

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Sudeen G. Kelly, Marc Spitzer,  
Philip D. Moeller, and Jon Wellinghoff.

Colorado Interstate Gas Company

Docket Nos. RP07-76-000  
RP07-95-000

ORDER ACCEPTING TARIFF SHEETS, SUBJECT TO CONDITIONS

(Issued December 22, 2006)

1. On November 22, 2006, in Docket No. RP07-76-000, Colorado Interstate Gas (CIG) filed revised tariff sheets<sup>1</sup> to implement an amendment to its tariff provisions related to the calculation of reimbursement percentages for lost and unaccounted-for (L&U) gas, when the L&U reimbursement percentage is negative. CIG also proposes to cash-out certain accumulated deferred L&U reimbursement amounts owed to shippers for negative L&U. On December 1, 2006, in Docket No. RP07-95-000, CIG filed workpapers intended to fulfill its quarterly L&U filing requirement, and to validate and continue the existing zero reimbursement percentage for L&U. In this order, the Commission accepts CIG's November 22, 2006 tariff sheets effective December 1, 2006, subject to conditions as discussed below, and the Commission accepts CIG's December 1, 2006 filing in Docket No. RP07-95-000, subject to the outcome of Docket No. RP07-76-000.

**Background**

2. On August 30, 2006 CIG filed, in Docket No. RP06-572-000, revised tariff sheets to reflect the quarterly adjustment to its L&U 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. In that filing, CIG proposed an L&U

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<sup>1</sup> Second Revised Sheet No. 380H and First Revised Sheet No. 380L to its FERC Gas Tariff, First Revised Volume No.1. On December 7, 2006, CIG made a supplemental filing to modify incorrect references to Sheet No. 380H.

retention percentage of zero and deferrals of 780,831 dekatherms (Dths) of L&U gas, \$1,001,652 of prior period adjustments,<sup>2</sup> and \$244,170 in positive revenue previously deferred in Docket No. RP06-382-000).

3. CIG stated that, if it did not make the deferrals, its L&U and other fuel gas reimbursement percentage would be a negative 0.15%, and that a negative reimbursement percentage would not be appropriate. CIG stated that a negative reimbursement percentage was inappropriate because CIG charges only the L&U and other fuel gas (but no transportation fuel gas) on some transportation transactions, since some points on its system require no compressor fuel, though most do.

4. Williams Power Company (Williams) filed comments stating that, without any assurance that the deferrals would be properly reflected in future L&U reimbursement percentages, CIG's proposal placed future shippers at risk. Concerned that the fuel tracker mechanism would treat the deferred amounts as under-recoveries to be collected in the next quarterly true-up filing, Williams requested that the Commission either find that CIG could not treat any future credits attributable to the deferred amounts as under-recovered amounts in any subsequent fuel filings or order CIG to immediately credit the amounts it proposed to defer to shippers.

5. Williams also argued that CIG failed to address the price it planned 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 requested 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.

6. In an order issued on September 29, 2006,<sup>3</sup> the Commission accepted the proposed deferrals, subject to CIG's commitment that when it ultimately credits the deferrals at issue, it would not do so in a way that denies shippers the full benefits of the credits. In addition, the Commission stated that, 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.

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<sup>2</sup> These adjustments related to the second, third and fourth quarter of 2005 and the first quarter of 2006

<sup>3</sup> *Colorado Interstate Gas Co.*, 116 FERC ¶ 61,310 (2006) (September 29, 2006 Order).

**Docket No. RP07-76-000 Tariff Revisions**

7. CIG now proposes to amend its tariff provisions related to the calculation of L&U reimbursement percentages such that these percentages will never be less than zero. To keep these percentages at zero or above, CIG plans to defer any gas quantities that result in a negative L&U retention percentage and apply those deferrals to future L&U calculations.<sup>4</sup>

8. CIG explains that, under its currently effective tariff, the calculation of the L&U retention percentage includes a deduction of a Dth equivalent quantity attributable to the sum of liquid processing revenues and fees. Under the proposed tariff change, CIG will continue to deduct these amounts from the total system fuel and loss quantity; however, if any component used to calculate the L&U retention percentage results in a percentage that is less than zero, the excess L&U quantity will be excluded from the L&U percentage calculation and applied to the next quarterly L&U filing. In addition, if the excess L&U quantity ever exceeds 500,000 Dth, CIG will remit to shippers, by invoice credit, a cash amount attributable to the excess L&U quantity based on CIG's cash out index price for that period. The cash amount will be allocated based on the ratio of each shipper's L&U receipt quantity to the total L&U receipt quantity during the data collection period.

9. CIG also proposes to remit to shippers the 780,831 Dths of L&U gas and \$1,245,822<sup>5</sup> previously deferred in Docket No. RP06-572-000. Upon receipt of a Commission order accepting its proposal, CIG plans to monetize the deferred quantities of gas at the September 2006 cash out price index (\$3.9715 per Dth) and, by the next available invoice, credit to shippers a total of \$4,346,892<sup>6</sup> allocated based on the ratio of each shipper's L&U receipt quantity for the 12-month period ending June 30, 2006.

