153 FERC ¶ 61,142
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

November 3, 2015

In Reply Refer To:
KPC Pipeline, LLC
Docket No. RP15-594-000

John & Hengerer
1730 Rhode Island Avenue, NW
Suite 600
Washington, DC 20036-3116

Attention: Matthew T. Rick

Dear Mr. Rick:

1. On May 1, 2015, KPC Pipeline, LLC (KPC) filed additional information[1] in compliance with the Commission's April 1, 2015 order[2] in the captioned docket. KPC's compliance filing is accepted as discussed below.

2. On March 2, 2015, KPC filed tariff records to reflect new fuel reimbursement percentages (FRP). Due to several accounting errors that were made in KPC's 2014 filing, KPC's deferred account reflected significant under-recoveries from the prior period. In order to limit the increase to the FRP, KPC requested permission to amortize these under-recoveries resulting from the accounting error over five years. The April 2015 Order accepted and suspended KPC's proposed tariff records effective April 1, 2015, subject to further Commission review and directed KPC to file additional information concerning KPC's calculation of the proposed FRP rates.

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[1] On May 5, 2015, KPC filed a supplement to its May 1, 2015 compliance filing, including an Excel version of certain information contained in the May 1 filing.

[2] *KPC Pipeline*, *LLC*, 151 FERC ¶ 61,001 (2015) (April 2015 Order).

3. In its May 1, 2015 filing, KPC provides additional information, as requested by the Commission in the April 2015 Order, to justify recovering losses sustained by certain FRP accounting errors in its prior year's filing. KPC offers an explanation of its Lost & Unaccounted-For (L&U) calculations and responds to issues raised by protests and comments to the March 2, 2015 filing. KPC substantiates its additional information with an affidavit provided by Angie Costley, the Controller at MVP Holdings, LLC, the parent company of KPC Pipeline, and an affidavit provided by Lee W.C. Bullock, the president of KPC pipeline.

4. In response to the Commission's request for a description of each element in the L&U calculation, KPC provides a detailed breakdown of its L&U calculation, citing Ms. Costley's affidavit. Ms. Costley states that L&U is calculated on a monthly basis by first tracking total system gains or losses for the month, which are equivalent to changes in line pack. Ms. Costley states that adjustments are then made to subtract gains and losses that can be accounted for and should not be treated as L&U. Such adjustments subtract gains and losses attributable to fuel reimbursement, operational purchases, and the resolution of imbalances under operational balancing agreements (OBAs) and cashout, fuel usage, park and loan, and operational usage. Ms. Costley states that what remains after these adjustments are unaccounted for gains and losses that are appropriately treated as L&U.

5. Ms. Costley states that in preparing the workpapers for this year's filing it became evident that certain accounting errors had been made by KPC in workpapers that were submitted in last year's FRP proceeding. By far the most significant errors consisted of the incorrect input of line pack changes attributable to OBAs and imbalance cashout. Ms. Costley states that system gains resulting from OBAs and cashout were entered incorrectly as losses and losses were entered incorrectly as gains. These errors caused L&U volumes to be understated by 100,424 Dth and created a majority of the under-recovery that KPC is proposing to recover in this proceeding. Ms. Costley states that similar accounting errors, and potentially other errors, were probably made in previous years as well and likely caused L&U amounts in those years to be understated and subsequently under-recovered. KPC is not proposing to recalculate L&U amounts for those prior years or recover any L&U amounts that were under-recovered. However, Ms. Costley states if such recalculations were made, they would likely show that actual L&U increases in the last two years were much smaller than they might otherwise appear.

6. Public notice of the filing was issued on May 20, 2015, allowing for protests or comments to be filed on or before June 1, 2015. No protests or adverse comments were filed.

7. The Commission finds that KPC's May 1, 2015 filing has provided the explanation of its FRP calculations required by the April 2015 Order. The Commission finds that KPC has shown that the large increase in its FRP in the past year occurred

because of an accounting error that understated L&U amounts in its prior year's filing. Furthermore, KPC has shown that its accounting errors occurred despite good faith efforts to prevent such errors. The Commission has held that pipeline tariffs permit prior period adjustments if they include "general language indicating that the pipeline will adjust for actual usage."[3] Such language appears in section 23 in the General Terms and Conditions of KPC's tariff.[4] Accordingly, the Commission finds that KPC's filing to recover losses due to the accounting error is permitted under Commission policy. Given the facts of this proceeding involving an accounting error that is unlikely to recur in future years, KPC's proposal to amortize these costs over the next five years is a reasonable means of recovery that avoids a rate spike on KPC's system.[5] The Commission accepts KPC's May 1, 2015 compliance filing as satisfying the conditions of the April 2015 Order.

By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.

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[3] *See TransColorado Gas Transmission Co.*, 112 FERC ¶ 61,135, at P 12 (2005) (citing *Mississippi River Transmission Corp.*, 95 FERC ¶ 61,323, at 62,143 (2001), *order on reh'g,* 96 FERC ¶ 61,185, at 61,816 (2001)).

[4] *See* Section 23.4(d) "A change in fuel reimbursement for each billing Month shall be the difference between (1) the applicable currently effective Fuel Reimbursement percentage for the billing Month multiplied by KPC's Transportation Quantity received, and (2) the actual Quantities of Gas expended for fuel usage and lost and unaccounted for Gas during the billing Month."

[5] The Commission also finds that this will not cause an intergenerational equity problem because the FRP is a tracker that enables the pipeline to include its unrecovered costs in a deferred account for subsequent recovery in future rates.