

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Northern Natural Gas Company

Docket No. RP04-280-000

ORDER ACCEPTING TARIFF SHEETS SUBJECT TO REFUND AND
CONDITIONS AND FURTHER REVIEW

(Issued May 28, 2004)

1. On April 30, 2004, Northern Natural Gas Company (Northern) filed revised tariff sheets¹ to adjust its rates to reflect the rate impact of the return and tax components associated with the System Levelized Account (SLA) balance as of March 31, 2004. Northern requests the revised tariff sheets become effective June 1, 2004. As discussed below, the Commission will accept and suspend the proposed tariff sheets, subject to refund and conditions and further review, to become effective June 1, 2004. This order benefits customers because it allows a review of Northern's underlying costs to ensure that its rates are just and reasonable.

Background and Northern's Filing

2. Northern's filing is made pursuant to section 32(K) of the General Terms and Conditions (GT&C) of Northern's FERC Gas Tariff. The rate base used to determine the return on equity and associated taxes reflected in Northern's base rates includes a component for its investment in gas used for operational purposes, including keeping its system in balance. Section 32(K) of the GT&C requires Northern to record, on an ongoing basis in the SLA account, the effects of imbalance resolution. Section 32(K) also requires Northern to file annually each May 1, a recalculation of the rate effect of the cash portion of the SLA account. If the rate impact of the return and tax components associated with the SLA balance is greater than \$0.0001, Northern must adjust its base rates accordingly.

¹ See Appendix to this order.

3. Northern has made previous SLA filings pursuant to section 32(K) and the Stipulation and Agreement of Settlement (Settlement) resolving, *inter alia*, SLA proceedings in Docket Nos. RP01-76-000 and RP01-396-000, which the Commission approved with clarification on February 1, 2002.² In its general section 4 rate filing in Docket No. RP03-398-000, Northern proposed to revise the SLA Settlement Rate Methodology. Northern proposed to utilize 100% of the 13-Month Average Cash Balance rather than the 80% provided for under the SLA Settlement Rate Method and to remove the \$7 million cap on increases in the annual adjustment. The revised tariff sheet containing these proposed changes³ was conditionally accepted subject to refund in Docket No. RP03-398-000.⁴ Northern's instant filing reflects the proposed revisions in Docket No. RP03-398-000. The 13-Month Average Cash Balance has decreased from the 13-Month Average Cash Balance shown in the last SLA annual filing. However, under Northern's utilization of 100% of the 13-Month Average Cash Balance rather than 80% of the 13-Month Average Cash Balance, Northern proposes an SLA rate increase.

4. Northern states that the June 1, 2004, SLA rates reflect an increase of \$1.9 million in the base tariff rates that became effective on November 1, 2003, which resulted from Northern's general section 4 rate case in Docket No. RP03-398-000. Northern further states that it has reflected use of 100% of the actual 13-Month Average Cash Balance as filed in Docket No. RP03-398-000, and the November 1, 2003 rates are currently set for hearing and subject to refund. Appendix C provides workpapers to show the amount of the increase in base tariff rates that results from using the 13-Month Average Cash Balance derived on Appendix B and compared to the filed cost of service in Docket No. RP03-398-000. Northern asserts that the increase in the base tariff rates is added to the November 1, 2003, effectuated rates to arrive at the proposed June 1, 2004, SLA rates, and the return and tax component that is applied to the 13-Month Average Cash Balance is based on a return of 15.02% filed in Docket No. RP03-398-000. Northern further asserts that the SLA Credit percentage of 4.005% represents the same ratio to the 15.02% return that the previous 4% represented to a 15% total return and tax. Northern also provides workpapers to support all SLA accounting entries and balances for the 13-month period ending March 31, 2004.

² See Northern Natural Gas Company, 98 FERC ¶ 61,120 (2002).

³ Third Revised Sheet No. 269A.

⁴ See Northern Natural Gas Company, 103 FERC ¶ 61,266 (2003).

Notice of Filing, Interventions, and Protests

5. Notice of Northern's filing was issued on May 5, 2004. Interventions and protests were due as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2003)). Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214 (2003)), 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. The Northern Municipal Distribution Group and the Midwest Region Gas Task Force Association (NMDG/MRGTF) and the Large Local Distribution Company Coalition⁵ (Coalition) filed protests. ONEOK Field Services Company, ONEOK Bushton Processing, Inc., and ONEOK Gas Processing, LLC. (ONEOK), filed a conditional protest.

6. ONEOK, NMDG/MRGTF, and the Coalition request that the Commission accept the filing subject to refund and the outcome of the consolidated proceedings in Northern's ongoing rate cases in Docket Nos. RP03-398-000, et al., and RP04-155-000, et al. In addition, NMDG/MRGTF assert that such action suggests that the Commission should consolidate this proceeding with those proceedings, or, in the alternative, that the Commission establish a technical conference and/or formal hearing procedures.

7. NMDG/MRGTF also argue that Northern's filing provides very little support or explanation for the requested rate changes and, while the SLA cash balance has decreased somewhat, it remains very high. NMDG/MRGTF assert that Appendix B simply summarizes, without any explanation, the month-end and net SLA cash balance, and the monthly and cumulative SLA credits. NMDG/MRGTF further assert that Appendix D provides accounting detail, but does not explain why Northern participated in the transactions shown or provide details concerning the reasons for the changes in the monthly cash balances or why certain actions were taken.

