131 FERC ¶ 61,156
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
and John R. Norris.

Columbia Gulf Transmission Company | Docket Nos. RP10-134-000
RP10-450-000

ORDER ON TECHNICAL CONFERENCE AND PROPOSED FUEL RATES

(Issued May 20, 2010)

1. On November 9, 2009, in Docket No. RP10-134-000, Columbia Gulf Transmission Company (Columbia Gulf) filed *pro forma* tariff sheets proposing as an alternative to its current fuel tracker and true-up mechanism an incentive fuel mechanism utilizing fixed fuel retainage percentages (Incentive Fixed Fuel or IFF mechanism). On December 10, 2009, the Commission directed Commission staff to convene a technical conference to discuss the issues raised by Columbia Gulf's IFF mechanism.[1] Following the technical conference held on January 19, 2010, Columbia Gulf filed revised *pro forma* tariff sheets and proposed certain modifications to its IFF proposal.

2. On March 1, 2010, in Docket No. RP10-450-000, Columbia Gulf filed its annual Transportation Retainage Adjustment (TRA) filing, as modified on March 2, 2010 (2010 TRA filing), to increase the fuel retainage percentages under its current fuel tracker and true-up mechanism.[2] Columbia Gulf requests waiver of section 33 of the General Terms and Conditions (GT&C) of its tariff to permit an effective date of November 1, 2010 for its TRA filing, instead of April 1, 2010, as required by its tariff. Columbia Gulf proposes

[1] *Columbia Gulf Transmission Co.*, 129 FERC ¶ 61,214 (2009) (December 2009 IFF Order).

[2] The following revised tariff sheets set forth the proposed fuel retainage factors: Fifty-First Revised Sheet No. 18, Thirty-Eighth Revised Sheet No. 18A, and Fifty-Second Revised Sheet No. 19 to Columbia Gulf's FERC Gas Tariff, Second Revised Volume No. 1.

to keep its existing fuel retainage rates in place until the Commission approves the IFF mechanism in a manner satisfactory to Columbia Gulf or November 1, 2010, whichever occurs first.

3. For the reasons discussed below, the Commission finds that Columbia Gulf's IFF mechanism is just and reasonable, subject to the conditions below. These conditions include Columbia Gulf using the data underlying its proposed 2010 TRA fuel retainage rates, recalculated consistent with the discussion herein, as a baseline to recalculate the fixed fuel rates. Within 20 days of the date of this order, Columbia Gulf is directed to file either (1) actual tariff sheets implementing the IFF mechanism based on the revised *pro forma* tariff sheets filed with its initial comments subject to the conditions discussed below or (2) revised tariff sheets implementing its 2010 TRA consistent with the findings in this order. The Commission will grant Columbia Gulf's request for waiver of section 33 of the GT&C in order to maintain the existing retainage rates until Columbia Gulf makes the aforementioned compliance filings and further order of the Commission.

I. Background

4. Columbia Gulf currently recovers its system's fuel requirements (Company Use Gas or CUG) and lost and unaccounted for gas (LAUF) by retaining in-kind a percentage of gas tendered by customers. GT&C section 33 requires it to make an annual TRA filing on or before March 1 to be effective on April 1 to update its fuel retainage percentages. Columbia Gulf's fuel retainage percentages for each zone[3] include two components. The first component, the current retainage percentage, recovers the zone's projected CUG and LAUF for the upcoming April to March twelve-month period. The zone's current retainage percentage is calculated by: (i) estimating the CUG and LAUF quantities allocated to the zone during the 12-month period commencing with the effective date of Columbia Gulf's TRA filing; and (ii) dividing those amounts by the total allocated quantities estimated to flow in the zone during the same 12-month period (Current Transportation Quantities). The second component, the true-up component, reflects the reconciliation of the zone's actual CUG and LAUF quantities in prior periods with quantities retained by Columbia Gulf for the preceding calendar year, i.e., the deferral period. The true-up component is calculated by: (i) determining the total system CUG and LAUF quantities for the preceding calendar year; (ii) subtracting the total system retainage quantities retained by Columbia Gulf during that period; (iii) allocating the result, whether positive or negative, to the onshore lateral, offshore lateral, and mainline zones based on each zone's respective percentage of Current Transportation

[3] Columbia Gulf has separate fuel retainage percentages for three zones. These are the mainline, onshore lateral, and offshore lateral zones.

Quantities; and (iv) dividing the allocated unrecovered retainage quantities by the Current Transportation Quantities attributable to each zone.

5. On February 27, 2009, in Docket No. RP09-423-000, Columbia Gulf filed its 2009 TRA filing, proposing to increase its fuel retainage percentages, as follows:

	Mainline Forwardhaul	**Mainline Backhaul**	**Onshore**	**Offshore**
Current Retainage Percentage	3.028%	0.644%	0.894%	0.649%
True-Up Percentage	0.252%	0.050%	0.257%	0.257%
Total Retainage Percentage	3.280%	0.694%	1.151%	0.906%

Columbia Gulf's filing included a report on the results of an investigation ordered by the Commission in Columbia Gulf's 2008 TRA proceeding to determine the cause of LAUF increases on Columbia Gulf's system.[4] Columbia Gulf stated that its investigation had determined that its orifice meters at its Leach A and Means E delivery stations, which record deliveries into Columbia Gas Transmission, LLC (Columbia Gas), were under measuring its actual deliveries to Columbia Gas. The difference in technology between those meters and the new, more accurate ultrasonic meters installed at new interconnections where Columbia Gulf receives natural gas was the primary cause of the increased LAUF.[5] Based upon flow tests performed by Southwest Research Institute (Southwest), an expert in measurement and testing, Columbia Gulf determined that the under-measurement of deliveries at Leach A and Means E represented approximately 1.08 percent of its deliveries at Leach A and 0.5 percent of its deliveries at Means E based on historic average operating conditions. Therefore, it increased the measured deliveries at those points by these percentages, which resulted in approximately

[4] *See Columbia Gulf Transmission Co.*, 126 FERC ¶ 61,158 (2009).

[5] In general, a pipeline's LAUF is calculated by subtracting its deliveries from its receipts. An under-measurement of deliveries increases the difference between receipts and deliveries and thus, if the difference cannot be explained, increases LAUF.

3.2 MMDth and 2.1 MMDth worth of adjustments for the periods 2007 and January through September of 2008, respectively.[6] Columbia Gulf reflected these adjustments in the true-up component of its February 27, 2009 TRA filing, thereby reducing the accumulated under-recovered LAUF balance that would otherwise be collected from Columbia Gulf's customers by more than 5 MMDth. Columbia Gulf's proposed current retainage percentage in the 2009 TRA filing was based on its actual CUG and LAUF during 2008, without any adjustment for the under measurement of deliveries at Leach and Means.

