FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 31, 2006

In Reply Refer To:
Northern Natural Gas Company
Docket Nos. RP06-204-000
RP06-204-001

Northern Natural Gas Company
1111 South 103rd Street
Omaha, NE 68124-1000

Attention: Mary K. Miller, Vice President
Regulatory and Government Affairs

Reference: New Fuel and Unaccounted For Gas Reimbursement Percentages

Ladies and Gentlemen:

1. On February 1, 2006, Northern Natural Gas Company (Northern) filed revised tariff sheets[1] pursuant to sections 53A and 53B of its General Terms and Conditions (GT&C) to adjust its annual fuel use and unaccounted for (UAF) percentages for its Field Area and Storage facilities for the 12-months commencing April 1, 2006.[2] Northern also proposes to adjust its Market Area fuel percentages for the Summer Season of April 1, 2006, through October 31, 2006. Northern includes supporting schedules and true-up adjustments for all its proposed reimbursement rates. On February 21, 2006, Northern filed supplemental revised tariff sheets to correct and replace certain tariff sheets in its February 1 filing. Northern discovered two inadvertent errors in the fuel totals used to calculate fuel rates, as more fully discussed below. We accept Northern's revised tariff sheets, to become effective April 1, 2006, as shown in the Appendix.

[1] See Appendix.

[2] UAF percentages for the upcoming annual period are proposed for field area, mainline, and storage.

Details of Filing

2. Northern proposes new fuel reimbursement percentages for Field Area and Storage and System-wide UAF percentages for the 12 months spanning April 1, 2006, through March 31, 2007 based on actual data for the twelve-months of January 1, 2005 through December 31, 2005. Northern proposes to decrease its mainline fuel reimbursement percentages in section 1 (Permian Area) from 2.06 to 1.66 percent, section 2 (Mid-Continent Area) from 2.64 to 2.26 percent and decrease its Storage fuel reimbursement from 0.81 to 0.57 percent. Northern also establishes its Market Area Electric Compression charge of $0.0001, which includes a $0.00003 true-up adjustment.

3. Conversely, Northern proposes to increase its fuel reimbursement percentage in section 3 (Market Area) for the Summer Season from 0.95 to 1.46 percent. Northern bases its adjustment on actual data for the seven-months from April 1, 2005, through October 31, 2005, and explains that this adjustment reflects the increase in actual fuel burned from 4,316,439 Dth in 2004, to 5,085,626 Dth in 2005. Additional throughput in the Market Area of 16 Bcf, and an increased true-up adjustment of 0.36 percent results in a total increase 0.51 percent from 0.95 to 1.46 percent.

4. Northern proposes to reduce its UAF retention percentage from 0.13 percent to a negative (-) 0.09 percent or a decrease of 0.22 percent. However, Northern proposes not to implement the negative UAF charge for transactions using certain Mileage Indicator District (MID) combinations in the Field Area and the Gulf Coast.[3] Instead, Northern proposes to charge a UAF retention percentage of 0.00 percent for those transactions. Northern states that since these transactions do not use its mainline, its mainline fuel percentages are not applicable to these MID combinations and the Gulf Coast. As a result, if Northern implemented the negative UAF percentage for those transactions, the net fuel use and UAF percentages for these MIDs and the Gulf Coast would result in an overall negative retention number. Northern also explains that its computer systems are not capable of accepting nominations where Northern would deliver more volume than it received and would require substantial modifications to accommodate this situation at some expense. Finally, Northern adds that such nominations could require shippers using the Electronic Data Interchange nomination process to modify their computer systems to accommodate this situation at some expense. Northern further states that it will reflect any over recoveries not returned to shippers during this adjustment period in next year's annual percentage adjustments and true-up.

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[3] Transactions between Mileage Indicator District (MID) combinations: from MID receipt district #2 to MID delivery districts 1, 2, 5 and 6; from MID receipt districts 4 and 5 to MID delivery district 5; from MID receipt districts 12 and 13 to MID delivery districts 12 and 14; and from MID receipt districts 16A, 16B and 17 to MID delivery district 12 through 16A.

Notice

5. The Commission issued notice of Northern's filing on February 6, 2006 (Docket No. RP06-204-000), and on March 7, 2006 (Docket No. RP06-204-001). Interventions, comments, and protests were due as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2005)). Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214 (2005)), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late interventions at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. Indicated Shippers,[4] Northern Municipal Distributors Group (NMDG),[5] and the Midwest Region Gas Task Force Association (MRGTF)[6] each filed protests. Northern filed an answer responding to the protestor's concerns. We accept Northern's answer since it will help resolve issues in this proceeding.

