

144 FERC ¶ 61,009  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;  
Philip D. Moeller, John R. Norris,  
Cheryl A. LaFleur, and Tony Clark.

Southern Star Central Gas Pipeline, Inc.

Docket Nos. RP13-941-000,  
RP13-941-001,  
and RP13-941-002

ORDER ACCEPTING AND SUSPENDING TARIFF RECORDS SUBJECT TO  
REFUND AND ESTABLISHING HEARING PROCEDURES

(Issued July 5, 2013)

1. On May 31, 2013, pursuant to section 4 of the Natural Gas Act (NGA), Southern Star Central Gas Pipeline, Inc. (Southern Star) filed, in Docket No. RP13-941-000, revised tariff records proposing a general rate increase and certain related tariff changes (May 31 Filing). On June 5, 2013, in Docket No. RP13-941-001, Southern Star filed revised tariff records<sup>1</sup> to amend its May 31 Filing to correct electronic tariff records. On June 5, 2013, in Docket No. RP13-941-002, Southern Star filed revised tariff records<sup>2</sup> to correct limited aspects of its May 31 Filing. Southern Star proposes a July 1, 2013 effective date.

2. As discussed below, the Commission accepts and suspends the proposed tariff records related to Southern Star's proposed rate changes as listed in the Appendix, to be effective on December 1, 2013, subject to refund and conditions, and the outcome of a hearing as established herein.

**I. Background**

3. In the instant filing, Southern Star files a general rate case applicable to its jurisdictional transportation and storage services. Southern Star states the rate changes are consistent with Commission initiatives and pronouncements regarding rate design and the recovery of fixed costs. Southern Star asserts that the proposed rate changes are

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<sup>1</sup> See Appendix.

<sup>2</sup> *Id.*

necessary in order to avoid a revenue deficiency in light of the current and projected cost of operations. Southern Star also avers this filing is required at this time pursuant to Article VIII of the Stipulation & Agreement dated December 11, 2008, and approved by Commission order dated June 1, 2009,<sup>3</sup> settling Southern Star's last general rate case in Docket No. RP08-350-000.

4. Southern Star asserts the increase in rates is primarily attributable to an increase in utility investment and rate base, an increase in rate of return and related taxes, an increase in negative salvage rates, an increase in operations and maintenance expenses related to pipeline integrity and safety, and revised system rate design quantities.

## **II. Details of the Filing**

5. Southern Star states that the revised rates are based on a total cost of service of \$294.6 million,<sup>4</sup> which is an increase of approximately \$87.4 million from the overall cost of service established in the settlement that resolved Southern Star's last general rate case in Docket No. RP08-350-000. The filed cost of service consists of operation and maintenance expenses of approximately \$114.6 million; depreciation and amortization expenses of approximately \$50.6 million; federal and state income taxes of approximately \$36.8 million; taxes other than income taxes of approximately \$21.7 million; a return allowance of approximately \$71.3 million; an asset retirement obligation of \$125,554; and a cost-of-service credit of \$(687,510).

6. Southern Star states that its net rate base is \$672.0 million, which is an increase of approximately \$130.0 million which Southern Star states is attributable to capital expenditures that have been, or are estimated to be, placed in service before December 1, 2013. Southern Star states that of particular significance are the capital costs of the following: (1) investment associated with Southern Star's substantial new investments in pipeline and storage construction projects and in upgrading existing facilities to improve operating efficiencies; (2) various pipeline safety and integrity projects; (3) major storage integrity projects; and (4) construction of a new office building to contain Southern Star's disaster recovery (i.e., back-up gas control), records storage, and training facilities. Southern Star states it anticipates completing construction of its proposed additions prior to the end of the test period. Southern Star further states the rate base includes Southern

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<sup>3</sup> *Southern Star Central Gas Pipeline, Inc.*, 127 FERC ¶ 61,210 (2009).

<sup>4</sup> Southern Star explains that the overall jurisdictional cost of service of \$302.4 million includes the incremental Ozark Trails (\$3.0 million) and market-based rate Elk City storage expansion facilities (\$4.8 million) which are excluded from the total overall cost of service on Statement A of \$294.6 million used to develop the new generally applicable system rates proposed in the instant filing.

Star's investment in storage cushion gas, as detailed in Statement C, in accordance with the inventory method and Southern Star's service structure since the implementation of Order No. 636 services on November 1, 1993. The filing also reflects a decline in throughput from 328.7 million Dth to 314.7 million Dth.

