

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

November 23, 2005

In Reply Refer To:
High Island Offshore System, L.L.C.
Docket No. RP03-221-006

High Island Offshore System, L.L.C.
2727 North Loop West
Houston, TX 77008

Attention: Richard W. Porter
Director, Rates and Regulatory Affairs

Reference: Tariff Sheets Listed in the Appendix

Dear Mr. Porter:

1. On July 22, 2005, High Island Offshore System, L.L.C. (HIOS) filed the referenced tariff sheets to comply with the Commission's order issued on July 7, 2005, in this proceeding (July 7 Order).¹ HIOS states that the tariff sheets reflect the requirements of Ordering Paragraphs (B) and (C) of the July 7 Order. On August 1, 2005, ExxonMobil Gas & Power Marketing Company, A Division of ExxonMobil Corporation, (ExxonMobil) protested the filing. As discussed below, the Commission denies the protest, finds that the filing satisfactorily complies with the July 7 Order, and accepts the referenced tariff sheets to be effective on the dates as noted in the Appendix.

2. In the July 7 Order, the Commission denied the requests for rehearing of the Commission's January 24, 2005 Order in this proceeding,² and accepted, subject to certain conditions, HIOS' compliance filing dated February 14, 2005 (February 14 compliance filing) to the January 24, 2005 Order. Ordering Paragraphs (B) and (C) of the July 7 Order required HIOS to file revised tariff sheets within 15 days, or by July 22, 2005, to implement the findings of the Commission. On July 22, 2005, the Commission

¹ *High Island Offshore System, L.L.C.*, 112 FERC ¶ 61,050 (2005).

² *High Island Offshore System, L.L.C.*, 110 FERC ¶ 61,043 (2005).

issued an order denying HIOS' motion for stay of our orders, and denying an extension of time to comply with Ordering Paragraphs (B) and (C). The Commission did grant an extension of time for HIOS to make refunds for the period January 24 through July 31, 2005.³

3. Specifically, Ordering Paragraph (B) directed HIOS to file an actual tariff sheet superceding Revised Sheet No. 10 to become effective on January 24, 2005. Because HIOS submitted a *pro forma* Tariff Sheet No. 10 in the February 14 compliance filing, the Commission directed HIOS to file an actual superceding Revised Sheet No. 10, to become effective on January 24, 2005, the date of the order setting just and reasonable rates, noting that the *pro forma* tariff sheet reflects the resulting rates of the required changes in the cost of service. Ordering Paragraph (C) directed HIOS to file revised tariff sheets in place of the remaining *pro forma* tariff sheets submitted in the February 14 compliance filing, to become effective on the first day of the month following issuance of the order. Those tariff sheets implement the Commission's requirement pursuant to NGA section 5 that HIOS implement a tracking mechanism to recover its fuel and lost-and-unaccounted-for (LAUF) costs, and include a mechanism to true-up over- and underrecoveries. Additionally, Ordering Paragraph (C) directed HIOS to include detailed workpapers supporting the derivation of the fuel and LAUF percentages.

4. Regarding the true-up mechanism, the Commission rejected the initial true-up percentage of 1.30 percent reflected in the February 14 compliance filing, and directed HIOS to implement the true-up mechanism in its second annual fuel filing to be effective April 1, 2006. With respect to other tariff related issues, the Commission directed HIOS to make certain clarifications with regard to the proposed tariff language contained in section 28 of its tariff concerning intra-period adjustments to company use percentages.

