UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Questar Pipeline Company Docket Nos. RP04-91-000
RP04-91-001
RP04-91-002

ORDER FOLLOWING TECHNICAL CONFERENCE AND ON REHEARING

(Issued November 26, 2004)

1. On January 30, 2004, Questar Pipeline Company (Questar) made its supplemental informational filing to support its previously filed tariff sheets[1] in compliance with the Commission's Order issued on December 31, 2003.[2] On July 29, 2004, staff convened a technical conference to address the outstanding issues surrounding Questar's fuel gas and lost and unaccounted for gas adjustments and the Kastler Dew Point Plant (Kastler Plant) operations. Several protestors also filed for clarification or in the alternative rehearing of the December 31 Order. In this order, the Commission accepts Questar's compliance filing, and directs Questar to calculate the liquids revenues received from the Kastler Plant and credit those revenues to the transmission customers. This order also denies the requests for clarification and rehearing. This order benefits customers because it ensures that transmission customers receive revenue credits for the sale of extracted products to offset the shrinkage costs Questar charges to customers.

I. Background

2. On November 28, 2003, Questar filed tariff sheets to increase its Fuel Gas Reimbursement Percentage (FGRP) from 1.4 percent to 2 percent. Questar also requested a January 1, 2004, effective date and a waiver to implement a two-year amortization of Questar's under-recovery of fuel-use lost and unaccounted for gas (L&U) for the prior 12-month period. On December 10, 2003, the filing was protested by

[1] Thirtieth Revised Sheet No. 5 to FERC Gas Tariff, First Revised Volume No. 1, and Thirty-Seventh Revised Sheet No. 8 to FERC Gas Tariff, Original Volume No. 3.

[2] *Questar Pipeline Company* 105 FERC ¶ 61,405 (2003) (December 31 Order).

Dominion Exploration & Production, Inc., Dominion Reserves – Utah, Inc. (collectively Dominion), ConocoPhillips Company (Conoco), Indicated Shippers[3] and Westport Oil and Gas Company, L.P. (Westport). On January 5, 2004, UAE Intervention Group[4] filed an out of time motion to intervene and protest adopting Dominion's and Conoco's arguments.

3. In the December 31 Order, the Commission granted Questar's waiver request to permit the proposed two-year amortization and conditionally accepted the tariff sheets to be effective January 1, 2004, subject to Questar responding to the protests by filing detailed explanations with supporting work papers addressing: (1) the increases in FGRP; (2) the appropriateness of including Kastler Plant fuel use and shrinkage in FGRP; and (3) a copy of the 2000 Arthur Anderson audit report, which arose from a settlement of an earlier fuel tracker filing. Questar was also directed to provide detailed information to determine whether that the dramatic increase in L&U gas volumes was due to a single event, and whether the L&U gas volumes could be reduced through a single charge or correction. On January 30, 2004, Questar made its supplemental filing as directed in the December 31 Order.

4. On January 28, 2004, Dominion and Conoco filed a joint rehearing request, and on January 30, 2004, Indicated Shippers also filed a request for rehearing. All requested that the Commission clarify that it intended to suspend Questar's filing subject to refund, or alternatively, they requested rehearing of the December 31 Order so that the order is treated as a suspension order, which would make refunds available back to January 1, 2004.

5. On February 12, 2004, Questar filed an answer in response to intervenors' request for clarification or rehearing. Rule 213(a)(2) of our Rules of Practice and Procedure, 18 C.F. R. § 385.213(a)(2) (2003), prohibits an answer to protest unless otherwise ordered by the decisional authority. We find that Questar's answers aid us in addressing the issues and have considered them.

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[3] The Indicated Shippers are: BP Energy Company, BP American Production Company, and Chevron Texaco Natural Gas, a division of Chevron U.S.A. Inc.

