respond to interested parties' discovery requests and allow parties to submit comments and conclusions to the Commission concerning Southern Star's proposal. MoPSC states the Commission could then establish procedures for a formal evidentiary hearing, if concerns remain unresolved at the conclusion of the technical conference process.

13. In its answer, Southern Star argues that the small storage lateral line loss should be recoverable in its annual fuel and loss filing since it is neither a result of a catastrophic system failure nor one of unusually large magnitude. Southern Star explains that the loss resulted from a storage lateral line failure due to internal corrosion at the South Welda storage field. The failure occurred at 2:33 am on August 15, 2008, and Southern Star isolated the line at 4:14 am. Southern Star argues that neither a technical conference nor a five-month suspension is necessary because no additional information would be gained from a technical conference that would aid the Commission in making a decision.

III. <u>Discussion</u>

14. We accept Southern Star's revised reimbursement percentages, subject to Southern Star removing the losses resulting from August 15, 2008, gas loss at the South Welda storage field. We also find that sufficient information exists on the record before us, and we therefore reject MoPSC's request for a technical conference.

15. The Commission has held that "fuel tracking mechanisms are appropriate for normal operating costs but are not appropriate for the recovery of gas losses outside the scope of normal pipeline operations."[4] Elaborating on this rule, the Commission has

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[4] *Cheyenne Plains Gas Pipeline Co., LLC*, 123 FERC ¶ 61,220 (2008) (citing *Williams Natural Gas Co.*, 73 FERC ¶ 61,394 at p. 61,215 (1995) (finding that Williams could not use its fuel and loss reimbursement mechanism to recover costs associated with storage gas losses not related to normal pipeline operations)).

found that it was not reasonable for a pipeline to recover through its fuel tracking mechanism gas lost due to an unusual, non-recurring event, such as a well casing failure.[5] Such extraordinary losses are more appropriately recovered through a pipeline's insurance or the normal ratemaking process.

16. Since fuel tracking mechanisms should appropriately track only those costs related to normal pipeline operations, we find that Southern Star inappropriately included the 49,032 Dth South Welda loss in its storage reimbursement percentage. As the Commission held in *Colorado Interstate Gas, Inc.*, losses resulting from the complete failure of some portion of a pipeline system—such as the South Welda loss—are not appropriately recovered as through a tracking mechanism. Therefore, we accept Southern Star's proposed reimbursement percentages, subject to Southern Star filing within 30 days of the date this order issues a revised Storage reimbursement percentage that does not include the loss at the South Welda storage field.

<u>The Commission orders</u>:

Ninth Revised Tariff Sheet No. 12 to its FERC Gas Tariff, Original Volume No. 1 is accepted, subject to Southern Star making a compliance filing within 30 days of the date this order issues, as discussed above.

By the Commission. Commissioner Moeller concurring with a separate statement attached.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

[5] *See Colorado Interstate Gas*, 121 FERC ¶ 61,161 at P 24 (finding that pipeline could not recover gas lost as a result of a well casing failure through its fuel tracking mechanism).

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MOELLER, Commissioner, *concurring:*

Because the loss of natural gas is inherent to the business of transporting and storing natural gas, the Commission needs to be clear about the standards that it will apply when it considers whether a gas loss is unrelated to "normal pipeline operations."

In this case, Southern Star lost a total of 49,032 Dth of gas starting at 2:33 am and ending at 4:14 am on August 15, 2008. This loss was the result of corrosion on a lateral line. We find that this loss is not recoverable under a tracker because it is unusual, non-recurring and even "extraordinary." *Supra* P 15. This case can be compared to another recent case where we also decided that a gas loss could not be recovered under a tracker. *Colorado Interstate Gas Co.*, 123 FERC ¶ 61,183 (2008). In that case, a well casing failed at the Fort Morgan storage field, resulting in the loss of 451,000 Dth over an extended time period. (*See* the affidavit of Larry D. Kennedy, Jr., attached to the answer of Colorado Interstate Gas Co. in Docket No. RP07-320 dated March 20, 2007.) Compared to Southern Star's loss, the Fort Morgan loss is more extraordinary.

The differences between these events show why the Commission should be clear in defining "normal pipeline operations." A clear definition would ensure that we do not disallow gas losses that would be better recovered under a tracker instead of the normal ratemaking process.

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Philip D. Moeller
Commissioner