FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

April 16, 2004

In Reply Refer To:
Gulf South Pipeline Company, LP
Docket No. RP04-223-000

Gulf South Pipeline Company, LP
20 E. Greenway Plaza, Suite 900
Houston, TX 77046

Attention: Michael E. McMahon
Senior Vice President of Rates

Reference: Proposed Revised Tariff Provisions Related to Discounts

Dear Mr. McMahon:

1. On March 19, 2004, Gulf South Pipeline Company, LP (Gulf South) filed tariff sheets,[1] with an effective date of April 18, 2004, proposing to modify section 7.7(a) of the General Terms and Conditions of its tariff. That section lists types of discounts Gulf South may offer without those discounts being considered material deviations from Gulf South's pro forma form of service agreements. Gulf South proposes to add two types of allowed discounts. The proposal would allow Gulf South to rely upon published index prices, basis differentials or formulas to determine a discount rate, when certain other conditions are also met.

2. The Commission accepts the tariff sheets, to be effective April 18, 2004, as proposed. Gulf South's proposal is in the public interest because it reflects a type of pricing structure that Gulf South customers desire and will provide them with price certainty.

Details of the Filing

3. Proposed section 7.7(a)(7) provides that Gulf South may offer discounts based on a published price index or a basis differential between a specific receipt and delivery

[1] Gulf South filed Sixth Revised Sheet No. 1415, Fourth Revised Sheet No. 1416 and First Revised Sheet No. 1417, to its FERC Gas Tariff, Sixth Revised Volume No. 1.

point, or a formula. That section also provides that such a discounted rate: (1) cannot represent a change from the pipeline's approved rate design, (2) cannot include any minimum bill or minimum take provision, (3) must specify the rate component being discounted, and (4) must remain between the pipeline's minimum and maximum applicable tariff rates.

4. Under proposed section 7.7(a)(8), Gulf South may offer a discounted rate that meets all the requirements of proposed section 7.7(a)(7) and is calculated on a 100 percent load factor basis for volumes actually transported inclusive of fuel, Annual Charge Adjustment, and the applicable transportation rate components. That section also provides that in no event can the sum of the rate components or any individual rate component exceed Gulf South's maximum tariff rate or be below its minimum rate. In its transmittal letter, Gulf South states that the purpose of this provision is to permit it to enter into a discounted rate agreement under which the overall rate charged for volumes actually transported would not vary, despite variations in the amount Gulf South charges the shipper for fuel. Gulf South explains that its customers may elect to pay cash for fuel rather than have fuel retained, and the cash price for fuel fluctuates on a monthly basis. Under proposed section 7.7(a)(8), Gulf South would be permitted to charge customers who elect to pay cash for fuel a single 100% load factor rate inclusive of fuel and surcharges for gas that is actually transported. As the fuel rate fluctuates up or down, the commodity/demand rate would also fluctuate in an offsetting manner so that the sum of the rate components would remain the same, subject to any individual rate components, as well as the overall rate, always being between Gulf South's applicable minimum and maximum rates.

5. Gulf South contends that discounts under proposed section 7.7(a)(8) would be consistent with current Commission policy established in CenterPoint Energy Gas Transmission Company (CEGT)[2] and Northern Natural Gas Company (Northern),[3] because the underlying rate design would remain unchanged and the other requirements of those orders would be satisfied. Gulf South states that discounts authorized by this section would not create a minimum bill or a revenue guarantee when used for an interruptible transaction, and would apply only to firm volumes that are actually transported. For volumes not transported, a firm customer would be charged a stated demand charge that is between Gulf South's minimum and maximum applicable rates, calculated using Gulf South's approved straight-fixed-variable rate design. Gulf South notes that it previously proposed a similar discount provision which the Commission rejected based on a finding that Gulf South appeared to be calculating the rate based on a

[2] 105 FERC ¶ 61,298 (2003).

[3] 105 FERC ¶ 61,299 (2003).

100 percent load factor basis, which is inconsistent with its two part firm rate design.[4] Gulf South argues that it has overcome this deficiency in this proposal because the discount only applies to gas that is transported. For volumes not transported, firm customers will continue to pay a two part rate with a stated reservation charge.

6. Gulf South states that currently it can enter into these types of discounted transactions on a monthly basis, but it cannot execute these transactions as a discount for term that is greater than a month without filing the transaction as a negotiated rate contract. Gulf South submits that proposed section 7.7(a)(8) will encourage longer term contracts and promote administrative efficiency because Gulf South and its customers would be able to establish a single transportation rate for a term greater than a month, and would avoid having to renegotiate the transportation rate each month based on changes in the price of fuel.

Notice, Interventions and Comments

7. Notice of the filing was issued on March 24, 2004, with comments, protests or interventions due on or before March 31, 2004. Notices of interventions and unopposed timely filed 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). No protests or adverse comments were filed. All late interventions filed before the issuance of this order are granted. Accepting such late interventions will not disrupt this proceeding or add additional burdens upon existing parties.

Discussion

8. In CEGT and Northern, the Commission held that pipelines may enter into discounted rate agreements that use formulas which produce fluctuating transportation rates during the term of the agreement, so long as the rates remain within the range established by the maximum and minimum rates set forth in the pipeline's tariff. Also, the Commission determined that such discounted rate formulas may be based upon gas commodity price differentials between different points.

9. Since the proposal filed herein would authorize formula-based discount rates that cannot represent a change from the pipeline's approved rate design, that cannot include any minimum bill or minimum take provision, that must specify the rate component being discounted, and that must remain between the pipeline's minimum and maximum applicable tariff rates, the proposal is consistent with CEGT and Northern and resolves the concerns the Commission originally expressed in Gulf South. Proposed section 7.7(a)(8) is also consistent with the Commission's policy that pipelines may not discount

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[4] Koch Gateway Pipeline Company, 89 FERC ¶ 61,078 (1999), reh'g denied, Gulf South Pipeline Co., 94 FERC ¶ 61,397 (2001) (Gulf South).

their fuel charges, since fuel is a variable cost. Gulf South's fuel charge is part of its minimum rates, and therefore, under Gulf South's proposal, the discounted rate will never fall below a level that will recover its fuel costs.

10. Accordingly, the Commission accepts the tariff sheets listed in footnote 1 to be effective April 18, 2004.

By direction of the Commission.

Magalie R. Salas,
Secretary.