[4] The UAE Intervention Group members are: Alliant Aerospace Propulsion Company, American Pacific Corporation, Central Valley Water Reclamation District, Chevron Texaco ERTC, Hexcel Corporation, IHC Health Service, Inc., S F Phosphates, Swift & Company – Utah, Corporation, and Utah Association of Energy Users. UAE Intervention Group's out-of-time motion is granted pursuant to 18 C.F.R. § 385.214(d), since the Commission finds that granting intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties.

6. On February 11, 2004, Dominion and Conoco filed a joint response and protest to Questar's January 30 supplemental filing. On February 11, 2004, Westport also filed a protest to the supplemental filing adopting Dominion and Conoco's arguments and on February 26, 2004, Questar filed an answer.

7. In April 2004, in an effort to better understand the factual issues surrounding the Kastler Plant and L&U increase, staff proposed a technical conference. Subsequently, the parties requested staff postpone the technical conference in lieu of ongoing settlement discussions. Unfortunately, in June the parties reported back to the Commission that they were unable to reach agreement on the outstanding issues, and staff rescheduled a technical conference.

8. On July 29, 2004, staff convened a technical conference to address the issues arising from Questar's compliance filing regarding its fuel gas adjustment, lost and unaccounted for gas adjustment, and the Kastler Plant. On August 30, 2004, Questar and the intervenors filed initial comments on the issues discussed at the technical conference and on September 15, 2004, reply comments were filed. Thereafter, Questar filed a motion to strike portions of Dominion's reply comments and Dominion filed a response.

IV. Discussion

9. This order addresses the three remaining issues in this cost tracking filing: (1) whether Questar's tariff allows Questar to collect shrinkage through its fuel tracker; (2) whether Questar can allocate the Kastler Plant's fuel and shrinkage to its transmission customers and whether it should credit to shippers the revenues from the Kastler Plant's liquids sales; and (3) whether Questar should be required to further implement the audit recommendations or provide for other mechanisms to ensure greater accuracy in its measurements.

A. Shrinkage Recovery via Fuel Tracker

1. Questar's Comments

10. Questar asserts that its tariff permits shrinkage to be included in its FGPR. Questar contends that section 12.15 of its General Terms and Conditions (GT&C) provides for Questar to recover consumed and lost gas through its FGRP. Questar also argues that fuel is defined to include system gas consumed, and that includes any Btu diminishment, including that arising from liquids extraction. Questar argues that section 12.15(a)(ii) states that the FGRP is to be calculated as the difference between the Btus received and those delivered. Therefore, Questar contends shrinkage is a component to be included in the FGRP as gas consumed. Consequently, Questar argues that its tariff provides for Questar to recover shrinkage through its fuel tracker as part of its FGRP.

11. Questar also argues that its 1996 rate case settlement which established this current tariff provided for Questar to credit shippers with the revenues from the sales of the recovered liquids, and recover shrinkage in its fuel tracker. Furthermore, Questar asserts that since that settlement it has collected shrinkage as part of the FGRP, with Commission approval of every tracker filing since. Questar argues that this consistent treatment of shrinkage indicates that Questar and the Commission have recognized that shrinkage is properly collected under Questar's tariff through the FGRP. Furthermore, Questar argues that the cost of service in its last rate case included a revenue credit for the recovered liquids, but did not reflect the cost of natural gas associated with the recovery. Questar asserts the only mechanism it has to recover these shrinkage costs is through the FGRP. Questar argues that to disallow its recovery of shrinkage would unfairly deny it the ability to recover this cost of its operations.

12. Questar argues that in its last rate case, the expenses associated with the shrinkage were not included in the settlement cost of service, and therefore, collecting shrinkage through the fuel reimbursement percentage is necessary for Questar to recover this cost. Finally, Questar asserts that protestors' challenge to Questar's shrinkage recovery would involve the changing of Questar's tariff which is outside the scope of this tracker filing.

