FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

September 29, 2005

In Reply Refer To:
Midwestern Gas Transmission Company
Docket No. RP05-657-000

Midwestern Gas Transmission Company
P.O. Box 542500
Omaha, NE 68154-8500

Attention: Raymond D. Neppl
Vice President, Regulatory Affairs & Market Services

Reference: New Daily Index Price Formula to Calculate OFO Penalty

Ladies and Gentlemen:

1. On September 2, 2005, Midwestern Gas Transmission Company (Midwestern) filed Second Revised Sheet No. 241 to its FERC Tariff, Third Revised Volume No. 1 to amend subsection 8.9.2 of its General Terms and Conditions (GT&C) to change its Operational Flow Order (OFO) charge from a fixed price to a formula based on a daily indexed price. Midwestern requests that the proposed tariff sheet become effective October 2, 2005. We will accept the referenced tariff sheet to become effective October 2, 2005.

2. Notice of Midwestern's filing was issued on September 21, 2005. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R. § 154.210 (2005). Pursuant to Rule 214, 18 C.F.R. § 385.214 (2005), 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. No protests or adverse comments were filed.

3. Currently, subsection 8.9.2 of Midwestern's GT&C provides that under an OFO, a shipper/balancing party is subject to an OFO charge of $15.00 for each dekatherm (Dth) of gas by which it deviates from the requirements of the OFO. Midwestern states that, due to recent events involving increased natural gas prices, it is concerned that its

existing $15.00 OFO penalty may not be a sufficient incentive to preserve the integrity of its system. Midwestern cites Commission precedent stating that the OFO penalty should sufficiently deter conduct that would threaten system integrity.[1] Midwestern also notes that, with current NYMEX prices at Henry Hub averaging around $11.139 for the month of October 2005 and $11.550 for the peak month of January 2006,[2] it is conceivable that natural gas prices could potentially reach and exceed $15.00 on a peak day. Midwestern states that, if daily cash prices reached or exceeded the current $15 penalty level along major points on its system, Midwestern's line pack could be severely compromised since there would be little incentive for shippers/balancing parties to remain in balance.

4. Consequently, Midwestern proposes to change the OFO penalty in subsection 8.9.2 of its GT&C from its existing fixed rate charge of $15.00 to a formula, based on a daily indexed price that is three times the midpoint price for Chicago city-gates published in *Platts Gas Daily* for the flow day on which the OFO is issued. Specifically, Midwestern's proposed subsection 8.9.2 provides:

> If a Shipper/Balancing Party fails to comply with an OFO it will be subject to a Failure to Respond OFO Charge for each Dekatherm of gas by which it deviated from the requirements of the OFO. The daily Failure to Comply OFO Charge shall be computed based on a price per Dekathem equal to three times the midpoint of the range of prices reported for "Chicago city-gates" as published in the Daily price survey in Platts Gas Daily for the flow day on which the OFO is issued.

5. Midwestern states that it will incur no financial gains from its proposed tariff change since subsection 23.1 of its tariff requires Midwestern to credit its penalty revenues.

6. By definition, an OFO penalty applies only during critical periods and, therefore, the penalty level should sufficiently deter conduct that would threaten system integrity. Accordingly, the Commission will accept the revised tariff sheet to become effective October 2, 2005. In the Commission's *Order Regarding Future Monitoring of Voluntary Price Formation, Use of Price Indices in Jurisdictional Tariffs, and Closing Certain Tariff Dockets* issued on November 19, 2004, in Docket No. PL03-3-005,[3] the Commission stated that if the pipeline uses an index provided by an index developer that meets all or substantially all of the standards of the *Policy Statement on Natural Gas and*

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[1] *Viking Gas Transmission Co.*, 112 FERC ¶ 61,098 at P 6 (2005).

[2] *Citing,* settlement prices as of August 29, 2005.

[3] *Price Discovery in Natural Gas and Electric Markets,* 109 FERC ¶ 61,184 (2004).

Electric Price Indices[4] and the index location meets the minimum average criteria for liquidity, the Commission will apply a presumption that the use of the index price location will result in just and reasonable charges. Midwestern meets the first requirement by using price indices published by *Platts Gas Daily*, an industry publisher that the Commission found satisfied the minimum requirements. Midwestern also meets the second requirement by providing the data to demonstrate that the selected index points meet the minimum liquidity standard for daily volumes traded of at least 25,000 MMBtus per day on average in a 90 day review period.

By direction of the Commission.

Magalie R. Salas,
Secretary.

cc: All Parties

[4] 104 FERC ¶ 61,121 (2003).