6. Although Columbia Gulf's tariff requires it to make the annual TRA filing to be effective on April 1 of each year, Columbia Gulf requested waiver to permit a three-month delay, to July 1, 2009, before the 2009 TRA filing took effect. Columbia Gulf requested the delay to permit discussions with some of its customers regarding an alternative retainage recovery mechanism to continue.[7] Unable to finalize an alternative recovery mechanism with its shippers, Columbia Gulf filed revised tariff sheets on July 1, 2009 in order to place into effect on August 1, 2009 the current retainage percentages proposed in the February 27, 2009 TRA, but not the true-up component. Columbia Gulf reserved its right to recover the unrecovered CUG and LAUF quantities for the 2008 calendar year deferral period, or any other unrecovered quantities, in a future annual or periodic TRA filing.[8]

7. On July 31, 2009, the Commission accepted and suspended Columbia Gulf's July 1 filing, effective August 1, 2009, subject to refund and the outcome of a technical conference to discuss the issues raised by Columbia Gulf's filing, including the under measurement occurring at Leach A and Means E.[9] Commission staff held the technical

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[6] Columbia Gulf, Transmittal, Appendix B at 2 Docket No. RP09-423-000 (filed Feb. 27, 2009).

[7] *See Columbia Gulf Transmission Co.*, Docket No. RP09-423-001 (June 10, 2009) (unpublished letter order).

[8] Although Columbia Gulf deferred implementing the higher February 27, 2009 TRA retainage rates for the months of April through July 2009, Columbia Gulf asserted that, during that time, it was continuing to incur a significant under-recovery of its CUG and LAUF. Columbia Gulf stated that the continued deferral of the base retainage rate increases would only continue to increase the existing under-recovery, thereby creating a cumulative under-recovery that might have a negative impact for customers in the future, if an alternative retainage mechanism could not be achieved with its customers.

[9] *Columbia Gulf Transmission Co.,* 128 FERC ¶ 61,105 (2009).

conference on September 24, 2009. Several parties filed comments arguing, among other things, that the Commission should require Columbia Gulf to replace the orifice meters at Leach and Means with new ultrasonic meters in order to correct the under-measurement of deliveries into Columbia Gas.

8. On February 25, 2010, the Commission issued an order in Docket No. RP09-423 accepting Columbia Gulf's July 1, 2009 TRA filing, subject to conditions.[10] The Commission found that Columbia Gulf's adjustments for the measurement discrepancies at Leach and Means were reasonable and therefore, found that the rates proposed in the July 1, 2009 filing were just and reasonable.[11] The Commission declined to order the replacement of the Leach and Means meters, as several parties requested, because Columbia Gulf had made what the Commission determined were reasonable adjustments to rectify the measurement discrepancies.[12]

9. Below, we first summarize Columbia Gulf's incentive fuel proposal in Docket No. RP10-134-000. We then turn to Columbia Gulf's 2010 TRA filing in Docket No. RP10-450-000.

II. Incentive Fixed Fuel Proposal

10. On November 9, 2009, while Columbia Gulf's 2009 TRA filing was pending, Columbia Gulf filed *pro forma* tariff sheets in Docket No. RP10-134-000, proposing as an alternative to its fuel tracker and true-up mechanism an experimental incentive fuel mechanism utilizing fixed fuel retainage percentages (IFF mechanism). On December 10, 2009, the Commission directed Commission staff to convene a technical conference to address the issues raised by Columbia Gulf's IFF proposal.[13] The technical conference was held on January 19, 2010. Pursuant to the procedural schedule agreed to by the parties at the technical conference, initial comments on the technical conference were due

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[10] *Columbia Gulf Transmission Co.*, 130 FERC ¶ 61,136 (2010) (2009 TRA Order). The condition was that Columbia Gulf submit an updated investigative report on compressor stations leakage, meter testing and other actions undertaken to reduce LAUF on or before March 10, 2010, in addition to providing certain updated data.

[11] 2009 TRA Order, 130 FERC ¶ 61,136 at P 14.

[12] *Id.*

[13] December 2009 IFF Order, 129 FERC ¶ 61,214.

February 11, 2010, with reply comments due February 18, 2010.[14] Included with its initial comments, Columbia Gas filed revised *pro forma* tariff sheets proposing certain modifications to its IFF proposal.

A. Details of Filing

11. Columbia Gulf's IFF mechanism, as modified after the January 19, 2010 technical conference, has five main features. First, Columbia Gulf proposes to establish fixed fuel retention percentages to recover both CUG and LAUF that would remain in effect for a seven-year period, except under certain circumstances described below. The proposed fixed fuel retention percentages are as follows:

	Mainline Forwardhaul	Mainline Backhaul	Onshore	Offshore
Fixed Fuel Rates	2.57%	0.40%	0.65%	0.40%

12. Columbia Gulf states that it determined the fixed fuel rates in the following manner. It states that, during the seven-year period, it expects to invest at least $85 million in various projects which it estimates will reduce its annual fuel usage and LAUF by about 5.95 MMDth.[15] Of that amount, Columbia Gulf states that 2.6 MMDth represent LAUF reductions attributable to meter replacements at the Leach and Means delivery stations, 1 MMDth represent LAUF reductions attributable to meter upgrades, 1.85 MMDth represent CUG reductions attributable to turbine and compressor replacement, and 0.5 MMDth represent CUG reductions attributable to repiping and regulation improvements.

13. Of the total fuel savings amount, 64 percent or 3,808,000 Dth will be shared with customers in the form of fixed fuel rates. Columbia Gulf has calculated the fixed fuel

[14] Due to inclement weather in Washington, DC, the filing deadlines were extended each by one day.

