

126 FERC 61,314
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Sudeen G. Kelly, Marc Spitzer,
and Philip D. Moeller.

Vector Pipeline L.P.

Docket No. RP09-431-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS,
AND ESTABLISHING HEARING PROCEDURES

(Issued March 31, 2009)

1. On February 27, 2009, Vector Pipeline L.P. (Vector) filed revised tariff sheets to its FERC Gas Tariff, Original Volume No. 1, pursuant to section 4 of the Natural Gas Act. The tariff sheets effectuate a decrease in Vector's recourse rates for service under Rate Schedules FT-1, FT-H, FT-L, IT-1 and PALS-1. Vector did not propose any change to its rates for Title Transfer Service or Management of Balancing Agreement services. Vector proposed an April 1, 2009 effective date, or, assuming a five month suspension, September 1, 2009. As discussed below, the Commission accepts and suspends the proposed tariff sheets, to become effective April 1, 2009, subject to refund, and the outcome of the hearing established herein.

Background

2. On May 30, 2003, in Docket No. RP03-489-000, Vector filed tariff sheets to implement a rate case under section 4 of the Natural Gas Act to re-establish Vector's transportation rates. On November 4, 2003, Vector filed an Offer of Settlement (Settlement) to resolve all issues in that proceeding, which the Commission accepted by order issued January 29, 2004.¹ Article IV, section 4.1(a) of the Settlement obligates Vector to file a Natural Gas Act section 4 rate case no later than sixty (60) months following the date the Commission issues a final, non-appealable order accepting the Settlement. The subject filing complies with that requirement.

¹ *Vector Pipeline L.P.*, 106 FERC ¶ 61,071 (2004).

Description of Filing

3. In the subject filing, Vector proposes new lower recourse rates for services under Rate Schedules FT-1, FT-H, FT-L, IT-1 and PALS-1. Vector does not propose any changes to its negotiated rate agreements. The proposed recourse rates reflect current expenses and billing determinants for the twelve months ending October 31, 2008, as adjusted for projected changes through the period ending July 31, 2009. Specifically, Vector filed for a total cost of service of \$114,928,989, which represents a decrease of \$5,092,177 from the cost of service underlying the Settlement rates approved in Docket No. RP03-489.

4. Vector's proposed recourse rates follow the same general rate design and demand-commodity cost classification approved in the Settlement. Since the Settlement, Vector increased in its long-haul mainline capacity through the addition of two new compressor stations, resulting in changes to its billing determinants used for cost allocation. Vector also built into its filed rates a discount for the recourse rates that apply to 470,600 Dth/d of the total annual long-haul capacity of 1,170,600 Dth/d. Shippers under negotiated rate service agreements reserve the remaining 700,000 Dth/d of capacity that comprises the baseload commitments underlying construction of the pipeline and for which Vector does not request a discount adjustment. The discount adjustment for the contracts covering 470,600 Dth/d of recourse rate Zone 2 long-haul capacity results in billing determinants for ratemaking purposes of 30,000 for Zone 1 and 1,004,245 Dth/d for Zone 2.

5. Vector requests an overall cost of capital of 10.14 percent with an overall cost of common equity of 14.50 percent, an overall cost of debt of 7.60 percent, with a capital structure comprised of an equity percentage of 36.75 percent, and a debt percentage of 63.25 percent. Vector claims that its adoption of a 14.50 percent "cost of common equity" is appropriate due to its highly competitive operating environment. Vector states its annual long-haul capacity is fully committed on a firm basis, but that all of these contracts, both negotiated and recourse rate agreements, are at a discount below the proposed rates in the instant filing. Due to these market conditions, Vector states it will under recover its cost of service from the proposed rates by approximately \$10.3 million.

6. For depreciation purposes, Vector retains the 35-year useful life for transmission assets and the 5-year useful life for compressor engines that were accepted in the Settlement. Vector also allocated \$2.1 million of fixed costs to its interruptible services, and as a result, proposes to retain all revenue from future interruptible services.

Public Notice, Interventions, and Protest

7. Public notice of Vector's filing issued on March 5, 2009. Interventions and protests were due as provided in section 154.210 of the Commission's regulations (18 C.F.R. §154.210 (2008)). Pursuant to Rule 214 (18 C.F.R. §385.214 (2008)), 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. On March 11, 2009 the Canadian Association of Petroleum Producers (CAPP) filed a protest.

8. In its protest, CAPP argues that the 14.50 percent return on equity allowance requested by Vector is excessive and not supported by analysis using the Commission's prevailing ratemaking methodologies, including the Discounted Cash Flow methodology. It also states there may be other elements of the proposed rates that are deficient.

Discussion

9. In the filed tariff sheets, Vector proposes to effectuate recourse rates that are lower than the currently effective recourse rates. As a result, Vector's proposal will not result in an increase in rates for service provided to any customer or class of customers. However, issues raised with respect to the filing, such as those discussed in CAPP's protest, warrant further examination at hearing. Therefore, the Commission will accept and suspend the tariff sheets, to become effective April 1, 2009, but will set all issues raised by the proposed tariff sheets for further investigation at a hearing before an Administrative Law Judge. The issues to be examined include, but are not limited to, rate design, cost-of-service, cost allocation, and the return on equity.

10. Based upon a review of the filing, the Commission finds that the proposed tariff sheets have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission accepts the tariff sheets for filing and suspends their effectiveness to permit them to become effective April 1, 2009.

11. It is the Commission's policy generally to suspend rate filings for the maximum period permitted by statute if preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards. See Great Lakes Gas Transmission Co., 12 FERC ¶ 61,293 (1980) (five-month suspension). It is also recognized, however, that shorter suspensions may be warranted under circumstances in which suspension for the maximum period may lead to harsh and inequitable results. See Valley Gas Transmission, Inc., 12 FERC ¶ 61,197 (1980) (one-day suspension). Such circumstances exist here where the filing is reducing

rates. We shall therefore accept Vector's tariff filing and suspend it, to become effective April 1, 2009, subject to the conditions of this order and the Ordering Paragraphs below.

The Commission orders:

(A) The tariff sheets listed in the Appendix are accepted and suspended to become effective April 1, 2009, subject to refund, and the outcome of the hearing established in this order.

(B) Pursuant to the authority of the Natural Gas Act, particularly sections 4, 5, 8, and 15, and the Commission's rules and regulations, a public hearing is to be held in Docket No. RP09-431-000 concerning Vector's filing.

(C) A Presiding Administrative Law Judge, to be designated by the Chief Administrative Law Judge for that purpose pursuant to 18 C.F.R. §375.304, must convene a prehearing conference in this proceeding to be held within 20 days after issuance of this order, in a hearing or conference room of the Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426. The prehearing conference is for the purpose of the clarification of the positions of the participants and establishment by the presiding judge of any procedural dates necessary for the hearing. The Presiding Administrative Law Judge is authorized to conduct further proceedings in accordance with this order and the rules of practice and procedure.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

Appendix

Vector Pipeline L.P.
FERC Gas Tariff, Original Volume No. 1

Tariff Sheets Accepted and Suspended Effective April 1, 2009, Subject to Conditions:

Ninth Revised Sheet No. 20
Sixth Revised Sheet No. 20A
Tenth Revised Sheet No. 21