

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Kern River Gas Transmission Company

Docket No. RP05-254-000

ORDER ACCEPTING FUEL REPORT SUBJECT TO TECHNICAL CONFERENCE

(Issued July 26, 2005)

1. On March 31, 2005, Kern River Gas Transmission Company (Kern River) filed a report supporting its gas compressor fuel and lost and unaccounted-for gas factors for 2004. In conjunction with this filing, and in compliance with the Commission's July 26, 2001 Order Issuing Certificate pertaining to Kern River's 2002 expansion project,¹ Kern River also submitted a work paper showing the 2004 net benefit to preexisting "vintage" shippers of rolling in Kern River's 2002 expansion project after actual fuel costs are considered. The Commission accepts Kern River's compressor fuel and lost and unaccounted-for gas factor report as satisfying the requirement of section 12.10 of the General Terms and Conditions (GT&C) of its tariff for the calendar year 2004. With respect to the allocation of compressor fuel between 2003 expansion shippers and vintage shippers (*i.e.*, rolled-in rate shippers), however, we establish a technical conference to resolve concerns raised by a protestor regarding the compressor weighting factors in GT&C section 12.6 of Kern River's tariff.

Background

2. In the Commission's July 26, 2001 Order Issuing Certificate, the Commission determined that Kern River should be allowed to roll in the cost of its 2002 expansion project because the result would be a lower rate for vintage shippers. To ensure that the benefit to vintage shippers was not offset by incremental fuel costs associated with the new facilities, the Commission directed Kern River to submit work papers showing the net benefit of the 2002 expansion to vintage shippers after actual fuel costs are considered. Kern River was ordered to submit a net benefit test each time it files to adjust its electric compressor fuel surcharge and when it files its annual gas compressor fuel reimbursement report.

¹ 96 FERC ¶ 61,137 (2001).

Notice, Interventions, and Protests

3. Public notice of Kern River's filing was issued on April 5, 2005, with interventions and protests due as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2005)). Pursuant to Rule 214 (18 C.F.R. § 385.214 (2005)), 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. Calpine Energy Services, L.P. (Calpine) filed a motion to intervene and protest. Southwest Gas Corporation; Duke Energy Trading and Marketing, L.L.C. and Duke Energy Marketing America, L.L.C.; and Chevron U.S.A., Inc. timely filed motions to intervene. Anadarko E & P Company LP and Anadarko Petroleum Corporation, and Occidental Energy Marketing, Inc. filed motions to intervene out-of-time. On May 6, 2005, Kern River filed an answer to Calpine's protest. On May 12, 2005, Calpine filed a response to Kern River's answer. The Commission waives Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2) (2005), and permits the answers as they may aid in the Commission's understanding of the issues raised by the filing.

4. Calpine's protest states that Kern River's 2004 Fuel Report reflects a continuing overcollection of its actual fuel costs. Calpine also claims that Kern River is improperly charging separate and higher incremental fuel rates to 2003 expansion shippers as compared to rolled-in rate shippers. Calpine states that there is not enough information provided in the instant filing to establish why the overcollection from the expansion shippers is occurring; the limited amount of information indicates that the basic assumptions in allocating fuel between rolled-in rate shippers and 2003 expansion shippers must be reviewed.

5. In Kern River's May 6, 2005 Answer to Calpine's protest, Kern River states that the parties have worked together to mutually resolve the overcollection issue raised in the protest. Kern River states that after it explained its fuel tracking mechanism to Calpine in detail, Calpine indicated it is now satisfied that Kern River did not over-collect compressor fuel. However, Kern River also states that they were unable to resolve Calpine's request to require Kern River to reexamine its methodology for allocating compressor fuel between rolled-in rate shippers and 2003 expansion shippers. Kern River states that the current allocation methodology was approved by the Commission² and Calpine has not proven that Kern River's current allocation method is unjust or unreasonable; therefore, the protest should be disregarded.

6. In Calpine's May 12, 2005 Response to Kern River's Answer, Calpine states that the parties were able to resolve the issue concerning the overcollection of lost and unaccounted fuel; however, they were unable to resolve the compressor fuel allocation

² *Kern River Gas Transmission Co.*, 103 FERC ¶ 61,102 (2003).

methodology issue. Calpine reiterates that Kern River's current fuel allocation method is unjust to 2003 expansion shippers because it does not reflect actual operating experience. Calpine claims that the methodology rests on operating assumptions that have been disproven by actual operating experience, and which should be modified. The current method of allocation is based on design day studies performed prior to the commencement of service on the expansion facilities. Calpine argues that the use of the present allocation method actually overcharges 2003 expansion shippers and

undercharges rolled-in rate shippers. In conclusion, Calpine requests the Commission to convene a technical conference, if necessary, to examine the allocation of fuel among shippers on the system.

Discussion

7. Kern River has provided some useful information, but it has not sufficiently addressed the fuel allocation methodology issue. We conclude that affording the parties and the staff an opportunity to explore all issues at a technical conference will facilitate a more prompt and informed resolution of this matter. The Commission will therefore accept Kern River's filing, subject to the outcome of a technical conference convened to discuss Kern River's methodology for the allocation of compressor fuel. Accordingly, we direct the Commission's staff to convene a technical conference to further explore the issues pertaining to allocation of compressor fuel between 2003 expansion shippers and rolled-in customers on Kern River's system. Staff must report to the Commission on the technical conference within 120 days of the issuance date of this order.

The Commission orders:

(A) Kern River's report supporting its gas compressor fuel and lost and unaccounted-for gas factors for 2004 is hereby accepted, subject to the outcome of a technical conference to be convened in this proceeding.

(B) The Commission's staff is directed to convene a technical conference to further explore Kern River's methodology for the allocation of compressor fuel. Staff must report to the Commission on the technical conference within 120 days of the issuance date of this order.

(C) Kern River's work paper showing the 2004 net benefit to vintage shippers of rolling in Kern River's 2002 expansion project after actual fuel costs are considered is hereby accepted in compliance with the Commission's July 26, 2001 Order Issuing Certificate.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.