



**Federal Energy Regulatory Commission  
November 20, 2008  
Open Commission Meeting  
Staff Presentation  
Item G-7**

"Good morning Chairman Kelliher and Commissioners.

Item G-7 is a draft notice terminating the Commission's inquiry into the fuel retention practices of natural gas companies.

The Commission issued a notice of inquiry on September 30, 2007 seeking comments on whether the Commission should change its current policy governing fuel retained in kind from transportation and storage shippers. As the Commission noted there, current policy allows an interstate pipeline to either charge a fixed rate, or to use a tracker mechanism to recover in-kind fuel. The Commission also noted that pipelines choosing to use a tracker mechanism to recover fuel costs, would also be required to include a mechanism to true-up any over- or under-recovery of costs, absent agreement otherwise by all interested parties.

Comments were filed by 32 parties. Shippers and end-users generally supported requiring each interstate pipeline to use a fuel tracker with a true-up mechanism. Pipelines, on the other hand, argued that there was no need for a change in Commission policy. On the subject of incentive mechanisms, there was general support for the concept, but parties tended to suggest that these could be considered on a case-by-case basis.

Today's draft notice terminating proceeding finds that shippers' request to impose a tracker with a true up on every pipeline would be difficult to justify under the requirements of section 5 of the Natural Gas Act. The record in this proceeding does not provide a solid basis to act generically under section 5.

However, today's draft order observes that section 5 shipper complaints have resulted in significantly reduced fuel charges on some pipelines, and notes that if a shipper believes that a particular pipeline is over-recovering its fuel costs it should file a complaint. Shippers may be better able to initiate such complaints in the future since the changes to pipeline financial forms were finalized in Order No. 710 in June of this year.

Case-by-case action is also the method commenters suggested to provide an appropriate forum to consider cost-sharing and incentive mechanisms. The draft notice refers to the Commission's recent order in a Texas Gas Transmission case, where a proposal for a three-year experiment was recently set for technical conference proceedings.

This concludes staff's presentation. We would be happy to answer any questions."