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<sup>4</sup> For the purposes of this order, we refer to any gas quantity that may contribute to a negative L&U as "excess L&U quantity."

<sup>5</sup> The total cash amounts deferred in Docket RP06-572-000 include \$1,001,652 in prior period adjustments for the second, third and fourth quarter of 2005 and \$244,170 in positive revenue previously deferred in Docket No. RP06-382-000.

<sup>6</sup> The total of \$4,346, 892 is derived as follows: 780,831 Dth \* \$3.9715 = \$3,101,070 + \$1, 245,822.

10. CIG believes a negative L&U reimbursement percentage is potentially harmful to its system. CIG states that, during a period in the mid-1990s, its L&U percentage was negative due to unique processing economies. It believes that, at that time, some shippers sought backhaul transactions at discounted rates so that they could receive the value of a negative L&U retention percentage. According to CIG, the market was encouraged to pursue transactions in an effort to secure gas from negative L&U reimbursements rather than for appropriate reasons of market economics.
11. CIG also argues that a negative reimbursement percentage could create capacity problems on its system. CIG states if, for instance, it has a negative L&U percentage and a shipper schedules 100,000 Dth per day, the shipper would be required to under-deliver volumes to CIG, while CIG would be required to deliver the full amount 100,000 Dth. CIG claims that this situation can result in capacity problems as well as physical and economic damage.

#### **Docket No. RP07-95-000 Filing**

12. On December 1, 2006, CIG submitted in Docket No. RP07-95-000, workpapers to validate and continue the existing L&U and other fuel gas reimbursement percentages of zero. CIG applied the methodology proposed in RP07-76-000 to calculate its L&U retention percentage. It states that its L&U retention percentage will remain at zero,<sup>7</sup> for the quarter beginning on January 1, 2007. In order to continue the current reimbursement percentage, CIG proposes to defer 381,770 Dth of natural gas in this period, and, pending the acceptance of tariff sheets in Docket No. RP07-76-000, to pay, by invoice credit, past deferred amounts to shippers. Because no change is proposed to the current L&U retention percentage of zero, the currently effective tariff sheet would remain in effect,<sup>8</sup> and the filing in Docket No. RP07-95-000 would fulfill CIG's quarterly L&U filing requirement.

#### **Public Notice, Intervention and Comments**

13. Notices of CIG's filings were published in the *Federal Register*, 71 FR 70,749 (2006) and 71 FR 74,495 (2006), with comments, interventions and protests due as

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<sup>7</sup> As discussed above, CIG was allowed to use an L&U retention percentage of zero in its last quarterly L&U filing in Docket No. RP06-572-000.

<sup>8</sup> Third Revised Sheet No. 11A to CIG's FERC Gas Tariff, First Revised Volume No.1.

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. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. Williams filed a statement of support of the November 22, 2006 filing in Docket No. RP07-76-000. On December 4, 2006, Indicated Shippers<sup>9</sup> submitted a protest to that filing, and on December 13, 2006, Indicated Shippers filed a protest to the December 1, 2006 filing in Docket No. RP07-95-000.

14. With respect to the Docket No. RP07-76-000 filing, Indicated Shippers state that CIG's claims that some shippers took advantage of a negative L&U retention percentage in the past and that a negative L&U retention percentage would result in operational issues, are speculative and unsubstantiated. Indicated Shippers argue that even if there were gaming and capacity issues associated with a negative L&U retention percentage, CIG's proposed solution is overbroad. According to Indicated Shippers, at most points on the system, shippers will be providing a positive transportation fuel reimbursement that will more than offset any native L&U component. Thus, the only shippers who would receive a negative overall transportation fuel and L&U charge are those shippers who ship at points that are exempt from the transportation fuel component, and these exempt shippers represent only 11 percent of total system receipts. Therefore, Indicated Shippers argue, a negative L&U retention percentage would in most cases not cause the total fuel and L&U paid by non-exempt shippers to be negative, and CIG would not be required to give extra gas to non-exempt shippers, which is the operational capacity issue CIG fears.

15. Indicated Shippers also argue that the proposed deferral would have an adverse financial impact on shippers. Indicated Shippers state that reflecting the excess L&U quantity in the calculation of the L&U retention percentage would result in a negative 0.12 percent L&U retention percentage, which would reduce CIG's fuel rate from 1.72 percent to 1.60 percent.<sup>10</sup> Pointing to the \$3.1 million monetization of the 780,831 Dth CIG deferred in Docket No. RP06-572-000, Indicated Shippers state that, assuming that 90 percent of this deferred revenue is associated with non-exempt transactions, deferral of the excess L&U quantity would require non-exempt shippers to pay a fuel rate that is inflated by \$2.8 million.