2. **Protestors' Comments**

13. Protestors argue that Questar's tariff does not provide for plant shrinkage to be included in its FGRP, so it is not a matter of "changing" the tariff, but applying it according to its terms. They argue that shrinkage is that volume of gas which must be replaced due to the Btu diminishment from extracting the liquids, which is different from gas used as compression fuel for that extraction process,[5] or for unaccounted for losses due to the transportation of gas. Protestors assert that Questar's tariff provides for compressor fuel consumed and for lost and unaccounted for gas to be collected through Questar's fuel tracker. However, they argue that Questar's tariff does not include a separate provision for the gas volumes lost to shrinkage to be collected through the FGRP. Additionally, they argue that shrinkage is not included in either the gas consumed or the lost and unaccounted for gas components. Consequently, protestors argue that since Questar's tariff does not provide for the recovery of shrinkage through the FGRP, Questar should not be allowed to recover shrinkage through its fuel tracker.

14. Protestors also disagree with Questar's arguments that its past practices dictate that it can collect shrinkage through its FGRP. Dominion argues that the inclusion of shrinkage was challenged in 2000 and that protest was only dropped due to the parties entering into settlement procedures that resulted in the Arthur Anderson

[5] Dominion Comments at 30, *citing*, *Tennessee Gas Pipeline Co.*, 12 FERC ¶ 61,257 at p. 61,615 (1980); *see also*, *Colorado Interstate Gas Co.*, 35 FERC ¶ 61,017 at p. 61,030 (1986).

recommendations, discussed *infra*. Therefore, Dominion argues that the Commission has never actually reviewed or approved Questar's practice of including shrinkage in its FGRP.

15. Conoco argues that Questar's FGRP problems are the result of Questar's failure to mandate a specified hydrocarbon dew point (HDP). Consequently, it maintains that Questar accepts wet gas which results in additional costs to all shippers, regardless of the quality of gas each shipper delivers onto Questar's system. However, Conoco admits Questar's tariff does provide for some gas quality restrictions. Conoco asserts that Questar's failure to uniformly enforce those provisions shifts costs, such as shrinkage, to conforming shippers.

3. <u>**Commission Response**</u>

16. Section 12.15 of Questar's GT&C states in relevant part that the FGRP includes several components including: "(1) system gas consumption, [and] (2) lost or gained and unaccounted-for quantities…." In section 12.15(a)(i) Questar's tariff states that "transmission system gas consumption will be based on the actual fuel consumed at each compressor station, extraction plant or other fuel-consuming facility...." Section 12.15(a)(ii) states that "transmission system losses or gains and unaccounted-for quantities will be calculated by subtracting physical transmission deliveries, including actual system gas consumed from physical transmission receipts...."

17. While Questar's tariff does not explicitly address the collection of shrinkage, the tariff does define the FGRP calculation as the transmission receipts minus transmission deliveries.[6] Shrinkage, along with fuel and L&U, reduces the amount of gas Questar delivers as compared to the gas Questar receives from customers. Therefore, Questar's tariff implicitly provides for the collection of shrinkage through its fuel tracker.[7]

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[6] GT&C, section 12.15(a)(ii).

[7] Similarly, Colorado Interstate Gas Company's (CIG's) tariff implicitly provides for the collection of non-third party shrinkage through its fuel tracker by explicitly excluding third-party shrinkage as a component of its fuel tracker. Eleventh Revised Sheet No. 230 A to CIG's FERC Gas Tariff, First Revised Volume No. 1.

18. Our interpretation of Questar's tariff is buttressed by historical practice on Questar's system. Under this same tariff language, the Commission has previously accepted Questar's fuel trackers that included shrinkage in its FGRP.[8] Furthermore, contrary to Dominion's assertions, the Commission accepted the 2000 settlement without modifying it to exclude shrinkage, thereby accepting the inclusion of shrinkage in Questar's FGRP. . Therefore, we shall allow Questar to continue to collect shrinkage through its fuel tracker.[9]

19. Finally, as Conoco states, Questar's tariff does give Questar some flexibility in limiting the quality of gas it receives. However, Questar is not required to mandate a specific HDP, and, consequently, is not violating its tariff by accepting these varying qualities of gas. Furthermore, the quality of gas that Questar accepts on its system, is outside the scope of these proceedings.

