

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, and Nora Mead Brownell.

Northern Natural Gas Company

Docket Nos. RP03-393-002
and RP03-393-003

ORDER ON REHEARING AND COMPLIANCE FILING

(Issued September 23, 2003)

1. On June 19, 2003, Northern Natural Gas Company (Northern) filed revised tariff sheets¹ and additional information and explanations to comply with the May 30, 2003 Order in Docket Nos. RP03-393-000 and RP03-393-001 related to Northern's annual fuel-use (fuel) and unaccounted for (UAF) percentages filing.² On June 4, 2003, Indicated Shippers filed a request for rehearing of the May 30, 2003 Order. This Order accepts the June 19, 2003 filing, and the revised tariff sheets to be effective June 1, 2003, as in compliance with the May 30, 2003 Order subject to certain conditions. We also deny the request for rehearing, as discussed below. This Order benefits the public because it will ensure that the proposed fuel reimbursement rates accurately reflect costs incurred by Northern.

Background

2. On May 1, 2003, as corrected on May 16, 2003, Northern filed revised tariff sheets to establish its annual fuel and UAF percentages, to be effective June 1, 2003, pursuant to Section 53 of the General Terms and Conditions (GT&C) of its tariff. In addition, Northern also proposed tariff revisions to allow it to file, at any time, a proposal to exempt certain transactions from fuel and/or UAF charges and also to allow an

¹Substitute Seventeenth Revised Sheet No. 54 and Substitute Fourth Revised Sheet No. 54A, to its FERC Gas Tariff, Fifth Revised Volume No. 1.

²103 FERC ¶ 61,255 (2003).

exemption of fuel and UAF charges for certain transactions. Several parties filed protests, including the Northern Municipal Distributors Group and the Midwest Region Gas Task Force Association (NMDG and MRGTF) and Indicated Shippers. The protestors, inter alia, asserted that Northern had failed to support large increases in the proposed percentages and that further information was required. Indicated Shippers requested a technical conference. The protests are discussed in detail in the May 30, 2003 Order. On May 23, 2003, Northern filed an answer to the protests.

3. On May 30, 2003, the Commission accepted and suspended certain revised tariff sheets, subject to refund and conditions and to the outcome of the proceedings in Northern's previous Periodic Rate Adjustment (PRA) filing in Docket No. RP02-334-000, et al., and further review, to become effective June 1, 2003. The Commission rejected Northern's proposal to permit it to file at any time to exempt transactions from fuel and/or UAF charges as not adequately supported. The Commission also rejected Northern's proposal to exempt certain transactions that meet certain standards from fuel and UAF charges as impermissibly vague and not adequately supported. The Commission directed Northern to file revised tariff sheets removing the proposed language. In addition, the Commission directed Northern to file the information and explanations concerning its fuel use with adequate support and addressing the issues raised in the protests. Parties were permitted ten days from the date of that filing to file reply comments. Accordingly, the Commission found that a technical conference was not required at that time, and, therefore, the request for a technical conference was denied.

Instant Rehearing and Compliance Filing

4. On June 4, 2003, Indicated Shippers filed a supplemental protest and limited request for rehearing. In their request for rehearing, Indicated Shippers argue that the Commission erred in denying the request for a technical conference in this proceeding. Indicated Shippers assert that a technical conference would offer the most efficient and expeditious forum to resolve the questions and comments of the parties involved in this proceeding.

5. In its compliance filing, Northern asserts that, as a general matter, actual fuel usage on its system is dictated not only by throughput levels, but also by the points of receipt and delivery chosen by Northern's shippers, in this post-Order No. 636 unbundled environment. Northern further asserts that, as a result, fuel usage may fluctuate up and down depending upon the shippers' selected transportation receipt and delivery points and the associated compression requirements. Northern contends that the fuel numbers in the filing are those actually recorded at each fuel station and that the examples of large

percentage increases at particular fuel stations noted by the parties are, in fact, small in terms of volumetric changes.

