

123 FERC ¶ 61,224  
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.

Southern Star Central Gas Pipeline, Inc.

Docket No. RP08-350-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS SUBJECT TO  
REFUND AND ESTABLISHING HEARING PROCEDURES

(Issued May 29, 2008)

1. On April 30, 2008, Southern Star Central Gas Pipeline, Inc. (Southern Star) filed revised tariff sheets<sup>1</sup> pursuant to section 4 of the Natural Gas Act (NGA) proposing a general increase in its transportation rates. In addition to the rate increase, Southern Star is also proposing certain related tariff changes. Southern Star is proposing changes to various rate schedule tariff sheets to charge for injections to and withdrawals from storage, to charge a reimbursement percentage for fuel use and loss associated with injections into storage and withdrawals from storage, and to allow overruns of shippers' maximum storage quantities. Further, Southern Star is proposing to eliminate section 32 of the General Terms and Conditions (GT&C) of its tariff regarding third-party storage transactions and Rate Schedule X-23 from Volume 2 of its tariff. The Commission accepts and suspends Southern Star's revised tariff sheets to be effective November 1, 2008, subject to refund and the outcome of a hearing as established herein.

**Background**

2. Southern Star, a Delaware corporation, is a jurisdictional interstate pipeline company engaged in the business of transporting natural gas directly to industries, distribution companies, and pipeline systems in the States of Texas, Oklahoma, Kansas, Missouri, Nebraska, Colorado, and Wyoming. Southern Star's current rates became effective on November 1, 2004, as a result of a settlement in Southern Star's last rate case.<sup>2</sup>

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<sup>1</sup> See Appendix.

<sup>2</sup> *Southern Star Central Gas Pipeline, Inc.*, 111 FERC ¶ 61,069 (2005).

**Details of Filing**

3. Southern Star proposes increased rates to recover increased operational revenue requirements on its jurisdictional system. Southern Star states that its cost increases primarily relate to new construction projects and investment in facilities, as well as changes in the mix of services Southern Star began providing since its last general rate proceeding.
4. Southern Star calculates the cost of service for its proposed rate increase using the twelve-month base period ending January 31, 2008, incorporating adjustments made during a test period ending October 31, 2008. Southern Star states that the adjustments in rates has been occasioned by increases in costs that are known and measurable and which are now effective or will become effective within the nine-month test period ending October 31, 2008.
5. Southern Star bases its rates on a proposed \$257.3 million annual cost of service, an increase of \$79.3 million over the cost of service underlying its currently effective rates. The proposed rates would produce an increase in annual revenue of about \$70.4 million above the revenue collected during the base period. Southern Star's cost of service includes \$102.6 million in operation and maintenance expenses, \$44.9 million in depreciation expenses, \$3.9 million in amortization expenses, \$45.7 million in taxes, and a \$57.8 million return. Southern Star's cost of service also includes \$650,660 in revenue credits.
6. Southern Star derived its \$57.8 million return based on a rate base of \$563 million and an overall rate of return of 10.53 percent. Southern Star states that the need for the overall rate of return of 10.53 percent is occasioned by the significantly increased risk for investor capital associated with increased competition, the continuation of competition from existing pipeline competitors and new entrants into the markets, and the limited potential to absorb any future cost increases. Furthermore, Southern Star states that it faces significant business and regulatory risk with respect to the potential capacity turnback that may occur and the discounting of services during the period that the proposed rates are in effect. The capital structure underlying the 10.53 percent rate of return is comprised of 40.24 percent debt and 59.76 percent equity with cost allowances of 6.32 percent and 13.37 percent, respectively.
7. Southern Star designs its rates using the straight fixed-variable method of cost classification, cost allocation, and rate design. Southern Star affirms that the allocation and rate design principles utilized in the instant filing are consistent with those reflected in Southern Star's approved rates since Order No. 636. In addition, Southern Star calculates its proposed rates using a mainline commodity throughput quantity of

322.0 million Dth per year, an increase of 35.9 million Dth from the level underlying its currently effective rates.

8. Furthermore, Southern Star includes in the instant filing tariff revisions that (1) allow Southern Star to charge for injections to and withdrawals from storage, to charge a reimbursement percentage for fuel use and loss associated with injections into storage and withdrawals from storage, and to allow overruns of shippers' maximum storage quantities; (2) eliminate section 32 of the GT&C of its tariff regarding third party storage transactions; and (3) eliminate Rate Schedule X-23 from its tariff and roll in the allocation of the cost of service associated with the rate schedule to develop its open access Part 284 transportation rates.

### **Notice of Filing, Intervention, and Protests**

9. Notice of Southern Star's filing was issued on May 2, 2008. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R. § 385.210. Pursuant to Rule 214, 18 C.F.R. § 385.214 (2007), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance of 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. On May 12, 2008, Salt Plains Storage, LLC; Missouri Public Service Commission (MoPSC); City Utilities of Springfield, Missouri; Laclede Gas Company; Missouri Gas Energy, a division of Southern Union Company; Kansas Gas Services, a division of Oneok, Inc.; Anadarko Petroleum Corporation; Aquila, Inc. d/b/a Aquila Networks; BP America Production Company and BP Energy Company; and Kansas Municipal Gas Agency and Cities<sup>3</sup> (collectively referred to as Protestors) filed motions to intervene and protests. In addition, MoPSC requests partial summary disposition with respect to the maximum level of Southern Star's return on equity (ROE). On May 15, 2008, the Kansas Corporation Commission filed a motion to intervene out-of-time and protest. On May 16, 2008, Southern Star filed an answer in response to MoPSC's protest and partial summary disposition. Under Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2007), answers to protests are not accepted unless otherwise ordered by the decisional authority. The Commission will accept Southern Star's answer because it has provided information that assisted us in our decision-making process.

