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.

Colorado Interstate Gas Company Docket No. RP06-572-000

ORDER ACCEPTING TARIFF SHEETS, SUBJECT TO CONDITIONS

(Issued September 29, 2006)

1. On August 30, 2006, Colorado Interstate Gas (CIG) filed revised tariff sheets[1] to reflect the quarterly adjustment to its lost and unaccounted-for (L&U) and other fuel gas reimbursement percentages, as well as the annual adjustments for transportation fuel gas, storage fuel gas, and Rate Schedule CS-1 firm compression fuel gas and L&U. As discussed below, the Commission accepts CIG's tariff sheets effective October 1, 2006, subject to the conditions discussed below.

Details of the Filing

2. CIG filed revised tariff sheets and supporting workpapers reflecting no change in the current 0.00 percent reimbursement percentage for L&U and other fuel gas. CIG states that it has recently booked prior period adjustments in the amount of $1,001,652 for the second, third, and fourth quarter of 2005 and the first quarter of 2006. CIG states that these adjustments are attributable to an incorrect allocation of liquids volumes provided by a third party, decreased net L&U and other fuel quantities for the quarter ending June 2006 versus the quarter ending June 2005, and improvement in CIG's processing economies. In addition, CIG has $244,170 in revenue attributable to the fourth quarter of 2005, which it deferred in its May 31, 2006, quarterly filing in Docket

[1] Forty-third Revised Sheet No. 11A and First Revised Sheet No. 380H to its FERC Gas Tariff, First Revised Volume No.1.

No. RP06-382-000.[2] Additionally, CIG proposes to defer a negative 780,831 Dth in the subject filing to maintain the 0.00 reimbursement percentage.

3. CIG states that, consistent with its prior practice, it proposes to defer all of these credits to maintain a non-negative L&U adjustment. CIG states that if it were to reflect the $1,001,652 in current prior period adjustments and the over-recovered 780,831 Dth in this filing, and to no longer defer the $244,170 remaining from its previous quarterly filing, the L&U and other fuel gas reimbursement percentage would be a negative 0.15 percent. CIG contends that a negative reimbursement percentage is not appropriate, particularly because CIG charges only the L&U and other fuel gas (but no transportation fuel gas) on some transportation transactions.

4. In addition, CIG proposes to decrease the reimbursement percentage for transportation fuel gas from 1.86 percent to 1.72 percent as a result of a reduction in compressor fuel burned coincident with a smaller decrease in throughput over the relevant period compared with the prior period. For storage gas, CIG proposes to reduce the reimbursement percentage from 0.97 percent to 0.93 percent because of a decrease in compressor fuel use over the relevant period compared to the prior period.

5. CIG also proposes to lower the reimbursement percentage for CS-1 Cheyenne firm compression fuel gas from 0.34 percent to 0.26 percent, and decrease the reimbursement percentage for CS-1 L&U from 0.15 percent to 0.14 percent. CIG states that the reduction in the reimbursement percentage for the CS-1 Cheyenne firm compression fuel gas is due to a decrease in compressor fuel use and an increase in throughput compared with projected levels in the certificate application, and that the CS-1 L&U percentage decrease is due to increased throughput.

Public Notice, Intervention and Comments

6. Public notice of CIG's filing was published in the *Federal Register*, 71 FR 54,036 (2006), with comments, interventions and protests due as provided in the Commission's regulations. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2006)), all timely-filed motions to intervene and any motions to intervene out-of-time before the issuance date of this order are granted. Williams Power Company Inc. (Williams) filed a motion to intervene and comments.[3] CIG then filed a motion for leave to answer and answer to Williams' comments. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2006), prohibits an answer to a protest unless otherwise

[2] *See Colorado Interstate Gas Co.*, Docket No. RP06-382-000 (June 27, 2006) (unpublished letter order) (accepting CIG's May 31, 2006, tariff filing).

[3] Williams' comments are being treated as a protest.

ordered by decisional authority. The Commission has considered CIG's answer, as it provided information useful in resolving the issues presented.

7. Williams states that CIG's proposal to defer reimbursing the over-recovered 780,831 Dth of L&U, and the $1,001,652 and $244,170 in prior positive revenue, without any assurance that such deferred volumes and revenue will be properly reflected in future L&U and other fuel gas reimbursement percentages, places future shippers at risk. Williams is concerned that the fuel tracker mechanism will treat the deferred amounts as under-recoveries to be collected in the next quarterly true-up filing. By way of illustration, Williams states that if the deferred revenue equated to a reduction of 0.1 percent to be applied to a future L&U and other fuel gas percentage, then, assuming all other factors remain the same, the true up mechanism would show amounts recovered to be deficient by 0.1 percent compared to actual requirements at the end of the relevant recovery period. This would mean an increase of 0.1 percent in the L&U and other fuel gas percentages in the next filing to make up for the amount previously credited.