6. With respect to Field Area mainline fuel, Northern contends that the Section 1 and Section 2 fuel consumption increased due to Permian Area and MidContinent Area volumes moving greater distances. Northern asserts that, as it explained in its May 1, 2003 filing, the Section 1 fuel percentage increased from 0.96% to 1.22% due to an increase in the actual transportation miles of Permian Area receipt volumes as compared to the previous PRA period and due to the true-up percent increasing from 0.01% to 0.15%. Northern further asserts that, even though there were fewer Permian Area volumes during the current annual PRA period, it moved those volumes a longer distance than during the previous PRA annual period. Northern asserts that, as stated in its May 1, 2003 filing, Permian Area volumes moving to the Field/Market Demarcation (Demarc) point increased by 23 Bcf, or 82% from the prior PRA period and require more compression through more compressor stations. Northern states that the Permian Area volumes include volumes moved from Mileage Indicator District (MID) 1 through MID 7.

7. Northern further states that, in their supplemental protest, the Indicated Shippers note that the fuel use at the Kermit station in MID 4 increased while the fuel use at the Seminole station decreased, claiming that this is inconsistent with the explanation that Permian volumes moved a longer distance during the current PRA period. Northern responds that fuel use at Seminole decreased because the station was down for maintenance for a significant period during this PRA period and that the changes in fuel use at individual stations do not negate the fact that Permian volumes did move a longer distance during this PRA period. Northern further responds that while the Indicated Shippers point out that fuel use at Kermit increased by 26%, they fail to also note that fuel use at other Permian Area mainline stations that are north of Seminole also increased (Brownfield by 87%, Plainview by 33%, and Claude by 182%).

8. Northern contends that the Section 2, MidContinent Area, fuel percentage increased for the same reasons. The MidContinent Area transportation volumes moved a greater distance during this PRA period, with additional volumes moving to Demarc and the Market Area, and the true-up percent increased by 0.17%. Northern asserts that the MidContinent Area reflects volumes moved from MID 8 through MID 16 and, though the number of MidContinent Area volumes moved within the MidContinent Area decreased by 10 Bcf or 5% (resulting in less fuel use in certain MIDs, like MID 15), the number of MidContinent Area volumes moving longer distances increased by 40 Bcf, or 28%. Northern further asserts that it requires more compression to deliver MidContinent Area volumes at Demarc and to the Market Area. Northern states that the bulk of the fuel

increase appears in MIDs 13 and 16, which contain the mainline compressor stations of Mullinville (up 26%), Macksville (up 95%), Bushton (up 4%) and Tescott (up 82%). Northern contends that this greater compressor utilization resulted in increased Section 2 fuel percentages.

9. Indicated Shippers also requested that Northern explain why fuel consumption at various non-compressor station fuel meters during 2001-2002 varied from fuel consumption during the current annual PRA period, 2002-2003, and, in their supplemental protest, Indicated Shippers indicated that a large percentage of the Field Area mainline fuel increase is in the “purge/loss” and “auxiliary” categories. Northern responds that the listing of facilities provided by Indicated Shippers includes stations where gas was lost due to blowdowns and purging that occurred during pipeline maintenance or repairs. Northern further responds that some of the facilities do not have the same maintenance or repairs performed on them each year, which explains why there are differences in fuel consumption at these stations from year to year. Northern asserts that, generally, as part of its ongoing pipeline maintenance during the year, Northern must blow down certain sections of pipe before the maintenance can be performed and then purge the sections of pipe before they can be put back into service. Northern further asserts that, under this maintenance procedure, its personnel then calculate the amount of gas loss due to blowdowns and the amount of gas used to purge the line and record the volume by making an accounting entry under a meter station number assigned for such purposes, which is included in the annual PRA filing. Northern asserts that any time it performs a major maintenance project in one year versus another year a large percentage variance in the purge/loss amount will result among points between years, even though the total volume may not be large. Northern further asserts that, for example, the reason for the increase in gas use at Plymouth/Spraberry Gas Loss (station number 965102) and Mitchell to Plymouth TM Blow & Pg (station number 965741) was due to the blowdown and purge of the Plymouth to Spraberry 24-inch pipeline to perform maintenance at that station during the current annual PRA period. Northern asserts that while the total increase in volumes for the two meters was only 36,838 MMBtu, the percentage increase approached 8,000% because last year’s volume was only 465 MMBtu.

