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FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

September 25, 2008

In Reply Refer To:
Ozark Gas Transmission, L.L.C.
Docket No. RP08-247-001

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Attention: James F. Bowe, Jr. and William E. Rice
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Reference: Compliance Filing Providing Additional Information Concerning
LAUF Gas and Fuel Retention Percentages

Ladies and Gentlemen:

1. On April 28, 2008, Ozark Gas Transmission, L.L.C. (Ozark) submitted additional information and revised tariff sheets¹ (Compliance Filing) to comply with the Commission's order issued March 28, 2008 (March 28 Order).² Ozark's Compliance Filing answers the concerns raised by the Commission's request for additional information. The Commission accepts Ozark's proposed tariff sheets, effective April 1, 2008, as more fully discussed below.

2. On February 29, 2008, Ozark filed revised tariff sheets to permit Ozark to offer firm and interruptible "backhaul-only" services with a zero fuel retention percentage. The March 28 Order accepted and suspended Ozark's proposed tariff sheets, effective April 1, 2008, subject to Ozark filing, within 30 days of the March 28 Order, additional information regarding its fuel use on backhaul transactions, fuel retention and lost and

¹ Substitute Seventh Revised Sheet No. 13, Substitute Original Sheet Nos. 14A and 39A, to its FERC Gas Tariff, Original Volume No. 1.

² *Ozark Gas Transmission, L.L.C.*, 122 FERC ¶ 61,295 (2008).

unaccounted for (LAUF) gas percentages for backhaul transactions, as well as its gas losses and LAUF gas percentage for all services on its system.

3. In the instant filing, Ozark responds to the Commission's finding in the March 28 Order that Ozark did not provide adequate support for its proposal to exempt backhaul-only services from fuel retention charges. Ozark states that in its February 29, 2008 filing, it proposed to limit the availability of backhaul-only services to transactions that would reduce the hydraulic loads on its system. Backhaul service would consist of receiving the customer's gas at a receipt point in the eastern portion of Ozark's system and delivering an equivalent quantity of gas to the customer at a delivery point west of the point of receipt. Ozark emphasizes it would accomplish such a transaction by displacement, i.e., gas transported via forward haul is delivered to the backhaul customer at the upstream delivery point while the backhaul customer's gas, received at the downstream receipt point, is transported in the direction of forward haul flow, for delivery to further downstream delivery points. Ozark stresses that backhaul-only service by displacement would reduce actual flows on Ozark's pipeline system between the backhaul customer's delivery point and receipt point. Ozark clarifies that this reduction in actual flows would reduce pressure drops and, consequently, the need for compression. Ozark states that reducing the need for compression logically equates to reduced fuel consumption.

4. Ozark believes its February 29, 2008 filing met the Commission's requirement of allowing zero fuel charges only on transactions demonstrated not to use fuel, since Ozark limited its proposed backhaul-only services to transactions that not only would result in no incremental fuel consumption, but would actually reduce overall fuel consumption. Ozark notes that it alone would bear the risk of any fuel under-recovery possibly resulting from its backhaul-only service proposal. Ozark states that since it does not have a fuel tracker, none of its existing customers would be affected by Ozark's proposal not to assess fuel retention on backhaul-only services.

5. Ozark states its pipeline system generally flows from west to east and has two primary compressor stations: Lequire, in Haskell County, Oklahoma, and Noark, in Franklin County, Arkansas. Ozark asserts that displacement backhaul transactions affecting flows through both of these mainline compressor stations are most likely to reduce fuel consumption on Ozark's system, as these two stations consume most of the fuel Ozark consumes. Ozark identifies two potential backhaul delivery points upstream of the Lequire Compressor Station, the interconnect with Enogex at Wilburton, Oklahoma and Ozark's nearby Boiling Springs delivery point (both are located in Latimer County, Oklahoma). Ozark's system includes numerous potential backhaul receipt points in Arkansas, downstream of the Noark Compressor Station. Accordingly, Ozark now proposes to limit the scope of its proposed backhaul-only services to receipts at points located east of the Noark Compressor Station for delivery by displacement to

the Wilburton and Boiling Springs delivery points located west of the Lequire Compressor Station.³

