

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeen G. Kelly.

Columbia Gas Transmission Corporation

Docket Nos. RP03-281-000
RP03-281-001
RP03-281-002

ORDER ON COMPLIANCE FILING

(Issued February 12, 2004)

1. On April 21, 2003, Columbia Gas Transmission Corporation (Columbia) filed supplemental information to support its annual Electric Power Cost Adjustment (EPCA) filing in compliance with the Commission's letter order issued March 31, 2003 (March 31, 2003 Order) in the captioned docket.¹ The Commission finds that Columbia's filing does not support charging its existing shippers the proposed EPCA surcharges. Accordingly, as discussed below, Columbia is directed to remove all of the proposed electric power costs attributable to the Downingtown Compressor Station and discount adjustments from the proposed EPCA rates and is directed to establish a separate, incremental EPCA surcharge for the recovery of these costs in the future. This order benefits customers by ensuring against the improper subsidization of electric power costs.

I. Background

2. Pursuant to the Commission's December 20, 2002 order issued in Docket No. CP02-142-000 *et al.*,² Columbia was authorized to abandon two 1250 hp gas compressors and replace those compressors with two 6000 hp electric compressors. As part of the conversion, Columbia increased the total available horsepower at the Downingtown Compressor Station in order to provide new transportation service for two shippers to the new Rock Springs electric generation facility via a new tap on Columbia's

¹ 102 FERC ¶ 61,348 (2003).

² 101 FERC ¶ 61,337 (2002) (December 20, 2002 Certificate Order).

system at the Rock Springs point. The precedent agreements with the two shippers³ were for service under its Rate Schedule FTS for a total of 270,000 Dth/d from receipt points in Pennsylvania, to the Rock Springs delivery point at a discounted base rate plus applicable surcharges. As relevant here, in the December 20, 2002 Certificate order, the Commission: (1) found that Columbia could roll in the facility costs for the new compression in the next general Section 4 rate case upon finding that system rates would not increase with the construction costs of the compressors and other facilities rolled in; (2) rejected a proposal by the Cities of Charlottesville and Richmond, Virginia (the Cities) for incremental electric tracker rates based on a lack of record; and (3) left for a future EPCA filing any issues about rate impact of electric and fuel costs.

3. On February 28, 2003, Columbia filed tariff sheets to revise its EPCA surcharges pursuant to Section 45 of the General Terms and Conditions (GT&C) of its tariff. Columbia's filing, among other things, sought to recover \$6,596,051 in annual electric costs. Columbia included \$1,035,600 of new projected electric costs associated with the Downingtown Compressor Station in the annual level of electric power costs.⁴ The Cities protested Columbia's February 28, 2003 filing, and Virginia Power Energy Marketing, Inc. (VPEM) filed comments. In summary, the Cities protested the recovery of the electric power costs associated with the Downingtown Compressor Station in system-wide rates on the basis that they were ill-defined, unsupported, and inconsistent with the Commission's Certificate Policy Statement⁵ prohibition against subsidization by system customers of the costs of an expansion project. The Cities further claimed that the filing did not provide any calculation of the specific impact of inclusion of the new costs on the proposed system-wide rates. VPEM stated that despite Columbia's assertion that it has included the Rock Springs volumes in the billing determinants to calculate the EPCA, Columbia nevertheless should be required to substantiate this assertion in light of the fact that the proposed EPCA was developed based upon a reduced level of throughput relative to the preceding annual period. VPEM requested a detailed accounting of the projected throughput numbers for the purpose of verifying the inclusion of the Rock Springs project volumes as billing determinants, as well as the accuracy of the volumes.

4. On March 21, 2003 Columbia filed an answer to the protest. Columbia asserted that contrary to the Cities' allegations, Columbia's Rock Springs project and the total system impact from Rock Springs did not result in subsidization by system customers. According to Columbia, the Certificate Policy Statement made clear that projects

³ Rock Springs Generation, LLC, and CED Rock Springs, owners respectively of four and two of the six Rock Springs power plant gas turbines.

⁴ The projected electric costs of \$1,035,600 related to the five-month period November 1, 2003, through March 31, 2004.

⁵ Certification of New Interstate Natural Gas Pipeline Facilities 88 FERC ¶ 61,227 (1999), order on reh'g, 90 FERC ¶ 61,128 (2000) ("Certificate Policy Statement").

designed to improve existing service for existing customers, by replacing existing capacity, improving reliability or providing flexibility, are for the benefit of existing customers. Further, Columbia stated that the EPCA should not be viewed in isolation and that the total impact on and of Columbia's Retainage Adjustment Mechanism (RAM),⁶ Transportation Cost Recovery Mechanism (TCRA),⁷ and the EPCA must be assessed in concert. Columbia argued that while 40 percent of the of the Downingtown Compressor Station electric cost is attributable to the conversion from gas to electric, the remaining 60 percent, or \$621,360 of the \$1,035,600 in projected increased electric power costs, is attributable to the Rock Springs project. Columbia stated that the Rock Springs project contributes to Columbia's system costs in other ways. Attachment 2 of Columbia's answer contained a schedule which Columbia claimed demonstrates that the additional electric cost of \$621,360 will be offset by other system benefits that will be paid by the Rock Springs shippers, *i.e.*, the Rock Springs shippers will pay for \$906,108 of fuel costs and \$232,030 of TCRA costs for a net system benefit of \$516,778. In addition, Attachment 1 of Columbia's answer contained a schedule reflecting that the Rock Springs shippers' level of demand billing determinants for May 1, 2003 and November 1, 2003 of 120,000/dth and 270,000/dth, respectively, were adjusted down to 52,684/dth due to discounting.