B. Kastler Dew Point Plant

1. Storage Allocation

a. Questar's Comments

20. Questar argues that the gas consumed at the Kastler Plant is properly included in its FGRP that is charged to transportation customers. Questar asserts that the Kastler Plant began service in August 2001 and is a transmission facility constructed to process transportation gas. Questar states its tariff permits recovery of consumed fuel and extraction plant shrinkage through the annual FGRP filing. Furthermore, Questar argues that since its rate case settlement provides for credits of the revenues from the sales of the extracted liquids back to the customers, it is allowed to collect for shrinkage.[10] Additionally, Questar states the Kastler Plant shrinkage and fuel use has

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[8] *Questar Pipeline Co.*, 91 FERC ¶ 61,334 (2000); December 30, 2002, Letter Order in Docket No. RP03-153-000 and December 18, 2001, Letter Order in Docket No. RP02-96-000 (approving Questar's FGRP filings that included shrinkage).

[9] Generally, the issue of shrinkage is developed in a full section 4 rate case proceeding where all cost and related revenues can be taken into consideration. In Questar's next rate case, protestors are free to argue that shrinkage should not be included in the fuel tracker.

[10] As discussed *infra* however, this revenue credit was fixed prior to the inception of Kastler Plant operations, and Questar has not credited the Kastler liquids revenues to shippers.

been included in Questar's last two FGRP filings. Therefore, Questar asserts that any gas consumed and shrinkage resulting from processing at the Kastler Plant is properly included in the FGRP.

21. Questar argues that even though the Kastler Plant is located near its Clay Basin storage facility, this proximity of locations does not determine whether only storage customers or both transportation and storage customers benefit from the Kastler Plant. Questar maintains that the Kastler Plant is an integral part of its pipeline and that many transportation customers process their gas at the Kastler Plant and then ship that gas to Clay Basin to sell at the storage inlet to customers with downstream markets. Additionally, Questar states that the Kastler Plant is utilized to process gas for delivery off of Questar's northern system. Questar also argues that the wetness of the gas that the Kastler Plant processes comes from the changing mix of gas and flow directions in the system, not necessarily only from the wetness of the gas inputted by customers seeking storage at Clay Basin.

22. Furthermore, Questar argues that for four months in 2003, the gas processed at the Kastler Plant was transportation gas delivered back into Questar's mainline pipeline for delivery to other pipelines. Questar argues that all transportation customers share in the FGRP's assessment of retainage charges, regardless of whether their gas is delivered on or off system, since to separate out the gains or losses attributable to each assignment would be impossible. Finally, Questar argues that the Kastler Plant has been in operation since 2001, that Questar notified shippers of its intent to construct Kastler, and that its costs have been included in its two prior FGRP filings, which have been approved without protest.

b. <u>Protestors' Comments</u>

23. Protestors argue that the Kastler plant operates to support Questar's storage customers; therefore, its fuel use and shrink volumes should not be included in the FGRP applied to Questar's transmission customers. Dominion argues that the Kastler plant primarily operates to process storage gas that is being withdrawn from or injected into the Clay Basin Storage Facility (Clay Basin). Protestors argue that processing gas that is being delivered to Clay Basin benefits storage gas customers, not transmission customers. They assert that processing incoming storage gas is done to dry out the gas in Clay Basin which benefits storage customers.

24. Protestors also argue that the Kastler Plant is not used by transmission customers accessing Northwest Pipeline Company's system at this location. They argue that at this location, storage customers utilize Questar's Clay Basin Storage Main Line 70 to reach Northwest's system. Protestors argue that only Clay Basin storage customers have access to this pipeline to reach Northwest's system at this location. Consequently,

protestors assert that transmission customers cannot utilize the Kastler Plant to access Northwest's system, only storage customers can. Therefore, the Kastler Plant primarily benefits storage customers and transmission customers should not bear its fuel costs.

