

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

June 2, 2004

In Reply Refer To:
Southern Star Central Gas Pipeline, Inc.
Docket No. RP04-76-000

Southern Star Central Gas Pipeline, Inc.
3800 Frederica Street, Suite 200
Owensboro, KY 42301-0010

Attention: David N. Roberts, Manager
Regulatory Affairs

Reference: Cash-Out Refund Report

Ladies and Gentlemen:

1. On November 25, 2003, Southern Star Central Gas Pipeline, Inc. (Southern Star) filed a report pursuant to currently effective section 9.7(d)¹ of General Terms and Conditions (GT&C) of net revenue received from cash-outs. The proposed refund report covers the period October 1, 2002 through September 30, 2003. The Missouri Public Service Commission (MoPSC) protested the refund report, as discussed below. This report conforms to the requirements of section 9 of Southern Star's GT&C and is hereby accepted. This order benefits the public because it confirms that Southern Star accurately calculated its cash-out costs and revenues and requires Southern Star to refund the net revenue to its shippers. Therefore, we direct Southern Star to remit the proposed refunds within 30 days of the date this order issues, including interest, as required by section 154.501 of the Commission's regulations.

2. Southern Star states that current section 9.7(a) of its GT&C gives shippers the option of resolving their imbalances by the end of the calendar month following the month in which the imbalance occurred. Shippers may cash-out such imbalances at 100 percent of the spot market price applicable to Southern Star, as published in the first

¹ Originally filed pursuant to section 9.9, Southern Star proposed revisions to its tariff in Docket No. RP03-356-001, which were accepted by Director letter order on December 11, 2003.

issue of Inside FERC's Gas Market Report for the month in which the imbalance occurred.² Southern Star further states that net monthly imbalances which are not resolved by the end of the second month following the month in which the imbalance occurred and which exceed the tolerance specified in section 9.7(b) are cashed-out at a premium or discount from the spot price according to the schedules in section 9.7(c).

3. Southern Star's report indicates costs of \$1,419,000 incurred for operational purchases to replace the majority of net cash-out sales it made during the twelve-months ending September 30, 2003. The report further indicates the cash-out quantities purchased (including operational purchases) and sold under this mechanism results in a net refund amount of \$552,837.61 (principal only). Southern Star proposes to refund a total of \$593,001.98, including interest through December 31, 2003, to its shippers. Southern Star states it will distribute the refunds adding interest as set forth in section 154.501 of the Commission's regulations upon approval of this report.

4. Notice of this filing was issued on December 2, 2003, with comments, protests, or interventions due on or before December 9, 2003. Pursuant to Rule 214, 18 C.F.R. §385.214 (2003) all timely motions to intervene are granted. MoPSC filed a protest. MoPSC argues that further information and investigation is warranted to verify the cash-out revenues and costs reported by Southern Star. MoPSC contends the Commission should require Southern Star to supplement its filing by providing for both off-system and on-system imbalances, monthly cash-out costs and cash-in revenues by shipper, detailing the applicable volumes and rate(s) applied by Southern Star. MoPSC argues that although the Commission previously rebuffed similar requests in previous dockets, this request is relevant now, given the circumstances related to March 2003 imbalances³ and the unusual cash-out/cash-in pricing patterns. MoPSC asserts that, under the prescribed structure of the second month cash-out penalties, imbalances in excess of the applicable tolerance level are cashed out at prices higher (sales of excess deliveries) or lower (purchases of excess receipts) than the index/spot price. MoPSC further asserts that the prices reflected on Schedule A for the accounting months of February and June 2003 do not follow this pattern, *i.e.*, the average price paid by Southern Star is greater than the average sales price. MoPSC argues that these aberrations have the effect of understating the amount of revenues credited to customers. Moreover, continues MoPSC, the Commission should require Southern Star to provide it and interested parties

² MoPSC argued that it was uncertain which index prices to use for March 2003 and requested that the Commission accept the revised tariff sheets pending in Docket No. RP03-470-001, containing the alternative price index if Inside FERC's Gas Market Report does not publish an index price for Southern Star. Southern Star responded that it applied the alternate price index which was accepted by Director letter order on February 11, 2004.

³ See footnote No. 2 above.

all imbalance, tolerance, and pricing data for each shipper cashing-in/cashing-out, along with documentation and explanations for the prices applied by Southern Star.

5. On December 18, 2003, Southern Star filed an answer to MoPSC's protest.⁴ Southern Star asserts that MoPSC fails to consider that, in addition to the involuntary cash-outs that occur for continuing to exceed tolerances after the second month, shippers can also elect a voluntary cash-out of their current month imbalance in excess of the tolerance at the current month spot price. Southern Star further asserts that it also adjusts amounts for shippers who were previously cashed-out if a measurement error caused an incorrect cash-out amount, or if the shipper notifies Southern Star subsequent to the cash-out invoice, which is sent on the 9th of the month that the shipper traded his imbalance with another shipper by the 17th of the month, pursuant to the North American Energy Standards Board (NAESB) standard. Southern Star asserts that the total cash-out purchase or sale for each month reflects an average price for all the described activities that may have occurred for the month. Southern Star contends that, as the Commission previously pointed out in prior orders denying MoPSC requests for additional information, no shipper on the Southern Star system has ever protested its cash-out filing, nor has any shipper ever filed a complaint that they were cashed-out incorrectly. Southern Star further contends that it cashes out shipper imbalances and has reported the net cash-out activity for the twelve months ended September 30, 2003, as required by its tariff.

6. On December 31, 2003, MoPSC filed a response to the answer of Southern Star. MoPSC contends that the fact that these various activities are summarized into a net monthly amount in this refund report, lends credence to its request for detailed shipper cash-out information. MoPSC argues that without detailed cash-out data, neither the Commission nor interested parties can ascertain whether Southern Star properly calculated the net revenue amount or whether Southern Star levied cash-out prices in a non-discriminatory manner. MoPSC further argues that, while a cashed-out shipper knows Southern Star applied the correct price to its activity, the shipper, MoPSC, and the Commission can not know or verify whether all cash-outs were accurately tabulated or whether other shippers were cash-out in a preferential manner.

7. The Commission denies MoPSC's request for additional information. The Commission finds that Southern Star has adequately supported its annual report of net cash-out activity for the twelve-months ended September 30, 2003, and that no customer

⁴ The Commission's Rules of Practice and Procedure do not permit answers to either protests or answers (18 C.F.R. § 385.213(a)(2)(2003)). However, the Commission finds good cause to admit both Southern Star's answer to the protest and MoPSC's answer to that answer since it will not delay the proceeding, will assist the Commission in understanding the issues raised, and will ensure a more complete record.

raised concerns regarding this report. Based on the record in this proceeding, including Southern Star's explanation in its answer, the Commission finds that MoPSC has not supported the need for the requested information.

By direction of the Commission.

Linda Mitry,
Acting Secretary.

cc: All Parties