110 FERC ¶ 61,375
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Portland Natural Gas Transmission System Docket No. RP04-171-002

ORDER ON REHEARING

(Issued March 28, 2005)

1. This order addresses the request for rehearing filed by KeySpan Delivery Companies (KeySpan)[1] of the Commission's March 25, 2004 Order (March 25 Order),[2] which accepted, subject to conditions, Portland Natural Gas Transmission System's (Portland) proposal to establish a new firm transportation Rate Schedule HRS for Hourly Reserve Service. For the reasons set forth below, the Commission denies rehearing.

Background

2. The Commission approved Rate Schedule HRS service has a bifurcated reservation rate consisting of: (1) a capacity reservation rate; and (2) a deliverability reservation rate, both of which are determined as derivatives of Portland's approved Rate Schedule FT monthly reservation rate of $25.8542 per Dth. This rate design is similar to that approved in *Gulfstream*.[3] The Rate Schedule HRS maximum capacity reservation

[1] The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York; KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island; and Boston Gas Company, Colonial Gas Company, EnergyNorth Natural Gas, Inc., and Essex Gas Company.

[2] *Portland Natural Gas Transmission System*, 106 FERC ¶ 61,289 (2004).

[3] *Gulfstream Natural Gas System, L.L.C.*, 91 FERC ¶ 61,119 at 61,463-466 (2000) (*Gulfstream*). *Gulfstream* analogizes the hourly transportation service to the operational and contractual delivery characteristics of a storage field. Storage customers contract for an amount of storage capacity and also for deliverability or withdrawal capacity of the gas from storage. Gulfstream's system was designed to provide hourly flexibility for
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rate is $12.9271 per month per Dth (*i.e.*, one-half of the existing Rate Schedule FT reservation rate). The Rate Schedule HRS deliverability reservation rate will vary based on the firm hourly flow rate elected by the shipper: the higher the firm hourly flow rate, the higher the deliverability reservation charge.

KeySpan's Request for Rehearing

3. KeySpan argues in its request for rehearing that (1) the Commission erred in not rejecting the rate Portland charges for Rate Schedule HRS service as it does not recover the costs of the capacity used to provide the service; and (2) the Commission should resolve rate issues now rather than in Portland's next rate case. KeySpan represents several affiliate companies who receive firm transportation service through the facilities of Portland. For the reasons stated below, we deny KeySpan's request for rehearing.

(A) Portland's Rate Schedule HRS Rate Design

4. KeySpan contends that the Rate Schedule HRS will require Portland to reserve, as an example for 1/12 service,[4] at least twice the pipeline capacity of a Rate Schedule FT service. However, KeySpan continuing with its example, the rate accepted by the

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deliverability of gas supported by the system's line pack, which is comparable to a storage field that provides varying degrees of deliverability supported by base gas within the field. Gulfstream proposed, and the Commission accepted, a recourse rate design based upon the *Equitable* method used by the Commission to design rates for storage service.

Under the *Equitable* method for rates for storage facilities, all fixed storage costs are classified equally between the "Deliverability" and "Capacity" components; that is, 50% of the total storage fixed costs are classified to the "Deliverability" component and 50% are classified to the "Capacity" component. Portland's hourly rate design divides the Rate Schedule FT reservation charge into two parts (*i.e.*, 50 percent capacity and 50 percent deliverability for the derivation of the recourse reservation charge). The capacity rate applies to contract capacity. The other half of the Rate Schedule FT rate is assigned to deliverability, and the rate is adjusted to reflect the different offered hourly deliverability levels.

[4] Rate Schedule HRS'1/12 service equates to receiving Rate Schedule FT's service in 12 hours instead of over 24 hours.

