



Federal Energy Regulatory Commission
April 16, 2015
Open Commission Meeting
Staff Presentation
Item G-1

"Good morning Chairman Bay and Commissioners,

"Item G-1 is a policy statement regarding enhanced cost recovery mechanisms for the modernization of natural gas facilities. Consistent with the November 20, 2014 Proposed Policy Statement on the same subject, the Policy Statement sets forth the standards the Commission will require natural gas pipelines to satisfy to establish simplified cost recovery mechanisms, such as trackers or surcharges, to recover certain costs associated with replacing old and inefficient compressors and leak prone pipes and performing other infrastructure upgrades to enhance the safe and efficient operation of their pipelines. The draft policy statement recognizes that recent government safety and environmental initiatives have raised the probability that interstate natural gas pipelines will soon face increased costs to enhance the safety and reliability of their systems. Therefore, the draft policy statement would establish a policy allowing interstate natural gas pipelines to seek to recover certain capital expenditures made to modernize system infrastructure through a surcharge mechanism, subject to conditions intended to ensure that the resulting rates are just and reasonable and protect natural gas consumers from excessive costs.

"Accordingly, the Policy Statement provides guidance and a framework as to how the Commission will evaluate pipeline proposals for recovery of infrastructure modernization costs, and adopts the five guiding principles from the Proposed Policy Statement as the standards a pipeline would have to satisfy for the Commission to approve a proposed modernization cost tracker or surcharge. These five criteria, which are based on principles outlined in a January 2013 order that allowed Columbia Gas Transmission, LLC to implement a similar tracker, are as follows:

- (1) Justification of Existing Rates -- The pipeline's base rates must have been recently reviewed through a Natural Gas Act general section 4 rate proceeding, a cost and revenue study, or through a collaborative effort between the pipeline and its customers;
- (2) Definition of Eligible costs -- Eligible costs must generally be limited to one-time capital costs incurred to meet safety or environmental regulations or other capital costs shown to be necessary for the safe, reliable, and/or efficient operation of the pipeline, and the pipeline must specifically identify each capital investment to be recovered by the surcharge.
- (3) Avoidance of cost shifting -- the pipeline must design the proposed surcharge in a manner that will protect the pipeline's captive customers from cost shifts if the pipeline loses shippers or must offer increased discounts to retain business. One way to do this is to establish a surcharge billing determinant floor as in Columbia Gas.
- (4) Period Review of Surcharge and Base Rates -- The pipeline must include some method to allow a periodic FERC review to ensure that both the surcharge and the pipeline's base rates remain just and reasonable; and
- (5) Shipper Support -- The pipeline must work collaboratively with shippers to seek their support for any surcharge proposal.

"The draft Policy Statement states that the Commission intends these standards to be flexible so as not to require any specific form of compliance but to allow pipelines and their customers to reach reasonable accommodations based on the specific circumstances of their

systems.

“Based on comments received in response to a question posed in the Proposed Policy Statement, the draft Policy Statement also finds that the issue of reservation charge credits for projects included in a modernization cost tracker is best addressed, at least initially, on a case-by-case basis in each proceeding in which a pipeline proposes such a tracker. Such proposals should include an estimate by the pipeline of whether projects proposed to be covered by the tracker will disrupt primary firm service, and describe what arrangements the pipeline intends to make to mitigate the disruption or provide alternative methods of providing service.

“The draft Policy Statement would become effective October 1, 2015.”