

157 FERC ¶ 61,070
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, and Colette D. Honorable.

Dominion Carolina Gas Transmission, LLC

Docket No. RP16-1285-000

ORDER ACCEPTING FUEL RETAINAGE PERCENTAGE REPORT AND TARIFF
RECORD, SUBJECT TO CONDITIONS

(Issued October 31, 2016)

1. On September 30, 2016, Dominion Carolina Gas Transmission, LLC (Dominion Carolina) filed a revised tariff record¹ to update its Fuel Retainage Percentages (FRP) and Transportation Deferred Account (TDA) surcharge for the next twelve months. Dominion Carolina requests that the revised tariff record be made effective November 1, 2016. The Commission accepts the proposed tariff record to be effective as proposed, subject to Dominion Carolina filing revised tariff records consistent with the discussion below.

Background and Filing

2. According to Dominion Carolina, section 25.4 of the General Terms and Conditions (GT&C) of its tariff requires the pipeline to track its actual amount of gas used in providing service (company use) and the amount of gas lost or unaccounted for (LAUF).² Section 25.5 of the GT&C requires that Dominion Carolina input these amounts into a standard annual true-up tracker mechanism in order to correct for over-collections and under-collections during the previous year, resulting in the percentages to charge shippers for company use and LAUF. According to Dominion Carolina, pursuant to section 25.3 of the GT&C of its tariff, it calculates the LAUF percentage for the entire

¹ Dominion Carolina Gas Transmission, LLC, FERC NGA Gas Tariff, Dominion Carolina Gas Transmission Database, [Part IV, Part IV, Summary of Rates and Charges, 2.0.0.](#)

² Dominion Carolina Gas Transmission, LLC, FERC NGA Gas Tariff, Third Revised Volume No.1, GT&C Section 25, Fuel Retainage Quantity.

system regardless of zone or rate schedule, while the company use percentage differs depending on the receipt and delivery zone. Dominion Carolina further states that the sum of the company use percentage and the LAUF percentage is the FRP.

3. Section 19.6 of the GT&C requires Dominion Carolina to provide an annual update, if necessary, to its TDA surcharge.³ Dominion Carolina states that it maintains a TDA in order to separate the pipeline's credits and debits associated with daily system management and balancing.⁴ According to Dominion Carolina, if the imbalance in the TDA exceeds \$50,000, then it must file a TDA surcharge, as a dollar per dekatherm (Dth) surcharge to the usage rate for Rates Schedules FT, BH, and IT.

4. Dominion Carolina states that the instant filing follows the requirements of its tariff, and based on the formulae in its tariff, its proposed LAUF percentage would be a negative 0.2985 percent credit to shippers. Dominion Carolina states that a negative LAUF percentage would distort the FRP, and therefore it proposes instead that the LAUF percentage remain at 0 percent.⁵ Dominion Carolina further states that its calculations result in an increase in the company use percentage for Zone 1 and inter-zone transportation, from 0.7594 percent to 1.0263 percent, and a decrease for Zone 2 transportation, from 0.0493 percent to 0.0445 percent.

5. Dominion Carolina states that at the time of its calculations, the TDA had an under-recovered balance of \$289,008.36. Dominion Carolina proposes to replace the current \$0.0027/Dth TDA credit with a \$0.0018/Dth TDA surcharge.

³ Dominion Carolina Gas Transmission, LLC, FERC NGA Gas Tariff, Third Revised Volume No.1, GT&C Section 19, Resolution of Imbalances.

⁴ Section 19.6(a) of the GT&C provides that the TDA will be credited with any revenues received when Dominion Carolina sells or cashes out gas for daily system management or balancing purposes, including Fuel Retainage Quantity (FRQ), and shall be debited with any payments made by Dominion Carolina when it buys or cashes out gas for daily system management or balancing purposes, including FRQ. Additionally, section 25.5 of the GT&C of Dominion Carolina's tariff requires Dominion Carolina to determine the difference each month between: (i) the quantity of gas retained in-kind through the FRQ, and (ii) the quantity of gas used to provide service for Shippers. Each month the under- or over-retainage of gas in-kind is recorded as a debit or credit with the monetary value of the quantity of gas credited or debited based on the median price for the month, plus charges for applicable upstream transportation, to the TDA.

