128 FERC ¶ 61,146
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

August 7, 2009

In Reply Refer To:
Quest Pipelines (KPC)
Docket No. RP09-483-001

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

Attention: Matthew T. Rick

Reference: Compliance Filing

Ladies and Gentlemen:

1. On June 1, 2009, Quest Pipelines (KPC) submitted substitute tariff sheets[1] and information requested by the Commission to comply with a letter order issued April 30, 2009.[2] KPC requests the Commission accept the substitute tariff sheets, effective April 1, 2009. As discussed below, the Commission accepts the substitute tariff sheets to be effective April 1, 2009, as proposed.

2. On March 31, 2009, KPC filed revised tariff sheets pursuant to section 23 of its General Terms and Conditions, which requires KPC to adjust annually its fuel reimbursement percentage to reflect decreases or increases in fuel usage and lost and unaccounted for (L&U) gas. GT&C section 23 requires KPC to submit a filing thirty (30) days prior to April 1st of each year to update fuel retention percentages in its tariff. KPC proposed an increase to the fuel reimbursement percentages for both the summer and winter periods in Zones 1 and 3, an increased percentage in the summer period for Zone 2, and a decreased retention percentage in the winter period for Zone 2.

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[1] *See* Appendix to this order.

[2] *Quest Pipelines (KPC)*, 127 FERC ¶ 61,095 (2009) (April 30 Order).

3. On April 30, 2009, the Commission issued a letter order accepting and suspending the tariff sheets effective April 1, 2009, subject to refund and conditions. In the order, the Commission found KPC had failed to explain adequately the methodology used to calculate the fuel reimbursement percentages. The Commission ordered KPC to submit additional documentation to further explain the derivation of its fuel reimbursement percentages and directed KPC to submit a response within 30 days to the following questions:

> (A) How did KPC derive the throughputs and compressor fuel usages listed on page 5 of Appendix B to its filing and the sources for the information used in the calculations?
>
> (B) How did KPC derive the .4000% L&U percentage set forth on page 2 of Appendix B?
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> (C) How did KPC derive the "System L&U" and the "Percentage L&U" on page 5 of Appendix B and why the "Percentage L&U" numbers differ from the L&U percentage of .4000% shown on page 2 of Appendix B?

In addition, the Commission ordered KPC to explain and support whether the increased percentages in its fuel rates result from an ongoing, systemic issue or an identified, non-recurring circumstance. Finally, the Commission required KPC to explain the relationship between changes in throughput levels and changes in fuel use on its system.

4. On June 1, 2009, KPC submitted its response. To determine throughput and compressor fuel usage, KPC explains it uses actual throughput and compressor fuel usage during the prior 12 month period from February to January, adjusted for non-recurring events and other expected system changes. However, KPC adds that it did not adjust the actual usage volumes to calculate the reimbursement percentages in the subject filing. KPC explains that it calculates the throughput and compressor fuel usage on a direction-of-flow basis using meter readings at receipt and delivery points in each zone.

5. Regarding the calculations for L&U, KPC calculates system-wide L&U rates by dividing projected L&U volumes by system-wide receipts as determined by aggregating receipts in all three zones. KPC states it adjusted actual L&U volumes downward to 2% of system-wide receipts for certain months because the L&U levels experienced in those months were unlikely to be recurring. KPC continues that it previously used receipts in Zone 1 as a proxy for the entire system, but KPC asserts its new methodology is more beneficial to shippers and more appropriate because volumes entering the system downstream of Zone 1 have increased in recent years. To calculate the L&U percentage for each zone, KPC divides the system-wide L&U rate by three.

6. KPC also filed substitute tariff sheets to correct a calculation error discovered in the course of preparing the compliance filing. Specifically, KPC inadvertently failed to include in its Zone 1 throughput, volumes transported under a lease transaction whereby KPC leases 90,000 Dth/d of upstream pipeline capacity from Enogex Inc. (Enogex). Including the lease volumes in Zone 1 increases total Zone 1 throughput from 4,405,850 Dth to 6,590,546 Dth and reduces fuel reimbursement percentages for Zone 1 from 1.9904 percent to 1.4408 percent (summer) and from 2.5562 percent to 1.9255 percent (winter). In addition, KPC submitted revised worksheets in Appendix B that are identical in form to those submitted with KPC's original filing, but corrected to include the lease volumes in the Zone 1 throughput. As a result, KPC's fuel reimbursement percentages decreased for all zones, except for Zone 3, from the percentages in effect prior to the March 31, 2009 filing. KPC opines that the increases in Zone 3 are small in absolute terms and due almost entirely to a prior period under-recovery in Zone 3.

7. With regard to the relationship between changes in throughput levels and change in fuel use on the system, KPC asserts that since 2005, fuel and L&U projections have roughly tracked throughput levels. However, KPC maintains the correlation is not directly one-to-one. For example, KPC explains that in recent years, the pressure at which gas enters the system in Zone 1 during the winter months decreased while total volume entering the system increased. KPC posits that the lower available pressure periodically necessitates an increase in compressor use that is not proportional to the increase in total throughput.

8. Notice of KPC's filing issued on June 11, 2009. Interventions and protests were due on June 15, 2009, as provided by section 154.210 of the Commission's regulations 18 C.F.R. § 154.210 (2009). Pursuant to Rule 214 (18 C.F.R. § 385.214 (2009), all timely filed motions to intervene and any motion to intervene out-of-time filed before the issuance date of this order are granted. Granting late interventions at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. On June 22, 2009, the Kansas Corporation Commission (KCC) filed a late protest to the compliance filing. The Commission grants KCC's late-filed protest, as doing so does not delay or disrupt the proceeding or create additional burdens on the other parties.