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<sup>9</sup> The Indicated Shippers are BP Energy Company, BP America Production Company, Chevron Natural Gas, a division of Chevron U.S.A. Inc., and Marathon Oil Corporation.

16. Indicated Shippers next argue that the deferral of excess L&U quantities would distort CIG's rates. Indicated Shippers state that a fuel tracker should adjust rates to reflect current costs and throughput data to ensure accurate price signals and to minimize market distortions. Indicated Shippers argue that the deferral of excess L&U quantities would undermine these goals. In addition, Indicated Shippers argue that deferrals of excess L&U quantities increase the likelihood that a shipper not on the system at the time the quantities were deferred would receive the benefits of the excess L&U quantity. On the other hand, a shipper on the system at the time of the deferrals may not receive the benefit when they are credited in the future.

17. Indicated Shippers argue that CIG's proposal gives it an unfair advantage and that, in the past when processing economics resulted in negative processing revenue and an upward impact on CIG's fuel rate, CIG did not seek to revise its fuel mechanism to mitigate the upward impact. According to Indicated Shippers, now that CIG must contend with negative revenue it is attempting to exclude the negative revenue from the fuel rate. Indicated Shippers request that the Commission reject CIG's filing in Docket No. RP07-76-000.

18. Finally, with regard to CIG's filing in Docket No. RP07-95-000, Indicated Shippers point out that CIG is still obligated to file a quarterly L&U adjustment under its existing tariff until such time as the new amended L&U tariff is approved. Therefore, Indicated Shippers ask that if the Commission does not reject the filing in Docket No. RP07-95-000 as inconsistent with CIG's existing tariff, it should condition acceptance of that filing on the ultimate decision in Docket No. RP07-76-000.

### **Discussion**

19. In the September 29, 2006 Order in Docket No. RP06-572-000, the Commission stated that, to the extent CIG anticipates it may be asking to defer credits in future L&U and fuel adjustment filings, it 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. For the reasons discussed below, we will accept CIG's tariff revisions for filing, subject to CIG's revising the filing to address Indicated Shippers' concerns about more narrowly crafting a remedy for negative L&U reimbursements to minimize the impact on non-exempt shippers, as discussed below.

20. First, we find that CIG's proposal to exclude an excess L&U quantity from the L&U percentage calculation and to apply that excess L&U quantity to the next quarterly L&U filing (when any component used to calculate the L&U retention percentage results in a percentage that is less than zero), to be reasonable as applied to exempt shippers. We also find that CIG's proposal may be overly broad as applied to non-exempt shippers. As we stated in the September 29, 2006 Order, 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. In other words, even if CIG had to implement a negative L&U retention percentage, because the majority of the transactions on its system are not exempt from transportation fuel charges, and subject to an overall positive transportation fuel and L&U charge, adverse effects, if any, would be minimal.

21. Although we find that CIG's proposal in Docket No. RP07-76-000, to exclude an excess L&U quantity for the calculation of a quarterly L&U retention percentage and to defer that quantity until the next quarter may be overly broad as applied to non-exempt shippers, we also find that CIG's plan to cap the deferrable amount and issue credits, should help to mitigate impacts on shippers. By setting an excess L&U quantity that will trigger a credit to shippers, CIG's proposed tariff revisions will not subject shippers to open-ended deferrals. Further, setting a rate to be used to monetize deferred quantities (*i.e.*, the cash out index price at the time of the deferral), should minimize issues concerning what price to use to monetize excess L&U quantities when credits are issued. The trigger quantity, timing of dispersal of any monetary reimbursement, and how to more narrowly craft a mechanism (given that some shippers will have an overall positive fuel and L&U charge, even if the L&U is negative) may all be elements in designing a just and reasonable tariff amendment that addresses the concerns of Indicated Shippers.

22. In addition, we find CIG's proposal in Docket RP07-76-000 to remit accrued deferrals made in Docket RP06-572-000 by monetizing the deferred quantities of gas at the September 2006 cash out price index and credit shippers a total of \$4,346,892, to be reasonable.

23. Accordingly, for the reasons stated above, we will accept the proposed tariff revisions in Docket No. RP07-76-000, subject to CIG's revising that filing to address Indicated Shippers' concerns about more narrowly crafting a tariff provision to address negative L&U reimbursement percentages, so as to minimize adverse impacts on non-exempt shippers, for whom the L&U adjustment is a small part of their overall fuel and L&U rate.

24. In light of our conditional acceptance of CIG's Docket No. RP07-76-000 tariff revisions, upon which the Docket No. RP07-95-000 quarterly filing relies, we will accept the quarterly filing subject to the ultimate resolution of the L&U tariff amendment proceeding.

The Commission orders:

(A) CIG's tariff sheets, filed in Docket No. RP07-76-000, are hereby accepted, effective December 1, 2006, subject to CIG's revising them, within thirty (30) days of this order, to address the concerns discussed in the body of this order.

(B) CIG's filing in Docket No. RP07-95-000 is conditionally accepted, subject to the outcome of Docket No. RP07-76-000.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.