10. Northern maintains that shippers sourcing gas from locations that resulted in longer hauls also resulted in differences in fuel consumption at various stations. For example, as noted by the Indicated Shippers, the Pampa Compressor Fuel went from 10 MMBtu recorded in the 2002 PRA period to 46,487 MMBtu recorded in the 2003 PRA period. Northern avers that this increase in fuel during the current annual PRA period was primarily attributable to shippers nominating longer hauls, *i.e.*, increased receipts from the Permian Area with deliveries to Demarc and the Market Area. Northern submits that the Pampa mainline compressor station was one of a number of mainline

stations that experienced greater use during the current annual PRA period as shippers decided to bring more supplies to Demarc and the Market Area from Permian and MidContinent sources. In summary, Northern contends that gas use recorded at various meter stations differs from year to year because ongoing system maintenance is performed at the various stations from year to year and fuel use varies at compressor stations along Northern's mainline in the Field Area due to shipper decisions to move Field Area gas to the Market Area.

11. Northern states that Indicated Shippers question why the volumes delivered from Demarc are substantially greater than the volumes delivered to Demarc (Field/Market Demarcation). Northern responds that the volumes delivered to Demarc are typically less than the volumes delivered from Demarc because a substantial amount of volumes received at the Bushton outlet (POI #1707) are delivered to Demarc and are not assessed fuel and UAF under Northern's postage stamp fuel methodology, and, therefore, are not included in the throughput calculations to derive the MidContinent Mainline fuel rates. Northern further responds that, in addition, volumes at Demarc do not balance due to the difference in timing of receipts and deliveries at Demarc since Demarc can also be used as a deferred delivery point under Northern's deferred delivery rate schedules. This means that gas may be delivered to Demarc in one month but that delivery from Demarc is deferred until some later month.

12. With respect to Field Fuel, Indicated Shippers requested additional information as to why the Field Fuel percentages in certain MIDs increased and how Northern calculated its true-up percentage for the Field Fuel percentages. Indicated Shippers also specifically challenged the fuel increase in Field Fuel percentages in MIDs 12, 13, 14, and 15. Northern responds that the increase was due to the fact that receipt volumes subject to Field Fuel decreased in all of these MIDs in greater proportion than the amount of change in fuel use. Northern asserts that fuel consumption can increase or stay relatively constant even where throughput decreases, resulting in an increased fuel percentage, because fuel usage volumes and throughput volumes are not directly proportional. Northern further responds that, for example, daily flows, capacity load factors, and varying pressure differentials may significantly affect the fuel-to-throughput relationship. Northern contends that the Commission, in approving Northern's previous PRA filings, has recognized that fuel usage volumes and throughput volumes are not directly proportional and that daily flows, capacity load factors, and varying pressure differentials may affect the fuel-to-throughput relationship.³ Northern further contends that given that the fuel percentage increase in MIDs 12, 13, 14, and 15 reflects actual fuel usage and the

³Citing Northern Natural Gas Company, 91 FERC ¶ 61,212 at 61,768 (2000).

applicable true-up adjustment, the two components of Northern's PRA mechanism, each of these fuel percentages is appropriate for recovery under Northern's PRA mechanism.

13. Indicated Shippers also stated that they have not been able to determine how Northern calculated the fuel retained volumes on Schedule 4F that are used in calculating the true-up percentages for the Field Fuel percentages. Northern responds that it did not "calculate" the fuel retained volume on Schedule 4F. Northern asserts that the fuel retained volumes on Schedule 4F represent the sum of the actual Field Fuel retained for every Field Fuel transaction for April 2002 through March 2003. Northern further asserts that the primary reason the throughput data on Schedule 2F, when multiplied by the Field Fuel percentages for 2002, do not exactly tie to the fuel retained volumes on Schedule 4F is that the April and May 2002 retained volumes resulted from use of the 2001 PRA Field Fuel percentages and the June 2002 through March 2003 retained volumes resulted from use of the 2002 PRA Field Fuel percentages. Northern asserts that the effective date for Northern's fuel percentages is June 1 of each year, whereas the true-up percentages are calculated on actual data ending each March 31. Northern further asserts that this means that April and May throughput, subject to Field Fuel, is collected at the previous year's PRA rates, while June through March throughput, subject to Field Fuel, is collected at the current PRA rates. Northern submits that the retained volumes on Schedule 4F represent the sum of the actual Field Fuel retained for every Field Fuel transaction April 2002 through March 2003. Northern concludes that, therefore, a simple calculation of the total throughput times the fuel rates, as shown in the annual PRA filing, will not necessarily match due to rounding and that this is consistent with the true-up methodology used in prior years.

