UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Colorado Interstate Gas Company Docket No. RP05-618-000

ORDER ACCEPTING TARIFF SHEET AND REQUIRING FURTHER FILING

(Issued September 30, 2005)

1. On August 31, 2005, Colorado Interstate Gas Company (CIG) filed a revised tariff sheet[1] to reflect the new quarterly lost and unaccounted-for (L&U) and other fuel gas percentage, the annual transportation fuel gas percentage, and the annual storage fuel gas percentage pursuant to section 1.3 of the General Terms and Conditions (GT&C) of its tariff. This order accepts the revised tariff sheet listed in footnote No. 1 effective October 1, 2005, as proposed, in compliance with section 1.30 of CIG's tariff. This order also requires CIG either to file p*ro forma* tariff sheets establishing a fuel true-up mechanism or show why it should not be required to do so. CIG is directed to make such a filing within 30 days of this order.

I. Background

2. Section 1.30(a) of CIG's tariff states that fuel gas shall be divided into three components. The first component shall be system-wide fuel gas. The second component shall be Cheyenne firm compression fuel gas. The third component shall be storage fuel gas. For transportation and Cheyenne firm compression fuel gas, the percentage shall be computed using the most recent twelve months of available data and shall be applied to rate schedules TF-1, TF-4, CS-1, and TI-1. For purposes of CIG's annual filing to be effective October 1, 2005, the Cheyenne firm compression fuel gas percentage shall be the percentage as filed and approved in Docket No. CP03-301-000. For storage fuel gas, the percentage shall be computed using the most recent three years of available data and shall be applied to Rate Schedules NNT-1, NNT-2, FS-1, and IS-1.

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[1] Thirty-Eighth Revised Sheet No. 11A to FERC Gas Tariff, First Revised Volume No.1.

3. Section 1.30(b) of CIG's tariff states that the L&U and other fuel retention percentage shall be derived by dividing the L&U and other fuel gas volume by CIG's total receipt quantity for the period. The L&U and other fuel retention percentage will be posted on the schedule of rates sheet in CIG's tariff. The L&U retention percentage for CIG's Rate Schedule CS-1 shall be 0.15 percent.

II. Instant Filing

4. CIG has filed Sheet No. 11A and supporting workpapers reflecting a decrease in the reimbursement percentage for L&U and other fuel gas from 0.16 percent to 0.08 percent. CIG states that the quarterly L&U and other fuel gas quantity has decreased for the following reasons. First, CIG states that it experienced decreased net L&U and other fuel gas quantities for the quarter ending June 2005 versus the quarter ending June 2004. Second, CIG states it experienced an improvement in its processing economics largely driven by an increase in liquids prices relative to the increase in quarterly natural gas spot prices for the quarter ending June 2005 versus the quarter ending June 2004. Third, CIG states that its electric commodity expenses are included, slightly tempering the decrease in L&U and other fuel gas. Finally, CIG states that it reflected a revenue credit of $47,302 contributing to the decrease in the L&U and other fuel gas percentage.

5. The transportation fuel gas percentage reflects an increase from 1.83 percent to 1.86 percent using the last twelve months of data. CIG states that the transportation fuel gas percentage increase is the result of a decrease in throughput coincident with a slight increase in compressor fuel burned.

6. The storage fuel gas percentage reflects a decrease from 0.98 percent to 0.97 percent using the most recent three calendar years available. CIG states that the storage fuel gas percentage has decreased due to a slight decrease in compressor fuel use.

III. Public Notice and Comments

7. CIG's filing was noticed with interventions and protests due on or before September 12, 2005. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214 (2005)). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214. Indicated Shippers filed a protest as discussed further below. CIG on September 21, 2005 filed a request for leave to answer Indicated Shippers'

protest, and an answer. The Commission's regulation at 18 CFR section 385.213 (a) (2) does not permit answers to protests. Accordingly, CIG's request is denied, but CIG may adopt or expand its answer as part of the responsive filing directed by this order.

8. Indicated Shippers argue that the Commission should require CIG to adopt a true-up mechanism for its fuel tracker pursuant to the Commission's policy set forth in *ANR Pipeline Company* (*ANR*).[2] Indicated Shippers state that in *ANR* the Commission concluded that it should modify its policy to require a true-up mechanism as part of all tariff provisions permitting adjustments to cost items outside a general section 4 rate case, absent agreement of all interested parties. The Commission further stated that this can only be accomplished if the tracking mechanism includes a provision for truing up over and underrecoveries. Indicated Shippers argue that the Commission has applied this policy by requiring other pipelines to adopt a true-up mechanism as part of a fuel tracker.[3] Indicated Shippers contend that in adopting this policy requiring a true-up mechanism as part of a tracker, the Commission stated that shippers need not demonstrate that the pipeline has actually over-recovered the pertinent cost.[4]

9. Indicated Shippers contend that fuel consumption on CIG can fluctuate significantly because of (1) the complex, multi-directional flow on many portions of CIG's system, (2) the locations at which shippers choose to deliver gas into and out of CIG, and (3) changes in ambient temperatures at CIG's compression stations.