25. Finally, protestors argue that while the Kastler Plant was utilized by transmission customers during the past year, it was a one time occurrence that will not continue. Protestors assert that for only three months, July through October 2003, Questar used the Kastler Plant to process transmission gas for delivery off of Questar's northern system. However, protestors argue that these few months were the only time Kastler has been used by transmission customers. Consequently, protestors assert that Kastler primarily benefits storage customers, and therefore, the fuel costs associated with the Kastler Plant should not be included in the FGRP charged to transmission customers.

c. Commission Response

26. This issue of allocating plant costs between storage and transmission customers is normally addressed in a rate case. The Kastler Plant was built between rate cases and as a result the allocation issue is raised in the context of this fuel tracker proceeding. All parties agree that for several months during 2003, the Kastler Plant was utilized by transmission customers to process transmission gas for delivery off of Questar's system. Therefore, during 2003, transmission customers directly benefited from the Kastler Plant. Since this order addresses Questar's FGRP filing for the 2003 year, and transmission customers had gas processed at Kastler for several months during this year, and since customers benefited therefrom, Questar's inclusion of fuel costs is reasonable for this year. However, in future filings, Questar will be required to demonstrate that transportation customers benefited from the Kastler plant during that year in order to allocate costs to transmission customers.

2. Revenue Credits from Kastler Operations

1. Questar Comments

27. Questar asserts that during its last rate case, its cost of service included a credit for revenues it received for processed liquids. Questar states that the accounting data in that rate case were based on the twelve-month period that ended on March 31, 1995. Furthermore, the record demonstrates its Other Revenues, Account Number 492 contains a $905,994.00 credit for revenues to transmission customers. Therefore, Questar argues that it is properly crediting the revenues for liquids removed during processing to transmission customers and, consequently, correctly collecting for fuel costs.

2. **Protestors' Comments**

28. Conoco protests Questar's inclusion of Kastler Plant shrinkage in the FGRP because related liquids revenues are not being credited. Conoco argues that the revenues Questar credits back to shippers are based on its last rate case estimates which took place in 1996. However, protestors argue that the Kastler Plant came on line in 2001, and was not contemplated in 1996. Therefore, the revenues from the Kastler Plant are not part of the revenues credited to shippers. Consequently, Questar should not be able to collect both the revenues from the liquids sold and the corresponding shrinkage.

29. Protestors also argue that in accepting the settlement of that prior case, protestors requested that Questar include provisions for future plants.[11] In that order the Commission denied the protestors' request at that time because Questar stated it had no plans to build additional processing plants. However, the Commission also stated that "of course, should such processing facilities be built, Questar will be subject to the Commission policy that a pipeline may not unduly restrict a shipper from receiving a revenue credit for the sale of extracted products."[12] Therefore, protestors argue that since the Kastler Plant was built after Questar's last rate case, the revenues Questar receives from the sale of liquids from the Kastler Plant have not been credited to the transmission customers; rather, Questar has collected the fuel costs and shrinkage associated with the liquids removal and kept the revenues from Kastler.

3. **Commission Response**

30. Questar uses its FGRP to recover shrinkage from gas that is processed at the Kastler Plant. However, Questar's last rate case was resolved prior to the planning or operation of the Kastler Plant, and consequently the revenues from any liquids recovered at Kastler are not included in the liquid revenues incorporated in Questar's rates. Consequently, allowing Questar to collect shrinkage for the Kastler plant while not crediting revenues from the liquids collected from the Kastler Plant is contrary to the Commission's intent in approving the rate case settlement. In fact, in the order approving the settlement, the Commission stated that if new processing plants are developed, Questar cannot restrict shippers' receipt of credits for the revenues.

31. Therefore, consistent with the Commission's order approving the 1996 rate case settlement, the Commission directs Questar to account for the revenues it has collected from the sale of extracted liquids from the Kastler plant since the Kastler plant came on

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[11] *Questar Pipeline Co*., 76 FERC ¶ 61,001 (1996).