[15] Qualified capital investments include, but are not limited to, new replacement engines/compressors that replace existing equipment and receipt and delivery meter replacements for improved measurement. Columbia Gulf estimates that meter-related projects will cost approximately $12 million and the remaining projects will cost approximately $73 million. Columbia Gulf, IFF Transmittal, Docket No. RP10-134-000, Affidavit of Craig Chancellor at 7-10 (filed Nov. 9, 2009).

rates using the same formulas underlying the projected CUG and LAUF components of its 2009 TRA rates. Unlike the TRA rates, the proposed fixed fuel rates do not include any true-up component to recover unrecovered CUG and LAUF. Columbia Gulf has incorporated the anticipated customer share of the fuel savings into its fixed fuel rate calculations by reducing the CUG and LAUF projections included in the February 27, 2009 TRA filing by allocating the CUG and LAUF savings to each zone and then recalculating the retainage percentages.[16]

14. For example, of the 5.950 MMDth total annual savings, 2.600 MMDth are LAUF savings attributable to the replacement of meters at the Leach and Means delivery stations and an additional 1 MMDth are LAUF savings attributable to other meter upgrades. The customers' share of these LAUF savings, 2.304 MMDth, is allocated to each zone and subtracted from the projected LAUF amounts used in the 2009 TRA rate calculations. The resulting percentage for each zone reflects the LAUF component of that zone's fixed fuel rate. The same method is used to calculate the CUG component for each zone's fixed fuel rate. The projected annual CUG savings from compressor and turbine replacements and repiping and regulation improvements is 2.350 MMDth. The customers' share of that amount, 1.504 MMDth, has been allocated to the Mainline Zone and subtracted from the projected CUG for that zone used in the 2009 TRA rate calculations. The result reflects the CUG component of the proposed Mainline Zone fixed fuel rate (the CUG component of the Onshore Zone is unchanged, and no CUG is used in the Offshore Zone.)

15. Columbia Gulf asserts that the proposed fixed fuel retention percentages are lower than the percentages that customers would otherwise pay under its current fuel tracker mechanism. Columbia Gulf also asserts that this upfront rate reduction before it makes the investments is the primary benefit of the mechanism for its customers.

16. Second, Columbia Gulf proposes that its customers will remain liable for any unrecovered CUG and LAUF quantities as of the date the existing tracking mechanism terminates, and Columbia Gulf will remain liable to the shippers for any over-recovered CUG and LAUF quantities. However, neither the shippers nor Columbia Gulf would pay these amounts to the other during the term of the IFF mechanism, except as provided under the annual fuel savings mechanism described in the next paragraph.

17. Third, Columbia Gulf proposes an annual fuel savings sharing mechanism. Under the proposed sharing mechanism, for each annual period of the program, Columbia Gulf

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[16] Columbia Gulf, IFF Transmittal, Docket No. RP10-134-000, Affidavit of Craig Chancellor at 11 (filed Nov. 9, 2009).

will calculate the difference between the retainage provided by shippers under the IFF rates and the actual CUG and LAUF for the same period. To the extent Columbia Gulf elects to sell any over-recovered fuel during an annual period,[17] shippers will receive 40 percent of any sale revenues in excess of 50 percent of Columbia Gulf's cumulative qualified capital investments. To the extent any payments are due the shippers under this mechanism, those payments will be increased or reduced by the over-recovered or under-recovered CUG and LAUF quantities as of the date the tracking mechanism terminated.

18. Fourth, during the period the IFF program is in effect, Columbia Gulf will not recover the costs of qualified capital investments through its transportation rates. However, Columbia Gulf reserves the right to include the net costs of any qualified capital investments after depreciation in its rates in a future general section 4 rate case if and when the program is terminated.[18] In addition, following the technical conference, Columbia Gulf revised its proposed tariff sheets to add a provision for crediting certain amounts of its fuel savings against its rate base. Specifically, under proposed section 33.5, if Columbia Gulf seeks to include the qualified capital investments in a future section 4 rate case, it will credit 80 percent of the dollar fuel savings it has achieved in excess of an annual 24.2 percent overall return on the cumulative qualified investments against their net book value in rate base.[19]

19. Fifth, no later than seven years after the program's effective date, Columbia Gulf is required to make a limited section 4 filing to replace, modify or retain the IFF mechanism. In addition, at any time during the seven-year period, Columbia Gulf or its shippers may seek to terminate or modify the IFF mechanism or the fixed fuel rates pursuant to a Natural Gas Act (NGA) limited section 4 or general section 5 filing, respectively.

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[17] Under its original proposal, Columbia Gulf was not required to sell any over-recovered fuel quantities during any specific annual period. However, following the technical conference, Columbia Gulf agreed to sell at least 75 percent of any over-recovered fuel once every two years.

[18] Columbia Gulf's current rates reflect a 1.7 percent depreciation rate.

[19] Columbia Gulf states that 24.2 percent is essentially 10 percent above its current authorized pre-tax rate of return of 12.5 percent, once depreciation of 1.7 percent is factored into the analysis.

B. Comments

20. Initially, the response to Columbia Gulf's proposal was mixed. Among the issues protested were that the fixed fuel rates did not represent a material reduction from the fuel rates shippers would otherwise pay under Columbia Gulf's tracker mechanism, that meter replacements at Leach A and Means E were included as qualified capital investments, that Columbia Gulf could terminate the IFF mechanism at any time prior to the end of the seven year term, and that Columbia Gulf could include in rate base in a future general section 4 rate case the depreciated net book value of the capital investments. The majority of parties that filed comments after the technical conference continue to oppose Columbia Gulf's proposal, even as modified.

21. The following parties submitted initial comments: Columbia Gulf, United States Gypsum Company (US Gypsum), East Ohio Gas Company (Dominion East Ohio), Indicated Shippers,[20] North Carolina Utilities Commission (NCUC), NiSource Distribution Companies (NiSource),[21] Sequent Energy Management, L.P. (Sequent), Atmos Energy Corporation and Atmos Energy Marketing LLC (collectively, Atmos), Baltimore Gas and Electric Company (Baltimore Gas), the Virginia Cities,[22] Piedmont Natural Gas Company, Inc. (Piedmont), and Washington Gas Light Company (Washington Gas). The following parties submitted reply comments: Columbia Gulf, Orange and Rockland Utilities, Inc. (O&R), Piedmont, Baltimore Gas, Duke Energy Corporation, Virginia Cities, Sequent, Washington Gas, Duke Energy Utilities,[23] Sempra

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[20] Indicated Shippers include BP Energy Company and BP America Production Company, Chevron U.S.A. Inc., ConocoPhillips Company, ExxonMobil Gas & Power Marketing Company, a Division of Exxon Mobil Corporation, and Interstate Gas Supply, Inc.

[21] NiSource Distribution Companies include Columbia Gas of Kentucky, Inc., Columbia Gas of Maryland, Inc., Columbia Gas of Ohio, Inc., Columbia Gas of Pennsylvania, Inc., and Columbia Gas of Virginia, Inc.

[22] The Virginia Cities include City of Charlottesville, Virginia and City of Richmond, Virginia.

[23] Duke Energy Utilities include Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc.