8. NMDG/MRGTF contend that the Settlement requires Northern to provide quarterly updates concerning the monthly SLA cash and liability balances with specified supporting documentation to parties to the Settlement that request the updates. NMDG/MRGTF assert that those updates neither provide all of the

⁵ The Coalition includes Aquila, Inc. d.b.a. Aquila Networks, Northern States Power Company and Northern States Power Company (Wisconsin), and CenterPoint Energy Minnegasco, a Division of CenterPoint Energy Resources Corp.

information necessary to address the issues raised here, nor absolve Northern of its fundamental duty to support a requested change in rates. NMDG/MRGTF further assert that details as to why Northern managed the SLA as it did over the past annual period are critical to a proper review of the subject filing and, without such details, it is impossible for the Commission to determine how Northern has managed the SLA cash account and why Northern made the purchase and other decisions it made with respect to the account. NMDG/MRGTF contend that the SLA cash balance should reflect only prudent, actual purchases of gas necessary to meet imbalances and net cash proceeds from the monthly imbalance cash-outs pursuant to the tariff and that the parties cannot reach these conclusions on the basis of Northern's filing.

9. NMDG/MRGTF assert that, for example, while the SLA cash balance showed a fairly steep decline from March 2003, through June 2003, from about \$61 million to about \$42 million, there is a large increase in the SLA cash balance from September 2003, through January 2004, from about \$49 million to about \$65 million. NMDG/MRGTF further assert that this is followed by another decrease to \$56 million in March 2004. NMDG/MRGTF state that they assume that Northern purchased or sold large quantities of gas during these periods, but there is no explanation of such purchases. NMDG/MRGTF contend that Northern did provide the accounting entries in Appendix D, but these do not explain in any detail why the transactions shown were undertaken.

10. NMDG/MRGTF argue that Northern's filing falls short of demonstrating that any increase in base rates is warranted. NMDG/MRGTF request that the Commission accept Northern's filing subject to refund and direct Northern to provide detailed information concerning these issues. NMDG/MRGTF further request that once Northern provides this information, the Commission establish further procedures as necessary, including a technical conference and/or a hearing. NMDG/MRGTF contend that, in the absence of information concerning the changes in the SLA cash balance, it is impossible to address issues concerning whether Northern's management of the cash balance over the most recent period was reasonable and prudent and therefore, reserve the right to address these issues once Northern provides details concerning the changes in the SLA cash balance.

Discussion

11. The Commission believes that Northern should provide further information and explanation with adequate support. More information regarding these matters is necessary and will allow NMDG/MRGTF and other parties to more fully understand and thoroughly analyze Northern's filing. Therefore, the Commission directs Northern to file the information and explanations requested by NMDG/MRGTF with adequate support within twenty days of the date this order

issues. We will permit parties ten days from the filing date of Northern's filing to file reply comments. As the protestors point out, the Commission is currently considering Northern's proposed changes to the SLA methodology utilized in this filing in the consolidated proceedings in Docket No. RP03-398-000, et al., and RP04-155-000, et al. The Commission, therefore, accepts and suspends the proposed tariff sheets, to become effective June 1, 2004, subject to refund and conditions, and the outcome of the consolidated proceedings in Docket Nos. RP03-398-000, et al., and RP04-155-000, et al., and further Commission review. Finally, NMDG/MRGTF's request that the Commission consolidate this proceeding with the consolidated proceedings in Docket Nos. RP03-398-000, et al., and RP04-155-000, et al., or initiate a technical conference and/or formal hearing is denied as unsupported.

Suspension

12. Based upon a review of the filing, the Commission finds that the proposed tariff sheets have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission accepts the tariff sheets for filing, subject to refund, and suspends their effectiveness for the period set forth below, subject to the conditions set forth in this order.

13. It is the Commission's policy generally to suspend rate filings for the maximum period permitted by statute if preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards.⁶ It is also recognized however, that shorter suspensions may be warranted under circumstances in which suspension for the maximum period may lead to harsh and inequitable results.⁷ Such circumstances exist here where the pipeline is filing pursuant to its tariff provisions. Accordingly, the Commission will exercise its discretion to suspend the rates for a nominal period and permit the rates to be effective June 1, 2004, subject to refund and subject to the conditions set forth in the body of this order and in the Ordering Paragraphs below.

⁶ See Great Lakes Gas Transmission Co., 12 FERC ¶ 61,293 (1980) (five-month suspension).

⁷ See Valley Gas Transmission, Inc., 12 FERC ¶ 61,197 (1980) (one-day suspension).

The Commission orders:

(A) The tariff sheets reflected in the Appendix to this order are accepted and suspended, to become effective June 1, 2004, subject to refund and conditions, the outcome of the consolidated proceedings in Docket Nos. RP03-398-000, et al., and RP04-155-000, et al., and further Commission review, as discussed in the body of this order and the Ordering Paragraphs below.

(B) Within twenty days of the date this order issues, Northern is directed to file information and explanations requested by NMDG/MRGTF with adequate support, as discussed in the body of this order.

(C) Parties may file comments on Northern's filing required by Ordering Paragraph (B) above within 10 days from the filing date of that filing.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

**Northern Natural Gas Company
FERC Gas Tariff**

Tariff Sheets Conditionally Accepted and Suspended Effective June 1, 2004

FIFTH REVISED VOLUME NO. 1

First Revised 66 Revised Sheet No. 50
First Revised 67 Revised Sheet No. 51
First Revised 31 Revised Sheet No. 52
First Revised 65 Revised Sheet No. 53
First Revised 15 Revised Sheet No. 56
First Revised 22 Revised Sheet No. 59
First Revised Sixth Revised Sheet No. 59A
First Revised 25 Revised Sheet No. 60
First Revised Sixth Revised Sheet No. 60A