

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

September 29, 2006

In Reply Refer To:
Sabine Pipe Line LLC
Docket No. RP06-582-000

Chevron Pipe Line Company
P.O. Box 430
Bellaire, TX 77402-0430

Attention: Sanna Lilburn, Attorney-in-Fact
Sabine Pipe Line LLC

Reference: New Annual Fuel and Line Loss Reimbursement Tracking Provisions and
Initial Reimbursement Percentages

Ladies and Gentlemen:

1. On September 1, 2006, Sabine Pipe Line LLC (Sabine) filed tariff sheets, listed in the Appendix, and supporting work papers proposing to establish an annual fuel and line loss reimbursement tracker and initial reimbursement percentages for compressor fuel used and unaccounted-for volumes in new section 27 (Fuel Gas and Unaccounted For Gas) in its General Terms and Conditions (GT&C).¹ Sabine will use its proposed tracking mechanism to recalculate the reimbursement percentages annually based upon the previous year's actual fuel use and line loss data. Sabine requests the Commission permit the tariff sheets to become effective October 1, 2006. For the reasons discussed below, Sabine's proposed tariff sheets are conditionally accepted, to become effective October 1, 2006, as requested.

2. Sabine's present transportation rates became effective pursuant to a settlement approved by the Commission on January 13, 1987, in Docket No. RP86-86-000.² At the time of the rate settlement, Sabine had no compressors on its existing system. Consequently, there were no compressor fuel expenses included in the cost of service

¹ On September 15, 2006, Sabine supplemented its filing to correct minor language in its transmittal.

² *Sabine*, 38 FERC ¶ 61,014 (1987).

used to establish the currently effective transportation rates. Currently, Sabine has two mainline compressor stations in operation at the Henry Hub at Erath, Louisiana on the eastern end of Sabine's mainline, and another compressor station in Port Neches, Texas on the western end.³ The two Henry Hub stations, known as the North and South Booster Stations, commenced service in 1989 and 1990, respectively and originally provided Natural Gas Policy Act section 311 transportation service. On February 2, 1992, Sabine received authorization in Docket No. CP91-501-000 to render section 7(c) transportation using the compression.⁴ Sabine constructed the Port Neches Compressor Station facilities under its blanket certificate authority provided under section 157.208 of the Commission's regulations (18 C.F.R. § 157.208 (2006)) and began operation on November 1, 1997.

3. Sabine states that it did not implement a fuel reimbursement mechanism when it began using the compressors because it wanted to keep its rate structure as simple and straightforward as possible. Sabine adds that as the operator of the Henry Hub, it needed a simple rate structure due to the competitive market at the Henry Hub, the unique nature of the transactions at the Henry Hub⁵ and for administrative efficiency.

4. Since implementing the compressors, Sabine contends that the rise in natural gas prices in recent years has caused Sabine's compressor fuel expenses to increase significantly. On July 21, 2001, Sabine submitted a cost and revenue study for the 12-months ending April 30, 2001. Sabine's revenues totaled \$9.5 million while its costs during the same period were \$14.3 million, including more than \$1 million of compressor fuel expense. Sabine emphasizes that costs exceeded revenue by \$4.8 million or by more than 50%.⁶

5. Sabine states that Attachment B of its filing shows that compressor fuel expenses have risen each year increasing from approximately \$1 million in 2002 to nearly \$3.5 million in 2005. Sabine asserts that this dramatic increase in compressor fuel expense is substantial for a pipeline the size of Sabine's. Further, Sabine maintains that natural gas prices are projected to stay at relatively high levels in the future. Accordingly, Sabine proposes to implement Fuel Gas and Unaccounted For Gas reimbursement on its system

³ Sabine states that it also has a mainline compressor station located near Lake Charles, Louisiana, which has been inactive since 2000.

⁴ *Sabine*, 58 FERC ¶ 61,120 (1992).

⁵ The Henry Hub serves as the designated delivery point for natural gas futures contracts traded on the New York Mercantile Exchange (NYMEX).

⁶ Sabine states that a Director's Letter Order in Docket No. CP00-24-003 found that the filed cost and revenue study supported the continuation of Sabine's effective transportation rates.

for the first time. Sabine states that its proposed Fuel Gas Reimbursement Percentages (FRP) and Unaccounted For Gas Reimbursement Percentage (UFRP) will provide Sabine the opportunity to recover these increasing operating expenses.

6. Sabine proposes to implement an FRP of 0.6 percent for shippers nominating service through the Port Neches Compressor Station and an FRP of 0.2 percent for shippers nominating service in or out of the Henry Hub. Sabine proposes two FRPs to gain more accuracy in tracking and assessing fuel costs based on actual paths of the transactions occurring on Sabine's system. Sabine asserts that its proposal is consistent with the methodology approved by the Commission in *Reliant Energy Gas Transmission Company*,⁷ where the Commission allowed a similar methodology for transactions occurring at the Perryville Hub. Sabine believes its proposal for two distinct FRPs is a reasonable method for recovery of compressor fuel expenses and meets the standards and conditions established in other proceedings. Sabine states that it will implement a UFRP percentage of 0.1 percent applicable to all transportation service on Sabine's system, consistent with the Commission's determinations in other proceedings involving Unaccounted For Gas reimbursement. Sabine submits that it developed the proposed fuel and unaccounted for percentages using the latest available 12-month data, including volumes through June 2006. Attachment C of Sabine's filing presents the derivation of the proposed FRPs and UFRP amounts.

