132 FERC ¶ 61,002
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
and John R. Norris.

ANR Pipeline Company

Docket Nos. RP09-428-000
RP09-428-001
RP09-428-003

ORDER ON COMPLIANCE FILINGS

(Issued July 1, 2010)

1. On April 21, 2010 in Docket No. RP09-428-003, ANR filed substitute revised tariff sheets[1] (April 21 filing) to comply with a March 22, 2010 Commission order[2] in ANR's 2009 fuel and electric power cost (EPC) tracker proceeding for the period April 1, 2009 to March 31, 2010 (March 2010 Order). Among other things, the March 2010 order approved, and directed further revision of increased fuel and EPC charges applicable to ANR's Cold Springs 1 storage facility.[3] As described further, Sub First Revised Sheet No. 10A containing the revised charges is accepted to be effective April 1, 2009, as in compliance with this directive.

2. In addition, the March 2010 Order directed the parties to file comments on whether ANR should be permitted to change the rate design of Cold Springs 1 fuel and EPC charges from incremental to rolled-in. Based upon a review of these comments as

[1] Sub First Revised Sheet No. 10A and Sub Seventh Revised Sheet No. 149 to FERC Gas Tariff, Second Revised Volume No. 1. ANR included in its transmittal letter a motion under section 154.7(a) of the Commission's regulations to place the proposed tariff sheets into effect on April 1, 2009. ANR also reserved its right under section 154.7(a) to file a motion to place the proposed tariff sheets into effect at the end of any suspension period.

[2] *ANR Pipeline Co.*, 130 FERC ¶ 61,229 (2010).

[3] 130 FERC ¶ 61,229 at P21, P24.

detailed further, the Commission will permit ANR to roll-in Cold Springs 1 fuel and EPC costs.

3. Also, the March 2010 Order approved, and directed further revisions clarifying new tariff language in the second paragraph of The General Terms and Conditions (GT&C) section 18.12. This language would authorize ANR to charge for performing in-field transfers between shippers that subscribe to Cold Springs 1 and shippers that subscribe to ANR's system-wide storage facilities. Sub Revised Sheet No. 149A containing the clarifying revisions is accepted as in compliance with the March 2010 Order, effective April 1, 2009.

I. Rate Treatment of Cold Springs 1 Fuel and EPC Costs

a. Background

4. GT&C section 37 authorizes ANR to track and annually revise its in-kind fuel retention percentages and EPC charges for transportation and storage services, to be effective April 1 of each year. ANR retains the applicable percentage of fuel from storage nominations tendered by shippers, and also bills Cold Springs 1 shippers each month for the previous month's EPC use.

5. Except for the Cold Springs 1 storage facility, ANR has historically operated its storage fields as a pool subject to a rolled-in fuel charge with a working gas capacity of approximately 200 Bcf. The rolled-in fields' compressors are fueled solely by natural gas. Cold Springs 1 began operating in April 2008. The compressor at Cold Springs 1 is powered by electricity and its ancillary facilities are fueled by natural gas. In the Cold Springs 1 certificate proceeding, the Commission approved ANR's proposed incremental storage rates, but rejected its proposal to design Cold Springs 1 fuel and EPC charges on a rolled-in basis despite the fact that the roll-in proposal was unopposed by existing storage shippers.[4] The Commission explained that if the facility's fuel use exceeded the "system" fuel charge, existing customers could subsidize the expansion shippers.[5] It therefore required ANR to ensure that Cold Springs 1 fuel and EPC costs "are the responsibility of only the shippers receiving service under the project and ANR Pipeline, and that no costs attributable to the proposed expansion be charged to existing shippers."[6] However, the Commission also stated that ANR was not precluded from filing a proposal

[4] *ANR Pipeline Co.*, 119 FERC ¶ 61,220 (2007) (2007 Certificate Order), *reh'g denied*, 122 FERC ¶ 61,061 (2008).

[5] In this context, the 2007 Certificate Order's reference to "fuel" included both fuel and EPC costs.