5. On March 31, 2003, the Commission issued an order finding that Columbia had not adequately supported its annual EPCA filing. The March 31, 2003 Order accepted and suspended the tariff sheets in Columbia's EPCA filing to be effective April 1, 2003, subject to refund and conditions. The Commission directed Columbia to file additional information to support its EPCA filing reflecting: (1) the derivation of and support for the additional projected electric power costs of \$1,035,600 (including PECO Energy charges and level of usage); (2) support for Columbia's claim that 40 percent of the \$1,035,600 cost is attributable to system usage and 60 percent to the Rock Springs project; (3) an explanation and support of the claimed \$906,108 benefit to system customers with regard to the RAM tracker filing; and (4) support for the claimed reduction in gas fuel charges due to the removal of the old gas compressors.

⁶ Columbia's 2003 RAM tracker was filed February 28, 2003 in Docket No. RP03-280-000. That filing was accepted, suspended, and permitted to become effective April 1, 2003, subject to refund and condition, by Letter Order issued March 31, 2003. Columbia Gas Transmission Corp., 102 FERC ¶ 61,347 (2003).

⁷ Columbia's 2003 TCRA tracker was filed on April 21, 2003, in Docket No. RP03-282-000 and was accepted and suspended and permitted to become effective April 1, 2003, subject to refund and conditions by order issued March 31, 2003. Columbia Gas Transmission Corp., 102 FERC ¶ 61,349 (2003). On October 7, 2003, the Commission issued an order on compliance, removing the refund condition. Columbia Gas Transmission Corp., 105 FERC ¶ 61,041 (2003).

6. On April 21, 2003, Columbia filed information to comply with the directives of the March 31, 2003 Order (April 21, 2003 Compliance Filing). On December 23, 2003, in Docket No. RP03-281-002, Columbia submitted a filing in response to a December 18, 2003 Letter Order directing Columbia to file additional information. The information in that filing contained data detailing the impact on rates of the additional estimated electric costs of \$1,035,600 and discount adjustments made to the billing determinants for the Rock Springs transportation contracts and other transportation contracts. Subsequently, on January 5, 2004, Columbia supplemented the information filed on December 23, 2003.

II. Details of Columbia's Compliance Filings

7. Attachment A to Columbia's April 21, 2003 Compliance Filing sets forth the derivation of the projected new electric power costs of \$1,035,600 reflected in Columbia's February 28, 2003 filing. Columbia stated that the projected costs are determined through an extensive series of calculations that are necessary pursuant to PECO Energy's tariff, the supplier of electricity to the Downingtown Compressor Station.

8. Columbia then explained the series of calculations as follows. Columbia stated that the derivation of the projected costs begins with an estimate of its monthly horsepower requirements at the Downingtown Compressor Station, based upon the historical utilization of the facility in order to meet existing customer obligations. The historical utilization is then added to the projected monthly horsepower utilization required by the Rock Springs project. The required horsepower is then converted to reflect the station's kilowatt requirements, using a conversion factor adjusted to reflect the efficiency of the electric motor. The projected electric cost is also based upon the station's kilowatt hour usage. The projected monthly electric bill is then calculated in accordance with PECO's approved rate applicable at the time of Columbia's 2003 EPCA filing, using the total kilowatt usage. Columbia stated that the information reflects the required rate calculations consistent with PECO's tariff, and sets forth a summary of the projected monthly billings in Attachment A. Columbia stated that since the electric compression will not be placed into service until November 1, 2003, electric costs with respect to horsepower use for the Downingtown Compressor Station are only projected for the five-month period November 1, 2003 through March 31, 2004.⁸

9. Attachment B to Columbia's April 21, 2003 Compliance Filing sets forth the support for its claim that approximately 40 percent of the \$1,035,600 projected electric power costs is attributable to system usage and approximately 60 percent to the Rock Springs Project. Columbia states that the allocation of the estimated \$1,035,600 cost of operating the new electric compression at the Downingtown Compressor Station is

⁸ Columbia April 21, 2003 Transmittal Letter at 2.

simply a proportion of the historic system utilization and the projected new horsepower utilization of the station for Rock Springs. As shown on Attachment B, for each month during which the new electric compression is projected to be in service, Columbia developed the percentage of available horsepower required for existing customer requirements and projected to be used in support of the Rock Springs project. The resulting percentages are then used to allocate total projected monthly electric costs attributable to those months. The weighted average of the monthly allocations between historic system horsepower utilization and the projected Rock Springs horsepower utilization is approximately 40 percent and 60 percent respectively.⁹

10. Attachment C to Columbia's April 21, 2003 Compliance Filing sets forth information reflecting the claimed reduction in gas fuel charges due to the removal of the old gas compressors. Attachment C indicates that the actual fuel consumed at the Downingtown Compressor Station for calendar years 2001 and 2002 was 100,967 Dth and 115,898 Dth, respectively. Columbia states that using this historic data, the average annual fuel consumption is approximately 108,433 Dth.

