

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Texas Gas Transmission Corporation Docket No. RP02-515-002

ORDER ON REHEARING

(Issued March 4, 2004)

1. On August 30, 2002, Texas Gas Transmission Corporation (Texas Gas) filed a revised tariff sheet¹ and supporting workpapers reflecting its annual rate filing to adjust its fuel retention percentages under section 16 of the General Terms and Conditions (GT&C) of its FERC Gas Tariff. On October 31, 2002, the Commission issued an order accepting and suspending the tariff sheet subject to refund and conditions and further review effective November 1, 2002 (October 31 Order).²

2. Texas Gas filed information and explanations on November 20, 2002, to comply with the Commission's October 31 Order. The Commission issued a Letter Order on July 11, 2003 which accepted Texas Gas' November 20, 2002 filing as being in satisfactory compliance with the October 31 Order (July 11 Order).³ On August 11, 2003, Memphis Light, Gas and Water Division (MLGW) filed a request for rehearing of the July 11 Order. For the reasons discussed below, the Commission will deny the request for rehearing. This order is in the public interest because it ensures that the proposed rates comply with the requirements of the Texas Gas' tariff provisions and the Natural Gas Act (NGA).

¹ Twelfth Revised Sheet No. 14 to FERC Gas Tariff, First Revised Volume No. 1.

² Texas Gas Transmission Corp., 101 FERC ¶ 61,126 (2002).

³ Texas Gas Transmission Corp., 104 FERC ¶ 61,067 (2003).

Background

3. Pursuant to section 16 of the General Terms and Conditions of its tariff, Texas Gas makes annual filings to adjust its Effective Fuel Rate Percentage (EFRP) through which it reserves the cost of fuel used in operating its pipeline and lost and unaccounted for gas. The EFRP includes two components, a Projected Fuel Retention Percentage (PFRP) and a Fuel Adjustment Percentage (FAP). The PFRP is designed to recover its projected fuel use and lost and unaccounted for gas in the next year, and the FAP is designed to correct for past under or over collections of its actual fuel and lost and unaccounted for gas. Texas Gas allocates its fuel use and lost and unaccounted for gas among its different services and rate zones, so that there are varying PFRPs, FAPs, and EFRPs for each service and zone.

4. The October 31 Order accepted and suspended Texas Gas' filing to establish its EFRP to be in effect starting November 1, 2002. The order, among other things, directed Texas Gas to file information and explanations requested by Mississippi Valley Gas Company and ProLiance Energy, LLC (ProLiance)⁴ regarding Texas Gas' proposed Effective Fuel Rate Percentages (EFRP). Texas Gas made its compliance filing on November 20, 2002. MLGW filed comments and requested that a technical conference be held. On December 6, 2002, Texas Gas filed supplemental comments.

5. MLGW's comments focused on Texas Gas' treatment of unaccounted for gas in determining its FAP. As shown in Table 4 of the workpapers attached to its filing, Texas Gas keeps a running total of its cumulative over and under collections of used and lost fuel since November 1993. These cumulative totals are calculated separately for each service and rate zone, by comparing the actual fuel collected from each service in each rate zone with the "actual fuel, use and loss" in connection with each service and rate zone. The results are shown in a column on Table 4 labeled "Calculated Over/Under Collections." Texas Gas also keeps a separate running total of its cumulative unaccounted for gas since November 1993. This cumulative total is allocated each year to each service and rate zone by the projected fuel use by each service and rate zone for the coming year. This allocation is shown in the column on Table 4 labeled "Prorated 'Unaccounted For.'" Texas Gas then nets each service and rate zone's cumulative past over or under collection against the cumulative unaccounted for gas allocated to that service and rate zone. The result is shown in Table 4 in the column labeled "TOTAL Over/(Under) Collections." These amounts are then used to develop the FAP to be used in determining the EFRP for the coming year.

⁴ On May 27, 2003, ProLiance filed a Notice of Withdrawal of Protest and Request for Technical Conference in this proceeding.

6. In its comments to Texas Gas' November 20, 2002 filing, MLGW argued, inter alia, that it appears that Texas Gas reallocates the cumulative "Unaccounted For" quantities each year, even though the previous years' "Unaccounted For" volumes have already been allocated and ostensibly collected from different rate schedules and zones. MLGW further argued that cost causation principles prohibit the constant reallocation of past charges that have already been collected.

7. In its supplemental comments, Texas Gas asserted that, as shown on Table 4 of the annual filing, the "TOTAL Over/(Under) Collections" used in the fuel calculations includes both the "Unaccounted For" and the "Calculated Over/(Under) Collections" from each service and rate zone for past years. Texas Gas further asserted that both of these pieces are determined on a cumulative basis and are netted against each other before the "TOTAL Over/(Under) Collections" are allocated.

8. In the July 11 Order, the Commission found that based on the explanations and information presented by Texas Gas in its November 20, 2002 filing, as supplemented on December 6, 2002, the November 20, 2002 filing was in satisfactory compliance with the October 31 Order. Accordingly, the Commission found that a technical conference was not necessary, and therefore, the request for a technical conference was denied.

