

148 FERC ¶ 61,015  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Acting Chairman;  
Philip D. Moeller, John R. Norris,  
and Tony Clark.

Eastern Shore Natural Gas Company

Docket No. RP14-1031-001

ORDER ON FUEL RETENTION PERCENTAGE FILING

(Issued July 9, 2014)

1. On June 9, 2014,<sup>1</sup> Eastern Shore Natural Gas Company (Eastern Shore) made its annual tariff filing including tariff records to re-establish its Fuel Retention Percentage (FRP).<sup>2</sup> The newly calculated FRP of 0.62 percent is an increase of 0.38 percent over the current FRP of 0.24 percent. Eastern Shore requests waiver of section 154.207 of the Commission's regulations to permit the revised tariff records to become effective July 1, 2014. As discussed below, the Commission grants waiver of the Commission's 30-day notice requirement and accepts the revised tariff records listed in footnote 2, effective July 1, 2014.

2. Pursuant to Section 31, "Fuel Retention Adjustment" and Section 35, "Cash-Out Refund/Surcharge" of Eastern Shore's General Terms and Conditions in its Tariff (GT&C), Eastern Shore must make an annual filing to adjust its FRP. GT&C section 31 requires Eastern Shore to file revised tariff records containing a re-determined FRP to be effective as of July 1 of each year. The FRP is designed to reimburse Eastern Shore for the cost of natural gas required for operations, consisting of natural gas used for

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<sup>1</sup> On May 30, 2014, Eastern Shore made a filing in Docket No. RP14-1031-000 that contained errors. The June 9, 2014 filing in Docket No. RP14-1031-001 correcting those errors effectively withdrew the May 30 filing.

<sup>2</sup> Eastern Shore Natural Gas Company; FERC NGA Gas Tariff; Third Revised Volume No. 1: [Sheet No. 4, Part 284 Currently Effective Rates-FT/ST, 0.1.1](#); [Sheet No. 4A, Part 284 Currently Effective Rates- FT/ST - CP12-461-000, 0.0.2](#); [Sheet No. 5, Part 284 Currently Effective Rates-IT, 0.1.3](#); [Sheet No. 5A, Section 7\(c\) Currently Effective Rates -T-1, 0.1.1](#).

compressor fuel and natural gas otherwise used, lost, or unaccounted for. GT&C section 31 splits the FRP into two components: projected and deferred. To derive the projected FRP, Eastern Shore calculates the gas required for system-wide operations for the last 12-month period and divides that amount by the transportation quantities that Eastern Shore received for the same 12-month period. In addition, section 31 requires Eastern Shore to determine the difference between the actual gas required for each month and the actual quantities retained for transportation services. Eastern Shore adjusts such difference by the currently effective natural gas index price and the resulting amount is the deferred component of the FRP. The deferred component serves as the true-up mechanism for any under- or over-recoveries. GT&C section 35 requires Eastern Shore to refund or surcharge the difference between the revenues it receives and the costs it incurs in cash-out revenues for each 12-month period ending March 31.

3. In the instant filing, Eastern Shore calculates that its FRP, if separated from the cash-out, would increase from 0.24 percent to 0.70 percent, consisting of a 0.44 percent projected component and a 0.26 percent deferred component. The 0.44 percent projected component reflects lost and unaccounted for fuel (LAUF) of 0.223 percent and actual fuel use of 0.213 percent. Eastern Shore also states that its calculations indicate that its customers are due a \$159,572 cash-out refund. Eastern Shore calculates that this is equivalent to 0.08 percent using the FRP methodology. By subtracting the cash-out percentage from the FRP, then, it proposes a 0.62 percent surcharge for the 12-month period effective July 1, 2014.

4. Public notice of the filing was issued on June 10, 2014. Interventions and protests were due as provided in section 154.210 of the Commission's regulations.<sup>3</sup> Pursuant to Rule 214,<sup>4</sup> all timely filed motions to intervene and any unopposed motion to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. The Easton Utilities Commission (Easton) filed comments on June 11, 2014. Eastern Shore filed an answer to Easton's comments on June 20, 2014.