7. Sabine submits that section 154.403 of the Commission's regulations permits a pipeline to adjust its fuel retention percentages in periodic limited rate filings, pursuant to the pipeline establishing a methodology in its tariff. Sabine proposes adding governing tariff provisions in a new section 27 (Fuel Gas and Unaccounted For Gas) to its GT&C to establish its tracking methodology. Sabine states that it modeled the proposed section after tariff provisions previously approved by the Commission. Sabine contends that in accordance with the requirements of 18 C.F.R § 154.403, the proposed new section details: (1) the nature of the expenses recovered; (2) the manner in which the Fuel Gas and Unaccounted For Gas expenses will be recovered; (3) the annual review and updating of the percentages based on the most recent actual use data; and, (4) the effective date of changes to the FRP and UFRP, respectively.

8. Sabine states that it is aware that the Commission prefers that compressor fuel trackers include true-up provisions to compare the actual quantities of fuel used during each period with the quantities of gas retained for fuel during the same period. Nevertheless, Sabine argues that its circumstances warrant approval of its proposed fuel tracker, which does not include a true-up provision. Sabine states that in cases where the Commission required true-up provisions, the pipelines involved were large pipelines where there were concerns raised that the pipeline would consistently over collect its

⁷ 100 FERC ¶ 61,290 (2002).

fuel.⁸ Sabine states that the Port Neches FRP of 0.6 percent and Henry Hub FRP of 0.2 percent proposed in this instant filing are modest by comparison to other pipelines. If both percentages are applicable to a transaction, the total FRP is only 0.8 percent. Sabine asserts that Attachment D of its filing shows that recent experience indicates that fuel usage has been relatively consistent for the past several years. Consequently, Sabine does not anticipate significant adjustments to its FRP in its annual tracker filings as proposed and believes that any adjustments based on a true-up provision would be *de minimis*.

9. The Commission noticed Sabine's filing on September 6, 2006. Interventions and protests were due September 13, 2006, as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2006)). Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2006), all timely filed motions to intervene and any motions 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 this proceeding or place additional burdens on existing parties. On September 12, 2006, Sequent Energy Management, L.P. (Sequent) filed a motion to intervene and comments.

10. In its motion to intervene and comment, Sequent states that it has certain reservations concerning the rationale behind the development of Sabine's present proposal. First, Sequent argues that Sabine has not fully addressed why Sabine has chosen to establish a fuel and unaccounted for assessment at this particular time given the sharp increases in natural gas prices and the additive expense of bearing the fuel and unaccounted-for burden for numerous years. Sequent argues that the significant and consistent rise in natural gas prices is not a recent phenomenon. For example, Sequent submits that, according to Attachment B, compressor fuel expenses appear to have: (1) more than doubled between years 2002 and 2003; (2) increased by more than 10 percent from 2003 to 2004; and, (3) surged more than 25 percent between 2004 and 2005. Sequent argues that after experiencing this magnitude of increases in operating expenses year-after-year, Sabine should have worked to put into effect some form of fuel and unaccounted-for mechanism to recoup fuel value for the system prior to its present filing. Accordingly, Sequent finds unpersuasive Sabine's statement that Sabine delayed fuel assessment because it wanted to simplify its rate structure and achieve administrative efficiency.

11. In addition, Sequent argues that a timelier implementation of a fuel and unaccounted-for assessment would have allowed shippers to incorporate any attendant

⁸ *El Paso Natural Gas Company*, 112 FERC ¶ 61,150 (2005); *ANR Pipeline Company*, 108 FERC ¶ 61,050 (2005).

fuel and unaccounted-for charges in their respective economic analyses. Sequent argues that this would have been particularly beneficial where the economics and viability of pre-existing deals hinged on increments of cents.

12. Sequent states that it has additional concerns regarding Sabine's fuel tracker proposal which excludes an actual true-up mechanism. Sequent asserts that as a shipper, it is not solely interested in tracking a pipeline's fuel usage, but has a corresponding interest in instances where a pipeline might owe Sequent fuel quantities. Sequent states that it wants certainty that in the event a pipeline over collects on fuel, Sequent would be duly compensated by the pipeline either in the form of a crediting mechanism or ultimately through reduced fuel rates. Sequent contends that likewise, if a pipeline over collects fuel during a certain period of time, then having no true-up mechanism would allow the pipeline to unnecessarily retain the over collected fuel value.