Energy Trading LLC (Sempra), J.P. Morgan Ventures Energy Corporation (J.P. Morgan), and Tennessee Valley Authority (TVA).[24]

22. In their initial and reply comments opposing the mechanism, the opposing parties raise generally the same issues they raised in their protests. In addition, they argue that Columbia Gulf's proposed credit against rate base is too small because it would permit Columbia Gulf to retain a 24.2 percent return plus an additional 20 percent of every dollar collected in excess of that amount. The commenters assert that such a return is excessive compared to Columbia Gulf's risk under the mechanism.

III. 2010 Transportation Retainage Adjustment Filing

23. On March 1, 2010, in Docket No. RP10-450-000, Columbia Gulf filed its 2010 TRA, as modified on March 2, 2010, to increase its overall fuel retainage rates above the level of the rates currently in effect. However, Columbia Gulf requests a waiver to keep its existing fuel retainage rates in place until the Commission approves the IFF mechanism in a manner satisfactory to Columbia Gulf or November 1, 2010, whichever occurs first. Subsequently, on March 10, 2010, Commission staff issued a letter to Columbia Gulf requesting that it provide certain additional information regarding its 2010 TRA filing.

A. Details of Filing

24. Columbia Gulf proposes the following fuel retention percentages in its 2010 TRA filing:

	Mainline Forwardhaul	Mainline Backhaul	Onshore	Offshore
Current Retainage Percentage	2.952%	0.575%	0.851%	0.585%

[24] ConocoPhillips Company and the National Grid Gas Delivery Companies each filed a motion to intervene after the December 2009 IFF Order. The Commission finds that granting their unopposed motions to intervene will not adversely affect this proceeding, nor harm the other parties. Accordingly, the Commission accepts their motions to intervene.

True-Up Percentage	0.260%	0.231%	0.266%	0.266%
Total Retainage Percentage	3.212%	0.806%	1.117%	0.851%

25. Columbia Gulf states that it calculated the current retainage percentage based upon projections of CUG, LAUF, and transportation volumes for the period April 1, 2010 through March 31, 2011. While it is not clear what Columbia Gulf's projected CUG volumes of 15,309,984 Dth is based on, Columbia Gulf's projected LAUF volumes of 5,079,551 Dth is based on the actual LAUF volumes for 2009, including a prior period adjustment of 1,083,336 Dth for activity that occurred during the 2008 calendar year.[25] As described below, Columbia Gulf states that it made no adjustment to its projected LAUF volumes for the under-measurement of deliveries at Leach and Means.

26. With respect to the true-up component, Columbia Gulf states that the deferral period is the preceding calendar year, January 1, 2009 through December 31, 2009. According to Columbia Gulf's workpapers and transmittal, as of December 31, 2009, the total unrecovered balance, including prior period adjustments, is 2,289,715 Dth (245,067 Dth for CUG and 2,044,648 Dth for LAUF). Columbia Gulf states that it did not include any adjustments to the unrecovered balance to account for the under-measurement occurring at the Leach and Means delivery stations.[26]

27. Columbia Gulf requests any necessary waivers to keep its existing retainage rates in effect until the Commission approves the IFF proposal in a manner satisfactory to Columbia Gulf or November 1, 2010, whichever date occurs first. Columbia Gulf contends that delaying implementing the new retainage rates, which represent the full under-recovered surcharge, is in the public interest because it will allow the customers to

[25] Columbia Gulf, Data Response, Docket No. RP10-450-000, Answer to Question 2 (filed March 12, 2010). Columbia Gulf states that the largest amount making up this quantity is an OBA adjustment between Columbia Gulf and Tennessee Gas Pipeline Company in the amount of 1,399,582 Dth. Columbia Gulf states that it was discovered that the receipts coming onto its system in August 2008 were inadvertently omitted from its measurement, therefore increasing the LAUF quantity. *Id.*

[26] Columbia Gulf, Data Response, Docket No. RP10-450-000, Answer to Question 4 (filed March 12, 2010).

continue to pay the lower, existing retainage rates rather than incurring a rate increase pending a satisfactory outcome in the IFF proceeding. Columbia Gulf also reserves its right to recover the unrecovered CUG and LAUF for the 2008 and 2009 calendar year deferral periods or any other unrecovered quantities in a future annual or periodic TRA filing.

B. Public Notice, Intervention and Comments

28. Notice of Columbia Gulf's filings in Docket No. RP10-450-000 was issued on March 3, 2010. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R. § 154.210 (2009). Pursuant to Rule 214, 18 C.F.R. § 385.214 (2009), all timely-filed motions to intervene and any motions to intervene out-of-time before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. Baltimore Gas, Piedmont, US Gypsum, Washington Gas, Sequent, and Virginia Cities[27] filed protests. New Jersey Natural Gas Company and NJR Energy Services Company (New Jersey Companies) requested expedited Commission action. On March 19, 2010, Columbia Gulf filed an answer to the protests and on March 30, 2010, Washington Gas filed an answer to Columbia Gulf's answer. Under Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2009), answers to protests and answers are prohibited unless otherwise ordered by the decisional authority. We will accept Columbia Gulf's and Washington Gas' answers because each has provided information that will assist us in our decision-making process.

29. Several parties protest Columbia Gulf's failure to include mathematical adjustments to account for the under-measurement occurring at the Leach and Means delivery stations and several parties contend that Columbia Gulf's proposed rates for 2010 are higher than existing rates only because Columbia Gulf failed to include the mathematical adjustments. Virginia Cities oppose Columbia Gulf's failure to account for the under-measurement at Leach and Means in its LAUF projection for 2010, as well as the inclusion of certain large, non-recurring prior period adjustments in the LAUF projection. Virginia Cities and Washington Gas also argue that Columbia Gulf should be ordered to undertake additional tests of Leach A and Means E and update the mathematical adjustment accordingly. Washington Gas contends that the proposed rates would be even lower if Columbia Gulf utilized the data provided in its March 10, 2010

[27] The Virginia Cities filed their motion to intervene out of time and protest on March 16, 2010.

updated investigative report submitted in compliance with the 2009 TRA Order.[28] Virginia Cities also raise concerns about Columbia Gulf's CUG projection being higher than the CUG actuals for 2009 without any justification.

30. Several parties also oppose Columbia Gulf's request to make its proposed rates effective November 1, 2010. Washington Gas also argues that Columbia Gulf needs to upgrade its system compressor facilities and the Commission should require Columbia Gulf to report to the Commission regarding its plans to upgrade system compression in the event the IFF is not approved.