14. Concerning Market Area Fuel, NMDG and MRGTF challenged the increase in Northern's Section 3 (Market Area) fuel percentage from 1.20% to 1.53%. Northern responds that, in its May 1, 2003 filing, it explained that the increase was the result of a combination of the fuel rate increasing and the true-up rate increasing. Northern asserts that fuel consumption in the Market Area increased 3.1 Bcf, or 37%, while transportation volumes increased by 71 Bcf. Northern further asserts that the fuel rate increase is due primarily to an increase in Market Area throughput sourced from the Field Area and that the true-up went from 0.09% to 0.21%. Northern states that NMDG and MRGTF dismissed Northern's reasons for the increase in Market Area fuel rates with the unsupported allegation that the fuel and throughput percentages are out of line, *i.e.*, if throughput increases by 9%, fuel use should only increase by the same percentage. Northern responds that, in previous PRA filings, it has previously explained that fuel usage and throughput volumes are not directly proportional. Northern further responds that, as stated in its May 1, 2003 filing, fuel consumption in the Market Area increased largely due to the fact that more Market Area volumes were sourced from the Field Area

and from Northern's interconnect with Trailblazer at Beatrice, Nebraska, while receipts into the Market Area from Northern's interconnect with Northern Border at Ventura were relatively flat, as compared to the last PRA period. Northern asserts that when more Market Area volumes are sourced from the Field Area, more fuel is consumed because the gas must travel farther and, therefore, this results in greater compressor utilization along the mainline in the Field Area to the Market Area. Northern further asserts that the change in daily flows, load factors, and varying pressure differentials associated with increased Field Area volumes moving to the Market Area affected the fuel-to-throughput relationship. Northern contends that, with respect to the increase in fuel percentages in the Field Area, actual fuel usage is dictated by the points of receipt and delivery chosen by Northern's shippers. Northern asserts that during the current annual PRA period, Market Area shippers sourced more gas from transportation receipt points in the Field Area than during the previous PRA period and that these changes in shipper behavior resulted in higher Market Area fuel rates.

15. Northern argues that contrary to Indicated Shippers' allegations the schedules Northern provided in support of its May 1, 2003 filing appropriately tie together. Northern asserts that while Indicated Shippers claim that Schedule 2M does not match Schedule 3F, even though both schedules appear to provide throughput data, Schedules 2M and 3F display different data and, therefore, are not intended to match. In response to Nicor Gas, Northern explains that, consistent with Section 53A of its tariff, Northern includes in its throughput calculation any throughput on which a fuel charge is collected and excludes any throughput for which a fuel charge is not applicable. Northern asserts that under deferred delivery transactions, Northern only assesses fuel on injections and does not assess fuel on withdrawals. Northern submits that, therefore, Schedule 2M in the May 1, 2003 filing reflects the proper calculation of annual throughput.

16. Northern concludes that the PRA mechanism, which was agreed to by all parties in the PRA settlement and incorporated into Northern's tariff, provides for the recovery of actual fuel costs whether they increase or decrease and does not guarantee that fuel rates would always decrease. Northern asserts that given that its PRA mechanism tracks actual fuel consumed and includes a true-up adjustment, any increase in fuel rates resulting from increased actual fuel consumed or higher true-up adjustments are appropriate for recovery under Northern's PRA mechanism. Northern further asserts that shippers during the current annual PRA period, to a much greater extent than during the previous PRA period, selected transportation receipt points and delivery points that resulted in longer hauls and proportionally more fuel being used than during the previous PRA period and this results in higher fuel retention percentages.