Discussion

6. Northern's fuel reimbursement filing, as revised, generally complies with sections 53A and 53B of its GT&C, with one exception as noted above. As discussed below, we accept Northern's revised fuel reimbursement and UAF percentages for April 1, 2006, through March 31, 2007, as proposed. We also accept Northern's Market Area fuel percentage for the Summer Season as well as the proposed Market Area Electric Compression charge.

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[4] Indicated Shippers is composed of the following: BP Canada Energy Marketing Corp.; Chevron Natural Gas, a division of Chevron U.S.A. Inc.; ExxonMobil Gas & Power Marketing Company, a division of ExxonMobil Corporation; and Occidental Energy Marketing, Inc.

[5] NMDG is composed of the following Iowa municipal-distributor customers of Northern: Cascade, Cedar Falls; Coon Rapids; Emmetsburg; Gilmore City; Graettinger; Guthrie Center, Harlan; Hawarden; Lake Park; Manilla; Manning; Osage; Preston; Remsen; Rock Rapids; Rolfe; Sabula; Sac City; Sanborn; Sioux Center; Tipton; Waukee; West Bend; Whittemore; and Woodbine.

[6] MRGTF is composed of the following municipal-distributor and local distribution customers of Northern: Austin; Circle Pines; Community Utility Company; City of Duluth, Minnesota – Duluth Public Utilities; Great Plains Natural Gas Company; Hibbing; Hutchinson; New Ulm; Northwest Natural Gas Company; Owatonna; Round Lake; Sheehan's Gas Company, Inc.; Two Harbors; Virginia; and Westbrook, Minnesota; Midwest Natural Gas, Inc.; Superior Water Light and Power; St. Croix Valley Natural Gas, Wisconsin, d/b/a St. Croix Gas, Wisconsin; and Watertown, South Dakota.

7. Indicated Shippers raise several concerns regarding Northern's filing. First, Indicated Shippers state that the Commission should adjust Northern's fuel rates to reflect abandoned facilities. Northern has filed a request for approval to abandon, by sale, its Beaver Wet System in the Anadarko Basin.[7] Indicated Shippers state that these facilities, which include 62 compressor stations, are integrated in the facilities that Northern here files to collect fuel reimbursement for the upcoming annual period.[8] Indicated Shippers are concerned that if the Commission approves the abandonment requests, Northern will collect fuel reimbursement from facilities it no longer operates, and the shippers on those facilities will reimburse fuel to the new owner. Indicated Shippers contend that to the extent a shipper transports gas on both Northern and the spun-off facilities it could pay twice for fuel used for the same facilities.

8. Also, Indicated Shippers contend that even though Northern includes a true-up, under these circumstances Northern cannot keep shippers whole in the next fuel filing, because the shippers paying fuel on the spun-off facilities would not necessarily be the same shippers on Northern's remaining facilities that would allegedly receive the benefit of a true-up. Indicated Shippers argue that even on the same facilities, shippers in this upcoming year would not necessarily be the same shippers next year when the benefit of a true-up would allegedly become available, creating inter-generational inequities. Indicated Shippers conclude that the Commission should require Northern to "immediately eliminate fuel associated with all abandoned facilities at the time of abandonment" because such abandonments are not *de minimus* as compared to Northern's past filings where facilities were taken out of service.

9. In addition, Indicated Shippers request that the Commission establish a technical conference to: 1) identify all facilities affected by Northern's field area abandonments; 2) identify the specific fuel use associated with the facilities (comparing specific fuel rates that include the facilities with adjusted rates that exclude the facilities); and 3) provide the timing of each of the abandonments of the Beaver Wet System facilities, the West Hugoton facilities, and any other abandonments Northern proposes in the upcoming twelve months.

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[7] On December 16, 2005, Northern filed for abandonment of the Beaver Wet System in Docket No. CP06-39-000.

[8] Indicated Shippers state that the field fuel and mainline fuel rates for transportation from the Beaver Wet System facilities (MIDs 11, 12, and 13) to Demarc are approximately 5 percent.