8. Williams requests that the Commission either find that CIG cannot treat any future credits attributable to the deferred amounts as under-recovered amounts in any subsequent fuel filings or that the Commission simply order CIG to immediately credit to shippers the amounts it proposes to defer.

9. Williams also states that CIG fails to address the price it plans to use to equate the deferred revenue amounts into a volumetric figure in order to calculate the future credits to the L&U and Other Fuel Gas percentages. Williams contends that shippers could face significant swings in future quarterly cash-out prices if CIG uses future prices to calculate the quantity to be credited versus using the prices that were in effect during the periods when the activities that gave rise to the credits occurred.[4] To reduce this price risk, Williams requests that the Commission require CIG to calculate the quantity to be credited to future L&U and other fuel gas percentages based on the cash-out price in effect at the time the dollars to be deferred came into existence.

10. In its answer to Williams' objections, CIG states that it agrees with Williams' first requested clarification, and that it has no intention of short-crediting the deferred amounts in any manner that would deny shippers the benefits of any revenues. CIG also states that it is receptive to Williams' concern on the timing of the dollar conversion of volumes. Should the Commission adopt Williams' alternative request that CIG provide the credits immediately, CIG asks that it be permitted to credit the deferred amounts

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[4] That is, the second, third and forth quarters of 2005, the first quarter of 2006 (when the processing activities that gave rise to the $1,001,652 credit occurred), and the period associated with the $244,170 deferred amount from Docket No. RP06-382-000.

against Transmission Fuel Gas quantities, so that the L&U and Other Fuel Gas Percentage is not less than zero. Finally, CIG also asks that the Commission clarify that revenues sought to be deferred here may not be treated as under-recovered amounts in any subsequent L&U and Other Fuel Gas filing, and clarify whether CIG should defer dollars or quantities.

<u>Discussion</u>

11. At the outset, the Commission will dispose of the two requested clarifications in CIG's answer. The Commission is reluctant to clarify how a deferral mechanism would work, when the tariff as now constituted (1) does not contemplate deferrals of credits, and (2) provides for fuel and L&U reimbursements to be made in kind, with natural gas volumes, rather than in dollars. If CIG wishes to propose a revision to its tariff to address deferral of credits when L&U would be less than zero, and how to value such deferred credits, it may do so pursuant to section 4 of the Natural Gas Act (NGA). Absent that, it must, as it appears to have offered, reach an equitable resolution with the shipper.

12. Specifically, under Article 42.2 of its tariff, CIG is required to revise its L&U and other fuel gas reimbursement percentage on a quarterly basis. The L&U and other fuel retention percentage is derived by dividing the L&U and other fuel gas volume by CIG's total receipt quantity for the twelve-month period ending three months prior to the beginning of the quarter.[5]

13. Nothing in Article 42.2 currently contemplates CIG's deferring prior period adjustments in order to avoid having a negative fuel reimbursement percentage for L&U and other fuel gas, so that absent a waiver of the tariff to permit the L&U percentage to remain at 0.00 percent, the L&U percentage should be adjusted to reflect over or under-recoveries as they occur.[6]

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[5] In addition, CIG's tariff at article 42.5 provides for a true-up mechanism to allow for the truing up of over and under-recoveries when CIG makes its quarterly adjustment of the L&U and other fuel gas reimbursement percentage. *See Colorado Interstate Gas Co.*, 115 FERC ¶ 61,322 (2006) (accepting addition of true-up mechanism to existing tariff provisions). Neither Article 42.2 nor Article 42.5 allows for the deferral of any adjustments thereunder.

[6] Article 42.2 details how the L&U and other fuel retention percentage is derived and provides, in pertinent part:

> The Lost, Unaccounted For and Other Fuel "(L&U and Other Fuel)" retention percentage for a calendar quarter shall be computed as follows:

(footnote continued)

14. CIG indicates that it is deferring the return of over-recovered volumes and positive dollar revenue in this filing consistent with past practice. CIG's last quarterly L&U and other fuel reimbursement percentage filed on May 30, 2006 in Docket No. RP06-382-000, which included a deferral of $244,170 in prior period adjustments, was accepted effective July 1, 2006.[7] In that filing, which was routine and uncontested, CIG asked that it be allowed to defer the $244,170 in positive revenue so that its L&U and other gas percentage could remain at 0.00 percent rather than a negative 0.01 percent. Here,

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(a) Calculate the actual total system fuel and loss quantity (receipts less Deliveries) for a twelve-month period ending three months prior to the beginning of the quarter ("Period"), and reduce that total fuel quantity by (a) the actual compressor fuel use for that Period, (b) shrinkage reimbursement for processing of third Party Gas at Transporter's processing plants and (c) lost and unaccounted- for gas quantities attributable to Rate Schedule CS-1.