⁵ Dominion Carolina Transmittal at 2.

Notice and Responsive Pleadings

6. Public notice of the filing was issued on October 3, 2016. Interventions and protests were due as provided in section 154.210 of the Commission's regulations.⁶ Pursuant to Rule 214,⁷ 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. On October 12, 2016, Patriots Energy Group (Patriots)⁸ filed a motion to intervene, protest, and request for technical conference. On October 18, 2016, Dominion Carolina filed an answer to Patriots.⁹

7. Patriots argues that Dominion Carolina's proposed increase in FRP is excessive, and urges the Commission to require Dominion Carolina to provide an explanation of the increase. Patriots claims that Dominion Carolina's company use rate has been increasing steadily for several years, and that the cumulative increase in fuel consumption since 2010 has been eleven-fold.¹⁰ Patriots also argues that Dominion Carolina's persistently negative LAUF is an indication that customers are being overcharged, and that it requires an explanation.¹¹ Patriots thus urges the Commission to direct Dominion Carolina to add details to its annual filings, and, to convene a technical conference and compel Dominion Carolina to respond to an information request that would explain these increased rates.

⁶ 18 C.F.R. § 154.210 (2016).

⁷ 18 C.F.R. § 385.214 (2016).

⁸ Patriots Energy Group is a joint action agency whose members include York County Natural Gas Authority, Chester County Natural Gas Authority, and Lancaster County Natural Gas Authority.

⁹ The Commission's Rules of Practice and Procedure do not permit answers to protests or answers unless otherwise ordered by the decisional authority. 18 C.F.R. § 385.213(a)(2) (2016). However, the Commission finds good cause to accept Dominion Carolina's answer since it will not delay the proceeding, may assist the Commission in understanding the issues raised, and will ensure a complete record.

¹⁰ Patriots Protest at 2-4.

¹¹ Patriots Protest at 6.

8. In advance of an explanation from Dominion Carolina, Patriots puts forth several of its own hypotheses. Patriots argues that Dominion Carolina's fuel use during the summer months is not only higher than during the winter, but appears to be growing at a faster pace. Patriots suggests that this trend may suggest that summer-peak users, such as electric generators, are burdening the system more than winter-peak users, such as Patriots; Patriots therefore urges Dominion Carolina to consider switching to a seasonal fuel rate.¹² Patriots also notes that, as documented in several recent certificate proceedings, Dominion Carolina has added new compression to its system and also changed the manner in which it is operating its compressors. Patriots claims that it did not protest in any of these proceedings only because, in each docket, Dominion Carolina claimed that its proposed changes would not harm any customers.¹³ Patriots also suggests that Dominion Carolina's recent foray into backhaul service might be impacting fuel rates.¹⁴ Finally, Patriots notes that Dominion Carolina interconnects with the seldom-used liquefied natural gas facility at Elba Island; Patriots urges the Commission to compel Dominion Carolina to explain any impact that this underused part of its system may be having on fuel rates.

9. In its answer, Dominion Carolina states it properly followed its tariff in calculating its fuel rates and that Patriots does not argue to the contrary.¹⁵ Dominion Carolina further claims that Patriots exaggerates the magnitude of the rate increases by comparing the proposed rates with those reflected in 2011, when the FRP was at its lowest.¹⁶ Dominion Carolina explains that the increase in the company use gas in recent years is mainly due to a significant growth in throughput and a change in the usage of the system and its flow dynamics as a result of shippers choosing to source their natural gas deliveries into Dominion Carolina from Transcontinental Gas Pipe Line (Transco) and not from Southern Natural Gas (SNG).¹⁷ Dominion Carolina states that the increasing and disproportionate receipts from Transco has led to an increase in the use of compression, and thus, the amount of company use gas. Dominion Carolina further states that in the northern part of its system it converted standby compression units to active service, relocated compression for more efficient usage, and added new compression. Dominion Carolina argues that these changes increased system efficiency, flexibility, and reliability

¹² Patriots Protest at 5-7.

¹³ Patriots Protest at 8-10.