6. Ozark states it conducted 13 hydraulic modeling cases of backhaul-only services involving deliveries at Wilburton and Boiling Springs and receipts at a variety of downstream receipt points on the eastern portion of its system.⁴ Ozark submits each case demonstrated that fuel consumption would not increase with the addition of backhaul by displacement transactions. Ozark further submits all thirteen cases showed a significant decrease in the compressor horsepower used at Lequire and Noark, which equates to a decrease in fuel consumption. Ozark states these results demonstrate that Ozark would experience a fuel savings or, at a minimum, no increase in fuel consumption, for any backhaul transaction involving a contract path from receipt points east of the Noark Compressor Station to delivery points west of the Lequire Compressor Station (Wilburton and Boiling Springs). Accordingly, Ozark asserts its proposal to limit the scope of backhaul-only services under its tariff fully complies with the March 28 Order's requirement that Ozark demonstrate that the proposed backhaul-only services will not cause Ozark to incur fuel.

7. Ozark responds to the Commission's requirement in the March 28 Order that Ozark either show that backhaul-only service on its system will cause Ozark to incur no gas losses or make an alternative proposal assessing projected charges for LAUF gas for Firm and Interruptible backhaul-only transportation services. Ozark notes it did not claim that its proposed backhaul-only services would not result in any losses, but requested authorization not to assess LAUF volumes against backhaul-only services because the overall fuel savings resulting from displacement backhauls should more than offset LAUF volumes.

8. Ozark states it did not attempt to quantify LAUF or the potential fuel savings in its February 29, 2008 filing and willingly accepted the risk that it might not fully recover its LAUF to encourage customers to use backhaul-only services, thereby promoting efficiency on its system. Ozark submits that as is true for any potential fuel under-recovery, Ozark would bear the risk of any LAUF gas under-recovery resulting under its proposed backhaul-only services since Ozark does not have a fuel tracker.

³ Ozark proposes to include this restriction for backhaul-only services in its tariff. *See* section 2.1(b) of rate schedules FTS and ITS.

⁴ *See* Compliance Filing at Attachment I.

9. Ozark submits it presently cannot demonstrate that backhaul service will not result in any gas losses on its system.⁵ Therefore, Ozark proposes to subject backhaul-only services under its tariff to the LAUF gas retention rate calculated for all services under its tariff, as presented below.

10. Ozark responds to the Commission's requirement in the March 28 Order that Ozark either show that all its services cause Ozark to incur no gas losses or to separately set forth the LAUF gas percentages for all services on its system. Ozark believes losses are minimal on its system but cannot demonstrate that all of Ozark's services, or proposed services, result in no losses on its pipeline system. Therefore, Ozark proposes to comply with the March 28 Order by separately stating in its tariff a LAUF retention percentage applicable to all its services.

11. Ozark avers its tariff does not state a LAUF gas retention rate but includes a LAUF gas allowance in Ozark's existing 1.30 percent fuel retention rate, which was established under the settlement in Ozark's 2000 rate case.⁶ Ozark states its 4.49 percent fuel retention rate applicable to receipts upstream of mainline locations was rendered moot by Ozark's 2005 spindown of gathering pipelines.⁷ Ozark proclaims the spindown greatly reduced fuel consumption on Ozark's remaining mainline system (the 4.49 percent fuel retention rate represented gathering fuel consumption, compared to Ozark's 1.30 percent fuel retention rate which represents transportation). Accordingly, Ozark proposes to delete the 4.49 percent fuel retention rate from its tariff.⁸

12. Ozark also states that beginning in 2007 it experienced gains on its system resulting from meter errors. Ozark explains that flows on Ozark's system increased due to developing gas production from the Fayetteville Shale in Arkansas. As Fayetteville Shale production increased, Ozark continues, producers' deliveries into Ozark exceeded its meters' ranges, resulting in declined measurement accuracy and understatement of receipts. Ozark stresses it worked with Fayetteville Shale producers to improve measurement accuracy.

