

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

March 29, 2007

In Reply Refer To:
High Island Offshore System, L.L.C.
Docket No. RP07-333-000

High Island Offshore System, L.L.C.
1100 Louisiana Street
Houston, TX 77002-5227

Attention: Richard W. Porter, Director
Rates and Regulatory Affairs

Reference: Tariff Sheet to Implement Revised Company Use Percentage

Ladies and Gentlemen:

1. On March 1, 2007, High Island Offshore System, L.L.C. (HIOS) filed Fifth Revised Sheet No. 11, to implement a revised Company Use percentage pursuant to the fuel tracker mechanism established in section 28 of the General Terms and Conditions (GT&C) of HIOS's FERC Gas Tariff, Third Revised Volume No. 1. HIOS requests any waivers necessary for HIOS to use its calendar year 2006 throughput as the basis for calculating its proposed Company Use percentage. HIOS requests the proposed tariff sheet be accepted effective April 1, 2007. For the reasons set forth below, the Commission grants the requested waiver and accepts Fifth Revised Sheet No. 11, effective April 1, 2007, as proposed.

2. Fifth Revised Sheet No. 11 sets forth the elements of HIOS's Company Use components and the total percentage for the prospective tracker period, as well as a true-up period of September 1, 2006, through December 31, 2006. The instant filing reflects an increase from the current level in the Total Company Use percentage of 0.44 percent, from 1.00 percent to 1.44 percent. The proposed rate increase to the Total Company Use percentage is composed of a 0.69 percent Compressor Fuel and a 0.75 percent Unaccounted-For gas rate. HIOS states that the net result of its true-up for the applicable period was a slight under-recovery of 227 Dth, which HIOS states does not result in any true-up adjustment to the prospective Company Use percentage.

3. Under its tracker mechanism, HIOS calculates its prospective Company Use percentage requirement based upon its projected throughput during the collection period. HIOS states that, in its currently pending rate proceeding in Docket No. RP06-540, HIOS is projecting a continuing decline in annual throughput, to 149 MMdth, for the twelve months ended March 31, 2007. HIOS states that using the projected throughput of 149 MMdth would result in a Company Use percentage of 1.77 percent, which is a significant increase over the currently effective Company Use percentage of 1.00 percent. Thus, HIOS requests any waivers necessary for HIOS to use its calendar year 2006 throughput (183 MMdth) as the basis for calculating its prospective Company Use percentage.

4. Public notice of HIOS's filing was issued on March 6, 2007, with interventions and protests due as provided in section 154.210 of the Commission's regulations, 18 C.F.R. § 154.210 (2006). Pursuant to Rule 214, 18 C.F.R. § 385.214 (2006), all timely filed motions to intervene and any motions to intervene out-of-time filed before the date of issuance 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. On March 13, 2007, ExxonMobil Gas & Power Marketing Company, A Division of ExxonMobile Corporation (ExxonMobil) filed a protest. Also, on March 13, 2007, BP America Production Company, BP Energy Company, Chevron U.S.A. Inc., (collectively referred to as Indicated Shippers) filed a protest. On March 21, 2007, HIOS filed an answer to the protests. Generally, the Commission does not permit answers to protests, however, the Commission will accept HIOS's answer as it aids in the Commission's review of the instant proposal.¹

5. Indicated Shippers and ExxonMobil request the Commission convene a technical conference for the purpose of exploring how HIOS calculated the Unaccounted-For gas for 2006, why the amount of Unaccounted-For gas experienced on the HIOS system continues to increase, and whether there are ways to improve the transparency in the HIOS annual fuel filings.

6. Indicated Shippers and ExxonMobil contend that HIOS has not justified what they characterize as the unreasonably large amount of Unaccounted-For gas that HIOS reports was experienced on the HIOS system for 2006; nor, they assert, has HIOS attempted to explain why there was more Unaccounted-For gas than Compressor Fuel used. Indicated Shippers state that, for calendar year 2006, HIOS reported 1,259,471 Dth of Compressor Fuel used and 1,368,193 Dth of Unaccounted-For gas. In addition, ExxonMobil asserts that the Unaccounted-For gas quantity represents a substantial increase over the Unaccounted-For gas total for 2004 (1,075,471 Dth) and 2005 (926,392 Dth).

¹ 18 C.F.R. § 385.213(a)(2) (2006).

7. In its Answer, HIOS argues that although both protestors focus on the settled level of Company Use percentage that is currently in effect, which is 1.00 percent, neither acknowledges that the Company Use percentage reflected on the tariff sheet accepted in last year's filing was 1.23 percent, which is not significantly less than the level currently proposed. Moreover, HIOS asserts, of that total Company Use percentage accepted in last year's filing, the Unaccounted-For gas component was 0.63 percent, as compared to the 0.75 percent level of Unaccounted-For gas reflected in this year's filing. Therefore, HIOS states, that the fundamental predicate to both of these protests -- the existence of an alleged unreasonably large or substantial increase in Unaccounted-For gas -- is wrong.

8. Furthermore, HIOS asserts that a comparison of Unaccounted-For volumes to Compressor Fuel volumes is irrelevant and misleading. HIOS asserts that, compared to many other pipelines, the ratio of compressor fuel usage to the system throughput volume for HIOS is very small and, besides that, there is no direct relationship between fuel consumption and Unaccounted-For gas experienced on the HIOS system.