11. Columbia also provided an explanation and support for its claimed benefit to system customers with regard to the RAM tracker filing. Columbia states that for it to provide service to Rock Springs, compression is necessary only at the Downingtown Compressor Station. Columbia states that as a result of replacing the gas-powered compression with electric driven compression at Downingtown, Columbia estimates that no other compression will actually be used to provide the required services to Rock Springs. Columbia asserts that, in addition to the rates they will pay, the Rock Springs shippers are subject to Columbia's system-wide gas retainage factor for all of their FTS transportation quantities. Columbia avers that the contribution of retainage by the Rock Springs shippers thus reduces the amount of gas retainage requirements which must be provided by other customers. Columbia states that based upon the Rock Springs' throughput projection and Columbia's gas retainage percentage, Columbia estimates that Rock Spring's in-kind contribution for retainage to be approximately 302,036 Dth (the commodity determinant level of 11,826,000 Dth multiplied by the proposed retainage factor of 2.554 percent). Columbia also states that Rock Spring's in-kind contribution for retainage results in a direct and proportionate reduction to the contribution required by other Columbia customers for fuel through the RAM by the approximate amount of 302,036 Dth. Assuming a gas price of \$3.00 per Dth (which, according to Columbia, is conservative given the current market conditions), this equates to a benefit from Rock Springs to the system-wide gas retainage requirements of \$906,108.

12. Lastly, Columbia states that existing customers receive a benefit by paying less for Columbia's Transportation Rate Costs Adjustment (TCRA). As shown in Attachment 2

⁹ As illustrated in Attachment B, the allocation for historic usage and projected usage is actually 38.97 percent and 61.03 percent, respectively.

of Columbia's answer filed on March 21, 2003, Columbia estimates the total TCRA costs paid by Rock Springs shippers to be \$232,030, which is derived as follows. Columbia multiplied the total discounted demand billing determinants attributable to Rock Springs (annual total of 579,524 dth) by its February 28, 2003 effective TCRA Rate Schedule FTS demand rate of \$0.331, to derive an amount of demand costs paid by its Rock Springs shippers (\$191,822). Columbia then multiplied the total commodity billing determinants attributable to the Rock Springs delivery point (11,826,000 dth) by its February 28, 2003 effective TCRA Rate Schedule FTS commodity rate of 0.0034, to derive an amount of commodity costs paid by its Rock Springs shippers (\$40,208). Columbia added the demand and commodity costs paid by its Rock Springs shippers of \$191,822 and \$40,208, respectively, to derive its total TCRA costs paid by the Rock Springs shippers of \$232,030.

13. On December 23, 2003 and January 5, 2004, Columbia filed responses to the Commission's data requests regarding its April 21, 2003 Compliance Filing. The data responses submitted by Columbia comprise working papers showing calculations of its EPCA surcharges which reflect: (1) the exclusion of the projected electric power costs of \$1,035,600 attributable to the Downingtown Compressor Station and the Rock Springs billing determinants; and (2) the exclusion of the projected electric power costs of \$1,035,600 attributable to the Downingtown Compressor Station, the exclusion of the Rock Springs billing determinants and the use of unadjusted/undiscounted billing determinants. The data responses also show the derivation of the Rock Springs billing determinants and the "Other Discounted Determinants" on line no. 2 of Attachment No. 1 of Columbia's March 21, 2003 answer.

III. Interventions, Protests and Answer

14. Public notice of the April 21, 2003 Compliance Filing was issued on April 24, 2003, with interventions and comments due as provided in Section 154.210 of the Commission's regulations. Pursuant to Rule 214 (18 C.F.R. § 385.214 (2003)), 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 the proceeding or place additional burdens on existing parties.

15. The Cities and VPEM filed protests to Columbia's April 21, 2003 Compliance Filing. On May 21, 2003, Columbia filed an Answer to VPEM's protest. We will waive Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2) (2003), and accept the answer as it may aid in the disposition of the issues raised by the instant filing.

16. VPEM argues that Columbia has not justified the \$1,035,600 in new electric power costs associated with the electric compression installed at the Downingtown Compressor Station. First, VPEM argues that Columbia is proposing discount adjustments in the EPCA for which it has no authority. VPEM argues that Columbia's

tariff does not specifically address discounting EPCA in the “Discounting” provision found in Section 20 of the GT&C of Columbia’s tariff.

17. VPEM’s second point of contention is that Columbia also does not have a right to discount TCRA and EPCA charges under its transportation contracts with the Rock Springs shippers, and has failed to satisfy the burden on it to justify that it is permitted to do so. According to VPEM, the contracts with the Rock Springs shippers provide that the shipper is required to pay “a discounted reservation charge ... plus applicable surcharges.”¹⁰ VPEM argues that if Columbia is permitted to make such discounts, it effectively allows Columbia to use the tracker filings as a means to recover a part of its discounted base rate that it has agreed to provide to Rock Springs. Moreover, VPEM argues, it is inappropriate for Columbia to attempt to reallocate costs to services outside the scope of a general rate proceeding. VPEM states that in the December 20, 2002 Certificate Order approving the Rock Springs project, the Commission did not make a ruling on whether Columbia was permitted to make a discount adjustment for Rock Springs¹¹ and, therefore, the Commission should not allow this filing to be the vehicle by which Columbia may reopen this issue.

18. VPEM also claims that to allow Columbia to make the TCRA and EPCA discount will result in subsidization of Rock Springs. According to VPEM, it is not possible for Columbia to sustain its argument that Rock Springs contributes \$906,108 in fuel savings that benefits other shippers. According to VPEM, VPEM’s own calculations indicate that Rock Springs would have paid over \$750,000 in EPCA and TCRA reservation charge revenues, and not \$210,000 yielded through discounts, and therefore, any benefits that may have resulted from the RAM fuel retainage for Rock Springs are offset.