Commission would result in Portland generating only 1.5 times the revenue as compared to twice the revenue that the Rate Schedule FT rate would generate applied to the same reserved capacity. KeySpan believes the accepted rate will result in Portland not recovering the full costs properly allocable to perform the service. KeySpan argues that such a result is contrary to the Commission's regulations.[5] KeySpan proposes that the Commission require the use of the *Vector* hourly rate design.[6] That rate design KeySpan contends, is also based on an existing standard firm service reservation charge. KeySpan believes that the *Vector* hourly rate design would not result in Portland under recovering costs compared to the capacity reserved. KeySpan believes the accepted rates should be rejected, and rates that properly reflect the costs of the service imposed.

5. The Commission denies rehearing. Portland's currently effective rates were designed to give it an opportunity to recover its cost of service through services offered at the time the rates were set. Rate Schedule HRS is a new service that will use unsubscribed capacity. Thus any reservation revenue[7] derived from that service will be in addition to the revenue from existing services. Until Portland proposes a change in rates, it faces almost no risk of cost under recovery as the result of providing service under Rate Schedule HRS.

6. Further, KeySpan's revenue analysis is premised on Rate Schedule HRS requiring a directly proportional share of transmission capacity compared to Rate Schedule FT. This assumption is speculative. Costs formerly allocated to traditional transportation services may need to be reallocated or allocation factors adjusted when all services are reviewed together. Those reviews are best performed in general rate case, not a case establishing an initial rate for a new service. The Commission does not believe it is necessary to initiate an NGA section 5 review of all of Portland's rates because of the establishment of Rate Schedule HRS as there is little indication that Rate Schedule HRS will generate significant amounts of new revenue in the near future.

7. KeySpan cites the Commission's requirement at section 284.10(c)(2) that rates must be designed to recover costs on the basis of projected units of service. This is correct in the context where costs may be shifted from one service to another. In this

[5] *Citing* 18 CFR § 284.10(c)(c) (2004).

[6] *Citing Vector Pipeline, L.P.,* 106 FERC ¶ 61,246 (2004) (*Vector*).

[7] Reservation rates recover fixed costs – costs that do not change with changes in throughput.

proceeding, there is nowhere to shift costs without initiating an NGA section 5. Further, there are no customers, hence no projected units. Without billing determinants, it is not possible to calculate a rate. In the absence of projected customer units, Portland used billing determinants underlying its currently effective rates. This approach is common in instances where actual numbers are lacking when creating new rates for new services.

8. Initial rate proposals involving only existing facilities usually start from the rate of a service that is most like the proposed service. Portland did so. As a premium service, it proposed a rate design that reflected the premium nature of its service. At this time the Commission does not have a prescribed rate design for hourly service. Thus Portland was free to propose a rate design that it felt would satisfy both its business judgment of the market and Commission rate design policies.

(B) Resolution of Rate Design

9. The March 25th Order stated that "[i]ssues regarding the levels and allocation of costs underlying the rates may be taken up in the pipeline's next rate case," and that "if the HRS rates as accepted in this order result in an under recovery of the costs to provide HRS service, Portland will be responsible for such under recovery."[8] KeySpan states that the Commission's intent was not clear However, KeySpan continues, it is clear that any party seeking to change that rate design in a future Portland rate case would bear the burden of proof. KeySpan contends that there is no reason why the Commission should impose this burden on the opponents to the rate design when it is Portland's responsibility to demonstrate that its proposed rate design is just and reasonable in the instant NGA section 4 proceeding. KeySpan believes Portland has failed to make this demonstration.

10. The Commission denies rehearing. Portland has shown in this proceeding that its proposed rate design has a basis in its existing rate structure, is consistent with previous Commission rate designs for premium hourly service, and will not adversely impact firm existing customers. The resulting rate is just and reasonable. KeySpan desires a higher Rate Schedule HRS rate. But it has failed to show that Portland's proposal is inappropriate for designing an initial rate for a new, untested service. There is no rate risk to KeySpan and the FT shippers, and we cannot find any harm to them because of the authorization of the HRS service and the rates placed in effect in this proceeding. Accordingly, KeySpan's request for rehearing is denied.

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[8] 106 FERC ¶ 61,289 at P 61.

<u>The Commission orders</u>:

KeySpan's request for rehearing of the March 25, 2004 Order is denied.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.