5. Second Revised Sheet No. 11 reflects a Total Company Use of 1.54 percent, which consists of three components: (1) a rate of 0.90 percent for Compressor Fuel, (2) a rate of 0.64 percent for Unaccounted For Gas (LAUF), and (3) a rate of 0.00 percent for Company Use True up. As support for its proposed fuel and LAUF, page 1 of HIOS' workpaper, Attachment B, reflects: (a) annual actual 2002, 2003, and 2004 fuel and LAUF quantities, with three-year averages (Lines 1-8); (b) a line entry entitled "Projected New Receipts" of 240,608,000 Dth (Line 12), which is based on "Projected Gross Receipts" of 244,674,275 Dth (Line 10), minus "Projected Deliveries to Stingray;" and (c) "Compressor Fuel %" (Line 13), "Unaccounted For Gas" (Line 14), "Annual True up" (Line 15), and "Total Company Use" (Line 16). Page 2 reflects monthly detail of compressor fuel and LAUF for the period of January of 2002 through December of 2004.

³ *High Island Offshore System, L.L.C.*, 112 FERC ¶ 61,087 (2005).

6. HIOS states that several of the required changes ordered by the Commission relate to section 28.1(b) governing the use of intra-period adjustments. HIOS states that this section was intended to give HIOS the ability to reduce the company use percentage on short notice, if fuel use and fuel collections on the system warranted such a decrease prior to the next annual filing. HIOS states that these short-notice reductions were intended to provide shippers with fuel reductions that could be immediately implemented in their business arrangements.

7. HIOS states, however, that the tariff changes directed by the Commission in the July 7 Order with regard to the notice requirements contained in section 28.1(b) will delay the implementation of these fuel reductions beyond that point in time where shippers can recognize the impact in the ensuing months' business. Thus, HIOS states that because the intended benefit is no longer obtainable, section 28.1(b) has been eliminated. HIOS states that by eliminating this section it has eliminated all of the tariff language regarding intra-period filings that raised concerns for the Commission. Further, HIOS states that sections 28.3(a), 28.3(b), and 28.3(c) have all been modified to state that the calculations described in these sections require supporting workpapers. Finally, HIOS states that the tariff sheets containing the above changes have an effective date of August 1, 2005.

8. Public notice of the instant filing was issued on July 29, 2005, allowing for protests to be filed as provided in section 154.210 of the Commission's regulations. As mentioned above, on August 1, 2005, ExxonMobil filed its protest. ExxonMobil asserts that the filing is not adequately supported, that the projected volumes are unduly low, and that the netting of certain volumes from the projected volumes is unexplained and inappropriate. On August 16, 2005, HIOS filed an answer to ExxonMobil's protest. HIOS states that the answer will provide relevant information, will clarify certain errors and misstatements in the protest, and will lead to a more complete and accurate record, as well as a better understanding of the filing. HIOS submits that its answer should help the Commission in reaching a decision on the compliance filing. Although answers to protests are not generally permitted, the Commission will accept HIOS' answer as it will assist the Commission with a more complete record in this case.⁴ As detailed below, HIOS submits that all of ExxonMobil's concerns are without foundation.

9. HIOS' filing of Third Revised Sheet No. 10 complies with Ordering Paragraph (B) and that tariff sheet is accepted. As to the fuel and LAUF provisions, no party has objected to removal of the provisions concerning intra-period adjustments.

10. First, ExxonMobil protests HIOS' proposed fuel and LAUF retention percentages to be in effect for the period from August 1, 2005 through April 1, 2006. ExxonMobil asserts that the filing lacks workpapers to show the mathematical calculations in support

⁴ 18 C.F.R. § 385.213(a)(2) (2005).

of the proposed fuel and LAUF rates, as well as the monthly data showing actual inflows and outflows, consistent with the filing requirements of 18 C.F.R. § 154.403(d) of the regulations. ExxonMobil requests that the Commission direct HIOS to provide the requisite support for its determination of actual inflows and outflows as required under the regulations by receipt points as was used by HIOS in preparing a data response requested by ExxonMobil at the hearing, which was introduced into evidence at the hearing as Exhibit No. EM-8, and which ExxonMobil appended to its protest in the instant proceeding.