(b) Calculate the fuel quantity attributable to processing revenue by dividing the sum of (a) Transporter's actual product revenue for the Period and (b) Transporter's net revenue received during the Period for processing services rendered for Shippers by Transporter's average Cash Out Index Price for the Period.

(c) Calculate the fuel quantity attributable to electric commodity expenses by dividing Transporter's actual electric commodity expenses incurred for the Period by Transporter's average Cash Out Index Price for the Period.

(d) Calculate the Lost, Unaccounted For and Other Fuel Gas quantity by subtracting from the fuel quantity in (1) the fuel quantity in (2) and adding the fuel quantity in (3) above.

(e) Derive the L&U and Other Fuel Retention Percentage by dividing the Lost, Unaccounted For and Other Fuel Gas volume in (4) by Transporter's total Receipt Quantity for the Period. The L&U and Other Fuel Retention Percentage will be posted on The Schedule of Rates Sheets in Transporter's Tariff, and such Tariff sheet, together with supporting workpapers, shall be filed with the Commission 30 days prior to the beginning of any calendar quarter. Said percentage for Lost, Accounted For and Other Fuel Gas shall be applied to rate schedules TF-1, TF-4 and TI-1.

[7] *See Colorado Interstate Gas Co.*, Docket No. RP06-382-000 (June 27, 2006) (unpublished letter order).

however, objection has been made to CIG's proposal to defer crediting a total of 780,831 Dth and revenue of $1,245,822, to avoid a negative 0.15 percent L&U adjustment which is fifteen times the amount it deferred in the previous filing.

15. CIG's proposed reimbursement percentages for transportation fuel gas, storage gas, CS-1 Cheyenne firm compression fuel gas and CS-1 L&U appear properly calculated pursuant to CIG's tariff and are hereby accepted effective October 1, 2006.

16. Since the fuel reimbursement for L&U and other fuel gas is, in most instances, one of three components to an overall transportation fuel and L&U charge, the use of a negative component for L&U and other fuel gas should not result in any operational problems for CIG even though some points which use no transportation fuel are only assessed an L&U charge. At the majority of paths on its system, CIG will assess the 1.72 percent transportation fuel gas charge in conjunction with the 0.15 percent L&U and other fuel gas credit, for a net positive assessment on most shippers of 1.57 percent. Accordingly, applying the tariff as it exists would require CIG to immediately credit to shippers the amounts of $1,001,652 and $244,170, and the 780,831 Dth it seeks to exclude indefinitely from the L&U adjustment, so long as the adjustment is negative. As noted above, because of the nature of CIG's fuel and L&U tariff, which is based on in-kind, volumetric reimbursements, a monetization methodology for these accounts is not encompassed in CIG's current tariff.[8] Nor is there anything inherently "inappropriate" with a negative L&U component, as such is clearly possible pursuant to the existing tariff.

17. In its answer, CIG has offered to work with Williams on the timing of the dollar conversion of the volumes, and has assured shippers that it will not short credit any of the deferred amounts. Alternatively, if it is required to provide the credits immediately, CIG asks that it be allowed to credit the deferred amounts against Transmission Fuel Gas Quantities, so that the L&U and Other Fuel Gas percentage is not less than zero. We decline to allow the latter approach, since there is no basis in the tariff for crediting adjustments due to the L&U component of CIG's rates to the Transportation Fuel component instead.

18. The Commission finds, however, that it may accept the proposed deferrals, subject to CIG's commitment that when it ultimately credits the deferrals at issue here, it will not

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[8] *See Colorado Interstate Gas Co.*, Docket No. RP05-618-001, 114 FERC ¶ 61,312 (2006) (rejecting "monetization" of fuel and L&U reimbursement mechanism as beyond the scope of compliance filing, and suggesting CIG could file pursuant to NGA section 4 if it wished to change the volumetric adjustment provisions of its existing mechanism).

do so in a way that denies shippers the full benefits of said credits. CIG has also responded that it is receptive to, and understands Williams' concern over the timing and methodology for monetizing the volumetric credits. Accordingly, the Commission's acceptance of the filing here is also conditioned on CIG's adequately addressing the shipper's concerns so as to achieve a mutually agreeable and fair method for calculating the ultimate credits.

19. To the extent CIG anticipates it may be asking to defer credits in future L&U and fuel adjustment filings, CIG should amend its tariff under NGA section 4 to support the propriety of such deferrals, and propose a just and reasonable methodology for doing so.

The Commission orders:

(A) CIG's tariff sheets are hereby accepted, effective October 1, 2006, subject to the conditions discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.