19. The Cities protest states that the Commission has previously accepted an earlier protest filed by the Cities in response to Columbia’s original filing.¹² In that previous protest, it states, the Cities argued that Columbia had failed to justify the inclusion in its system-wide EPCA projected electric power costs associated with the new compressor at the Downingtown Compressor Station. This, the Cities argued, amounted to an inappropriate subsidization of the gas transportation service provided by Columbia to the Rock Springs project. The Cities contends that the April 21, 2003 Compliance Filing does not address this issue, as it has failed in three ways to adequately justify the inclusion of these additional projected electric power costs. First, the Cities contends that the methodology used by Columbia to calculate demand-related electric compression

¹⁰ VPEM’s Protest at page 3.

¹¹ December 21, 2003 Certificate Order at P 23.

¹² March 12, 2003 “Motion to Intervene and Protest of the Cities of Charlottesville and Richmond, Virginia.”

costs is inappropriate, and that the correct method involves attributing such costs on the basis of projected highest demand for electric power required to operate the new compressors to provide service to existing customers. According to the Cities, if this method were used, the balance would then be attributable to Rock Springs or excess compression, and should not be attributable to existing customers.

20. Second, the Cities asserts that Columbia has not adequately supported its claim that \$906,108 in fuel benefits is provided to system customers by Rock Springs. The Cities disagrees with Columbia's contention that Rock Springs does not require any fuel for its gas compressors and that, therefore, all the charges paid by Rock Springs for the retention of fuel constitutes a benefit to customers. According to the Cities, all customers on Columbia's system should be subject to a single system-wide fuel factor, and that the fuel factor should not be based on the location of a customer's primary receipt and delivery points. In addition, the Cities believes that Columbia has failed to provide support for the payment by Rock Springs of its TCRA surcharge of \$232,030 per year, again because Columbia incorrectly based this on location of receipt and delivery points on Columbia's system.

21. Third, the Cities states that Columbia has failed to support its claim that the new electric compressors at the Downingtown Compressor Station will reduce fuel charges due to the removal of the old gas compressors, as the savings in gas costs will be far less than those claimed by Columbia. The Cities claims that the benefits of replacing gas compressors with electric compressors will be outweighed by the costs of doing so, causing an overall detriment to system customers.

22. In its answer to VPEM's protest, Columbia states that while the observation by VPEM that Columbia's tariff does not address discounting EPCA is technically accurate, it does not support VPEM's protest. First, Columbia states that it has general authority to discount its rate between the maximum and minimum rate levels and has set forth in the Rate section of its pro forma service agreements numerous types of discounts that it may grant.¹³ Second, Columbia asserts that it attributes discounts to all portions of its rates in a manner that is consistent with the Commission's Natural Attribution Policy. However, Columbia states that it agrees that it needs to revise Section 20.2 of the GT&C (Apportionment of Discounts) to include reference to the EPCA in the second category of attribution, along with the base rate and TCRA surcharge, which reflects Columbia's practice.

¹³ Columbia states that the fact that its tariff reflects EPCA demand costs in the maximum reservation charges of the affected rate schedules and not in the minimum rates clearly demonstrates that the EPCA charges may be discounted.

23. In response to VPEM's argument that there is no authority to discount EPCA or TCRA charges for Rock Springs, Columbia contends that VPEM has misconstrued a statement in the December 20, 2002 Certificate Order and that, to the contrary, in that order the Commission approved the Rock Springs project, and recognized that a discounted rate would be paid by Rock Springs. Columbia notes that the Commission found that the proposed discount is consistent with Section 20 of the GT&C, and that it is not unduly discriminatory or preferential.¹⁴

24. Columbia also states that VPEM's argument, that it is inappropriate for Columbia to seek approval for a discount as part of a tracker filing as this is a matter for a formal rate proceeding, is also in error. According to Columbia, its annual EPCA filings are limited filings under Section 4 of the Natural Gas Act,¹⁵ and that they necessarily must incorporate costs and rate components, including maximum and discounted rates, in accordance with Section 45.4 of Columbia's Tariff. Columbia cites to the Commission's previous ruling in Natural,¹⁶ in which the Commission established the policy for determining appropriate discount adjustments as part of tracker filings. Columbia contends that the projected discounts associated with Rock Springs that are included in the April 21, 2003 Compliance Filing are consistent with this established policy.

25. Columbia responds to VPEM's argument that system customers are subsidizing Rock Springs shippers through the EPCA and TCRA discounts, by asserting that VPEM is attempting to argue that both the tracking adjustments and the discount itself amount to a subsidy. Columbia states that this argument was raised and addressed previously. Columbia states that no subsidy exists when the total impact of the Rock Springs project on Columbia's system and existing shippers on the system is considered. Columbia cites Exhibit N of the Rock Springs certificate application in support of this conclusion.¹⁷ In addition, Columbia argues, it is possible to demonstrate that the inclusion of Rock Springs has led to other tracker rates being reduced, and that this further supports the conclusion that, when considered in its totality, the impact of the Rock Springs project will benefit existing customers.

¹⁴ December 20, 2002 Certificate Order at P 20.

¹⁵ 15 U.S.C. § 717c.

¹⁶ Natural Gas Pipeline Company of America, 69 FERC ¶ 61,029 (1994) (“Natural” or the “Natural Attribution Policy”).

¹⁷ Citing Columbia's certificate application filed in Docket No. CP02-142-001 on October 4, 2002.