13. Sequent disputes Sabine's argument that true-up provisions are only required for large pipelines where any adjustments would be more than de minimus. First, Sequent argues that any pipeline establishing a new and yet untested fuel and unaccounted-for set of reimbursement charges such as the one Sabine now proposes warrants the use of a true-up mechanism. Second, Sequent points out that Sabine has failed to provide any workable criteria or definition for determining whether a given pipeline is "large" for purposes of establishing a true-up mechanism.⁹

14. Sequent contends that Sabine's data¹⁰ does not assure shippers or the Commission that future fuel consumption on its system will consistently occur as Sabine predicts (based on simple historical averages), particularly in light of Sabine's argument regarding rising natural gas prices (or the ability of its compression facilities to maintain constant consumption levels year-after-year). Moreover, continues Sequent, if there are aberrations of any sort in fuel consumption, shippers should receive the benefit of any fuel savings. Ultimately, Sequent claims that a true-up mechanism will maintain a healthy balance in fuel quantities that are owed to/from the pipeline and keep any sort of fuel anomaly from unduly benefiting a particular party over time.

15. Sequent believes that Sabine's proposal raises additional questions and concerns not addressed in the instant filing that warrant further analysis to ensure that: (1) any economic disruptions that shippers may initially face are minimized; (2) all data used in the development of the proposed fuel and unaccounted-for level are thoroughly scrutinized; and, (3) an appropriate true-up mechanism is given serious consideration.

⁹ Specifically, Sequent asks whether the definition of "large" depends upon mile of pipe, annual volume, number of customers or some other criteria.

¹⁰ See Attachment C of Sabine's filing.

Sequent requests that the Commission convene a technical conference providing parties and the Commission Staff opportunity to more fully investigate these and other details of Sabine's filing.

16. The Commission finds that Sabine's proposed fuel tracker methodology and proposed FRPs are just and reasonable, and therefore, denies Sequent's request to convene a technical conference. However, the Commission agrees with Sequent's concern over Sabine's lack of a true-up mechanism and finds that Sabine must establish a true-up mechanism to account for over and under recovery of gas. Commission policy as articulated in *ANR Pipeline Company*,¹¹ states that "The Commission is only requiring that, if a pipeline chooses to track fuel costs in periodic limited section 4 rate cases or it is ordered to do so by the Commission as a result of a section 5 investigation, the fuel tracker must include a true-up provision."¹² Since Sabine proposes to track fuel costs in periodic limited section 4 rate cases, the Commission directs Sabine to develop a true-up mechanism which accounts for the over and under recovery of gas. The Commission's general policy does not permit pipelines to change any single component of their cost of service outside of a general section 4 rate case, since a cost increase in one item may be offset by cost decreases in others.¹³ The Commission finds that by tracking a particular cost item the pipeline has the opportunity to increase that cost item without regard to the possibility of any offsetting cost reductions, and in return for this opportunity, there should be an assurance that the individual cost item is, in fact, tracked accurately. Having been given the opportunity to increase one cost item without regard to other cost decreases, the pipeline should not be permitted to over recover that cost under any circumstances. The true-up relieves both the pipeline and the shippers of over and under recoveries and ensures that all parties are kept whole. Finally, contrary to Sabine, the reasons for requiring a true-up apply equally to all pipelines with trackers regardless of their size or the expected magnitude of their over or under recoveries.

¹¹ *ANR Pipeline Co.*, 108 FERC ¶ 61,050 (2004), *order on reh'g*, 110 FERC ¶ 61,069, *order on reh'g*, 111 FERC ¶ 61,290 (2005) (*ANR*).

¹² *ANR*, 110 FERC ¶ 61,069 at P 28.

¹³ *See Id.* at P 22.

17. Accordingly, the Commission conditionally accepts the proposed tariff sheets, listed in the Appendix, effective October 1, 2006, subject to Sabine's filing, within 30 days of the date this order issues, revised tariff sheets establishing a true-up mechanism.

By direction of the Commission.

Magalie R. Salas,
Secretary.

APPENDIX

**Sabine Pipe Line LLC
FERC Gas Tariff, Original Volume No. 1**

Tariff Sheets conditionally accepted effective October 1, 2006

Sixth Revised Sheet No. 20
First Revised Sheet No. 20A
Third Revised Sheet No. 101A
First Revised Sheet No. 102
First Revised Sheet No. 103
Second Revised Sheet No. 121
First Revised Sheet No. 122
Fifth Revised Sheet No. 201
Fourth Revised Sheet No. 203
Third Revised Sheet No. 203A
Fourth Revised Sheet No. 204
Fourth Revised Sheet No. 204A
Original Sheet No. 204A.01
Second Revised Sheet No. 206A
First Revised Sheet No. 219
Second Revised Sheet No. 229A
Third Revised Sheet No. 241
First Revised Sheet No. 268
Second Revised Sheet No. 297A
First Revised Sheet No. 315
Original Sheet No. 316
Original Sheet No. 317
First Revised Sheet No. 402
First Revised Sheet No. 409
First Revised Sheet No. 441
First Revised Sheet No. 448