FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

July 9, 2004

In Reply Refer To:
Arkansas Oklahoma Gas Corporation
Docket No. PR04-8-000

Arkansas Oklahoma Gas Corporation
115 North 12th Street
Fort Smith, AR 72917-7004

Attention: Michael Callan, Esquire
General Counsel

Reference: Petition for Rate Approval

Dear Mr. Callan:

1. On February 13, 2004, you filed with the Commission, on behalf of Arkansas Oklahoma Gas Corporation (AOG), a petition requesting the Commission to approve a decrease in AOG's current maximum interruptible transportation rate for services performed under its blanket Order No. 63 certificate and §§ 284.224(e)(1) and 284.123(b)(2) of the Commission's regulations. AOG also requests approval of a decrease in the existing retention percentage rate for company fuel use, and lost and unaccounted for gas (LAUG). AOG is seeking to re-justify its proposed rates in compliance with the Commission's letter order approving a settlement agreement in Docket No. PR01-8-000, issued June 13, 2001.[1] The Commission finds that the proposed rates are fair and equitable and accepts AOG's petition for rate approval. This action is in the public interest because it implements a reduction from AOG's present rates.

[1] On January 20, 2004, AOG filed a motion for a 30-day extension of time to file cost and throughput data. For good cause shown, the waiver is granted.

2. Specifically, AOG's petition proposes a decrease for the maximum interruptible transportation rate from the current $0.2329 per MMBtu to $0.1024 per MMBtu. Also, AOG proposes to decrease the percent for LAUG from the current 2.766 percent to 2.09 percent.

3. The filing was noticed March 19, 2004, 69 Fed. Reg. 13024, with comments, protest and interventions due as provided by the Commission's regulations (18 C.F.R. § 385.214 (2003)). On February 24, 2004, Arkansas Public Service Commission filed a notice of intervention. On March 5, 2004, West Central Arkansas Gas Consumers, Inc. (WCAGC) filed a motion to intervene. WCAGC is a group of industrial end-users that do not receive Order No. 63 transportation service from AOG. WCAGC states that it is an association of industrial and agricultural concerns in Arkansas that purchase natural gas and intrastate transportation service from AOG. WCAGC asserts that AOG's revenues from its interstate Order No. 63 service may affect the rates for the intrastate service paid by its members, since the interstate revenues are used in the state rate-setting process.

4. The notice of intervention and unopposed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214 (2003)).

5. The Commission issued a data request letter on April 1, 2004, seeking additional information on the proposed rate reduction. AOG filed its response along with the additional requested data on April 21, 2004. On May 21, 2004, WCAGC filed an answer and protest to AOG's supplemental filing. WCAGC argues that the Commission should require AOG to adopt maximum cost-based rates that will adequately recover the costs AOG incurs to provide off-system transportation services to shippers. WCAGC requests the Commission to reject AOG's proposed decrease in the maximum interruptible transportation rate and LAUG, stating that AOG's proposed decrease in rates will force retail customers to subsidize AOG's off-system transportation shippers. Additionally, WCAGC argues that AOG's discounting practices result in transportation rates which are below its variable costs to shippers. On May 28, 2004, AOG filed an answer arguing that WCAGC does not challenge any cost or throughput support for the proposed rate reduction (AOG May 28 answer). WCAGC filed an answer to AOG's May 28 answer on June 14, 2004.

6. Based on our review of the petition and the supplemental information AOG subsequently filed, the Commission finds AOG's proposed maximum interruptible transportation rate and LAUG percentage to be fair and equitable. Accordingly, the Commission accepts the proposed rates effective on the date of the instant letter order. The Commission finds that AOG's cost justification for its proposal

to reduce the maximum interruptible transportation rate and LAUG is reasonable. Additionally, WCAGC does not challenge any cost or allocation that AOG utilizes in deriving its proposed rate reduction. Further, WCAGC does not protest that the method of cost allocation used in AOG's petition has resulted in an unreasonable allocation of costs to interstate service. In addition, while the interruptible transportation rate is discountable, the LAUG percentage is not. Therefore, AOG has not discounted rates below variable costs.

7. This letter order does not relieve AOG from its obligation to file the required reports under section 284 of the Commission's regulations. In addition, AOG must file on or before January 16, 2007, cost and throughput data and other information sufficient to allow the Commission to determine whether any change in AOG's rate pursuant to NGA section 5, which would apply prospectively, should be ordered. This cost and throughput data should be in the form specified in § 154.313 of the Commission's regulations.

By direction of the Commission. Commissioner Brownell dissenting in part with a separate statement attached.

Magalie R. Salas,
Secretary.

cc: All Parties

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Arkansas Oklahoma Gas Corporation Docket No. PR04-8-000

(Issued July 9, 2004)

Nora Mead BROWNELL, Commissioner *dissenting in part*:

I would not impose a requirement to file additional information to the reports already required by our regulations every three years.

Nora Mead Brownell