31. In its answer, Columbia Gulf states that it did not include any mathematical adjustments because in the 2009 TRA Order the Commission ruled that it would "not order any further adjustments."[29] Further, Columbia Gulf argues that such adjustments are not a long-term solution to the shift in metering technology, as numerous assumptions have to be made. In response to parties' requests for additional testing, Columbia Gulf contends that such tests would be expensive, time consuming and of limited additional value. Columbia Gulf contends that additional tests may increase or decrease the adjustment amount but can not be expected to invalidate the underlying premise of a direct relationship between the upgraded technology used in metering receipts and the increase in LAUF.

32. Columbia Gulf also argues that using updated data will not materially change the 2010 retainage rates. Regarding upgrading its compressors, Columbia Gulf argues that the pipeline and its management should have discretion regarding system upgrades and replacement, as the Commission found in the 2009 TRA Order in response to requests that the Commission order Columbia Gulf to replace the Leach and Means meters. Columbia Gulf also states that it is amenable to updating the TRA numbers in a separate filing if the IFF is not approved.

33. In its answer, Washington Gas maintains that Columbia Gulf's proposed rates do not reflect the most current data and Columbia Gulf should be required to provide the most current available data before it is allowed to place revised fuel rates into place.

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[28] See n.10 supra.

[29] Columbia Gulf, Answer, at 2, Docket No. RP10-450-000 (filed Mar. 19, 2010) (citing 2009 TRA Order, 130 FERC ¶ 61,136 at P 12).

IV. Discussion

34. In the notice terminating the Notice of Inquiry concerning the Commission's policies on the in-kind recovery of fuel and lost and unaccounted-for gas by natural gas pipeline companies,[30] the Commission elected to take a case by case approach to fuel incentive proposals. It believed, as did many of the parties in that proceeding, that fuel incentive mechanisms could be helpful in ultimately reducing such fuel gas charges. Columbia Gulf's fuel incentive mechanism is the third fuel incentive mechanism the Commission has reviewed since terminating the Notice of Inquiry in 2008.

35. Columbia Gulf asserts that the primary benefit of its proposed incentive fuel mechanism for its customers is the savings resulting from an upfront rate reduction in the form of its proposed fixed fuel rates. Columbia Gulf's proposal is premised on its assertion that these fixed fuel rates are below actual current levels and reflect a significant benefit to customers, while providing an incentive for investment in facilities which will reduce future CUG and LAUF.

36. For the reasons discussed below, the Commission first clarifies its policy concerning pipeline recovery of fuel costs. Specifically the Commission finds that pipelines may establish, in limited section 4 filings, an incentive fuel mechanism whereby the pipeline agrees to charge customers fixed fuel rates below the cost-based level the pipeline could otherwise justify, in exchange for a share of the savings that result from the capital improvements made under the incentive mechanism. This type of incentive rate structure could encourage the pipeline to make investments to reduce fuel usage, investments which the Commission generally could not otherwise order. Second, the Commission addresses the specifics of Columbia Gulf's proposal, finding that Columbia Gulf has not shown that its proposed fixed fuel retention percentages are below a cost-based level. Therefore, the Commission accepts Columbia Gulf's proposal, subject to modification consistent with the policy established in this order.

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[30] *Fuel Retention Practices of Natural Gas Companies*, FERC Stats. & Regs. ¶ 35,556 (2007).

A. <u>Incentive Fuel Savings Mechanism Policy</u>

37. In *ANR Pipeline Company*,[31] the Commission held that if a pipeline has a mechanism in its tariff to track changes in its fuel costs, as Columbia Gulf currently does, that mechanism must include a provision for truing-up any over- and under-recoveries of fuel. In response to concerns that the true-up requirement would reduce pipelines' incentives to minimize fuel costs, *ANR* stated that pipelines also have the option to establish a fixed fuel retention percentage in a general Natural Gas Act (NGA) section 4 rate case, and leave that percentage unchanged until the pipeline files its next general section 4 rate case. The Commission explained that the fixed fuel retention percentage option provides pipelines an incentive to minimize costs, by allowing them to retain any cost over-recoveries between rate cases, while putting them at risk for cost under-recoveries. *ANR* also left open the possibility that a pipeline could include an incentive mechanism in a fuel cost tracker, if the pipeline made the proposal pursuant to the Commission's incentive ratemaking policy.[32]

38. Columbia Gulf's proposal to replace its existing fuel tracker with a fixed fuel rate to be in effect for a seven-year period is similar to the option, approved in *ANR*, of establishing a fixed fuel retention percentage in a general section 4 rate case, except for the fact that Columbia Gulf is making the proposal in a limited section 4 rate case. We recognize that implementing a fixed fuel rate in a limited section 4 filing, rather than a general section 4 rate proceeding, provides no opportunity to review whether the pipeline's other rates may be over-recovering its cost of service. However, assuming Columbia Gulf's fixed fuel rate is set at a level below the cost-based level it could otherwise justify, the proposal would provide customers with benefits not available under the general rate case option in *ANR*. In a general section 4 rate case, the Commission would approve a fixed fuel rate set at a fully cost-based level. The fuel costs to be incurred by the pipeline would be projected based upon the fuel costs it incurred during the rate case test period, with the fixed fuel rate set at a level that would enable the pipeline to recover 100 percent of the projected fuel costs. If the pipeline's actual fuel

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[31] *ANR Pipeline Co.*, *order on compliance filing*, 108 FERC ¶ 61,050, *order inviting comments*, 109 FERC ¶ 61,038 (2004), *order on reh'g and compliance filing*, 110 FERC ¶ 61,069, *order on reh'g and compliance filing*, 111 FERC ¶ 61,290 (2005) (*ANR)*.

[32] 110 FERC ¶ 61,069 at P 39 (2005). The Commission's policy on incentive rates is set forth in *Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines* (*1996 Incentive Ratemaking Policy Statement*), 74 FERC ¶ 61,076, at 61,237-38 (1996).

costs after the rates take effect are less than projected costs, the pipeline could retain its entire over-recovery. Therefore, a fixed fuel rate established in a general section 4 rate case would allow the pipeline to keep all the benefits of its investments to minimize fuel costs, until it filed its next general section 4 rate case. By contrast, setting the fixed fuel rate at less than the current cost-based level under an incentive proposal such as Columbia Gulf's allows shippers to share the benefits of anticipated future cost savings immediately.

39. In addition, because a fixed fuel rate does not track actual fuel costs, the *ANR* requirement that a tracker include a true-up mechanism is not applicable to Columbia Gulf's proposal. This distinguishes Columbia Gulf's fuel savings proposal from the proposals addressed in Texas Gas[33] and El Paso.[34] In those cases, the pipelines proposed to retain their fuel tracking mechanisms but modify the true-up component to allow them to retain each year a share of specified savings projected to accrue from their planned investments. Thus, approval of the *Texas Gas* and *El Paso* proposals required the Commission to permit an exception from the *ANR* policy of requiring that a tracking mechanism include a full true-up of all over and under-recoveries. In those cases, the Commission determined that it would only grant such an exception subject to the condition that the pipeline make a reasonable showing in its annual tracker filings that its investments had actually lowered its fuel use and LAUF, thus providing the savings which the elimination of a full true-up would allow the pipeline to retain. Absent such a showing, there would have been no assurance that the *Texas Gas* and *El Paso* programs were actually benefitting their shippers.