[6] 2007 Certificate Order at P 23.

to assess an appropriate part of such costs to system customers "to the extent that it can demonstrate that system customers benefit from the facilities."[7] On rehearing, the Commission indicated that ANR could demonstrate system benefits to support rolling-in Cold Springs 1 fuel and EPC costs in a future fuel tracker filing.[8]

6. The filing in Docket No. RP09-428 for the 2009 fuel and EPC tracking period was ANR's first such filing since placing Cold Springs 1 in service. For reasons described in the March 2010 Order, ANR proposed significantly increased Cold Springs 1 fuel and EPC charges, as well as a new charge for in-field transfers between Cold Springs 1 and ANR's other storage facilities. The Commission approved the proposed increases and the new charge, subject to conditions. However, based on representations by the parties that unintended negative operational and economic consequences had resulted from the Commission's decision to require incremental rate treatment of Cold Springs 1 fuel and EPC costs, the March 2010 Order directed the parties to file comments on whether to roll-in such costs. Initial filings were submitted by ANR; Indicated Shippers;[9] Southwest Energy, L.P. (Southwest Energy); Nexen Marketing U.S.A. Inc. (Nexen); and ONEOK Energy Services Company, L.P. (ONEOK). Southwest Energy filed reply comments.

b. Comments on Rate Treatment of Cold Springs 1 Fuel and EPC Costs

7. In its initial brief, ANR notes that the Commission has previously recognized that ANR's operation of its storage fields on an integrated basis benefits all shippers.[10] ANR generally describes such integrated operation as follows. Throughout the day, as shipper nominations, storage field pressures, line pack and physical flows vary, ANR determines which storage fields should be used to produce optimal efficiency, minimize the potential for gas migration, ensure reservoir integrity, allow peak performance and reduce operational and maintenance costs. ANR states that operational factors it considers in evaluating the use of its storage complex include nomination levels; different operating characteristic of its fields (whether base load, intermediate or peaker); current field contents and pressures; and the availability of fields, including where maintenance or testing is being performed.

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[7] *Id.* P 23.

[8] *ANR Pipeline Co.*, 122 FERC ¶ 61,061 at P 20.

[9] Indicated Shippers consist of Chevron U.S.A. Inc. and ConocoPhillips Company.

[10] ANR Initial Brief at 7 (*citing ANR Pipeline Co.*, 48 FERC ¶ 61,005, at 61,015-16 (1989); and *ANR Pipeline Co.*, 62 FERC ¶ 61,079 (1993)).

8. ANR states that instead of injecting and withdrawing gas from Cold Springs 1 based on such operational considerations, it is forced to inject into Cold Springs 1 only volumes nominated by shippers that subscribe to that facility. ANR explains that it must do so in order to comply with the Commission's requirement that existing shippers not bear Cold Springs 1 fuel and EPC costs, and also to fully recover such costs, which are different from those recovered by the system-wide fuel charge for storage injections. ANR argues that it would benefit the system and all storage shippers if the unique operating characteristics of Cold Springs 1 could be incorporated into its analysis of which fields to utilize at any given time. For example, ANR maintains that electric compression at Cold Springs 1 can be brought online faster than gas compression in its other fields, thus making Cold Springs 1 more efficient during peak periods to reach maximum deliverability for all shippers. ANR notes that not being able to use Cold Springs 1 in this way has required it to use more compression and burn more fuel than would have occurred otherwise.

9. Also, ANR maintains that if it were not required to use Cold Springs 1 solely for the facility's subscribers, it could better plan the utilization of all its fields. According to ANR, such enhanced planning ability could potentially enable it to contract with its electric power provider in a more cost-effective manner by choosing a service that better reflects its expected use of electric compression for all shippers.

10. In short, ANR believes that it will experience major benefits from rolling-in Cold Springs 1 fuel and EPC costs in the form of increased overall storage efficiency accompanied by a reduction in fuel charges, as described further. ANR points out that its transportation customers would also experience this benefit to the extent that they bear storage costs related to system balancing.