Notice, Interventions, and Protests

17. Public notice of the compliance filing was issued on June 24, 2003. Protests were due as provided in Section 154.210 of the Commission's regulations, 18 C.F.R. § 154.210 (2003). Reply Comments were filed by Indicated Shippers and NMDG and MRGTF. Mewbourne Oil Company (Mewbourne) filed a motion to intervene out of time. Granting late intervention at this stage of the proceedings will not disrupt the proceedings or place undue additional burdens on existing parties. Therefore, for good cause shown, the untimely motion to intervene by Mewbourne is granted.

18. In their reply comments, Indicated Shippers request a technical conference and argue that the Commission should reject Northern's compliance filing because, while it did provide narrative explanations, Northern did not provide adequate detailed supporting data to respond to the protests and, therefore, did not comply with the May 30, 2003 Order. Indicated Shippers further argue that Northern's assertions that it has always filed its annual PRA filing in the manner that it submitted its 2003 PRA filing, should not justify Northern's continued refusal to provide sufficient explanation and information to prove that its filing is just and reasonable.

19. Indicated Shippers contend that, while Northern claimed that the increase in fuel consumption was due to gas flowing a longer distance in the Field and Market Areas, thereby causing greater fuel usage per dekatherm, Northern did not provide any factual support for this assertion. Indicated Shippers assert that, for example, they requested Northern to provide (1) throughput by compressor station for this fuel filing compared with previous fuel filings, or (2) receipt volumes and delivery volumes by MID (identifying receipts from and deliveries to adjoining MIDs) for this fuel filing compared to previous fuel filings. Indicated Shippers further assert that without this factual information, there is no way of knowing whether Northern's statements that shippers transported gas farther this year as compared to previous years were accurate, or, if so, to what degree the flow changed. Indicated Shippers argue that the Commission should not permit conclusory statements by Northern to substitute for actual factual evidence supporting Northern's claims that its proposed PRA rates are just and reasonable.

20. Indicated Shippers state that Northern claimed that the differences between the 2003 PRA filing and previous PRA filings in non-compressor station fuel consumption were due to maintenance procedures known as blowdowns and purges and that Northern's personnel calculated the amount of gas loss due to blowdowns and the amount of gas used to purge a line. Indicated Shippers contend that, however, Northern did not explain the methodology it used to determine the gas loss/use amounts, and/or whether such methodology is consistent with standard industry practice. Indicated Shippers

further contend that Northern also did not provide any workpapers to demonstrate how it determined its blowdown/purge volumes and did not provide, or even make reference to, any records to validate the maintenance it claims it performed. Indicated Shippers argue that the supporting information should contain the maintenance records, blowdown losses and purge uses for each facility, and the methodology and workpapers supporting the calculations, for such fuel use that was purportedly associated with maintenance.

21. Indicated Shippers contend that Northern also did not explain why the “purge/loss” category accounted for nearly half of the increase in fuel use in the Field Area, and why this category increased 50% over last year’s PRA filing. Indicated Shippers assert that, according to the data Northern provided in its original filing, nearly half (43.6%) of the increase in Northern’s Field Area fuel use was due to increased “purge/loss.” Indicated Shippers further contend that Northern did not provide any explanation for the dramatic increase in fuel use at facilities other than those involved in “purge/blowdown.” Indicated Shippers assert that Northern’s explanation, which lacked supporting data, did not account for such non-compression fuel uses as engine fuel, office/tech, and warehouse.

22. Finally, Indicated Shippers assert that Northern claimed that the difference between volumes delivered to Demarc and volumes delivered from Demarc was due to (1) a substantial amount of volumes received at the Bushton outlet that are not assessed fuel and UAF, and (2) the timing of receipts and deliveries due to Demarc’s use as a deferred delivery point. Indicated Shippers further assert that Northern did not, however, provide data regarding the quantities of volumes received at the Bushton outlet that were not assessed fuel and UAF, or provide an analysis of the impact of either the Bushton volumes or the timing impact due to deferred deliveries. Indicated Shippers argue that without such supporting data it is impossible to determine the impact of deferred deliveries and how they might vary from year-to-year.