40. The Commission finds that there is no need for such a condition in the context of a fixed fuel rate set at significantly less than a cost-based level. The very establishment of such a fixed fuel rate would assure shippers the benefit of an immediate, real rate reduction, regardless of whether the investments actually reduce fuel use and LAUF. Moreover, the pipeline would be giving up the right to make annual filings to adjust its rates to recover any cost increases resulting from other factors, thus minimizing any need for an evaluation of which changes in fuel and LAUF costs are attributable to the pipeline's investments and which are attributable to other factors. The Commission concludes that a fixed fuel rate at less than a cost-based level would be consistent with the requirements in the *1996 Incentive Ratemaking Policy Statement* that a pipeline

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[33] *Texas Gas Transmission, LLC*, 126 FERC ¶ 61,235 (2009).

[34] *El Paso Natural Gas Co.*, 128 FERC ¶ 61,196 (2009).

proposing incentive rates must share the benefits of any incentive rate program with its customers.[35]

41. However, the savings benefits to be realized by both the pipeline and its customers under incentive fixed fuel rates can be identified and evaluated only in comparison with properly calculated cost-based rates for the same period. Therefore, in order to obtain approval of a proposal to shift from an existing tracking mechanism to an incentive fixed fuel retention percentage, the pipeline must show what cost-based fuel rate it could justify for the prospective period the fixed fuel rate is to be in effect, based on the most recent available cost and throughput data. Such a cost-based rate provides a performance standard for the incentive mechanism, consistent with the *1996 Incentive Policy Statement*, by allowing an evaluation of whether the pipeline is able to reduce its fuel costs below current levels.

42. In general, the Commission believes that the appropriate comparison would be a comparison of (1) the proposed incentive fixed fuel rate to (2) the prospective component of the pipeline's existing fuel tracker mechanism, excluding the true-up component. The purpose of the comparison is to determine what fully cost-based fuel rate the pipeline could justify for the prospective period when the fixed fuel rate will be in effect. For this purpose, only the pipeline's projected future fuel costs should be considered. The prospective component of a pipeline's existing fuel tracker reflects such projected costs. The true-up component does not reflect projected future costs, since its purpose is solely to true up over- and under-recoveries that occurred during the past period when the tracker was in effect. Therefore, inclusion of the true-up component would result in a distorted comparison.

43. In addition, the Commission finds that, when a pipeline makes the transition from its existing fuel tracker to an incentive fixed fuel rate, any over- or under-recovered gas quantities existing at the start of a fuel incentive mechanism should continue to be credited or charged customers, respectively, consistent with the true-up component of the pipeline's fuel tracker mechanism. It would not be reasonable to allow the pipeline to carry over such over- or under-recovered quantities for the term of the fixed fuel incentive rate mechanism because of the potential for a significant change in a pipeline's customer profile over that period. The over- or under-recovered quantities result from the fuel rates paid by the shippers during the past period when the tracking mechanism was in effect. It is therefore reasonable that the pipeline either return the over-recoveries or surcharge the under-recoveries to those customers in the manner provided for in the tracking mechanism. This should generally be accomplished by keeping the true-up

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[35] *1996 Incentive Ratemaking Policy Statement,* 74 FERC ¶ 61,076, at 61,237-38.

component of the tracking mechanism in effect during the first year after the fixed incentive fuel rate takes effect.

B. Consistency of Columbia Gulf's Proposal with Policy

44. We now turn to an evaluation of the consistency of Columbia Gulf's proposal with the policy discussed in the preceding section. For the reasons discussed below, the Commission finds that Columbia Gulf's proposal must be modified in two respects. First, Columbia Gulf has not shown that its proposed fixed fuel retention percentages are below the cost-based level of the prospective component of its existing tracker mechanism (i.e., a just and reasonable current retainage percentage based on data included its 2010 TRA filing). Second, the Commission finds that Columbia Gulf's proposal to postpone any true-up of its existing over or under-recoveries until after the term of its proposed incentive mechanism is not reasonable. The Commission finds that Columbia Gulf's incentive proposal is consistent with Commission policy in all other respects, and accordingly the Commission accepts the proposal, subject to modification consistent with the discussion below.

1. Whether Fixed Percentages are below a Cost-Based Level

45. Based upon our review of Columbia Gulf's 2010 TRA filing, the Commission has serious concerns that the proposed fixed fuel rates may not represent a material reduction below the cost-based current retainage percentages that would otherwise be in effect under its existing fuel tracker and true-up mechanism and therefore, would not represent a material benefit to shippers, as required by the Commission's incentive ratemaking policy.[36] As Columbia Gulf pointed out, customers must realize a benefit from the investments or the program is not properly balanced.[37]

46. Columbia Gulf contends that its proposed 2.57 percent fixed fuel rate for the mainline represents a rate reduction below cost-based levels because it is lower than the 3.028 percent current retainage percentage for the mainline established in its 2009 TRA.[38] Columbia Gulf also points out that the 2.57 percent fixed fuel rate is lower than the overall 3.212 percent fuel retention rate Columbia Gulf has proposed in its 2010 TRA

[36] *Id.*

[37] Columbia Gulf, Initial Comments, at 5, Docket No. RP10-134-000 (filed Feb. 11, 2010).

[38] As described above, Columbia Gulf chose not to put into effect the 0.252 true-up component proposed in its 2009 TRA filing.

filing, including both the current retainage percentage and the true-up component. As discussed above, whether Columbia Gulf's fixed fuel rate is below a cost based level must be evaluated based on the most recent cost and throughput data available reflecting current operational conditions. That is the data in Columbia Gulf's 2010 TRA filing, underlying its proposed current retainage percentages. We will therefore determine whether Columbia Gulf's proposed fixed incentive fuel rates, including the proposed 2.57 percent fixed fuel rate for the mainline, are below cost based levels by comparing them to the current retainage percentages that could be justified in the 2010 TRA filing. For the reasons explained above, the true-up components proposed in Columbia Gulf's 2010 TRA filing are not relevant to the determination whether the proposed fixed incentive fuel rates are below cost based levels.