10. Indicated Shippers filed workpapers attached to its protest in which Indicated Shippers attempt to show that CIG overrecovered 11,757,436 Dth from 1999 through 2003.[5] Indicated Shippers contend that these fuel over-recoveries impose substantial financial harm on shippers. Indicated Shippers state that during

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[2] Indicated Shippers cite *ANR Pipeline Co.*, 110 FERC ¶ 61,069 at 61,339 (2005).

[3] Indicated Shippers cite *High Island Offshore System*, 110 FERC ¶ 61,043 at 61,170, *order on reh'g*, 112 FERC ¶ 61,050 at 61,365 (2005).

[4] Indicated Shippers cite *ANR Pipeline Co.*, 110 FERC ¶ 61,069 at 61,339 (2005).

[5] Indicated Shippers state that they relied on CIG's Form 2 data in calculating the fuel over-recovery.

the 1999-2003 period, CIG over-recovered an annual average of 2,351,487 Dth of fuel quantities. Indicated Shippers contend that this translates into an annual overcharge of $20.2 million.[6] Indicated Shippers conclude that even a minor 0.1 percent over-recovery would impose $2.1 million of extra costs on shippers and results in a big windfall to CIG.[7]

IV. Discussion

11. The Commission finds that CIG has complied with section 1.30 of the GT&C of its tariff by calculating the quarterly and annual fuel and L&U percentages. However, the Commission also finds CIG's existing tariff mechanism for the recovery of fuel costs is inconsistent with the policy established in *ANR* requiring that trackers include a true-up mechanism. Therefore, the Commission will, pursuant to section 5 of the Natural Gas Act, require CIG to develop a true-up mechanism to be applied on a prospective basis which accounts for the over and under recovery of gas, absent a showing by CIG why this policy should not apply to it. CIG must respond within 30 days to show why it should not be required to file p*ro forma* tariff sheets establishing a fuel true-up mechanism so that all parties and the Commission can review CIG's proposed mechanism to determine if it conforms to Commission policy. In sum, CIG is directed to show cause why it should not be required to make such a filing within 30 days of this order, or alternatively, CIG should file such *pro forma* tariff sheets.

12. Section 154.403(c)(11) of the Commission's regulations requires that, if the pipeline does have a tariff provision for periodic changes in its fuel retention percentage, the tariff must include a statement about whether over and underrecoveries will be trued up in a future surcharge. However, that regulation did not expressly require that pipelines include a true-up mechanism as part of a

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[6] Indicated Shippers state that the $20.2 million is calculated by dividing by five years the 11,757,416 Dth over-recovery during the five year period from 1999-2003. Indicated Shippers contend that this yields an annual average fuel over-recovery of 2,351,487 Dth. Indicated Shippers state that it calculated the monetary value of this overcharge by multiplying the 2,351,487 Dth by the $8.58 current gas cost for deliveries into CIG (*Gas Daily*, September 9, 2005).

[7] Indicated Shippers state that the $2.1 million is calculated by multiplying the L&U and transportation fuel usage of 2,013,967 Dth during June 2005 by (a) 12 months, by (b) by 0.01 and by (3) the $8.58 current gas cost for deliveries into CIG.

tariff provision permitting periodic adjustments to their fuel retention percentages. Rather, the Commission has dealt with this issue on a case-by-case basis.

13. In *ANR*, the Commission modified its policy to require a true-up mechanism as part of all tariff provisions permitting adjustments to cost items outside of a general section 4 rate case, absent agreement otherwise by all interested parties. The Commission's general policy is not to permit particular cost items to be modified outside of a general section 4 rate case at all, since a cost increase in one item may be offset by cost decreases in others. Allowing a particular cost item (such as fuel) to be tracked without a true-up gives the pipeline the opportunity to overrecover that cost item without regard to the possibility of any offsetting cost reductions. Accordingly, the Commission found in *ANR* that when a pipeline is permitted to track changes in a particular cost item without regard to changes in other cost items, "there should be a guarantee that the changes in that cost item are tracked accurately. This can only be accomplished if the tracking mechanism includes a provision for truing up over and underrecoveries."[8]

14. With the recent escalation in natural gas prices, fuel has not only become a more significant factor in a pipeline's operating costs but also a more significant excess revenue producer absent a true-up mechanism. The Commission concludes that with respect to CIG's tariff provisions allowing periodic recovery of fuel use and L&U gas, a true-up provision as part of any periodic tracking mechanism is essential, under the *ANR* policy, to the just and reasonable operation of that mechanism, absent a convincing showing by CIG to the contrary.

The Commission orders:

(A) The revised tariff sheet listed in footnote No. 1 is accepted effective October 1, 2005, as proposed.

(B) CIG within 30 days of this order must either show cause why it should not be required to file p*ro forma* tariff sheets establishing a fuel true-up mechanism or to make such a *pro forma* filing.

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[8] *ANR Pipeline Co.*, 110 FERC ¶ 61,069 at P 26 (2005).

(C) Within 15 days of the date established in Ordering Paragraph (B), other parties to this proceeding may answer CIG's explanatory filing.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.