¹⁴ Patriots Protest at 10-11.

¹⁵ Dominion Carolina Answer at 2-3.

¹⁶ Dominion Carolina Answer at 3.

¹⁷ Dominion Carolina Answer at 3-5.

to the benefit of all customers. Dominion Carolina states that it performs regular measurement tests, and continues to monitor its system for possible explanations of the anomalous negative LAUF results.¹⁸

10. Dominion Carolina also rejects the claim that it is overcharging customers for LAUF, noting that a LAUF percentage of zero means they are not charging customers at all for LAUF. Dominion Carolina further states that even if it were over-recovering LAUF, the excess volumes are credited back to customers through the TDA mechanism.¹⁹ Dominion Carolina provided an additional schedule attached to its answer that details the derivation of the \$343,000 FRQ credit to the TDA, where it is shown that the calculated “over-recovery” of LAUF of 476,625 Dth reduces the actual fuel usage valued as part of the TDA, resulting in the net credit to the deferred account. Dominion Carolina states that given this mechanism to ensure that no over-recovery is possible, a negative LAUF percentage is unnecessary and unreasonable, and that it could actually distort the incentives to use capacity efficiently and improperly skew the usage of the system.²⁰

11. Additionally, Dominion Carolina states that Patriots has not provided any basis for the adoption of a seasonal approach.²¹ Dominion Carolina claims that Patriots has not shown that fuel usage on a per dekatherm basis is higher in the summer months than in winter, but that there has been an increase in summer throughput. Dominion Carolina explains that this is due to the fact that it is increasingly becoming a dual-peak system, while historically it has had a winter-peaking system. Also, Dominion Carolina states that Patriots’ assertion that backhaul service might be impacting fuel rates assumes that backhaul transactions are exempt from fuel collection.²² Dominion Carolina explains that backhaul customers are contributing to fuel recovery because the FRP also applies to Rate Schedule BH. However, Dominion Carolina admits that it is no longer receiving regasified LNG, which contributes to the decreased receipt at SNG – Port Wentworth, and that backhaul transactions further reduce receipts in the southern system through displacement operations. Dominion Carolina argues that, while this leads to greater use

¹⁸ Dominion Carolina Answer at 10.

¹⁹ Dominion Carolina Answer at 8-10.

²⁰ Dominion Carolina Answer at 9-10.

²¹ Dominion Carolina Answer at 6.

²² Dominion Carolina Answer at 7.

of compression to transport gas, and therefore, higher rates, this system-wide development is not caused by particular customers.²³

12. Finally, Dominion Carolina urges the Commission to reject Patriots' call for a technical conference as unnecessary in light of the explanation provided by Dominion Carolina in its Answer.²⁴

Commission Determination

13. The Commission finds that Dominion Carolina has generally performed the subject calculations in accordance with the requirements of its tariff, and thus we accept the proposed tariff record subject to the condition that Dominion Carolina revise its LAUF calculations. The bedrock requirement for all variable cost trackers is that they assess shippers no more or less than the cost of service.²⁵ The Commission has recognized a narrow exception when overall variable cost rates become negative. The Commission has previously found that holding reimbursement rates at zero, rather than allowing the overall reimbursement rates to become negative, is reasonable so long as all of the over-recovered amount is eventually returned to the shippers.²⁶ The Commission permits this narrow exception because charging a negative rate – in other words, paying shippers to use the system – could distort the incentive to use capacity efficiently. However, the Commission has consistently ruled that pipelines may not apply this “never less than zero” convention for individual components of a fuel redetermination filing, because doing so could prevent a positive component from fully offsetting a negative component,²⁷ which in turn would lead to a rate that is higher than the cost of service.²⁸

²³ Dominion Carolina Answer at 8.

²⁴ Dominion Carolina Answer at 10.

²⁵ “It is well-established that when a pipeline is permitted to track changes in a particular cost item without regard to changes in other cost items[,] there should be a guarantee that changes in that cost item are tracked accurately.” *Colorado Interstate Gas Co.*, 128 FERC ¶ 61,117, at P 32 (2009) (citations omitted).

