

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Colorado Interstate Gas Company

Docket No. RP07-320-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEET AND ESTABLISHING
TECHNICAL CONFERENCE

(Issued March 30, 2007)

1. On February 28, 2007, Colorado Interstate Gas Company (CIG) filed a revised tariff sheet¹ to reflect the quarterly adjustment to its lost and unaccounted-for (L&U) and other fuel gas reimbursement percentage. As discussed below, the Commission accepts and suspends the tariff sheet to be effective April 1, 2007, subject to the outcome of a technical conference to address the issues raised in this proceeding.

Details of the Filing

2. CIG filed a revised tariff sheet and supporting workpapers reflecting a 0.06 percent increase in the reimbursement percentage for L&U and other fuel gas from 0.00 percent to 0.06 percent. CIG states that the quarterly L&U and other fuel gas quantity has increased by 406,813 Dth due to increased net L&U and other fuel gas quantities for the quarter ending December 2006 versus the quarter ending December 2005, slightly increased electric commodity expenses for the quarter ending December 2006 versus the same quarter in 2005, a degradation in processing economics driven by a greater decrease in liquids prices than the decrease in quarterly natural gas spot prices for the quarter ending December 2006 versus the same quarter in 2005, and operational problems at the Rawlins plant that resulted in the diminished production of liquids during the fourth quarter 2006 compared to the fourth quarter 2005.

3. In addition, CIG states that on October 22, 2006, it discovered a down-hole failure of casing equipment on the Fort Morgan storage injection/withdrawal well number 26.

¹ Forty-fourth Revised Sheet No. 11A of its FERC Gas Tariff, First Revised Volume No. 1.

According to CIG, this failure resulted in gas loss of 451,000 Dth from the storage field to the surface and other operational impacts. Thus, the majority of the L&U adjustment is a result of the Fort Morgan gas loss.

Public Notice, Intervention and Comments

4. Notice of CIG's filing was issued on March 5, 2007. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R. § 358.210. Pursuant to Rule 214, 18 C.F.R. § 385.214 (2006), all timely-filed motions to intervene and any motions to intervene out-of-time 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 March 12, 2007, Indicated Shippers² filed a protest to the filing and on March 20, 2007, CIG filed an answer to Indicated Shippers' protest. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 213(a)(2)(2006), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept CIG's answer because it has provided information that assisted us in our decision-making process.

5. Indicated Shippers state that CIG's filing does not adequately explain the circumstances surrounding the gas loss at the Fort Morgan storage field and leaves important questions answered.³ In addition, Indicated Shippers argue that the Fort Morgan storage gas loss is not recoverable as L&U and other fuel gas because the Commission has found that L&U and other fuel gas consists of gas that is lost or unaccounted-for as part of a pipeline's normal operations and that such lost or

² The Indicated Shippers are BP Energy Company, BP America Production Company, Chevron Natural Gas, a division of Chevron U.S.A. Inc., and Marathon Oil Corporation.

³ The questions that Indicated Shippers state are unanswered are as follows:

What caused the well failure? When and how was the well failure detected? What actions did CIG take in response to its discovery of the well failure? What were CIG's maintenance and related activities in connection with the storage gas well, both prior and subsequent to the well failure, to minimize the risk of this event? Has CIG taken steps to ensure against future well failures? Are other storage wells at risk of failure due to the factors that resulted in this Well #26's failure? Is the lost gas recoverable?

unaccounted-for gas cannot be precisely attributed to a specific cause.⁴ Indicated Shippers state that a storage gas loss due to a failure in the storage operator's operations is not attributable to normal operations and therefore is not recoverable as L&U and other fuel gas. Further, Indicated Shippers assert that CIG must absorb the cost of the gas lost at the Fort Morgan storage field because liability provisions of the General Terms and Conditions (GT&Cs) of CIG's tariff, including section 17.1,⁵ impose the burden of a gas loss on the party that was in control of the gas when the loss occurred.

6. Indicated Shippers also state that if the Commission does not summarily reject CIG's proposal, the Commission should accept and suspend CIG's filing and require CIG to fully explain the well failure, allow shippers to submit data requests to CIG and leave open the possibility of convening a technical conference. Finally, Indicated Shippers argue that if the Commission allows CIG to recover the costs of the gas lost at the Fort Morgan storage field, the Commission should find that CIG can only recover a proportionate share of these costs in its transportation rates. Indicated Shippers argue that, under CIG's proposal, transportation shippers alone would be required to compensate CIG for the gas lost at the Fort Morgan storage field because storage transactions would not be subject to the L&U and other fuel gas charge. Indicated Shippers also argue that such a result violates basic rate-making principles of matching cost incurrence to those customers benefiting from the service for which the cost was incurred. Therefore, the lost gas costs can only be allocated to transportation service to the extent that CIG relies on storage to support transportation.

7. In response to Indicated Shippers' claim that CIG's filing does not adequately explain the circumstances surrounding the gas loss at the Fort Morgan storage field, CIG

⁴ Protest at 5 (*citing Williams Natural Gas Co.*, 73 FERC ¶ 61,394, at 62, 215 (1995), *reh'g denied*, 74 FERC ¶ 61,215 (1996).