47. Based on the data included in Columbia Gulf's 2010 TRA filing, we find that the proposed current retainage percentages in that filing, including the proposed 2.952 current retainage percentage for the mainline, are significantly in excess of properly determined cost-based retention percentages. In particular, Columbia Gulf has overstated the LAUF costs used to calculate the current retainage percentages.

48. For purposes of determining its current retainage percentage, Columbia Gulf projected LAUF volumes of 5,079,551 Dth based on the actual LAUF volumes for 2009, plus a prior period adjustment of 1,083,336 Dth for activity that occurred during the 2008 calendar year. This projection is unreasonable in at least two respects. First, as the Virginia Cities point out, the prior period adjustments should not be included in a projection of future LAUF costs. The bulk of the prior period adjustments stems from a one-time 1,399,582 OBA adjustment between Tennessee Gas Pipeline Company and Columbia Gulf. Columbia Gulf has not shown that the large prior period adjustment, or the others for that matter, will be repeated and accordingly, the non-recurring prior period adjustments should be excluded from the LAUF projection.

49. Second, as Columbia Gulf admits, it did not include in its 2010 TRA filing any mathematical adjustments to account for the under-measurement occurring during 2009 at the Leach and Means delivery stations, as it did in its 2009 TRA filing.[39] As the Commission found in its February 2010 Order on the 2009 TRA filing and Columbia Gulf agreed, failure to make those adjustments results in an overstatement of Columbia Gulf's actual LAUF costs. Southwest, the expert in measurement and testing hired by Columbia Gulf, has determined that the under-measurements at the Leach and Means delivery stations can be corrected by increasing the measured deliveries at Leach by

[39] The 2009 TRA filing was based on activity during 2008, to which Columbia Gulf had applied mathematical adjustments through September 2008.

1.08 percent and increasing the measured deliveries at Means by 0.5 percent. Therefore, the under-measurements at those delivery stations do not cause Columbia Gulf to incur any actual lost and unaccounted for gas cost. It knows that under-measurements occurred at those delivery stations, and it has a method of accounting for, and correcting, those under-measurements. Therefore, we find that it is unreasonable for Columbia Gulf to base its projection of 2010 LAUF volumes on data that does not reflect the mathematical adjustments to deliveries at Leach and Means.[40]

50. Columbia Gulf contends that failure to include the mathematical adjustments to deliveries at Leach and Means is consistent with the Commission's holding in the 2009 TRA Order that no further adjustments were necessary. We disagree with Columbia Gulf and find that the 2009 TRA Order cannot reasonably be read to address whether adjustments are appropriate in the current docket. In the paragraphs preceding the language cited by Columbia Gulf, the order details the requests of various parties for further adjustments to the 2009 retainage rates.[41] The Commission denied those requests and found that the "adjustments Columbia Gulf has already made are reasonable adjustments" and therefore, would not "order any further adjustments."[42] Nowhere in the 2009 TRA Order did the Commission make any findings with respect to Columbia Gulf's future TRA filings, which is consistent with Columbia Gulf's request that the proceeding relate "only to the retainage rates proposed in Columbia Gulf's filing" and "that questions as to whether further adjustments are required should be addressed in Columbia Gulf's next annual TRA filing or Columbia Gulf's alternative fuel recovery filing."[43]

51. Accordingly, in order to determine the reasonable cost-based current retainage percentages that would be placed into effect if Columbia Gulf continued to recover CUG and LAUF through its TRA, Columbia Gulf is directed to adjust its current period

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[40] We also note that the currently effective 2009 TRA percentages do not include components for recovery of unrecovered CUG and LAUF, since Columbia Gulf agreed to defer retention of such quantities. If those unrecovered surcharge components were similarly eliminated from the filed 2010 TRA rates, the 2010 projected mainline retention percentage before application of the mathematical adjustments would be 2.952 percent, which is lower than the currently effective mainline retention percentage of 3.028 percent.

[41] 2009 TRA Order, 130 FERC ¶ 61,136 at P 21-23.

[42] *Id.* P 24.

[43] *Id.* P 13. *See also id.* P 23 (stating that ordering future adjustments because of the orifice meters is premature and outside the scope of this proceeding).

retainage percentage, by removing from its projected LAUF costs (1) the 1,083,336 Dth prior period adjustments and (2) an amount equal to the under-measured deliveries at Leach and Means based upon the same mathematical adjustment it used in the 2009 TRA filing. Columbia Gulf is also directed to increase the forward haul delivery determinants used in its rate calculations to be consistent with the mathematically adjusted deliveries at Leach and Means. The Commission expects that once Columbia Gulf recalculates its 2010 current retainage percentages based on the aforementioned adjustments, the delta between the proposed fixed incentive fuel rates and Columbia Gulf's cost-based current retainage percentages for 2010 will diminish, as will the benefit to customers from implementing fixed incentive fuel rates at the level Columbia Gulf has proposed.

52. In order for customers to realize the benefits Columbia Gulf contemplated under the IFF mechanism, Columbia Gulf is directed to recalculate the proposed fixed fuel rates based on the adjusted 2010 TRA current period data, instead of the 2009 TRA current period data. Therefore, once it has corrected the projected LAUF costs and billing determinants in its 2010 TRA filing as required in the preceding paragraph, Columbia Gulf should reduce the resulting CUG and LAUF projections in that filing by the share of anticipated CUG and LAUF savings allocated to shippers in each zone. It must then recalculate the fixed incentive fuel rates based on those reduced projections.

53. The Commission recognizes that under the IFF mechanism Columbia Gulf intended to replace the Leach A and Means E meters, thereby correcting the under measurement of deliveries at those points, and that Columbia Gulf included LAUF savings attributable to that correction in its calculation of its proposed fixed fuel rates. However, the Commission finds that the alleged savings attributable to any replacement of the Leach A and Means E meters are not appropriately treated as a benefit provided to customers by the IFF mechanism because those same savings are achieved by the mathematical adjustments discussed above without replacing the meters. Therefore, Columbia Gulf's customers would receive the benefit of the resulting reduction in LAUF costs, even if the existing tracking mechanism continued in effect. For the same reason, the Commission also recognizes that it would be unreasonable to expect Columbia Gulf, in calculating its fixed fuel rates, to reduce the corrected LAUF projection in the 2010 TRA filing by the amount of those savings, given that corrected LAUF projection will already reflect a similar adjustment. The Commission, therefore, would be amenable to Columbia Gulf recalculating the fixed fuel rates based on projected savings that do not include savings attributable to replacement of the Leach and Means meters.[44]

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[44] Columbia Gulf agreed to make certain other changes to its IFF *pro forma* tariff sheets in response to customers' request, including substituting "including and recovering" with "seeking to recover" in section 33.5, to file tariff language to clarify that

(continued…)

2. True-up Component

54. Columbia Gulf proposes that its customers will remain liable for any unrecovered CUG and LAUF quantities as of the date the existing tracking mechanism terminates, and Columbia Gulf will remain liable to the shippers for any over-recovered CUG and LAUF quantities. However, neither the shippers nor Columbia Gulf would pay these amounts to the other during the term of the IFF mechanism, except as provided under the annual fuel savings mechanism. Columbia Gulf will only make payments under the annual sharing mechanism, if at end of any annual period during the seven years the IFF is in effect, it has recovered more than 50 percent of its cumulative qualified capital investments from the sale of excess retainage. Columbia Gulf admits that this is unlikely to ever occur.