IV. Discussion

A. Downingtown Compressor Station In-Service Date

26. Columbia's filing projected the Downingtown Compressor Station to be in service on November 1, 2003. By a Commission Letter Order issued on October 29, 2003, the Commission authorized Columbia to commence service from the Downingtown Compressor Station. On November 7, 2002, Columbia advised the Commission that service from the project commenced on November 1, 2003. Subsequently, by letter dated December 11, 2003, Columbia requested that the Commission grant a 120-day extension of time to complete the fine tuning and resolve technical problems at the compressor station identified during the testing and commissioning process. According to Columbia, resolving the technical problems would ensure the smooth efficient operation of the compressor units before the commissioning process is concluded.

27. The Commission directs Columbia to eliminate the electric power costs for the Downingtown Compressor Station from the proposed EPCA rates since these facilities have not been placed in service. Columbia's customers should not be required to pay for a significant increase in electric costs that (1) will be incurred well after Columbia's revised EPCA rates took effect and (2) are not expected to begin to be incurred until almost the end of the annual tracker period covered by the instant EPCA rates. Accordingly, Columbia must file revised tariff sheets with revised EPCA rates effective April 1, 2003, that reflect the removal of the electric costs attributable to the Downingtown Compressor Station and make refunds of the overcharges. In light of our ruling below, that Columbia must establish an incremental EPCA surcharge for the recovery of electric costs attributable to the Downingtown Compressor Station, Columbia may carry over and recover electric costs attributable to the Downingtown Compressor Station in incremental EPCA rates in its next annual EPCA tracker filing once the facilities have been placed in service.¹⁸ The recovery of such electric costs, however, will be governed by the discussion set forth below.

B. Incremental EPCA Surcharge

28. The protestors argue that, by including the projected electric power costs attributable to the Downingtown Compressor Station as part of Columbia's proposed EPCA surcharge, the existing shippers are subsidizing the shippers using the Rock

¹⁸ Section 45.2 of Columbia's tariff states that: "Annually, or at such other time as Transporter in its reasonable discretion determines necessary, Transporter may adjust any of the EPCA Rates to take into account both prospective changes in Electric Power Costs and unrecovered Electric Power Costs from the preceding period as described at Section 45.4 below."

Springs delivery point. Columbia acknowledges that the EPCA surcharges will increase. However, Columbia claims that existing shippers will receive savings in the TCRA and RAM surcharges because of increased billing determinants and reduced fuel costs and that all customers benefit from the increased compression.

29. The December 20, 2002 Certificate Order authorizing construction of the facilities to serve the Rock Springs power plant recognized that the electric powered compression would be used to serve both existing customers and new transportation customers taking delivery at the Rock Springs power plant. Applying the Certificate Policy Statement, the Commission evaluated the issue of whether electric power costs should be rolled in or incrementally-priced based on the impact on Columbia's existing shippers' rates. The order stated that:

The new electric compressors will serve both existing and new customers by providing the compression and pressures needed to transport gas through the mainline system. The new compressors will provide additional capacity for all shippers. It is reasonable for Columbia to recover a portion of project electric power costs from existing customers because they will benefit from the new mainline compression. There is no demonstration in the record that electric power costs will increase rates. Columbia's customers may examine the cost impact of the project's usage of electric power when Columbia files its next electric power adjustment.¹⁹

30. Although the Commission ruled that, absent significant changed circumstances, Columbia may roll in the construction costs of the Downtown compressors into its rates in its next general Section 4 rate case, the rate treatment of the resulting incremental electric power costs attributable to that facility was a separate matter to be addressed in the next EPCA proceeding, which is the instant proceeding. Based on a review of the customer comments and the information submitted by Columbia in the instant proceeding, the Commission finds that the additional electric costs for the Downtown Compressor Station are not offset by customer savings attributable to the TCRA and RAM surcharges, and the system-wide EPCA rates will increase pursuant to Columbia's filing, thereby adversely affecting existing customers.

31. Columbia's EPCA filing includes a projection of \$1,035,600 of additional electric costs for a five-month period for the new electric compressors and Attachment B of the April 21, 2003 Compliance Filing purportedly shows that approximately 39 percent will be used for existing customers and 61 percent for the Rock Springs plant. Columbia, in justifying having its existing customers pay for the additional electric power costs, claims that the existing shippers receive other benefits as a result of the Rock Springs Project

¹⁹ December 20, 2002 Certificate Order at P 26.

facilities, *i.e.*, the Rock Springs shippers will pay for other costs thereby reducing system costs. Columbia asserts that the system costs will be reduced by the Rock Springs shippers paying for: (a) system fuel, which Columbia claims they should not because of the proximity of the power plant to the new electric compression, saving customers approximately \$906,100 attributable to the RAM and (b) approximately \$230,000 of TCRA costs. In addition, Columbia claims that existing customers will pay reduced gas fuel costs since the existing two gas compressors were abandoned.

32. Columbia's support for the claimed \$906,108 in fuel benefits to existing customers provided by Rock Springs shippers is not supported. Columbia incorrectly assumes that Rock Springs should have no responsibility for gas fuel costs because of the location of the Rock Springs shippers' primary receipt and delivery points on Columbia's system. Columbia's attempt to isolate the Rock Springs shippers and assume that there is a different, *i.e.*, zero, fuel requirement for them than the fuel requirement applicable to all other customers is not supported. No customer on Columbia's system has its fuel cost responsibility determined based on primary contract paths; rather, all customers are subject to a single system-wide transmission fuel factor. Columbia has consistently held that its system is a reticulated pipeline which underscores the use of a single system-wide fuel factor for transportation.