11. ANR also maintains that the requirement to design Cold Springs 1 fuel and EPC charges incrementally has severely limited the number of inventory transfers between Cold Springs 1 shippers and ANR's other storage shippers, described by ANR as in-field transfers. ANR notes that shippers within its storage pool are not assessed fuel charges for in-field transfers within the pool, since no gas is moved and no costs are incurred when performing such transfers. However, ANR states that because it must match volumes physically stored in Cold Springs 1 with the volumes in Cold Springs 1 shippers' inventory accounts, a process ANR describes as a "matching methodology," ANR must physically move volumes into or out of Cold Springs 1 when performing such transfers, thereby incurring costs. Therefore, according to ANR, it needed to implement a charge for such transactions beginning with the 2009 tracking period in order to recover applicable fuel and EPC costs.

12. ANR states that the need to charge for such transfers has effectively prevented Cold Springs 1 shippers, primarily gas marketers, from optimizing their supply assets for the benefit of their customers by performing short-term balancing service through no-cost in-field transfers. ANR states that the incremental fuel requirement therefore effectively

precludes such value-added services from being offered to the market. Because rolled-in storage customers are typically counter-parties in these transactions, they too are effectively prevented from benefitting from such transfers.

13. In its initial comments, Indicated Shippers note similar operational inefficiencies resulting from ANR's need to implement the matching methodology. According to Indicated Shippers, such inefficiencies have prevented the system from experiencing enhanced operational flexibility and shipper marketers from providing enhanced market choices to gas consumers. In particular, they assert that the operational characteristics of an integrated Cold Springs 1 facility with rolled-in fuel and EPC rates could enable the facility to rapidly cycle gas, to serve short-term intra-day peaking needs, to serve as a resource for inventory balancing that would enable ANR to avoid assessing penalties, and to enable rolled-in shippers to benefit from being able to transfer inventory to Cold Springs 1 shippers without fuel or EPC charges. Nexen similarly argues that such benefits have been made uneconomic by the incremental fuel and EPC design requirement.

14. Southwest Energy reiterates its belief that ANR does in fact integrate the operation of Cold Springs 1 into its storage pool, while charging incremental fuel and EPC rates. Southwest Energy also notes that Cold Springs 1 shippers are paying a multiple of what they initially expected to pay for fuel and EPC, and predicts that continuation of such rates will cause current shippers not to renew their contracts and potential shippers not to subscribe to the facility. ONEOK comments that it is unfair to judge the costs and benefits of integrating Cold Springs 1 into ANR's system-wide storage, given the barriers that currently exist to such integration.

15. ANR asserts that the impact of rolling-in Cold Springs 1 fuel costs should be minimal considering the amount of transactional throughput determinants for system-wide storage over which such costs would be allocated (11.08 Bcf projected 2009 Cold Springs 1 volumes versus 161.76 Bcf actual system-wide 2008 volumes). Exhibit A of ANR's brief illustrates the minimal impact of rolling-in Cold Springs 1 fuel costs, and a similar impact on existing shippers of rolling-in the facility's EPC costs based on data from its two most recent tracker filings. According to Exhibit A, rolling-in such costs during the 2009 tracking period would have reduced the system storage fuel charge from 0.99 percent to 0.98 percent, and resulted in a system-wide EPC storage charge of only $0.0075 per Dth.

16. Finally, all parties in this proceeding emphasize that throughout the Cold Springs 1 certificate proceeding and ANR's subsequent tracker proceedings, no non-Cold Springs 1 shippers have opposed rolling-in the facility's fuel and EPC costs.

c. Discussion

17. In the Cold Springs 1 certificate proceeding, the Commission found ANR's proposal to roll-in Cold Springs 1 storage fuel and EPC costs to be contrary to the *Certificate Policy Statement.*[11] The Commission explained that to the extent that Cold Springs 1 fuel and EPC charges exceeded the system-wide storage fuel charge, existing customers could subsidize the shippers receiving service under the project. The Commission also indicated that once actual data was available on Cold Springs 1 operations, ANR could propose to roll-in an appropriate portion of Cold Springs 1 fuel and EPC costs to the extent it could demonstrate the system benefit provided by the facility. However at the time, the Commission was reluctant to allow such roll-in in the absence of actual data.