[12] *Id.* at p. 61,006.

line in 2001, and to credit these revenues to the transmission customers. Furthermore, Questar shall credit all future liquids revenues from Kastler to transmission customers to offset the fuel costs and shrinkage it collects from these customers.

C. FGRP/Audit Recommendations

1. Questar's Comments

32. Questar contends that its fuel and L&U percentages are reasonable in light of Questar's history and industry practices. Questar argues that, for example, the rise in L&U from 0.4 percent to 0.7 percent is within the 0.3 percent to 1.3 percent historical range for L&U. Questar states that while it works diligently to minimize and to identify sources of L&U as part of its normal operations, deviations inevitably occur from time to time which routinely contribute to varying levels of L&U volumes on pipelines.

33. Questar argues that its procedures conform to industry standards as set forth by the American Gas Association and the American Petroleum Institute. Questar argues it monitors its pipeline through inspections, audits, configuration, and trending among other procedures to find and correct any single sources of errors. Questar argues that the Arthur Anderson report gave a generally positive report on Questar's operations and proposed some recommendations, many of which Questar did adopt. However, Questar argues that neither the report nor the settlement of its prior tracker proceeding required Questar to implement any particular recommendation.

2. Protestors' Comments

34. Protestors argue that it would be unreasonable to allow Questar to recover its requested 0.7 percent L&U since this is a dramatic increase over previous L&U percentages on Questar's system. Protestors argue that Questar's pipeline system lacks safeguards that are usually present to prevent normal meter errors from persisting. They argue that Questar has failed to demonstrate that it is accurately measuring the gas flow on its pipeline, at the highest standards available in the industry. Furthermore, they argue that Questar has failed to implement all of the recommendations contained in the Arthur Anderson report or provide sufficient explanations as to why it chose not to implement each recommendation.

3. Commission Response

35. The Commission finds that Questar's L&U amounts are within the meter error levels specific in the tariff, and, therefore, approves them. The Arthur Anderson report did not find Questar deficient in measuring its gas flow, and could not account for the previous spike in Questar's L&U. While Questar did not commit to implement the report's recommendations, since that report, Questar has made changes to its system to

increase the accuracy of its measurements, and is considering additional changes. We note the parties' cooperative efforts to resolve outstanding issues related to metering accuracy. Questar has committed to work with its customers on metering issues, such as those related to two-phase flow. The Commission may revisit this issue if the problem remains unresolved in future filings. Questar's motion to strike Dominion's reply comments on pages 17, 18 and corresponding attachments is denied, as they address issues arising from the filing and technical conference and have been considered.

D. Rehearing/Clarification

36. Dominion, Conoco, UAE and Indicated Shippers filed a request that the Commission clarify that its December 31 Order intended to suspend Questar's filing and make it subject to refund, or alternatively, they requested rehearing, so that the fuel tracker can be considered subject to refund as of January 1, 2004. Questar responded arguing that the protestors' request is another attempt to challenge Questar's Commission approved tariff and this proceeding is limited to whether Questar's FGRP filing complies with the provisions of its filed tariff.

37. In the December 31 Order the Commission conditionally accepted Questar's filing without suspension. It is not necessary to suspend Questar's filing because the tracker contains a true up provision which would, if necessary, provide for adjustments required by the Commission. Consequently, the requests for rehearing and clarification are denied. The Commission's direction to credit fuel revenues from Kastler to shippers is grounded in the order on Questar's last rate case settlement, and is not affected by the conditional acceptance of the subject tracker filing.

The Commission Orders

(A) Questar's compliance explanation and underlying fuel adjustments are accepted as discussed in the body of this order, subject to Questar's crediting all Kastler liquids revenues to its customers

(B) Questar is directed to make a compliance filing, within 30 days of this order, to provide an accounting of all revenues received from the sale of liquids at the Kastler Plant as discussed in the body of this order, and to credit these past revenues to transmission customers. Questar is also directed to credit all future Kastler plant revenues to transmission customers

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.