33. Additionally, Columbia's FTS shippers also have access to all receipt and delivery points on Columbia's system on a secondary basis which permits shippers to utilize any part of Columbia's system. The Rock Springs shippers could access other points on Columbia's system via various secondary receipt points and transport the gas to the Rock Springs delivery point thereby using system fuel for transportation. Further, the Rock Springs shippers may choose to release the capacity to another shipper that could use entirely different receipt and delivery points.

34. Accordingly, there is no reason for Columbia to have assumed a fuel requirement for Rock Springs shippers (and Rock Springs shippers alone) based on a capacity path defined by their primary point rights. Consistent with the ratemaking assumption underlying the system-wide application of Columbia's fuel retainage factor, Rock Springs shippers should be subject to an appropriate system-wide gas fuel reimbursement requirement consistent with their transportation rights on Columbia's system. Similarly, there is no basis to isolate the Rock Springs shippers' payment toward TCRA costs as providing a system benefit. Columbia's TCRA costs are not associated with any specific shipper and benefit the system as a whole.

35. We find that the only reasonably quantifiable cost savings to the existing customers are reduced gas fuel costs since the existing customers will no longer need to pay for fuel for the two abandoned compressors. An analysis of Attachment C of the April 21, 2003 Compliance Filing indicates that the existing compressors have used approximately 108,000 dth per year to provide service. The approximate annual cost of

the fuel, using Columbia's illustrative rate of \$3.00 per dth, totals \$324,000. This amount is well below what the expected annual electric costs will be for the Downingtown Compressor Station since Columbia's estimate of the electric costs for only a five-month period, November 1, 2003, through March 31, 2004, totals \$1,035,600.

36. Based on Columbia's own five-month cost and volume estimates, we find that the system-wide rate increase resulting from the inclusion of the new electric power costs attributable to the Rock Springs Project would exceed the benefit of the reduction in fuel rates provided by this project to existing shippers. Columbia filed EPCA surcharges under Rate Schedule FTS of \$0.033 and 0.27 cents per Dth for demand and commodity rates, respectively. However, if the projected new electric costs and associated billing determinants for the Rock Springs shippers are eliminated from the EPCA calculation, the EPCA demand/commodity surcharge rates under Rate Schedule FTS would be \$0.028 and 0.22 cents per Dth, respectively.²⁰ By including the projected electric power costs for the Downingtown Compressor Station along with the billing determinants for the Rock Springs project, existing customers would be paying increased electric EPCA rates above what they would be expected to pay in the absence of the new electric-powered compressors, but will not be receiving any increased service.

37. The subsidy reflected in the filed EPCA rates is illustrated by the following calculations. Assuming, arguendo, that Columbia's claimed allocation of the \$1,035,600 of five-months of estimated Downingtown Compressor Station electric costs is accurate,²¹ as proposed, the Rock Springs shippers would not fully pay for what Columbia claims is the appropriate level of electric costs associated with transportation service for the Rock Springs shippers. Columbia asserts that of the five months' total \$1,035,600 of new electric costs it estimated would be attributable to the Downingtown Compressor Station, \$632,040 of that total (\$245,496 of demand/fixed costs and \$386,544 of commodity/variable costs) would be attributable to Rock Springs shippers. However, if Columbia were to bill the Rock Springs shippers the filed EPCA rates for a twelve-month period, Columbia would receive the following revenues from them: demand revenues of \$20,863 (demand rate of \$0.033 x annual demand billing determinants of 632,208 dth) and commodity revenues of \$31,930 (commodity rate of \$.0027 x annual commodity volumes of 11,826,000 dth) for a total of only \$52,793. This amount is well below the electric costs of \$632,040 that Columbia claims would have

²⁰ See Response No. 1 of Columbia's information submitted on January 5, 2004.

²¹ The Commission notes that while Columbia's Compliance Filing, Attachment B, page 1, indicates that this is the appropriate level of electric costs associated with the Rock Springs shippers, this order does not make any merits finding that such allocated amount is in fact the correct amount associated with the Rock Springs transportation.

been associated with the Rock Springs shippers just for a five-month period.²² Accordingly, we find that under Columbia's proposal and using its own cost and volume estimates, existing shippers will be subsidizing the Rock Springs shippers at the Rock Springs delivery point. This subsidization is inconsistent with the Commission's Certificate Policy Statement²³ which encourages competition while seeking to provide incentives for the optimal level of construction and customer choice by ensuring that a pipeline financially supports a proposed project without relying on subsidization from its existing customers.²⁴

38. Accordingly, if Columbia wishes to recover the Downingtown Compressor Station electric costs when such facilities go into service, it must file to implement an incremental EPCA surcharge to be charged shippers using the Rock Springs delivery point. As discussed above, Columbia may not seek to recover such costs until after the date the Downingtown Compressor Station facilities are in service and, accordingly, may include proposed incremental EPCA rates in its next annual EPCA tracker filing.

C. Attribution of Discount Adjustments

39. Columbia's EPCA filing incorporated a discount adjustment to the demand billing determinants in calculating the EPCA demand rates. The Rock Springs shippers in the certificate application contracted for 270,000 dth/d of FTS service at a discounted base rate of \$1.52 per Dth plus applicable surcharges. In the EPCA filing, Columbia adjusted the Rock Springs demand billing determinants of 270,000 dth/d down to 52,684 dth/d to reflect eleven months of service and a discount adjustment.²⁵ In addition, Columbia's EPCA calculation also reflected adjusted demand billing determinants of 139,800 dth to

²² Annualizing the five months of estimated electric costs to reflect twelve months of costs would yield an even larger disparity between revenues and costs.