11. HIOS responds that it is uncertain what additional mathematical calculations ExxonMobil believes are required under section 154.403 other than those included in the workpapers, which include all information required to track and replicate those calculations precisely. In addition, HIOS has submitted with its answer a schedule (Attachment A) that reflects system inflows and outflows for each month used to calculate the percentages as required in section 154.403(d)(3)(i). HIOS states that although it is a summary statement, as described in the regulations, rather than the statement by receipt point requested by ExxonMobil in its protest, it fully complies with the requirements of section 154.403, and should be accepted by the Commission as sufficient for that purpose.

12. Regarding ExxonMobil's claim that there is insufficient support for the calculations of the stated percentages for compressor fuel and unaccounted for gas, the Commission finds that no further calculations are necessary. We agree with HIOS that the instant filing includes all the requisite information necessary to track and replicate the proposed calculations.

13. Regarding monthly system inflows and outflows, because ExxonMobil has made no showing to support its contention that HIOS should be required to adopt a more burdensome, receipt-point specific format than is required under the regulations, the Commission finds that HIOS' summary schedule is compliant.

14. Second, ExxonMobil takes issue with the volume projections used by HIOS in its calculation. ExxonMobil asserts that these are materially lower than the actual throughput shown in the 2003 and 2004 Form 2 reports filed by HIOS. HIOS responds that its projections represent its best estimate of actual throughput for calendar year 2005, in light of expected declines in production and other anticipated changes. In further support of these projections, HIOS has submitted with its answer a statement (Attachment B) reflecting actual throughput on its system to date, which shows a projected annual throughput based on seven months actuals of 244,460,004 Dth.

15. The July 7 Order held that HIOS could use a forecasted throughput to calculate its proposed fuel and LAUF percentages. HIOS has explained in its answer that its projections reflect certain adjustments that represent its best estimate of what its actual

throughput will be for calendar year 2005. Thus, the Commission finds that HIOS has supported the projected volumes underlying the calculation of fuel and unaccounted for gas, including the deduction of the deliveries to Stingray.

16. Third, ExxonMobil takes issue with the fact that HIOS has netted out from its projection volumes received into its Stateline lateral and delivered to Stingray Pipeline Company, L.L.C. (Stingray). ExxonMobil argues that even if it is determined that these deliveries to Stingray do not require compression, unless HIOS can show that these deliveries do not account for lost and unaccounted for gas, they should be included in computing the LAUF gas charge. HIOS responds that it has netted these receipts from the volumes used to compute its fuel and unaccounted for percentages since the lateral began operation years ago. HIOS explains that the Stateline lateral is an eight-mile pipeline whose capacity is jointly owned by HIOS and various producers, and is operated by HIOS. HIOS states it transports gas through its own lateral capacity for delivery into the HIOS transmission system and, eventually, to the terminus of HIOS at West Cameron Block 167. Further, HIOS states that all volumes delivered to Stingray are transported through the capacity of the other lateral owners. HIOS states that, because it operates the lateral, it measures all receipt point volumes, including those destined for delivery to Stingray. HIOS explains that it nets out these Stingray deliveries to determine billable volumes, because the volumes received into this lateral and delivered to Stingray utilize the capacity of third parties and never physically enter either the HIOS lateral capacity or the HIOS system and therefore do not contribute to either HIOS compressor fuel or LAUF volumes. The Commission finds that HIOS has satisfactorily addressed ExxonMobil's concern.

By direction of the Commission.

Magalie R. Salas,
Secretary.

High Island Offshore System, L.L.C.
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Tariff Sheets to FERC Gas Tariff, Third Revised Volume No. 1:

Accepted to be Effective January 24, 2005:

Third Revised Sheet No. 10

Accepted to be Effective August 1, 2005:

Eighth Revised Sheet No. 2
Second Revised Sheet No. 11
Third Revised Sheet No. 64
First Revised Sheet No. 65
Second Revised Sheet No.67
Third Revised Sheet No. 69
First Revised Sheet No. 173A
Original Sheet No. 173