The Request for Rehearing

9. MLGW argues that the explanation provided in Texas Gas' December 6, 2002 supplemental comments does not adequately address its concerns. MLGW objects to Texas Gas' treatment of "Unaccounted For" volumes in the calculation of its FAP and EFRP. Specifically, MLGW states that it is troubled by Texas Gas' statement in its November 20, 2002 compliance filing that the "Unaccounted For" column in Table 4 "reflect[s] the allocation of the cumulative 'unaccounted for' quantities since 11/1/93, which are allocated pro rata based on projected fuel requirements for 2002-2003." MLGW asserts that, in other words, under Texas Gas' current EFRP methodology, cumulative "Unaccounted For" volumes that have amassed since 11/1/93 are constantly reallocated pro rata annually based on the projected fuel requirements for the coming year.

10. MLGW contends that, notwithstanding the fact that Texas Gas' EFRP calculations net the cumulative "Unaccounted For" volumes against the cumulative "Calculated Over/(Under) Collections" before "TOTAL Over/(Under) Collections" are derived, Texas Gas' constant reallocation of "Unaccounted For" volumes can completely change a zone's and/or rate schedule's "TOTAL Over/(Under) Collections." MLGW further contends that the constant changing of projected fuel by zone or rate schedule can deleteriously affect the "TOTAL Over/(Under) Collections" used by Texas Gas in developing its EFRP rate, as well as cause some rate schedules

or zones to subsidize other rate schedules or zones. MLGW asserts that this is because the “Calculated Over /(Under) Collections” for past years are determined by subtracting “Actual Fuel, Use and Loss” from “Actual Fuel Collected” and “Actual Fuel Collected” includes the collection of the previous year’s allocated “Unaccounted For” volumes. MLGW further asserts that, as a result, the constant reallocation of cumulative “Unaccounted For” volumes can shift the previous years’ allocated and collected “Unaccounted For” volumes between different zones and/or rate schedules.

11. MLGW argues that Texas Gas’ Zone 1 NNS, SGT, and SNS customers have already been adversely affected by Texas Gas’ annual reallocation of “Unaccounted For” volumes based on fuel use. MLGW asserts that, in Texas Gas’ EFRP filing in Docket No. RP01-539-000, NNS/SGT/SNS projected fuel use in Zone 1 was 2.06% (winter) and 1.97% (summer) of the total projected fuel use. MLGW further asserts that, however, in the instant proceeding, the total projected fuel use for NNS/SGT/SNS customers in Zone 1 increased to 2.50% (winter) and 2.22% (summer). MLGW contends that these increases are the corollary of NNS/SGT/SNS customers in Zone 1 having to pay twice for the same “Unaccounted For” volumes that were already allocated and paid for by other zones and/or rate schedules in Texas Gas’ previous EFRP. MLGW further argues that this constant reallocation of the cumulative “Unaccounted For” volumes had the effect of increasing Zone 1 NNS/SGT/SNS fuel retention percentages from 2.66% to 2.78% in the winter and from 2.12% to 2.20% in the summer, thereby forcing Zone 1 NNS/SGT/SNS shippers to unjustly subsidize other zones and/or rate schedules.

12. MLGW argues that due to the inappropriate cost-shifting and subsidization, Texas Gas’ EFRP mechanism is unjust and unreasonable. MLGW asserts that the fact that Texas Gas’ EFRP was calculated consistent with its tariff is not dispositive when it comes to determining whether Texas Gas’ EFRP methodology is just and reasonable.⁵ MLGW requests that the Commission grant rehearing of its July 11 Order, and reject Texas Gas’ November 20, 2002 compliance filing. MLGW also requests that the Commission convene a technical conference for the purpose of providing Texas Gas and its shippers a form for establishing a just and reasonable EFRP calculation mechanism.

Discussion

13. As MLGW recognizes, Texas Gas’ EFRP was calculated consistent with its tariff. It requests that the Commission act under NGA Section 5 to require a change in Texas Gas’ tariff. However, MLGW has not met its burden to show that Texas

⁵ Citing ANR Pipeline Co., 101 FERC ¶ 61,123 (2002).

Gas' treatment of "Unaccounted For" volumes is unjust and unreasonable. As explained in Texas Gas' December 6, 2002 supplemental response, the "TOTAL Over/(Under) Collections" used in the fuel calculations includes not only "Unaccounted For" gas, but also the actual "Calculated Over/(Under) Collections" for past years for each service and rate zone. Both of these pieces are netted against each other as part of determining the "TOTAL Over/(Under) Collections" allocated to each service and rate zone. Thus, shippers do receive credit for the past actual collections from their service and rate zone in prior years. Further, since Texas Gas' calculations of "Calculated Over/(Under) Collections," "Prorated 'Unaccounted For,'" and "TOTAL Over/(Under) Collections," are done separately by service type and zone, the Commission does not find cost-shifting and subsidization between types of services and rate zones. The Commission has recognized that unaccounted for gas is a variable cost which by definition cannot be attributed to any particular service or part of an integrated system.⁶ Therefore, in the instant case, the reallocation of the total net cumulative unaccounted for gas pro rata to rate service types and zones based on projected fuel requirement volumes has not been shown to be unjust and unreasonable. While there may be other reasonable methods of truing up for past over and under collections of fuel and allocating unaccounted for gas, the method used by Texas Gas has not been shown to be unjust and unreasonable. Therefore, MLGW's request for rehearing is denied. Accordingly, the request for a technical conference is denied.

The Commission orders:

- (A) MLGW's request for rehearing in this proceeding is denied.
- (B) MLGW's request for a technical conference in this proceeding is denied.

By the Commission.

(S E A L)

Linda Mitry,
Acting Secretary.

⁶ Mississippi River Transmission Corp., 104 FERC ¶ 61,068 at P 15 (2003).