18. ANR's brief and the comments described herein have now shown that ANR's need to comply with the incremental fuel and EPC design requirement by matching accounting and operational activity at Cold Springs 1 has significantly limited its ability to use the facility to provide system-wide operational benefits. Moreover, based on ANR's actual experience operating Cold Springs 1 since April 2008, we find that the unique operating characteristics of the facility sufficiently demonstrate that ANR's system would benefit from full integration of Cold Springs 1 into its system-wide storage operations. Based upon ANR's description of the operational consequences resulting from the fuel and EPC incremental design requirement and ANR's corresponding need to implement the matching methodology in order to comply with that requirement while fully recovering Cold Springs 1 costs, it appears that full integration of Cold Springs 1 can only be made possible by rolling-in the facility's fuel and EPC costs. The rate comparisons provided by ANR in Exhibit A of its brief indicate that the impact of rolling-in Cold Springs 1 fuel and EPC costs would be minimal. Finally, we also find significant the fact that no system-wide storage shipper protested the proposed roll-in, either in this proceeding or in the certificate proceeding.

19. Therefore, based upon the supplemental data provided in this proceeding, the Commission will permit Cold Springs 1 fuel and EPC costs to be designed prospectively on a rolled-in basis. ANR may file tariff revisions to implement such roll-in.

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[11] *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999), *order clarifying policy*, 90 FERC ¶ 61,128, *order clarifying policy*, 92 FERC ¶ 61,094 (2000) (*Certificate Policy Statement*).

II. Compliance Filing in Docket No. RP09-428-003

a. Details of the Filing

20. ANR filed substitute tariff sheets[12] in Docket No. RP09-428-003 to comply with the March 2010 Order's directives to revise Cold Springs 1 fuel and EPC charges to reflect removal of fuel costs for injecting base gas into the facility, and removal of EPC demand costs incurred prior to the in-service date of the facility's electric compressor. Removal of the fuel costs decreases the 2009 Cold Springs 1 fuel retention percentage from 2.06 percent per Dth to 1.85 percent per Dth. ANR states that it intends to refund the over collection of fuel by increasing the storage balance of each affected shipper based on the shipper's injection volumes during the 2009 tracking period.

21. The removal of the EPC demand costs decreases the 2009 Cold Springs 1 EPC charge from $0.1060 per Dth to $0.1013 per Dth. ANR states that it intends to refund the over collection of such EPC dollars, inclusive of carrying charges, by crediting each affected shipper's storage service invoice based on the shipper's injection volumes during the 2009 tracking period.

22. The March 2010 Order also directed ANR to expressly include in-field transfers between Cold Springs 1 and its other storage fields in the Cold Springs 1 transactional throughput underlying the facility's fuel and EPC charges. ANR indicates that the 2009 Cold Springs 1 transactional throughput already includes such in-field transfer volumes, and that the April 21 filing includes revised workpapers separately stating such volumes.

b. Public Notice

23. Public notice of ANR's filing in Docket No. RP09-428-003 was issued on April 30, 2010, with comments due on or before May 5, 2010. No comments were filed.

c. Discussion

24. The tariff sheets identified in footnote no. 14 are accepted, to be effective April 1, 2009. The Commission approves ANR's proposed method of refunding the 2009 Cold Springs 1 over charges described above.

The Commission orders:

(A) The tariff sheets identified in footnote no. 12 are accepted, to be effective April 1, 2009.

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[12] Sub First Revised Sheet No. 10A and Sub Seventh Revised Sheet No. 149 to FERC Gas Tariff, Second Revised Volume No. 1.

(B) ANR may file revised tariff sheets to roll-in the Cold Springs 1 fuel and EPC costs, consistent with the discussion in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.