7. Southern Star states the filed cost of service reflects an overall rate of return of 11.16 percent which is based on a capital structure of 36.11 percent debt and 63.89 percent equity based on Southern Star's own capital structure. Southern Star also proposes to modify its depreciation rates and negative salvage rate. Under the provisions of this filing, the capital recovery depreciation for storage plant increases from 2.20 percent to 2.33 percent, and the negative salvage rate for storage plant increases from 0.19 percent to 1.0 percent. Further, the capital recovery depreciation for transmission decreases from 2.20 percent to 2.08 percent, and the negative salvage rate for transmission increases from 0.19 percent to 1.0 percent.

8. In Docket No. RP13-941-002, Southern Star corrected limited aspects of its May 31 Filing. Southern Star explains that it has discovered a technical error in the models for its Ozark Trails expansion facilities and Elk City Storage market-based expansion facilities. Southern Star states the correction of this error affects the cost of service for these expansion facilities and results in a decrease in the Ozark Trails Incremental Charge from the currently effective rate of \$0.1201 to \$0.0707. Southern Star also states the correction of this error results in a decrease in the illustrative cost-based rate for the Elk City Storage market-based expansion facilities.

9. Southern Star further asserts that correction does not affect Southern Star's general system cost of service used to develop the generally applicable system rates proposed in this proceeding. Southern Star states that this correction does, however, change the total jurisdictional rate base and cost of service for purposes of the comparison required by section 154.7(a)(6) of the Commission's regulations.

10. Accordingly, as corrected, the total jurisdictional rate base increases from \$672.0 million to \$693.2 million, and the overall jurisdictional cost of service decreases from \$302.4 million to \$301.6 million. Southern Star avers that, as corrected, the proposed rates would produce an increase in annual revenue of approximately \$84.7 million above the revenue collected during the base period. Further, as corrected, the proposed overall jurisdictional cost of service of \$301.6 million would produce an increase of approximately \$94.4 million from the \$207.2 million cost of service adopted in Docket No. RP08-350-000.

11. In addition to the general rate increase discussed above, Southern Star filed related tariff changes to various rate schedule tariff sheets to remove references to no-notice and balancing fees, which Southern Star proposes to eliminate to simplify its rate structure.

### **III. Notice of Filing, Interventions and Protests**

12. Public notices of Southern Star's filings were issued June 3, 2013, June 5, 2013, and June 6, 2013, in Docket Nos. RP13-941-000, RP13-941-001, and RP13-941-002, respectively. Interventions and protests were due as provided in section 154.210 of the Commission's regulations.<sup>5</sup> Pursuant to Rule 214,<sup>6</sup> all timely filed motions to intervene and any unopposed motions to intervene filed out-of-time before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties.

13. Protests or comments were filed by Missouri Gas Energy, a division of Southern Union Company, Midwest Energy, Inc. (Midwest Energy), Kansas Corporation Commission (KCC), Kansas Gas Service, a Division of ONEOK, Inc. (Kansas Gas Service), Atmos Energy Corporation, Laclede Gas Company, Anadarko Energy Services Company (AESC), the State of Missouri (Missouri), and the City of Springfield, Missouri, by and on behalf of the Board of Public Utilities, d/b/a City Utilities of Springfield, Missouri (CU).

#### **Protests of Cost of Service and Rate Design Proposals**

14. In general, protestors object to the magnitude of the overall increase in rates and revenue requirements proposed in Southern Star's filing. Among other objections, protestors raise questions typical of general rate proceedings regarding Southern Star's proposed rate of return, including capital structure and cost of equity and debt, billing determinants, and rate design. Several protestors request that the rate application's effectiveness be suspended for the maximum period permitted by law, and made subject to refund, and set for evidentiary hearing to examine the full range of issues raised by the filing. Midwest Energy requests that the Commission hold that hearing in abeyance and initiate settlement proceedings at which one of the Commission's administrative law judges serves as mediator.

15. AESC, Kansas Gas Service, and Missouri take issue with Southern Star's proposed cost allocation for incremental service on the Ozark Trail Project and the market-based rate Elk City storage expansion facilities. For instance, Kansas Gas Service asserts that no A&G costs have been assigned to the Ozark Trail Project and only an insignificant amount of A&G and O&M costs have been assigned to market-based storage project. According to Kansas Gas Service, a thorough investigation is required to determine whether existing customers are subsidizing the A&G services provided to the

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<sup>5</sup> 18 C.F.R. § 154.210 (2012).