9. On June 26, 2009, KPC filed a motion for leave to answer KCC's protest. On June 30, 2009, KCC filed an answer to KPC's answer to KCC's protest. On July 2, 2009, KPC filed an answer to KCC's June 30, 2009 filing. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2009), prohibits an answer to a protest or an answer unless otherwise ordered by the decisional authority. We will accept the answers filed by KPC and KCC because they have provided information that assisted us in our decision-making process.

10. In its June 22, 2009 protest, KCC asserts that KPC calculated its fuel and lost and unaccounted (FL&U) reimbursement rate without properly reflecting KPC's negotiated

rate contract with Missouri Gas Energy (MGE) under which KPC's FL&U recovery is fixed. KCC states that when KPC derives its FL&U reimbursement rate, the 100% zone-based fuel quantities (including quantities associated with service to MGE) and the 100% system-wide L&U quantities (including quantities associated with service to MGE) are each divided by projected fuel usage and projected throughput, excluding the quantities delivered under the MGE contract. KPC contends the projected throughput volumes and projected fuel usage are the denominators in the FL&U percentage calculations, and exclusion of the projected quantities associated with the MGE contract from the denominators when calculating the reimbursement percentages overstates the FL&U percentage charged to shippers other than MGE.

11. In its June 26, 2009 answer, KPC responds that it removes both projected fuel and projected L&U volumes under the MGE contract from both the numerator and the denominator when calculating reimbursement percentages. KPC asserts that this methodology ensures that KPC does not allocate fuel and/or L&U costs under the MGE agreement to other shippers.

12. Furthermore, KPC states that when it calculates the reimbursement percentages filed in this proceeding, it did not project any throughput, fuel or L&U volumes under the MGE contract since this contract will expire in October 2009 and MGE has typically not flowed volumes under the contract during the summer months.

13. Finally, KPC points out that its shippers will be insulated and protected from under-recoveries under the MGE contract even if KPC's projections prove to be wrong due to its Deferred Fuel Reimbursement Account methodology. KPC explains the deferred account records the differences between the reimbursement volumes collected from shippers and the volumes actually used for fuel or L&U and imposes either a positive or negative surcharge on shippers to ensure they are not at risk for under- or over-recoveries.

14. In its June 30, 2009, answer to KPC's June 26, 2009 answer, KCC states that KPC's compliance filing and answer do not sufficiently support KPC's proposed fuel rates. KCC emphasizes in its June 30 answer that KPC's June 26 answer contained information regarding the calculation of the FL&U that was unavailable in the compliance filing. KCC believes KPC should have included this information in the June 1, 2009 compliance filing and not supplied it in a "piecemeal" approach after a protest had been filed. KCC states that given the new information provided in the answer, it is unclear what other information KPC may have omitted from the compliance filing. KCC contends the Commission should require KPC to amend its compliance filing to provide a complete explanation of the entirety of its FL&U methodology.

15. In its July 2, 2009 answer to KCC's June 30, 2009 answer, KPC notes it filed the compliance filing in response to the Commission's April 30 Order which directed KPC to

provide certain specified information. KPC states the April 30 Order did not direct KPC to provide a comprehensive explanation of all aspects of its fuel reimbursement methodology. KPC contends it provided the additional information required by the Commission in a complete, accurate, straightforward, and forthright manner as evidenced by the disclosure of the calculation error. Furthermore, KPC states the workpapers filed in the compliance filing to support the fuel reimbursement percentages, are identical in form to those submitted in KPC's last three annual reimbursement proceedings, none of which were protested by the KCC. KPC also states the form and structure of the workpapers submitted in this proceeding were adopted following technical conference proceedings held in Docket No. RP04-6-000, *et al*.

16. The Commission finds that KPC adequately supported its proposed fuel rates and provided the information required by the April 30 Order. The compliance filing addresses the Commission's concerns regarding KPC's derivation of its projected throughput, compressor fuel usage, and L&U percentages. As required by the April 30 Order, the compliance filing also explains changes in KPC's fuel rate. The rate adjustment KPC proposes in the substitute tariff sheets accounts for the volumes related to its lease of capacity from Enogex and lowers the rates paid by shippers. The Commission also finds KPC's treatment of the MGE contract does not distort the FL&U reimbursement charges proposed in this proceeding. As KPC explained, KPC did not project any fuel, throughput, or volumes for the MGE contract in calculating its FL&U percentages. The Commission further finds that KPC's treatment of the MGE contract is reasonable since the contract will expire in October 2009 and historically no volumes have flowed via this contract in the summer months. Based upon the additional information provided in its compliance filing and answers, the Commission finds KPC has sufficiently supported its proposed FL&U rates. Accordingly, the Commission accepts the substitute tariff sheets in the Appendix, effective April 1, 2009, as proposed.

17. In light of the acceptance of the substitute sheets submitted here, the original tariff sheets in Appendix accepted in the April 30 Order are rejected as moot.

By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Appendix

Quest Pipelines (KPC)

FERC Gas Tariff, Second Revised Volume No. 1

Tariff Sheets Accepted Effective April 1, 2009:

Substitute Third Revised Sheet No. 21
Substitute Third Revised Sheet No. 37
Substitute Second Revised Sheet No. 47
Substitute Second Revised Sheet No. 49
Substitute Second Revised Sheet No. 51
Substitute Second Revised Sheet No. 53

Tariff Sheets Rejected As Moot:

Third Revised Sheet No. 21
Third Revised Sheet No. 37
Second Revised Sheet No. 47
Second Revised Sheet No. 49
Second Revised Sheet No. 51
Second Revised Sheet No. 53