

111 FERC ¶ 61, 444
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

June 20, 2005

In reply refer to:
Docket Nos. RP03-398-000
RP04-155-000
(Consolidated)

Mary Kay Miller
Vice President Regulatory and Government Affairs
Northern Natural Gas Company
1111 South 103rd Street
Omaha, Nebraska 68124-1000

Dear Ms. Miller:

1. On March 25, 2005, Northern Natural Gas Company (“Northern”) filed a Stipulation and Agreement of Settlement (“Settlement”) in the above-referenced consolidated general section 4 rate case proceedings. On April 12, 2005 through April 14, 2005, initial comments were filed by interested parties to the proceeding. On April 22, 2005, Northern filed proposed modifications to the Settlement and requested that the comment procedures be modified. Accordingly, the parties were directed to file supplemental initial comments with regard to Northern’s proposed modifications. Supplemental initial comments were filed on April 29, 2005. Reply comments were filed by Northern and Duke Energy Field Services, LP on May 6, 2005.
2. On May 10, 2005, the Presiding Administrative Law Judge certified the Settlement to the Commission as uncontested. The instant Settlement with proposed modifications reflects the parties’ agreement to Settlement Rates for specified time periods. This Settlement with proposed modifications is the result of extensive settlement discussions and resolves all remaining issues in Northern’s consolidated rate cases.
3. Article I sets forth the cost of service and rate base underlying the Settlement Rates. The Settlement provides for Settlement Rates to become effective as follows: November 1, 2003; November 1, 2004; November 1, 2005; and November 1, 2006. In addition, pursuant to the Partial Settlement in approved by the Commission on February 14, 2005 in these proceedings¹ concerning Northern’s System Levelized

¹ 110 FERC ¶ 61,149 (2005).

Account (SLA) and related imbalance issues (SLA Settlement) the costs for the System Balancing Agreements (SBAs) are included in base rates effective January 1, 2005. Specifically, for the period November 1, 2003 through October 31, 2004, the base rates will be the rates that were in effect October 31, 2003 increased by 11.25 percent, plus the SLA annual amortization amount agreed to in the SLA Settlement (SLA Annual Amortization); for the period November 1, 2004 through October 31, 2005, the base rates will be the rates that were in effect October 31, 2003 increased by 13.75 percent, plus the SLA Annual Amortization; effective January 1, 2005, the base rates for the period November 1, 2004 through October 31, 2005, will be modified to reflect an increase of \$7.0 million for SBA costs (SBA costs) as a result of the termination of the SBA surcharge pursuant to the SLA Settlement; for the period November 1, 2005, through October 31, 2006, the base rates will be the rates that were in effect October 31, 2003 increased by 15.05 percent, plus the SLA Annual Amortization and SBA costs; and for the period commencing November 1, 2006, the base rates will be the rates that were in effect October 31, 2003, increased by 16.50 percent, plus the SLA Annual Amortization and SBA costs.

4. Article II, with the modifications proposed by Northern, provides for a rate moratorium and states that Northern shall not file a general section 4 rate case proceeding that would implement new base rates prior to November 1, 2007. This article provides that the base rates effective November 1, 2005, minus the rate component for the SLA Annual Amortization as shown on Attachment E of the SLA Settlement (revised December 1, 2004), as adjusted for the final SLA balance as of December 31, 2004, will be used for purposes of establishing the refund floor for Northern's next general section 4 rate case. In addition, the proposed modifications alter this article to provide for the creation of a Task Force on Zonal Cost Allocation composed of Northern and other interested parties in the above-referenced consolidated rate cases. The proposed modifications also alter Article I.C.4.c of the SLA Settlement, Small Customer DDVC (Daily Delivery Variance Charge) Tolerance Level. As now in effect, Article I.C.4.c of the SLA Settlement states, in part, that there shall be no additional changes to the Small Customer tolerance level and structure proposed to be effective before November 1, 2007. The proposed modification substitutes "November 1, 2009" for "November 1, 2007". The proposed modification to Article I.C.4.c of the SLA Settlement will terminate if an additional customer, which obtained its facilities through condemnation, is admitted into the Small Customer Class prior to November 1, 2009. In the event such a customer is admitted prior to November 1, 2009, the original Article I.C.4.c of the SLA Settlement will be reinstated as originally approved by this Commission.

5. Article III provides for the withdrawal of certain proposals in these consolidated rate cases. Article IV sets forth the service changes and tariff revisions agreed to under the Settlement, which include modifications to Northern's non-telemetered service, fuel provisions, the annual redetermination of the TF12 Base and Variable Entitlement, and out-of-balance provisions.

6. Article V provides for payment of refunds by Northern within 60 days after the effective date of this Settlement to its customers, including interest at the Commission prescribed interest rate. Article VI sets forth the criteria which must be met to make the Settlement effective.

7. Article VII provides that the Settlement shall be privileged if it does not become effective. Further, the parties agree that the provisions of the Settlement shall have no precedential effect.

8. The Commission finds that the Settlement with the proposed modifications is fair, reasonable, and in the public interest and is hereby approved. The Commission's approval of the Settlement does not constitute approval of, or precedent regarding, any principle or issue in these proceedings. Northern is directed to provide refunds as provided in Article V of the Settlement.

9. This letter terminates Docket Nos. RP03-398-000 and RP04-155-000.

By direction of the Commission.

Linda Mitry,
Deputy Secretary.

cc: All Parties