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<sup>3</sup> Cities are members of the Kansas Municipal Gas Agency and include Abbyville, Argonia, Burlingame, Cassoday, Denison, Eskridge, Garnett, Howard, Humboldt, Kechi, McLouth, Neodesha, Neoso Rap, Osage City, Partridge, Sylvia, Uniontown, Viola, Walton, and Chanute.

10. Protestors raise numerous concerns with Southern Star's proposal, including, but not limited to the (1) rate increase; (2) cost of service; (3) operation and maintenance expenses; (4) rate of return (5) depreciation and negative salvage value; (6) amortization of pension and post-retirement benefit obligations; (7) billing determinants; (8) costs related to transportation of storage gas and; (9) rolled in cost of service associated with the elimination of Rate Schedule X-23.

11. Protestors claim that there is insufficient data in the filing to analyze such significant rate increases and do not believe that there is adequate support in the record for these increases or tariff changes. Thus, Protestors argue that longstanding Commission policy requires the Commission to suspend both the proposed rate increases and tariff provisions for the full five-month statutory period under section 4 of the NGA. Protestors thus request a five-month suspension of the proposed rate increases and ask that the Commission set all issues raised by Southern Star's filing for a full evidentiary hearing.

12. Furthermore, MoPSC requests, pursuant to Rule 217, that the Commission grant partial summary disposition with respect to the maximum level of Southern Star's ROE. Specifically, MoPSC states that the Commission should summarily rule that Southern Star is entitled to an ROE no higher than 12.77 percent, and that rates allowed to go into effect after suspension must be based on an ROE no higher than that figure. MoPSC avers that the discounted cash flow (DCF) analysis that produced a median ROE of 13.37 percent does not reflect the application of the Commission's April 17, 2008, Policy Statement in Docket No. PL07-2-000 which, *inter alia*, requires that the long-term DCF growth rate for master limited partnerships in the proxy group be set at one-half of the long-term rate of nominal growth in gross domestic product.

### **Discussion**

13. We find that Southern Star's proposed rate and tariff changes raise issues that are best addressed in a hearing, including but not limited to those issues raised in the protests to the filing and the applicability of the Commission's April 17, 2008 Policy Statement.<sup>4</sup> Accordingly, we accept Southern Star's proposed tariff sheets for filing and suspend their effectiveness for the period set forth below, to become effective November 1, 2008, subject to refund and the conditions set forth in this order.

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<sup>4</sup> *Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity*, 123 FERC ¶ 61,048 (2007) (Policy Statement).

### Suspension

14. Based upon a review of the filing, we find that Southern Star has not shown the proposed tariff sheets listed in the Appendix to this order to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, we accept Southern Star's proposed tariff sheets for filing and suspend their effectiveness for the period set forth below, to become effective November 1, 2008, subject to the conditions set forth in this order.

15. The Commission's policy regarding rate suspensions is that rate filings generally should be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards.<sup>5</sup> It is recognized, however, that shorter suspensions may be warranted in circumstances where suspensions for the maximum period may lead to harsh and inequitable results.<sup>6</sup> Such circumstances do not exist here. Therefore, the Commission will exercise its discretion to suspend the rates to take effect on November 1, 2008, subject to refund and subject to the conditions set forth in the body of this order and the ordering paragraphs below.

#### The Commission orders:

(A) The tariff sheets listed in the Appendix to this order are accepted and suspended, to be effective November 1, 2008, subject to refund and conditions and subject to the outcome of the hearing established in this proceeding.

(B) Pursuant to the authority of the NGA, particularly sections 4, 5, 8 and 15 thereof, a public hearing will be held in Docket No. RP08-350-000 concerning the lawfulness of Southern Star's filing.

(C) A Presiding Administrative Law Judge, to be designated by the Chief Administrative Law Judge for that purpose pursuant to 18 C.F.R. § 375.304 (2007), must convene a prehearing conference in this proceeding to be held within twenty (20) days after issuance of this order, in a hearing or conference room of the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426. The prehearing conference shall be held for the purpose of establishing a procedural schedule. The

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<sup>5</sup> See *Great Lakes Gas Transmission Co.*, 12 FERC ¶ 61,293 (1980) (five-month suspension).

<sup>6</sup> See *Valley Gas Transmission, Inc.*, 11 FERC ¶ 61,236 (1980), *order on reh'g*, 12 FERC ¶ 61,197 (1980) (one-day suspension).

Presiding Administrative Law Judge is authorized to conduct further proceedings in accordance with this order and the Rules of Practice and Procedure.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.

**APPENDIX**

**Southern Star Central Gas Pipeline, Inc.  
FERC Gas Tariff, Original Volume No. 1**

***Tariff Sheets Accepted and Suspended Effective November 1, 2008***

Third Revised Sheet No. 2  
Sixth Revised Sheet No. 10  
First Revised Sheet No. 10A  
Tenth Revised Sheet No. 11  
Eighth Revised Sheet No. 12  
Second Revised Sheet No. 102  
Fourth Revised Sheet No. 105  
Fifth Revised Sheet No. 106  
Third Revised Sheet No. 107  
Second Revised Sheet No. 113  
Fourth Revised Sheet No. 114  
Second Revised Sheet No. 119  
Fourth Revised Sheet No. 120  
Fourth Revised Sheet No. 126  
Fourth Revised Sheet No. 131  
Second Revised Sheet No. 134  
Fifth Revised Sheet No. 136  
Fourth Revised Sheet No. 200  
First Revised Sheet No. 305

**Southern Star Central Gas Pipeline, Inc.  
FERC Gas Tariff, Original Volume No. 2**

***Tariff Sheets Accepted and Suspended Effective November 1, 2008***

First Revised Sheet No. 1  
Second Revised Sheet No. 327