138 FERC ¶ 61,222
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 29, 2012

In Reply Refer To:
Southern Star Central Gas Pipeline, Inc.
Docket No. RP12-443-000

Southern Star Central Gas Pipeline, Inc.
4700 Highway 56
Owensboro, KY 42301

Attention: Daryl R. Johnson
Vice President, Rates & Gas Management

Reference: Annual Fuel Filing

Ladies and Gentlemen:

1. On March 1, 2012, Southern Star Central Gas Pipeline, Inc. (Southern Star) filed revised tariff records[1] and supporting workpapers to reflect adjustments to its fuel and loss reimbursement percentages, applicable to all rate schedules, for the Production Area, Market Area, and for Storage (Primary Filing). In this Primary Filing, Southern Star proposed to recover, among other things, the following two losses: (1) 36,873 Dth of gas that was lost due to a frozen relief valve on the Ottawa 20-mainline in Anderson County, Kansas (Welda Loss); and (2) 18,014 Dth of gas that was lost due to pipeline damage caused by a third-party (Third-Party Damage Loss). In addition to its Primary Filing, Southern Star offered three alternate tariff records under the following nomenclature: an "Alternate Filing," a "First Alternate Filing," and a "Second Alternate Filing." The Alternate Filing reflects the removal of the Welda Loss.[2] The First Alternate Filing

[1] Southern Star Central Gas Pipeline, Inc., FERC NGA Gas Tariff, Tariff Provisions, Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 A (Primary Filing).

[2] Southern Star Central Gas Pipeline, Inc., FERC NGA Gas Tariff, Tariff Provisions, Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 B (Alternate Filing).

reflects the removal of the Third-Party Damage Loss.[3] The Second Alternate Filing reflects the removal of both the Welda Loss and the Third-Party Damage Loss.[4] Southern Star proposes an April 1, 2012 effective date for its proposed tariff records. In this order, the Commission accepts the Second Alternate Filing tariff record, effective April 1, 2012, and rejects the others as moot.

2. Section 13 of the General Terms and Conditions (GT&C) of Southern Star's tariff requires shippers to reimburse Southern Star for fuel and loss gas in kind. The section requires Southern Star to file annually to revise its fuel and loss reimbursement percentages, effective April 1 of each year. Southern Star's fuel and loss reimbursement percentages are made up of three components: a fuel component, a loss component, and a surcharge component (which accounts for prior period over- or under-recoveries). Southern Star submits specific fuel and loss reimbursement percentages for its Production Area, Market Area, and for Storage.

3. As part of its Primary Filing, Southern Star proposes a 0.65 percent decrease in the Production Area Percentage (from 2.19 percent to 1.54 percent), a 0.36 percent decrease in the Market Area Percentage (from 1.23 percent to 0.87 percent), and a 0.67 percent decrease in the Storage Percentage (from 3.57 percent to 2.90 percent). Southern Star states that the majority of the decrease in the fuel and loss reimbursement percentages for the Production Area, Market Area and Storage is due to a decrease in the surcharge component.

4. As indicated above, the fuel and loss reimbursement percentages in Southern Star's Primary Filing reflect the Welda Loss and the Third-Party Damage Loss. Southern Star describes the Welda Loss as stemming from a release of gas at a pressure relief valve on the Ottawa 20-inch mainline in Anderson County, Kansas. Southern Star states that upon investigation, Southern Star personnel determined that the extreme cold nighttime temperature of 20 degrees Fahrenheit and moisture in the pilot caused the pressure relief valve to activate. Southern Star calculated the loss as 36,873 Dth. Southern Star contends that recovery of such a loss in the fuel and loss tracker is appropriate because it is an actual cost of operating a pipeline in extreme conditions.

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[3] Southern Star Central Gas Pipeline, Inc., FERC NGA Gas Tariff, Tariff Provisions, Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 C (First Alternate Filing).

[4] Southern Star Central Gas Pipeline, Inc., FERC NGA Gas Tariff, Tariff Provisions, Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 D (Second Alternate Filing).

5. Southern Star describes the Third-Party Damage Loss as being caused by a third-party bulldozer operator striking Southern Star's Ft. Scott 12-inch lateral in Allen County, Kansas. Southern Star explains that although it is in the process of invoicing and collecting the cost of the lost gas and repairs from the third party bulldozer operator, it has not yet, as of the date of filing, collected the cost of the gas. Southern Star contends that this loss is appropriately recovered in the fuel and loss tracker as an actual cost of operating a pipeline. Southern Star states that if it is successful in recovering the cost of the lost gas from the third-party bulldozer operator, it will credit such gas to customers in a future filing. Southern Star calculated the loss as 18,014 Dth.

6. Southern Star states that in the event the Commission does not approve the proposed fuel and loss reimbursement percentages in its Primary Filing, it has revised the reimbursement percentages in the Alternate Filing to remove the gas lost as a result of the Welda Loss. Southern Star indicates that the effect of removing the Welda Loss would be to reduce the Market Area Percentage by 0.02 percent, from 0.87 percent to 0.85 percent.