5. In its comments, Easton argues that Eastern Shore's proposed LAUF quantity is excessive. Easton states that LAUF on Eastern Shore changed from a negative quantity in the previous two filings to a positive quantity in the present filing. Easton states that Eastern Shore did not explain in its filing why the historical pattern of negative LAUF has changed so that it now incurs positive LAUF, unlike in Eastern Shore's 2012 fuel filing in Docket No. RP12-821, when Eastern Shore included an explanation of Eastern

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<sup>3</sup> 18 C.F.R. § 154.210 (2013).

<sup>4</sup> 18 C.F.R. § 385.214 (2013).

Shore's efforts to evaluate its measurement facilities and practices and to determine the causes of what had been a negative LAUF for Eastern Shore.

6. Easton urges the Commission to require Eastern Shore to provide a detailed explanation of the reasons its LAUF quantities have experienced volatility. In particular, Easton requests a detailed explanation of what caused the negative LAUF during 2012 and 2013 fuel filing periods and what caused Eastern Shore to experience a positive LAUF figure in this recent annual period.<sup>5</sup> Easton argues that without a detailed explanation of the cause of the positive LAUF at a level that exceeds the fuel used on Eastern Shore's pipeline to power its compressors, the Commission cannot determine whether the proposed fuel rates are just and reasonable.

7. In its answer, Eastern Shore notes that Easton's comments are limited to one element of Eastern Shore's filing; the change in projected LAUF. Eastern Shore argues that while Easton characterizes the projected LAUF loss as a "substantial change," it is in fact not. Eastern Shore notes that the projected LAUF, while moving from a "gain" to a loss, is a very small percentage of the company's overall throughput of 0.22 percent. Eastern Shore claims that this LAUF percentage compares favorably with LAUF reported by the interstate pipelines with which Eastern Shore interconnects, and with LAUF reported by other pipelines in the northeast and mid-Atlantic regions.<sup>6</sup> Eastern Shore notes that its LAUF percentage appears to be near the low end of average when compared to other interstate pipelines in the same general region.

8. Eastern Shore further argues that the projected LAUF factor of 0.22 percent is also well within the measurement tolerances specified in its tariff, which states:<sup>7</sup>

Each measurement device shall be considered accurate if it is operating within the manufacturer's published accuracy rating or within one half of one percent (1/2%), whichever is greater.

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<sup>5</sup> Easton provides a detailed list of questions for Eastern Shore to Answer. Easton Comments at 3-4.

<sup>6</sup> Eastern Shore Answer at n.5, table setting forth comparison of its 2013 LAUF with other interstate pipelines.

<sup>7</sup> Eastern Shore Natural Gas Company; FERC NGA Gas Tariff; Third Revised Volume No. 1: [Sheet No. 141, GTC Section 16: Measurement Equipment, Continued, 0.0.1.](#)

If, upon test, any measurement equipment is found to be in error of not more than two percent (2%), previous recording of such equipment shall be considered accurate in computing deliveries; but such equipment shall be adjusted at once to record correctly (plus or minus 1/2% error).

9. Eastern Shore agrees with Easton that where Eastern Shore has previously experienced “positive” LAUF, it now projects that it will experience a minor loss of gas. Eastern Shore states that Easton is however not correct in suggesting that this change could render Eastern Shore’s LAUF projection unjust and unreasonable.

10. Eastern Shore claims that the changes in its LAUF correspond to operational changes which Eastern Shore has been experiencing in recent years. Eastern Shore states that these changes have included dramatic increases in throughput, as shown in the table Eastern Shore included in its answer,<sup>8</sup> as well as shifts in upstream pipeline deliveries into Eastern Shore’s system and changes in gas quality.

