FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

December 1, 2006

In Reply Refer To:
Iroquois Gas Transmission System
Docket No. RP98-18-023

Iroquois Gas Transmission System
One Corporate Drive, Suite 600
Shelton, CT 06484

Attention: Paul W. Diehl
Senior Attorney

Reference: Second Revised Sheet Nos. 6G and 6H to FERC Gas Tariff, First Revised Volume No. 1

Dear Mr. Diehl:

1. On November 1, 2006, Iroquois Gas Transmission System (Iroquois) filed the referenced tariff sheets pursuant to section 32 of its General Terms and Conditions. The tariff sheets set forth the essential elements of negotiated rate service agreements between Iroquois and Sempra Energy Trading Corp. (Sempra). Iroquois requests waiver of the 30 day notice requirement and proposes that the tariff sheets take effect on November 1, 2006. Iroquois' proposed tariff sheets are accepted effective November 1, 2006, subject to refund and subject to the conditions discussed below.

2. Section 32.1(c) of Iroquois tariff requires it to submit tariff sheets setting forth certain information not later than the date service commences under a negotiated rate or negotiated formula. In accordance with its tariff, Iroquois filed tariff sheets reflecting a negotiated rate transaction under Rate Schedule RTS with Sempra for seasonal firm transportation service on Iroquois' Eastchester Extension Project. Additionally, Iroquois entered into a negotiated rate transaction with Sempra for interruptible service under Rate Schedule ITS.

3. The Rate Schedule RTS negotiated rate agreement provides that: (1) service shall be rendered under Contract No. R-1710-20, executed pursuant to a *pro forma* service agreement under Iroquois' Rate Schedule RTS; (2) the term of service shall begin on November 1, 2006, and shall remain in effect until April 1, 2007; (3) the primary receipt

point for the RTS service shall be Wright, and primary delivery point shall be Waddington; (4) the daily contract demand for the RTS service shall be 5,000 Dth; (5) the demand rate floor price shall be $6.7788 per Dth per month from November 1, 2006 through December 31, 2006 and $6.5971 from January 1, 2007 through April 1, 2007 and, (6) on a daily basis, the equivalent daily demand rate shall be calculated based on a formula set forth on the referenced tariff sheet, but in no event shall be less than the daily equivalent of the Demand Rate floor.

4. The Rate Schedule ITS negotiated rate agreement provides that: (1) service shall be rendered under Contract No. I-1710-01, executed pursuant to a *pro forma* service agreement under Iroquois' Rate Schedule ITS; (2) the term of services shall begin on November 1, 2006, and shall remain in effect until April 1, 2007; (3) the primary receipt point for the ITS service shall be Waddington, and primary delivery point shall be Wright; (4) the daily contract demand for the ITS service shall be 10,000 Dth; (5) the commodity rate floor price shall be $0.010 per Dth and, (6) on a daily basis, the commodity rate shall be calculated based on a formula set forth on the referenced tariff sheet.

5. Both the RTS and ITS contracts contain identical formulas to derive the negotiated rate. The formula for the RTS contract is used on a daily basis to calculate the equivalent daily demand rate. The formula for the ITS contract is used on a daily basis to calculate the commodity rate. The rate derived by the formula is used in performing the transportation service for Sempra subject to the "Floor" or minimum contract rate which is set forth in the tariff sheet. The formula is as follows:

> 60% multiplied by [the Gas Daily Midpoint for Tennessee, zone 6 delivered (under the Citygates heading) less the Gas Daily Midpoint for Iroquois, receipts (representing Waddington under the Canadian gas heading) less the applicable Measurement Variance/Fuel Use Factor less applicable surcharges].

6. Iroquois states that the underlying RTS and ITS service contracts do not deviate in any material respect from the applicable form of service agreements set forth in Iroquois' tariff.

7. Public notice of the filing was issued on November 3, 2006. Interventions and protests were due as provided in section 154.210 of the Commission's regulations. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2006)), all timely filed motions to intervene and any motion to intervene out-of-time filed before issuance date 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. No adverse comments or protests were filed.

8. The Commission, consistent with its negotiated rate policy statement, finds good cause to grant Iroquois' request for waiver of the 30-day filing requirement in section 154.207 of the Commission's regulations,[1] and will permit Iroquois' negotiated rate proposals to go into effect November 1, 2006, as proposed, subject to refund, conditions, and further review.

9. Iroquois' negotiated rate agreements contain a formula to derive the firm and interruptible transportation rates. The Commission has permitted rate formulas to be filed in lieu of actual rates as part of negotiated rate agreements and has stated that the rate formula must be stated with such clarity that a third party can easily calculate the rate charged.[2] In review of Iroquois' proposed formula, it is not clear whether a shipper can ascertain the daily rates charged to Sempra under the negotiated rates.

10. The negotiated rate formula, appears to lack clarity for several reasons. First, footnote 2 on the tariff sheets states that the rates are exclusive of all surcharges, unless otherwise noted. A review of the tariff sheets reflects that there is no other provision providing for the recovery of fuel. However, the formula appears to include a monetary value for the Measurement Variance/Fuel Use Factor since there is a reduction in calculating the formula rate.

11. Second, section 2.27 of Iroquois' General Terms and Conditions sets forth the mechanism to calculate the Measurement Variance/Fuel Use Factor.[3] The mechanism, however, reflects that the Measurement Variance/Fuel Use Factor will be based on a percentage provided on an in-kind basis that is determined on a monthly basis.[4] Since Iroquois' tariff requires shippers to provide fuel on an in-kind basis it is not clear how the negotiated rate formula subtracts, or converts, a fuel percentage to a monetary amount.

12. Accordingly, for both of the negotiated rate transactions, Iroquois is directed to file with the Commission within 15 days of the issuance of this order, illustrative examples setting forth how the negotiated rates will be calculated under the formula along with all explanations and assumptions used to calculate the negotiated rates.

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[1] 18 C.F.R. § 154.207 (2005).

[2] *Columbia Gulf Transmission Company*, 100 FERC ¶ 61,047 (2002), *NorAm Gas Transmission Co.*, 75 FERC ¶ 61,091 at 61,312 (1996); *order on reh'g*, 77 FERC ¶ 61,011 (1996).

[3] *See*, First Revised Sheet No. 47A of Iroquois' FERC Gas Tariff, First Revised Volume No. 1.

[4] Shippers using the Eastchester Expansion facilities currently pay a maximum rate of 4.50%. *See*, Eighteenth Revised Sheet No. 4A of Iroquois' tariff.

Further, Iroquois is directed to fully explain how other shippers will be able to verify the rate Sempra is paying under the negotiated rate formulas.

By direction of the Commission.

Magalie R. Salas,
Secretary.