



**Federal Energy Regulatory Commission  
January 15, 2009  
Open Commission Meeting  
Staff Presentation  
Item G-1**

"Good Morning, Mr. Chairman, Commissioners:

Last April, the Commission established a paper hearing to determine Kern River Gas Transmission Company's return on equity, consistent with the Commission's revised policy concerning the composition of the proxy group used to determine the returns on equity of natural gas pipelines. In September, after the parties submitted all their pleadings in the paper hearing, Kern River filed a settlement of this rate case. Two parties, BP Energy Company and Southwest Gas Co., oppose the settlement, arguing among other things that the 12.50 percent return on equity embedded in the Settlement is too high. The Commission's Trial Staff also opposes the settlement.

The G-1 draft order addresses both the paper hearing and the contested settlement. The draft order holds, based on the paper hearing record, that Kern River's return on equity should be 11.55 percent. The draft order finds that two corporations and three master limited partnerships are sufficiently comparable to Kern River to be included in the proxy group. The draft order also determines the return on equity of each proxy firm using the discounted cash flow methodology set forth in last April's proxy group policy statement. The draft order concludes that Kern River is a pipeline of average risk and therefore its ROE should be set at the median of the proxy group, which is 11.55 percent.

The draft order holds that the higher 12.50 percent return on equity embedded in the proposed settlement rates renders the settlement rates unjust and unreasonable. The draft order finds that the parties supporting the settlement have not shown that the settlement provides sufficient offsetting benefits to justify imposing on the contesting parties' settlement rates reflecting an excessive ROE. Therefore, because the settlement provides that contesting parties may not be severed, the draft order rejects the settlement, rather than approving it for the consenting parties while severing the contesting parties. Finally, the draft order generally denies BP's request for rehearing concerning certain non-ROE issues related to Kern River's levelized rates.

This concludes staff's presentation. We would be happy to answer any questions you may have."