23. In their reply comments, NMDG and MRGTF state that, with respect to the increases in Section 1 (Permian Area) and Section 2 (MidContinent Area) fuel, Northern has provided additional narrative to the effect that some volumes moved a longer distance, thereby using more compressor stations and increasing compressor use at various stations. NMDG and MRGTF assert that while this narrative is helpful in understanding the rationale for the increases, Northern did not reconcile these changes with the requested increase in Section 1 fuel percentage and that these comments also apply to Northern’s explanation of the increase in Section 2. NMDG and MRGTF request that, since Northern has the necessary data and no further discovery or other procedures have been adopted, the Commission direct Northern to provide a

reconciliation which shows, at a minimum, how the changes discussed by Northern in the compliance filing resulted in the increase in Section 1 and Section 2 fuel.

24. NMDG and MRGTF assert that with respect to the increase in Section 3 (Market Area) fuel Northern's explanation does little more than repeat Northern's initial explanations. NMDG and MRGTF do not quarrel with the concept that fuel usage and throughput volumes are not directly proportional. NMDG and MRGTF assert that here, however, the magnitude of the increase appeared extremely large as compared to the increase in throughput. NMDG and MRGTF further assert that Northern's only additional explanation in the compliance filing is that there are many other factors that may significantly impact the fuel-to-throughput relationship, such as daily flows, load factors and varying pressure differentials, and more Market Area volumes were sourced in the Field, causing additional compressor utilization as a result of the longer distances. NMDG and MRGTF argue that Northern is simply stating generalizations rather than identify the specific factors which led to the increase and, as with Sections 1 and 2, and apparently made no attempt to quantify and reconcile the reasons for the increases. NMDG and MRGTF request that the Commission direct Northern to specifically identify the major changes, and to provide a reconciliation which shows, at a minimum, how these changes resulted in the increase as compared to previous fuel filings. Finally, NMDG and MRGTF support the reply comments of the Indicated Shippers concerning blowdowns and purges and volumes delivered to Demarc and from Demarc.

Discussion

25. Northern's revised tariff sheets are in compliance with the May 30, 2003 Order, and are accepted to be effective June 1, 2003, subject to the outcome of the proceedings in Docket No. RP02-334-000, et al. In addition, Northern's June 19, 2003 compliance filing provides adequate additional explanations for the Field Area Section 1 and Section 2, Market Area, and Field Fuel percentages, and supporting schedules included in its May 1, 2003 filing and satisfactorily responds to the issues raised by the parties. Therefore, we will accept the June 19, 2003 compliance filing as in satisfactory compliance with the May 30, 2003 Order in this proceeding, subject to the outcome of the proceedings in Docket No. RP02-334-000, et al. Northern's PRA mechanism tracks actual fuel consumed and includes a true-up adjustment. Increased actual fuel consumed or higher true-up adjustments are recovered pursuant to that tariff mechanism and the Commission's regulations. Northern states that all fuel numbers in the filing are those actually recorded at each fuel station. Northern has provided the information required by its tariff and the Commission's regulations. Indicated Shippers and NMDG and MRGTF have not supported their requests for further information beyond the adequate explanation of the amounts provided reflecting actual recorded fuel numbers and those requests are

denied. Accordingly, a technical conference is unnecessary and the request for a technical conference is denied. Therefore, Indicated Shippers' request for rehearing is denied.

The Commission orders:

(A) Northern's June 19, 2003 compliance filing is accepted as in compliance with the May 30, 2003 Order in these proceedings subject to the outcome of the proceedings in Docket No. RP02-334-000, et al., as discussed in the body of this order.

(B) The revised tariff sheets listed in footnote No. 1 of this order are accepted as in compliance with the May 30, 2003 Order to be effective June 1, 2003, subject to the outcome of the proceedings in Docket No. RP02-334-000, et al.

(C) Indicated Shippers' June 4, 2003 request for rehearing in this proceeding is denied, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.