Federal Energy Regulatory Commission
November 18, 2010
Open Commission Meeting
Staff Presentation
Item G-3 & G-4

"Good morning Chairman Wellinghoff and Commissioners.

It is the Commission's responsibility under the Natural Gas Act to ensure that rates charged by pipeline companies are just and reasonable, including taking action sua sponte under section 5 to investigate existing rates and modify them if they are found to be unjust and unreasonable. Commission staff conducted a review of the revenues and expenses of pipelines to determine whether they are charging just and reasonable rates. As part of the review, staff analyzed cost and revenue data that pipelines provided in their 2008 and 2009 Form 2's. Staff's review also considered other factors including whether a pipeline's currently effective rates are the result of a settlement that either has a rate moratorium in effect or requires the pipeline to file a general section 4 rate case in the near future. Additionally, staff looked at the level of infrastructure investments that a pipeline placed in service in 2009 and the level of additional estimated infrastructure investments that will be made, since the 2009 Form 2 data may not fully reflect the effect of such investments on a pipeline's rates.

Based on our review, in the orders identified in G-3 and G-4, the Commission would initiate investigations, pursuant to section 5 of the Natural Gas Act, to determine whether the rates charged by Ozark Gas Transmission and Kinder Morgan Interstate Gas Transmission are just and reasonable.

In determining that each of these pipelines may be over recovering their costs of service, staff first calculated a cost of service for each pipeline using Form 2 cost of service data for the years 2008 and 2009. Staff then determined what that pipeline's revenues were for those years. Staff used this information to estimate an earned return on equity for each pipeline for the calendar years 2008 and 2009. Our analysis indicates that Ozark Gas Transmission earned an estimated return on equity of 27.81 percent in 2008 and 31.01 percent in 2009. These returns include revenues from the sales of shipper-supplied gas. In the case of Kinder Morgan Interstate Gas Transmission, it earned an estimated return on equity of 27.10 percent in 2008 and 29.25 percent in 2009. These returns include the value of over-recovered gas that Kinder Morgan retained from shippers. These returns lead staff to believe that these two pipelines are over recovering their costs of service and may be charging rates that are no longer just and reasonable. In addition, neither pipeline has an existing settlement with its customers that places a moratorium on existing rates, or requires it to file a new general section 4 rate case in the future. Accordingly, in these orders, the Commission would initiate an investigation pursuant to section 5 of the Natural Gas Act into the rates charged, establish a hearing, and require the pipeline to file a cost and revenue study within 75 days of the issuance date of that pipeline's order. In addition, the orders would establish a deadline for the Administrative Law Judges to issue an initial decision.

Thank you. We would be happy to answer any questions you may have."