10. NMDG/MRGTF argue that Northern should modify its tracker to account for sales of field area facilities in various counties in Texas, Oklahoma and Kansas.[9]

11. Northern, in its February 23 answer, agrees that it is appropriate to adjust its fuel reimbursement percentages for the sale of facilities when the Commission approves the abandonments and, in fact, plans to do so. Northern also states that such adjustments are provided for in Northern's tariff (Sheet No. 54) where it states, "[i]n the event facilities have been abandoned, Northern shall have the right to file to reduce the applicable MID fuel percentage(s) on a common basis for all transactions affected by the abandonment to reflect the reduction in use for the remainder of the Periodic Rate Adjustment (PRA) period." Northern states that upon approval of the abandonments, it will make a limited section 4 tariff filing to adjust the fuel rates affected by the abandonments and provide all supporting documentation.

12. The Commission accepts Northern's proposal to adjust the fuel percentages at the time of the abandonments, as provided for in its tariff. In light of Northern's agreement to adjust its fuel rates when the abandonments take effect, there is no need for a technical conference to consider the potential effects of its not making such adjustments.

13. Second, Indicated Shippers believe that Northern's proposal to eliminate the fuel credit for certain field area transactions is unjust and unreasonable. Indicated Shippers aver that if the Commission grants Northern's request to waive the UAF adjustment, there may not be enough positive fuel to offset the fuel credit in the next fuel case. They argue there is no justification to zero out the UAF credit for the Gulf Coast and designated MID transactions. They contend that Northern can avoid the expense of updating computer systems (so that they are designed to accept positive adjustments to fuel nominations) by implementing a simple accounting adjustment on its billing statements. Indicated Shippers are also concerned that Northern's proposal would set a bad precedent for future fuel filings, and could produce larger adjustments of over-recovery of fuel next year.

14. Northern answers that it has justified its proposed exception. Northern states that its nomination system is limited in that it will not accept transportation nominations that result in a delivered volume that is greater than the receipt volume, and that certain of its shippers would be required to modify their backroom computer systems and processes as

[9] Docket Nos. CP06-39-000 and CP06-49-000 (Northern's application for abandon, by sale, of pipeline, compression, dehydrating, purification and delivery point facilities and appurtenances in the locations mentioned above) and Docket Nos. CP06-42-000 and CP06-43-000 (Northern's application to abandon, by sale, 101 miles of 16-, 10-, 8- and 4-inch diameter pipeline, including all delivery and receipt points, compressor stations, and appurtenant facilities in Schleicher, Irion, Reagan, Glasscock, and Midland Counties, Texas.

well. Furthermore, through operation of the fuel tracker mechanism, Northern will reflect any over-recoveries not returned to shippers during this PRA period when it calculates the true-up adjustments in next year's annual adjustment filing. Northern analyzed the impact of collecting a 0.00 percent UAF rate vs. a -0.09 percent rate on the transactions that would have been affected had the exception been applied to actual volumes during calendar year 2005. Northern states that the combined impact for the four members of the Indicated Shippers (see footnote No. 3) would total 1,600 Dth, and further mentions that no other shipper questioned the appropriateness of the proposed exception. Northern also contends that the Commission would evaluate any future requests for similar exceptions based on facts presented, in contrast to holding Northern and its shippers to precedent.

15. The Commission believes that Northern satisfactorily justifies the proposed exception to its tariff to allow a 0.00 percent UAF charge. The Commission is aware that there are operational limitations regarding the scheduling of gas volumes, and subjecting Northern and certain of its shippers to the expense of modifying their computer systems may place undue burdens on all the affected parties. We accept Northern's exception to set the UAF charge at 0.00 percent. Any future requests for such an exemption will be evaluated on a case by case basis.

16. Third, Indicated Shippers state that the Commission should require Northern to explain certain aspects of its filing. Indicated Shippers point to anomalies in Northern's filing, and they state that Northern should explain these wide swings in fuel usage. In its answer, Northern addresses each of Indicated Shippers' concerns. Below is a summary of each of the anomalies identified by Indicated Shippers and Northern's explanation:

1) Station Number 960061, Stevens County No. 1 Eng Fuel 1, 2, 3, 4, 5 swings to 13,856 Dth for June 2005, where the fuel in adjacent months was 6,974 Dth in May 2005 and 9,463 Dth in July 2005. Northern explains that in June, however, Stevens County #6 & #7 (960062) dipped from a fairly steady 7,000 Dth to 2,000 Dth in June, 2005, and Stevens County #3 (960373) dipped from 13,300 Dth to 12,100 Dth.