²⁶ See *Columbia Gulf Transmission Co.*, 132 FERC ¶ 61,134, at P 43 (2010); *ETC Tiger Pipeline, LLC*, 141 FERC ¶ 61,159 (2012).

²⁷ See *Sabine Pipe Line LLC*, 125 FERC ¶ 61,241, at P 7 (2008).

²⁸ *Gulf South Pipeline Co., LP*, 155 FERC ¶ 61,132, at P 6 (2016) (order denying rehearing).

14. Applying this policy to the instant filing, it appears that Dominion Carolina does not have any customers with contracts that are subject to the LAUF percentage charge only.²⁹ Thus, under the tariff, there is no instance where LAUF is a standalone rate and not a subcomponent of FRP as discussed above. Accordingly, based on our policy, Dominion Carolina must calculate its FRP using the negative LAUF percentage, which will result in a lower FRP for its customers.

15. Accordingly, we direct Dominion Carolina to revise and refile its FRP calculations using the LAUF amount identified in the instant filing (negative 0.2985 percent). We recognize that these revised calculations may result in a negative FRP for zone 2. Accordingly, consistent with our policy set forth above, the Commission will permit Dominion Carolina to choose whether to implement a negative 0.2540 percent as its zone 2 FRP, or to use a zero percent zone 2 FRP, and carry the balance over into future tracking periods. Dominion must file a revised tariff record to implement these changes within 30 days of the date of this order.

16. We deny Patriots' requests that we either convene a technical conference or require Dominion Carolina to provide more information about its system operations. As noted, Dominion Carolina appears to have calculated the subject fuel charges in accordance with its tariff, and our required revisions will reduce Dominion Carolina's proposed FRP. Given that rates for FRP are decreasing below the current rates for all zones, we do not find credible Patriots' claim that Dominion Carolina's certificated projects have caused harm to existing shippers. Furthermore, we find that Dominion Carolina's answer sufficiently addressed Patriots' other concerns. Dominion Carolina explained that the increase in fuel usage is due to a change in flow dynamics and customers sourcing gas mostly from a different receipt point.³⁰ In addition, as noted in Dominion Carolina's answer, the increase in fuel usage does not appear to be as large as Patriots suggests, as Patriots compared the proposed percentages to those from 2011 when the FRP was at its lowest. Moreover, an increase in summer fuel usage does not necessarily translate into having a summer-peaking system, and Patriots does not provide evidence that would compel us to require Dominion Carolina to change its rate design.

²⁹ Section 25.6 of the GT&C of Dominion Carolina's tariff states that "Company Use Percentage shall not be applied to transactions that do not require the use of fuel," and requires Dominion Carolina to maintain a list of each receipt and delivery Point combination that does not require fuel use. A review of that list indicates that the list is blank, and thus Dominion Carolina currently has no contracts that do not require the use of fuel.

³⁰ Dominion Carolina stated that shippers are increasingly choosing to source their natural gas deliveries into Dominion Carolina from Transco and not from SNG. This has led to an increase in the use of compression, and thus, the amount of company use gas.

As the Commission has stated previously, “[m]any pipelines have annualized fuel rates, and it has not been the Commission’s practice to require the pipelines to offer seasonal fuel rates, even if, in theory, these rates might lead to a more precise allocation of costs.”³¹

17. Finally, we accept Dominion Carolina’s TDA surcharge as filed; no parties protest this aspect of Dominion Carolina’s filing, and upon review Dominion Carolina has correctly applied its tariff and reached a resulting rate that is just and reasonable.

The Commission orders:

Dominion Carolina’s proposed tariff record is accepted, subject to Dominion Carolina filing a revised tariff record consistent with the above discussion, within 30 days of the date of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

³¹ *Texas Gas Transmission, LLC*, 126 FERC ¶ 61,235, at P 45 (2009). Under section 4 of the NGA, “if the pipeline’s proposal is just and reasonable, the Commission must accept it, regardless of whether other just and reasonable rates may exist.” *Id.* (citing *Tennessee Gas Pipeline Co.*, 80 FERC ¶ 61,070, at 61,223 (1997) *aff’d*, *Consolidated Edison Co. v. FERC*, 165 F.3d 992 (D.C. Cir. 1999)).