7. Southern Star next states that in the event the Commission does not approve the proposed fuel and loss reimbursement percentages in its Alternate Filing, it has revised the reimbursement percentages in the First Alternate Filing to remove the gas lost as a result of the Third-Party Damage Loss. Southern Star indicates that the effect of removing the Third-Party Damage Loss would be to reduce the Market Area Percentage by 0.01 percent, from 0.87 percent to 0.86 percent.

8. Finally, Southern Star states that in the event the Commission does not approve the proposed fuel and loss reimbursement percentages in either the Alternate Filing or First Alternate Filing, it has revised the reimbursement percentages in the Second Alternate Filing to remove the gas lost as a result of both the Welda Loss and the Third-Party Damage Loss. Southern Star indicates that the effect of removing the Third-Party Damage Loss would be to reduce the Market Area Percentage by 0.03 percent, from 0.87 percent to 0.84 percent.

9. Public notice of the filing was issued on March 1, 2012. Interventions and protests were due as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2011)). Pursuant to Rule 214 (18 C.F.R. § 385.214), 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 this proceeding or place additional burdens on existing parties. BP America Production Company and BP Energy Company (BP) filed a protest. The Missouri Public Service Commission (MoPSC) and Kansas Corporation Commission (KCC) filed comments.

10. KCC states that fuel tracking mechanisms are appropriate for normal operating costs but are not appropriate for the recovery of gas losses outside the scope of normal

pipeline operations.[5] KCC notes that the burden is on Southern Star to demonstrate that the Welda Loss and Third-Party Damage Loss were neither unusual nor outside the scope of normal pipeline operations. KCC argues that Southern Star has not met this burden with respect to the Welda Loss and includes data requests related to that loss.[6] KCC further argues that recovery of the Third-Party Damage Loss, prior to Southern Star completing its efforts to recover those costs from the responsible third-party, is at a minimum premature. KCC urges the Commission to reject Southern Star's effort to recover the Third-Party Damage Loss through its fuel and loss tracker until Southern Star determines whether the loss is recoverable from the third-party who caused the loss.

11. BP argues that the Commission should reject Southern Star's attempt to recover the Welda Loss and the Third-Party Damage Loss through its fuel and loss tracker. BP supports its argument by pointing to the Commission's policy that "fuel tracking mechanisms are appropriate for normal operating costs but are not appropriate for the recovery of gas losses outside the scope of normal pipeline operations."[7] BP notes that the Welda Loss and Third-Party Damage Loss are not associated with routine maintenance or other normal operating activity. BP also contends that the serious and non-routine nature of the losses is highlighted by the fact that Southern Star filed an Incident Report with the U.S. Department of Transportation (DOT).

12. MoPSC also urges the Commission to deny Southern Star's attempt to recover the Welda Loss and Third-Party Damage Loss through its fuel and loss tracker. Like the other commenters, MoPSC points to Commission policy indicating that losses outside normal pipeline operations are not recoverable through fuel tracking mechanisms and argues that the two losses at issue here are outside normal pipeline operations.

13. Southern Star filed an answer, but Rule 213(a)(2) of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.213(a)(2)) prohibits an answer to a protest unless otherwise ordered by the decisional authority.

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[5] KCC, Comments at 3 (citing *CenterPoint Energy Gas Transmission Co.*, 131 FERC ¶ 61,047 (2010) (*CenterPoint*); *Williams Natural Gas Co.*, 73 FERC ¶ 61,394, at 61,215 (1995); *Colorado Interstate Gas Co.*, 121 FERC ¶ 61,161, at P 24 (2007), *order on reh'g*, 123 FERC ¶ 61,183 (2008), *aff'd Colorado Interstate Gas Co. v. FERC*, 599 F.3d 698 (D.C. Cir. 2010) (*CIG*) (finding that the pipeline could not recover gas lost as a result of a well casing failure through its fuel tracking mechanism)).

[6] On March 23, 2012, KCC withdrew its data requests.

[7] BP, Protest at 2 (citing *CenterPoint*, 131 FERC ¶ 61,047 at P 12).

14. As highlighted by commenters in this case, the Commission has determined that fuel tracking mechanisms are appropriate for normal operating costs but are not appropriate for the recovery of gas losses outside the scope of normal pipeline operations.[8]

15. Because fuel tracking mechanisms should track only those costs related to normal pipeline operations, we find that Southern Star inappropriately included the Welda Loss and Third-Party Damage Loss in the Market Area reimbursement percentage in the Primary Filing. As the Commission held in *CIG*, losses resulting from the complete failure of some portion of a pipeline system—such as the losses incurred as a result of the Welda Loss and Third-Party Damage Loss—are not appropriately recovered through a tracking mechanism.[9] Therefore, we accept the tariff record identified in Southern Star's Second Alternate Filing (Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 D), which properly excludes the Welda Loss and Third-Party Damage Loss.

16. Accordingly, Southern Star's Second Revised Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 A; Second Revised Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 B; and Second Revised Sheet No. 13, Fuel Reimbursement Percentages, 2.0.0 C are rejected as moot.

By direction of the Commission.

Kimberly D. Bose,
Secretary.

[8] *See, e.g., CenterPoint*, 131 FERC ¶ 61,047 at P 12.

[9] *CIG*, 123 FERC ¶ 61,183 at P 16.