⁵ Indicated Shippers interprets section 17.1 of the GT&Cs of CIG's tariff to mean that CIG was responsible for the gas lost at the Fort Morgan storage field because the gas was in CIG's exclusive control and possession. Section 17.1 provides:

Responsibility for Gas. Shipper shall be in exclusive control and possession of the Gas until such has been received by Transporter at the Point(s) of Receipt and after such Gas has been received by Shipper, or for Shipper's account, at the Point(s) of Delivery. Transporter shall be in exclusive control and possession of such Gas while it is in Transporter's possession. The Party which is or is deemed to be in exclusive control and possession of such Gas shall be responsible for all injury, damage, loss, or liability caused thereby.

states that it recognizes that it has an obligation to support its revised L&U and other fuel gas charge but that it would be impractical to include detailed information about each element of an L&U and other fuel gas filing in an initial submittal. CIG states however, that in light of the questions raised by Indicated Shippers, it has supplemented its initial submission by filing, with its answer, an affidavit and further detail regarding the Fort Morgan gas loss.

8. In addition, CIG disagrees with Indicated Shippers that a pipeline's L&U and other fuel gas charge can only be used to recover lost or unaccounted-for gas that cannot be attributed to a specific cause. CIG contends that the calculation of its L&U and other fuel gas charge simply subtracts all gas deliveries from gas receipts, taking into account adjustments for compressor fuel, processing shrinkage and other uses, and that all system inputs and outflows are included with no exceptions for gas lost due to identified, non-random or nonrecurring events. CIG also disagrees with Indicated Shipper's interpretation of the liability provisions of its tariff, arguing that section 17.1 addresses injuries, damages, losses or liability caused by the gas, such as the result of a gas explosion, rather than responsibility for loss of the gas itself.

9. With regard to Indicated Shippers' request that the Commission find that the Fort Morgan gas loss costs can be allocated to transportation service only to the extent that CIG utilizes storage to support transportation service, CIG states that this is not the appropriate forum for Indicated Shippers to raise this issue. CIG argues that its existing L&U and other fuel gas charge is an established and approved rate design, and that if Indicated Shippers believes there should be separate retention percentages for transportation and storage transactions, it should file a complaint under section 5 of the Natural Gas Act.⁶

10. CIG requests that the Commission reject Indicated Shippers' protest and believes that a technical conference is not necessary, but will participate in a technical conference if the Commission deems it appropriate.

Discussion

11. The Commission has reviewed CIG's filing as well as the protest and answer filed in this proceeding and finds that CIG's proposal to recover the costs associated with the gas lost at the Fort Morgan storage field raises numerous technical, engineering and operational issues which are best addressed at a technical conference. There are also issues of interpretation of tariff provisions governing L&U and other fuel gas and liability

⁶ 15 U.S.C. § 717d (2000).

for losses that would benefit from a fuller examination. Also, despite the supplemental information CIG filed with its answer, further information is needed regarding the Fort Morgan gas loss. In addition, Indicated Shippers' protest and CIG's answer reveal varying interpretations of several provisions of CIG's tariff. For example, Indicated Shippers interpret section 17.1, the "Responsibility for Gas" provision of CIG's tariff as assigning responsibility for all injury, damage, loss, or liability to the gas caused by the *exclusive control* of either the pipeline or the shipper. On the other hand, CIG interprets this provision to address injury, damage, loss, or liability caused by the *gas* while in the possession of the pipeline or the shipper.

12. At the conference, the Commission Staff and the parties to the proceeding will have the opportunity to discuss all of the elements included in CIG's latest quarterly adjustment to its L&U and other fuel gas reimbursement percentage including but not limited to CIG's justification and support for inclusion of the costs associated with the gas lost at the Fort Morgan storage field. Specifically, CIG should be prepared to address all the concerns raised in the protest, and if necessary, to provide additional technical, engineering and operational support for its proposal to include the costs of the gas lost at the Fort Morgan storage field in its L&U and other fuel gas charge. Any party proposing alternatives to CIG's proposal should also be prepared to similarly support its position. Finally, based upon its analysis of the information provided in this proceeding, the Commission Staff may issue data requests prior to the technical conference or a notice of the technical conference may contain questions that need to be addressed by CIG or other parties at the conference.

13. Based on a review of the filing, the Commission finds that the proposed tariff sheet has not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission will accept the tariff sheet for filing, and suspend its effectiveness for a minimal period to be effective April 1, 2007, subject to the conditions in this order.

14. The Commission's policy regarding tariff filing suspensions is that such filings generally should be suspended for the maximum period permitted by statute where preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards. *See, Great Lakes Gas Transmission Co.*, 12 FERC ¶ 61,293 (1980) (five-month suspension). It is recognized, however, that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to harsh and inequitable results. *See, Valley Gas Transmission, Inc.*, 12 FERC ¶ 61,197 (1980) (minimum suspension). The Commission finds that circumstances exist here where CIG is filing a quarterly update pursuant to an approved gas tracker mechanism. Therefore, the Commission will

accept and suspend the proposed tariff sheet to be effective April 1, 2007, subject to the outcome of the technical conference established herein and further orders of the Commission.

The Commission orders:

(A) CIG's tariff sheet referenced in footnote 1 is accepted and suspended to be effective April 1, 2007, subject to the outcome of the technical conference established by this order.

(B) The Commission's staff is directed to convene a technical conference to address the issues raised by CIG's filing and report the results of the conference to the Commission within 120 days of the date this order issues.

By the Commission.

(S E A L)

Philis J. Posey,
Acting Secretary.