²³ 88 FERC ¶ 61,227 (1999), order on reh'g, 90 FERC ¶ 61,128 (2000).

²⁴ See also, PG&E Gas Transmission Northwest Corporation, 96 FERC ¶ 61,194 at 61,939-40, order on reh'g, 97 FERC ¶ 61,101 (2001), holding that while PG&E may roll in expansion costs to general system transportation rates since there would be no subsidy, incremental fuel rates are required for expansion shippers in order to prevent fuel rates for existing shippers from increasing.

²⁵ Attachment 1 of Columbia's March 21, 2003 answer reflected a weighted average monthly demand level of 52,684 dth, calculated as follows: (1) summation of contract demand level of 120,000 dth for 6 months (720,000 dth) and contract demand level of 270,000 dth for 5 months (1,350,000 dth) for an eleven month total level of 2,070,000 dth; (2) application of a discount adjustment (28%) to reflect adjusted Rock Springs billing determinants of 579,523 dth; and (3) divided by 11 months.

take into account discount adjustments for other contracts.²⁶ As a result of reflecting a discount adjustment to the demand billing determinants, Columbia proposed an EPCA demand surcharge under Rate Schedule FTS of \$0.033. In comparison, without a discount adjustment to the demand billing determinants, the FTS Rate Schedule EPCA surcharge would be \$0.030.²⁷

1. Columbia's Existing Tariff and Contracts

40. VPEM objects to Columbia including a discount adjustment for the electric power costs. VPEM argues that Columbia's tariff does not provide for the discounting of the EPCA since the discounting provisions found in Section 20 of the GT&C does not specifically list the EPCA as a rate that is subject to discounting. In addition, VPEM argues that Columbia's contract with the Rock Springs shippers does not, in fact, discount the EPCA, since the contract states that the shippers will pay "a discounted reservation charge . . . plus applicable surcharges." VPEM asserts that, since the EPCA is a surcharge, this language would not provide for a discount of the EPCA.

a. System-wide EPCA

41. The Commission concurs with VPEM that Columbia has not supported its proposed discount adjustment to the volumes used to design Columbia's proposed EPCA rates here. Section 20.2 of the GT&C of the tariff provides the following:

Section 20.2, Apportionment of Discounts.

For each transaction pursuant to this provision, the amount of the discount (the difference between the maximum rate otherwise applicable to the transaction and the total rate to be billed) shall be apportioned among the components of the rate in the following order: (1) The General R & D Funding Unit (GRI Surcharge); (2) the Base Tariff Rate, and the Current Operational TCRA Rate and Operational TCRA Surcharge collected pursuant to Section 16 of the General Terms and Conditions, on a pro rata

²⁶ See Response No. 1 of Columbia's answer filed March 21, 2003 and Columbia's Response Nos. 3 and 4 filed on December 23, 2003. The data indicates that contracts with a demand of 631,200 dth (819,382 dth less 188,182 dth for Rock Springs) were adjusted for discounts down to 139,890 dth.

²⁷ Similar rate reductions are applicable to other Rate Schedules when the discount adjustment to the demand billing determinants is eliminated. See Response No. 4 filed on December 23, 2003.

basis; and (3) the Current Stranded TCRA Rate and the Stranded TCRA Surcharge collected pursuant to Section 36 of the General Terms and Conditions, on a pro rata basis.²⁸

42. This provision is silent as to the apportionment of discounts to the EPCA. Accordingly, it provides no basis for attributing to the EPCA any portion of what the contract describes as a discount of the reservation charge.²⁹ Since Columbia's tariff is currently silent concerning the attribution of discounts to the EPCA, the Commission will permit it to treat the EPCA as having been discounted for purposes of determining the level of the EPCA proposed in this filing, but only if the contract expressly provides for the discounting of the EPCA. To the extent the discount provisions of system shippers' contracts do not expressly discount the EPCA rate, Columbia is directed to file revised system-wide EPCA rates, effective April 1, 2003, that reflect the removal of the discount adjustment for those contracts as well and file refunds of overcharges. If, and to the extent that, Columbia's contracts with other shippers do expressly provide for the discounting of the EPCA rate, Columbia must file those contracts in order to demonstrate that a discount adjustment to the system-wide EPCA is warranted.

b. Incremental Rock Springs EPCA

43. Apart from the fact that Columbia must refile its proposed EPCA rates to reflect the removal of the Downtowner Compressor Station electric costs and Rock Springs shipper billing determinants from the system-wide EPCA rates in this proceeding, neither its tariff or the contracts with the Rock Springs shippers provide for discounts of the EPCA and, therefore, do not support a discount adjustment to any incremental EPCA rates Columbia may file in the future. While the contracts provide for a discount of the base reservation charge, they require the Rock Springs shippers to pay "applicable surcharges," including the EPCA. There is nothing in this language that would discount the EPCA. In addition, the provision in the Rock Springs contracts that the firm discounted transportation rate will be apportioned in accordance with Section 20 of Columbia's GT&C also does not justify treating the EPCA as having been discounted since, as discussed above, that section is silent as to the attribution of discounts to the EPCA. Accordingly, Columbia is not permitted to include any discount adjustment for the Rock Springs contracts in any incremental EPCA rates it files.

²⁸ See Ninth Revised Sheet No. 395 to FERC Gas Tariff, Second Revised Volume No. 1.

²⁹ As discussed in the next section herein, Columbia must file a revised Section 20.2 to reflect the EPCA in order to comply with Section 154.109(c) of the Commission's Regulations.

