

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Kern River Gas Transmission Company

Docket No. RP06-151-000

ORDER ACCEPTING PRIOR-PERIOD ADJUSTMENTS SUBJECT TO TECHNICAL
CONFERENCE

(Issued February 15, 2006)

1. On December 21, 2005, Kern River Gas Transmission Company (Kern River) filed schedules showing prior-period adjustments to the gas compressor fuel and lost and unaccounted-for (L&U) gas balances reflected in its annual fuel reports for calendar years 1999 through 2004. Kern River seeks Commission approval to include prior-period adjustments in the calculation of future fuel reimbursement factors, using Kern River's currently-effective fuel tracking mechanism. We establish a technical conference to resolve concerns raised by protestors.

Background

2. Kern River states that it has recently undertaken a comprehensive internal audit of its gas accounting and measurement systems and procedures, during which it discovered a number of prior-period adjustments that impact the cumulative balances for both compressor fuel and L&U that were reported in past annual fuel reports. Kern River proposes to use the revised cumulative balances as of January 1, 2005 as the beginning balances for its 2005 fuel report, which it will submit on or before March 31, 2006. Kern River states that the prior-period adjustments affect compressor fuel from 2001 through 2004, system-wide L&U from 1999 through 2004, and High Desert Lateral L&U for 2003 and 2004.

3. Kern River contends that the compressor fuel adjustments are required due to a data transfer problem, allocation errors, and reporting errors, including reimbursement and imbalance reporting. Kern River states that the L&U errors are a result of gas balance calculation errors, measurement adjustment issues, changes to calculation of line pack, and reimbursement reporting errors.

4. Kern River states that the prior-period adjustments related to compressor fuel increase the under-recovery of fuel reported in its previous annual fuel reports by 809,802 Dth and proposes to collect the past under-recovery of fuel from shippers over a period of

up to 24 months. Kern River states that the under-recovery will be collected by increasing the fuel reimbursement factors applicable to rolled-in and incremental shippers in proportion to the amounts previously under-collected from by each group. The prior-period adjustments related to the system-wide L&U decrease the gain previously reported by 309,790 Dth, however Kern River states that it has experienced losses during 2005 that, when combined with the adjustments, will reduce that gain to 226,963 Dth as of November 30, 2005. Kern River submits that the prior-period adjustments related to the High Desert Lateral L&U reflect a gain of 11,679 Dth, which is almost entirely offset by the loss previously reported.

Notice, Interventions, and Protests

5. Notice of Kern River's filing was issued on December 27, 2005, with interventions and protests due as provided in section 154.210 of the Commission's regulations.¹ Pursuant to Rule 214 (18 C.F.R. § 385.214 (2005)), all timely filed motions to intervene and motions to intervene out-of-time filed before the date of issuance of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. Southern California Generation Coalition filed a motion to intervene out-of-time. Calpine Energy Services, L.P., Pastoria Energy Facility, L.L.C., Nevada Power Company (Nevada Power), BP Energy Company (BP), and the Rolled-In Customer Group filed motions to intervene and comments.

6. The Rolled-In Customer Group and BP contend that the Commission should reject Kern River's proposed adjustments because Kern River's tariff does not permit such prior-period adjustments, as it prescribes that true-ups are to be made against the two prior months' experience. Protestors add that Kern River's proposal violates the rule against retroactive ratemaking and the filed rate doctrine.

7. The Rolled-In Customer Group states that Kern River has not provided sufficient supporting data and explanations to justify its alleged prior-period adjustments. The Rolled-In Customer Group contends that Kern River has been grossly negligent in the management of its system, which is exemplified by Kern River's failure to load data into its system or monitor for discrepancies, the use of non-source data in calculating reimbursement factors, its entering data incorrectly onto spreadsheets, and its failure to accurately measure line pack.

8. The Rolled-In Customer Group asserts that shippers should not be required to nominate fuel in-kind at today's gas prices, when the alleged under-collections of fuel occurred during periods where gas prices were much lower.

¹ 18 C.F.R. § 154.210 (2005)

Discussion

9. Kern River has provided some information, but it has not sufficiently supported its proposed prior-period adjustments. We conclude that affording the parties and the staff an opportunity to explore all issues at a technical conference will facilitate a more prompt and informed resolution of this matter. The Commission will therefore accept Kern River's filing, subject to the outcome of a technical conference. Accordingly, we direct the Commission's staff to convene a technical conference to further explore the issues pertaining to Kern River's prior-period adjustments to its gas compressor fuel and L&U balances, including whether Kern River's tariff allows for prior-period adjustments, whether Kern River's conduct was grossly negligent, as well as other issues raised by protesters. Staff must report to the Commission on the technical conference within 120 days of the issuance date of this order.

The Commission orders:

(A) Kern River's proposed prior-period adjustments to the gas compressor fuel and L&U balances are hereby accepted, subject to the outcome of a technical conference to be convened in this proceeding.

(B) The Commission's staff is directed to convene a technical conference to further explore Kern River's prior-period adjustments to its gas compressor fuel and L&U balances. Staff must report to the Commission on the technical conference within 120 days of the issuance date of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.