55. The Commission finds that this aspect of Columbia Gulf's proposal is inconsistent with the policy described above that, when a pipeline makes the transition from its existing fuel tracker to an incentive fixed fuel rate, any over- or under-recovered gas quantities existing at the start of a fuel incentive mechanism should continue to be credited or charged customers, respectively, consistent with the true-up component of the pipeline's existing fuel tracker mechanism. Given that the customer profile on Columbia Gulf's system could change significantly over the course of the seven year term of its IFF mechanism, any over- or under-recovered fuel quantities existing immediately prior to effective date of the IFF mechanism should be credited or recovered, respectively, from customers consistent with the existing true-up component of Columbia Gulf's fuel tracker mechanism.

56. The Commission also finds that Columbia Gulf's calculation of the true-up component of its 2010 TRA retention percentages contains a similar error to its calculation of the current retainage percentage in that filing. Columbia Gulf determined its unrecovered CUG and LAUF volumes to be recovered through the true-up component of the 2010 TRA filing by comparing the volumes it retained during 2009 to actual CUG and LAUF. However, it made no mathematical adjustment to the actual 2009 LAUF figure it used in this calculation to account for the under-measurement of deliveries at Leach and Means. Therefore, the true-up component of its 2010 TRA proposed fuel retainage percentages is based on an overstatement of its unrecovered LAUF volumes. Columbia Gulf is accordingly directed to recalculate its 2010 true-up component based on the same mathematical adjustment it used in the 2009 TRA filing. Based upon

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Columbia Gulf is not entitled to seek more than the depreciated value of its qualified capital investment, and that any fuel losses should not be added to future retainage rates. *See* Columbia Gulf, Reply Comments, at 19, Docket No. RP10-134-000 (filed Feb. 19, 2010). The Commission finds that these changes are reasonable.

Columbia Gulf's March 10, 2010 data request response, such mathematical adjustments will likely result in a reduction to the unrecovered LAUF balance of at least 3,691,358 Dth and in turn, a negative surcharge. Columbia Gulf must implement that negative surcharge as of the effective date of either its IFF mechanism or its 2010 TRA filing, depending upon which proposal it decides to implement. If it implements the IFF mechanism, the negative surcharge will terminate at such time as Columbia Gulf has returned its entire over-recovered balance to its customers.

3. **Remaining Issues**

57. Apart from our holdings in the preceding two sections, the Commission finds that Columbia Gulf's IFF proposal is just and reasonable. The Commission is not opposed to Columbia Gulf earning a return on its capital investments that is higher than it could otherwise have earned had it simply placed the investments in rate base. We find that what Columbia Gulf has proposed is reasonable given the immediate rate reduction customers will receive and the risk of under-recovery that Columbia Gulf will in turn face.

58. Regarding Columbia Gulf's ability to include the depreciated amount of any capital improvements in rate base in a future general section 4 filing, the Commission finds that, given the timing and level of Columbia Gulf's proposed investments, it would be impracticable for Columbia Gulf to recover the full costs of those investments during the seven-year term of the mechanism. In fact, no commenter has suggested otherwise. Moreover, shippers will receive benefits from the capital improvements for their remaining useful lives. Therefore, we find that Columbia Gulf should have the right to seek inclusion of such amounts in rate base in a future rate case, subject to its proposed rate base crediting mechanism.

59. While Columbia Gulf's proposal does give it the right to file to terminate the program early, the Commission also retains the right to terminate the program early under NGA section 5. Finally, acceptance of Columbia Gulf's incentive proposal is also conditioned on Columbia Gulf establishing fuel retention percentages no higher than a cost-based percentage at the end of the term of the mechanism. This guarantees that shippers will receive 100 percent of the benefit of actual fuel reductions achieved by the capital improvements after the incentive mechanism has ended.

60. Therefore, within 20 days of the date of this order, Columbia Gulf is directed to file either actual tariff sheets implementing the IFF mechanism based upon the revised *pro forma* tariff sheets filed with its initial comments and consistent with the discussion above or revised fuel retainage percentages for 2010 consistent with this order. In either case, Columbia Gulf should provide workpapers similar to the workpapers provided in its 2010 TRA filing detailing its calculations. The Commission also grants waiver of section 33 of Columbia Gulf's GT&C in order to maintain the existing retainage rates

until Columbia Gulf makes the aforementioned compliance filings and further orders of the Commission.

61. Finally, the Commission recognizes that these conditions will significantly affect Columbia Gulf's IFF proposal and that Columbia Gulf may desire to modify other aspects of its IFF proposal if it is to continue with this experimental fuel mechanism. For example, Columbia Gulf has proposed to allocate 64 percent of its projected savings from its qualified capital investments to its customers. Given the removal of the savings from the replacement of the Leach and Means meters from the IFF proposal, the Commission would be willing to consider a proposal to modify the relative allocation of savings as between Columbia Gulf and its customers, so long as the shippers receive a significant upfront savings below the level of a cost based fuel retention rate consistent with the policy discussed above. The Commission will consider any such changes if and when Columbia Gulf makes its compliance filing.

The Commission orders:

(A) The Commission finds that Columbia Gulf's IFF mechanism is just and reasonable, subject to the conditions discussed in the body of this order.

(B) Columbia Gulf is directed to recalculate its fuel retainage rates for 2010, as discussed in the body of this below.

(C) Within 20 days of the date of this order, Columbia Gulf is directed to file either (1) actual tariff sheets implementing the IFF mechanism based on the revised *pro forma* tariff sheets filed with its initial comments subject to the conditions in the body of this order, or (2) revised tariff sheets implementing its 2010 TRA consistent with the findings in this order.

(D) The Commission grants Columbia Gulf's request for waiver of section 33 of the GT&C in order to maintain the existing retainage rates until Columbia Gulf makes the aforementioned compliance filings and further order of the Commission.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.