2) Station Number 950902, Wrenshall "A" – Turbine Fuel Gas swings from 73,545 Dth in 2004, to 178,054 in 2005. Northern explains that the 2004-05 winter was colder than the 2003-04 winter, and that the turbine compressor ran 10,453 hours in 2005 compared with 3,553 hours in 2004.

3) Station Number 961131, Oakland Compressor Station – Trans swings from 115,303 Dth in January 2004, to 129,700 Dth in January 2005. Northern explains that January 2005, was colder than January 2004, and therefore, the compressors were operated for a longer period of time.

4) Station Number 965909 – Palmyra Gas Loss – Pipeline swings from 1,461 Dth in June 2004, to 47,136 Dth in June 2005. Northern explains that a regulator failure led to an “A” line blow-down on the suction side of the compressor, which accounted for a gas loss of 46,263 Dth in June 2005.

5) Station Number 965181, Sublette-Other, for June 2005. Northern explains that it had discovered that the volume was recorded in error and adjusted the fuel rates in the instant filing.

6) Station Number 961295, NNG/GPM Golf Course Booster for September 2005. Northern explains that the volume was recorded in error and adjusted the fuel rates in the instant filing.

7) Station Number 961451, Brownfield Compressor swings from 281,020 Dth in 2004, to 258,766 Dth in 2005. Northern explains that the difference reflects the drop in shipper throughput from the Permian Area to the Mid-Continent between 2005 and 2006 PRA filings.

8) Station Number 961401, Plainview Compressor swings from 310,688 Dth in 2004, to 231,416 Dth in 2005. Northern explains that the difference reflects the drop in shipper throughput from the Permian Area to the Mid-Continent between 2005 and 2006 PRA filings.

9) Station Number 961431, Claude Compressor Fuel swings from 88,158 Dth in 2004, to 90,173 Dth in 2005. Northern argues that this is a de minimus increase.

10) Station Number 961125, Mullinville No. 5- No. 26 Unit Fuel swings from 396,085 Dth in 2004, to 529,968 Dth in 2005. Northern explains that this station was shut in during April and May of 2004, but not in April and May of 2005.

11) Station Number 961062, Clifton Compressor Fuel Unit #31 swings from 466,091 Dth in 2004, to 423,674 Dth in 2005. Northern explains that this increase is due to changes in the number of units run at Clifton from one year to the next due to the overall volume flow.

12) Station Number 961131, Oakland Compressor Station swings from 510,967 Dth in 2004, to 368,990 Dth in 2005. Northern explains that the October-December 2004 period was colder than the same months in 2005.

17. The Commission is satisfied with Northern's responses to the anomalies identified by Indicated Shippers. We find that Northern satisfactorily addressed all relevant points that Indicated Shippers raise in its protest. The Indicated Shippers' request for a technical conference is therefore rejected.

18. Finally, Indicated Shippers argue that fuel on Northern's system is excessive compared to other pipelines, by comparing Northern's rates to ANR Pipeline Company's (ANR) rates. Indicated Shippers state that it costs twice as much for fuel on Northern's system for certain Field Area transactions moving gas from Kansas to Nebraska than it does on ANR's entire system. Northern replies that the Indicated Shippers' comparison is an apples-and-oranges comparison, and does not take into account the design of Northern's fuel recovery rates. Northern explains that its fuel charges in the Field Area are divided between mainline fuel and Field fuel, and Field fuel is then assigned in a manner that requires shippers who actually cause fuel consumption at Field Area compressors to pay the cost of that fuel. Northern states that, if its fuel rates were not designed in this manner and, instead it had a single fuel charge for both mainline and Field fuel, its fuel reimbursement percentage for transportation over the full distance of its system would be 4.67 percent, which is very comparable to ANR's rate 4.55 percent. Northern also points out that the settlement of its last section 4 rate case prohibits Northern from filing to change its current fuel recovery method. The Commission finds that Northern has adequately responded to Indicated Shippers' contention that Northern's fuel rates are excessive.

The Commission orders:

Northern's revised tariff sheets, listed in the Appendix, are accepted effective, April 1, 2006, as proposed.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

Appendix

Northern Natural Gas Company
Fifth Revised Volume No. 1

<u>Tariff Sheets Accepted Effective April 1, 2006</u>

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