⁵ Ozark states that a large portion of LAUF gas is commonly regarded as occurring at measurement locations. Therefore, it is possible that LAUF volumes on Ozark's system would increase due to backhaul-only service because the backhaul-only service receipts into, and delivery from, Ozark's system may be physically measured.

⁶ *Ozark Gas Transmission, L.L.C.*, 93 FERC ¶ 61,281 (2000).

⁷ *Ozark Gas Transmission, L.L.C.*, 111 FERC ¶ 62,121 (2005).

⁸ See Substitute Seventh Revised Sheet No. 13.

13. Ozark submits these changes (the spindown and increased Fayetteville Shale production) complicated isolating a representative period to measure LAUF volumes on Ozark's system. In spite of this, Ozark identified the period beginning with the implementation of its gathering spindown and ending February 2007, the last month before meter "over-ranging" gains began, as the longest continuous period representative of "normal" operations on its system. Ozark submits this period consists of twenty months from July 2005 through February 2007. During this period, Ozark states it experienced a LAUF gas retention rate of 0.12 percent.⁹ Ozark proposes to use this figure as the LAUF gas retention rate applicable to all services under its tariff and further proposes to restate its existing 1.30 percent fuel retention rate as a LAUF gas retention rate of 0.12 percent and a fuel retention rate of 1.18 percent, such that the total retention rate remains 1.30 percent, in accordance with the overall retention rate established in Ozark's 2000 rate case.

14. The Commission noticed Ozark's filing on April 30, 2008. Protests were due May 10, 2008, as provided in section 154.210 of the Commission's regulations.¹⁰ No party filed a protest or adverse comments.

15. The Commission permits pipelines to exempt certain transactions or portions of its system from fuel charges if the pipeline identifies the specific transactions it intends to exempt from fuel charges and demonstrates that those transactions do not require the use of fuel.¹¹ Once the pipeline has met these conditions, the exempted transactions are then listed in the pipeline's tariff.¹² The Commission established these requirements to assure there will be non-discriminatory availability of fuel-exempted transactions and to avoid unwarranted cost shifts to other customers.¹³ The Commission finds that Ozark has met the conditions and accordingly, listed the exempted transactions in its tariff.

16. While the Commission has approved rates that exempt shippers from fuel use charges for backhauls on the basis that backhauls do not require compression fuel, the Commission has required pipelines to charge all shippers at least the LAUF gas component of the fuel charge, even in cases where no fuel use component is charged.¹⁴

⁹ See Compliance Filing at Attachment II.

¹⁰ 18 C.F.R. § 154.210 (2008).

¹¹ *Colorado Interstate Gas Co.*, 112 FERC ¶ 61,199, at P 19 (2005).

¹² *Id.*

¹³ *Id.*

¹⁴ *E. Tenn. Natural Gas, LLC*, 110 FERC ¶ 61,060 (2005) (citing *Mississippi River Transmission Corp.*, 98 FERC ¶ 61,119 (MRT)); *Columbia Gas Transmission Corp.*,

Therefore, the Commission finds that, consistent with Commission precedent and policy, Ozark has adequately demonstrated that a LAUF gas retention rate of 0.12 percent should apply to backhaul service on its system for receipt points east of Noark Compressor Station to the Wilburton and/or Boiling Springs delivery points.

17. Furthermore, the Commission finds that Ozark's proposed LAUF gas retention rate of 0.12 percent for all services on its system is representative of LAUF gas on its system and is appropriately separated from the fuel retention percentage and separately stated in its tariff.

18. The Commission finds that Ozark has adequately demonstrated that the proposed 1.18 percent fuel retention rate and 0.12 percent LAUF gas retention rate represents its actual company use gas and LAUF quantities, respectively. The Commission also finds that Ozark's additional information and proposed tariff revisions respond to and address the concerns in the Commission's March 28 Order. Accordingly, the Commission finds that Ozark adequately supported its proposed 1.18 percent fuel retention rate and 0.12 percent LAUF gas retention rate.

By direction of the Commission.

Kimberly D. Bose,
Secretary.