2. Columbia's Proposed Tariff Revision

44. Section 154.109(c) of the Commission's regulations requires that the general terms and conditions of the pipeline's tariff must contain a statement of the order in which the company discounts its rates and charges, and the statement must be consistent with Commission policy. Section 20.2 of Columbia's GT&C is in violation of this regulation, since it does not include its EPCA in the statement of the order in which it discounts its rates and charges. Columbia proposes to bring its GT&C into compliance with § 154.109(c) by including the EPCA in a pro rata attribution of the discount with the base tariff rate and operational TCRA rates.

45. VPEM objects that this would permit Columbia to make discount adjustments in tracker filings as a means to recover a part of its discounted base rate that it has agreed to provide to Rock Springs. Moreover, VPEM argues, it is inappropriate for Columbia to attempt to reallocate costs to services outside the scope of a general rate proceeding. In its answer, Columbia maintains that the projected discounts associated with Rock Springs that are included in the April 21, 2003 Compliance Filing are consistent with the policy set forth in Natural for the attribution of discounts.

46. We agree that Columbia must file a revised Section 20.2 to the GT&C of its tariff to reflect the attribution of discounts to the EPCA. However, Columbia's proposal to attribute discounts to the EPCA on a pro rata basis with the base tariff rate and the operational TCRA is contrary to the Commission's discount policy of generally requiring that discounts be attributed last to surcharges which the pipeline recovers through a periodic true-up mechanism that guarantees the pipeline's recovery of 100 percent of the costs in question. In Natural, the Commission directed that surcharges that recover 100 percent of Order No. 636 transition costs should be treated as the last items of the overall reservation charge that are discounted. Under that method, the pipeline must discount all the way through its base rates before discounting transition costs. As a general proposition, in Natural, the Commission stated that "it has become clear that discount adjustments are highly complex and, thus, ill-suited to periodic tracking filings. Our policy here is designed, in part, to minimize discount adjustments in periodic filings. This will allow discount-related issues to be addressed primarily in the rate case."³⁰

47. Columbia's proposal to revise the discount provisions in Section 20.2 of the GT&C to include the EPCA in a pro rata attribution of the discount with the base rate, does not adhere to the principles of the discount policy in Natural as discussed above. The electric costs at issue here, like the Order No. 636 transition costs at issue in Natural, are recovered through periodic tracker filings, which permit the pipeline to seek recovery of 100 percent of the costs in question. While deferring the determination of the level of

³⁰ Natural, 69 FERC ¶ 61,029 at 61,117.

discount adjustments to a general rate proceeding by attributing discounts to the base rate before surcharges like the EPCA may cause a greater adjustment to the rate design volumes for the base rate, this approach minimizes the need for review of discount adjustments in annual multiple tracker filings.

48. Although it is true that the Commission, in Natural, permitted the pipeline and its shippers to agree as to where to place surcharges other than Order No. 636 transition cost surcharges in the order of discounting, that agreement must be reflected in the tariff's attribution provision as established in individual pipeline proceedings, not simply in an individual contract.³¹ Here, the tariff currently is silent regarding the EPCA and Columbia's tariff proposal regarding the attribution of discounts to the EPCA is opposed. Accordingly, in these circumstances, the rationale set forth in Natural requires that Columbia's tariff be revised to reflect that the EPCA is placed after Columbia's base tariff rates in the order in which Columbia discounts its rates and charges. Therefore, Columbia's proposed tariff revision is rejected and the Commission directs Columbia, pursuant to NGA Section 5, to file to revise Section 20.2 of the GT&C of its tariff to place the EPCA after the base tariff rate in its order of discounting.

D. Summary of Effective Date and Compliance Obligations

49. Based on the above discussion, Columbia is directed to file revised tariff sheets within 15 days of the date of this order to: (1) include revised EPCA rates that reflect the removal all of the electric power costs attributable to the Downingtown Compressor Station from the proposed EPCA surcharges effective April 1, 2003; (2) remove all discount adjustments from the billing determinants used to calculate the instant system-wide EPCA rates, effective April 1, 2003, except and to the extent that it can demonstrate by filing the relevant contracts with existing system shippers that the contracts expressly discount the EPCA; and, (3) revise Section 20.2 of the GT&C of its tariff to reflect the attribution of discounts to the EPCA after attribution to the base tariff rate as discussed above, to be effective April 1, 2004, the effective date of its next EPCA tracker filing. In Columbia's next annual EPCA tracker filing, Columbia must include proposed incremental EPCA surcharges in order to recover electric costs attributable to the Downingtown Compressor Station from shippers using the Rock Springs delivery point, to be effective April 1, 2004, the same effective date as its annual system-wide EPCA surcharge.³² As discussed earlier herein, such incremental EPCA rates may not reflect a discount adjustment. Additionally, within 15 days of a final order issued in this proceeding, Columbia must make refunds and file a refund report setting forth refunds to customers for the reductions to the EPCA rates as directed by this order.

³¹ Natural, 69 FERC ¶ 61,029 at 61,117 note 23.

³² This incremental surcharge will apply to any deliveries at the Rock Springs delivery point.

The Commission orders:

(A) Columbia must file, within 15 days of this order, revised tariff sheets consistent with the discussion in the body of this order, to be effective on the dates set forth above.

(B) Columbia must make refunds and file a refund report setting forth refunds to customers for reductions to the EPCA rates, within 15 days of a final order issued in this proceeding.

By the Commission.

(S E A L)

Linda Mitry,
Acting Secretary.