<sup>6</sup> 18 C.F.R. § 385.214 (2012).

incremental Ozark Trail Project and the market-based storage service. Missouri questions whether Southern Star's proposed rates improperly subsidize the Elk City storage project.

16. Several protestors argue that Southern Star's proposed decrease in billing determinants is not adequately supported. In its protest, KCC and Kansas Gas Service question Southern Star's 4.26 percent decrease in billing determinants. Missouri argues that without an explanation as to why Southern Star believes each expiring contract will not renew and providing reasonable evidence to support a conclusion that a contract will not be renewed, Southern Star should not be permitted to reduce billing determinants by the simple statement that contracts are expiring. Missouri further argues that Southern Star's witness does not address how impacts of abnormally warm weather experienced during several of the last heating seasons may have depressed volumes. Missouri also asserts that adjusting billing determinants downward is inconsistent with the significant investments and expansions Southern Star has made to its system since its last rate case.

17. CU also objects to Southern Star's proposed tariff changes pertaining to the removal of references to no-notice and balancing fees.

#### **IV. Discussion**

18. The filing raises contested issues that warrant further examination, and the Commission will establish a hearing to explore all issues raised by Southern Star's filing, proposed rate and tariff changes, including, but not limited to, cost of service, cost allocation, and rate design for the existing services.

#### **Suspension**

19. Based upon review of the filing, the Commission finds that the proposed tariff changes have not been shown to be just and reasonable, and may be unjust, unreasonable and unduly discriminatory or otherwise unlawful. Accordingly, the Commission shall accept and suspend the effectiveness of the proposed transportation rates for the period set forth below, subject to the conditions set forth in this order.

20. The Commission's policy regarding tariff filings is that they 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 inconsistent with other statutory standards.<sup>7</sup> It is recognized, however, that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to

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<sup>7</sup> See *Great Lakes Gas Transmission Co.*, 12 FERC ¶ 61,293 (1980) (five-month suspension).

harsh and inequitable results.<sup>8</sup> Such circumstances do not exist here. Therefore, the Commission shall suspend the proposed tariff records listed in the Appendix, to be effective December 1, 2013, subject to refund and the outcome of the hearing established herein.

21. Southern Star must adhere to section 154.303(c)(2) of the Commission's regulations which provides that at the end of the test period, the pipeline must remove from its rates costs associated with any facility that is not in service or for which certificate authority is required but has not been granted.

The Commission orders:

(A) The tariff records listed in the Appendix are accepted and suspended effective December 1, 2013, subject to refund and the outcome of the hearing established in this order.

(B) Southern Star must file its revised rates to reflect the removal of the costs of any facilities not in service at the close of the suspension period.

(C) Pursuant to the authority of the Natural Gas Act, particularly sections 4, 5, 8, and 15 thereof, and the Commission's rules and regulations, a public hearing shall be held in Docket No. RP13-941-000 *et al.* concerning the lawfulness of Southern Star's proposed rates.

(D) A Presiding Administrative Law Judge, to be designated by the Chief Administrative Law Judge for that purpose pursuant to 18 C.F.R. § 375.304, must convene a prehearing conference in this proceeding to be held within 20 days after issuance of this order, in a hearing or conference room of the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426. The prehearing conference is for the purpose of clarification of the positions of the participants and establishment by the presiding judge of any procedural dates necessary for the hearing. The Presiding

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<sup>8</sup> See *Valley Gas Transmission, Inc.*, 12 FERC ¶ 61,197 (1980) (one-day suspension).

Administrative Law Judge is authorized to conduct further proceedings in accordance with this order and the Rules of Practice and Procedure.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.

**Appendix**

**Southern Star Central Gas Pipeline, Inc.  
FERC NGA Gas Tariff  
Tariff Provisions**

**Tariff records accepted and suspended until December 1, 2013, subject to refund:**

Sheet No. 8, Statement of Rates for Transp. and Other Related Services, 2.1.0

Sheet No. 9, , 1.1.0

Sheet No. 10, , 1.2.0

Sheet No. 11, , 3.1.0

Sheet No. 12, , 1.2.0

Sheet No. 12A, , 2.1.0

Sheet No. 104, , 1.1.0

Sheet No. 113, , 1.1.0

Sheet No. 120, , 1.1.0

Sheet No. 126, , 1.1.0

Sheet No. 131, , 1.1.0

Sheet No. 259, , 2.1.0

Sheet No. 263, , 3.1.0

Sheet No. 272, , 1.1.0