9. ExxonMobil states that for many years, HIOS charged a 1.00 percent Company Use rate. However, beginning in 2002, HIOS posted a series of notices on its web site, increasing the Company Use rate. ExxonMobil contends that at one point, the rate was 2.19 percent. Therefore, ExxonMobil states, on May 20, 2003, HIOS reported to the Commission, as part of its Form No. 2 annual report, that it had launched a broad investigation of the causes of the sudden increase in fuel and Unaccounted-For gas. ExxonMobil contends that to its knowledge, HIOS never completed that investigation, and thus never determined the cause of the sudden increase in Unaccounted-For gas.

10. HIOS explains that what it characterizes as the very slight up-tick in Unaccounted-For gas experienced on the HIOS system in 2006 was primarily the result of two, uncontrollable factors. First, HIOS argues, in September 2006, HIOS experienced an unusual, non-recurring increase in throughput as a result of an outage on the Stingray pipeline system, which resulted in a reversed flow of gas from Stingray onto HIOS. During this period, HIOS states that it discovered a leak in a series of two; 24-inch ball valves (in series) on the Stingray interconnect at its HIA-330 platform. HIOS states that once the leakage was discovered repairs were immediately performed, which stopped the leaks, and that the valve is now checked routinely to ensure the integrity of those repairs. In addition, HIOS states that in July and August, 2006, fragments of a pipeline pig got stuck in the UTOS delivery meter facility at the Sabine Plant inlet, which resulted in a loss of approximately 53,000 MMBtu higher than the normal level of loss (approximately 0.5%), further impacting the Unaccounted-For gas experience in the relevant period. Therefore, HIOS asserts that the Unaccounted-For gas included in this filing was reflective of some anomalous experiences and otherwise can be fully explained, and is not part of some disturbing trend as the protestors imply.

11. Furthermore, HIOS states that ExxonMobil's contention that HIOS never completed the investigation to determine the cause of the increase in Unaccounted-For gas is incorrect. HIOS asserts that it did complete that investigation and did report the results of the investigation informally to ExxonMobil, as well as to other shippers. HIOS contends that it did not prepare or submit any written report of the outcome of the investigation because HIOS was not required to do so.

12. The Commission notes that HIOS did, in fact, report the results of the investigation conducted in 2003 to determine the cause of the increase in Unaccounted-For gas in 2002. HIOS stated in its 2004 FERC Form No. 2, at page 122.3:

To verify and then determine if it could mitigate the increase, the Company conducted a thorough review of its operations. This review included, among other things, a) inspection of meters, b) verification of deliveries with interconnecting pipeline, and c) validation of the Company Use calculations for the period in question. However, the Company was unable to determine the exact cause of the increase in Company Use. The Company Use has since returned to historical levels.

13. Accordingly, although HIOS was unsuccessful in determining the cause of the increase in Company Use that had been reflected in its 2003 filing, no one protested the results of its 2003 investigation. If ExxonMobil had concerns regarding HIOS's investigation, ExxonMobil should have brought them to the Commission's attention in response to HIOS's 2004 Form No. 2 at that time.

14. Indicated Shippers assert that HIOS has not explained what is included and what is not included in its calculation of Unaccounted-For volumes and argue that the lack of transparency is unjust and unreasonable. Indicated Shippers argue that in order to properly determine the amount of Unaccounted-For gas experienced in a pipeline system, the pipeline should be required to determine the Unaccounted-For volumes based on the difference between gas received as measured by the pipeline at the receipt points and gas delivered as measured by the pipeline at the delivery points.

15. In its Answer, HIOS states that it has explained the Unaccounted-For calculation method many times, including in its last true-up proceeding in Docket No. RP06-244. HIOS reiterates that its calculation method has not changed and that Unaccounted-For gas is calculated based on the difference between gas received as measured at the receipt points, and gas delivered as measured at the delivery points. HIOS states that Unaccounted-For gas does not include volumes that are unaccounted-for due to plant allocations or the operation of onshore liquids facilities by other pipelines, or gas lost on interconnecting pipelines.

16. Therefore, based on the foregoing explanations, HIOS states that a technical conference is not needed or warranted in this proceeding, because the concerns that have been raised by ExxonMobil and Indicated Shippers are either simply without merit, or otherwise issues that have been raised in prior proceedings and previously addressed by the Commission.

17. Based on a review of the filing, the protests, and HIOS's Answer, the Commission finds that the proposed tariff sheet is justified, and there is no basis for the Commission to establish a technical conference to address the issues raised by the protests herein. The Commission finds the level of HIOS's Unaccounted-For gas reflected in the instant filing is not an anomaly. In addition, the answer provided by HIOS fully addresses all the issues raised by the protesting parties and, therefore, establishing a technical conference is not necessary. Although Unaccounted-For gas in 2006 represented 0.51 percent of HIOS's total throughput, a review of HIOS's FERC Form No. 2's show HIOS's Unaccounted-For experience in this filing is consistent with its average experience of the last several years.

17. Finally, for the reasons stated by HIOS above, the Commission grants waiver permitting HIOS to use its calendar year 2006 throughput (183 MMdth) as the basis for calculating its prospective Company Use percentage and accepts Fifth Revised Sheet No. 11, effective April 1, 2007.

By direction of the Commission.

Philis J. Posey,
Acting Secretary.