11. Eastern Shore states that while leakage may be a factor in LAUF, it has found no evidence of significant leakage on its system. Eastern Shore argues that on a pipeline system like theirs, the dominant driver of LAUF is measurement discrepancies resulting from temperature and pressure deviations from assumed conditions, inaccuracies in heating value conversions, and meter inaccuracies. Eastern Shore states that such measurement discrepancies are unavoidable given the diversity of natural gas meters and related equipment used to measure gas inputs and outputs for Eastern Shore’s system. Eastern Shore notes that a number of factors such as the types of meters being used, ages of the meters, pressure, temperature, flow rate, the range over which flow rates vary, and gas quality can contribute to such discrepancies. Eastern Shore states that its system has undergone significant operational changes in recent years that have affected most of these factors. Eastern Shore states that due to increased throughput it has had to install a significant number of new meters and has had to measure more gas through its meters, which have caused discrepancies among meters and deviations due to temperature and pressure to be magnified.

12. Eastern Shore states that another probable factor that has influenced its LAUF is changes in the mix of upstream pipeline receipts into its system. Eastern Shore points out that much of the gas that now enters its system is produced in the nearby Marcellus Shale Area and that the gas generally has a higher heating value than the Gulf Coast production that it has displaced.

13. Eastern Shore notes that Easton is correct that in its previous fuel filings, Eastern Shore indicated that it was exploring measurement on its system in an effort to determine the cause of LAUF gains it had been calculating. Eastern Shore states that it has

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<sup>8</sup> Eastern Shore Answer at 4.

inspected all of the delivery meters on its system and has participated in testing of the meters at its upstream interconnects with interstate pipelines. Eastern Shore states that there is an ongoing effort to ensure measurement accuracy; however it has not been able to pinpoint a single meter or class of measurement facility as the source of the historic gains on its system. Eastern Shore believes that a major contributor to measurement discrepancies may have been measurement anomalies at its interconnections with upstream pipeline suppliers, but notes that gains of the observed magnitude would be possible even if all pipeline delivery meters were operating within manufacturers' tolerances.

14. Eastern Shore states that it has not identified any equipment or conditions on its pipeline system that would inappropriately contribute to LAUF. Eastern Shore states that the shift from gains to losses experienced in 2013 may indicate that the gains were related to low flows through certain meters and that this effect has been reversed with higher flow rates. Eastern Shore further states that it has historically operated its system at the low end of its design flow capabilities and that low flows can contribute to, and magnify the effects of, observed gains on a pipeline system. Eastern Shore states that it is now operating close to full capacity, as throughput has nearly tripled over the past four years, and a small LAUF loss of 0.22 percent is entirely consistent with the increased level of throughput and changes in the mix of supply sources it has been experiencing.

15. Eastern Shore argues that the information provided in the original filing and in its answer sufficiently responds to the questions raised by Easton. Eastern Shore argues that the fuel reimbursement percentage it has calculated is reasonable, and should be accepted as filed.

16. The Commission finds that Eastern Shore adequately demonstrated that the proposed 0.62 percent FRP was calculated correctly pursuant to sections 31 and 35 of Eastern Shore's tariff and represents its actual fuel gas and LAUF quantities during April 2013 through March 2014. The Commission also finds that the information Eastern Shore included in its original filing and answer sufficiently justifies its revised FRP. Specifically, the 0.22 percent LAUF percentage falls within the industry standards for LAUF percentages and Eastern Shore's explanations satisfactorily address the various factors which could have led to the increase in LAUF. Further, Eastern Shore's policies, procedures, and measures to monitor, control, and minimize LAUF on its system appear appropriate and sufficient at this time. While the increase in LAUF from a negative value to a more normalized value of 0.22 percent is significant relative to its past performance, the fact that Eastern Shore's projected LAUF is consistent with the LAUF percentages of other similarly situated pipelines appears to indicate that Eastern Shore is successfully correcting its previous problems with LAUF. Accordingly, the Commission denies the request of Easton for additional information in this proceeding as unnecessary.

The Commission orders:

Waiver of the Commission's 30-day notice requirement is granted and the filed tariff records reflecting the new FRP are accepted effective July 1, 2014, as proposed.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.