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FERC Implements New Policy on Cost Recovery for Natural Gas Facilities Modernization

The Federal Energy Regulatory Commission (FERC) today approved a new Policy Statement allowing interstate natural gas pipelines to seek to recover through a surcharge mechanism certain capital expenditures made to modernize pipeline system infrastructure in a manner that enhances system reliability, safety and regulatory compliance.

Today's Policy Statement establishes guidance and a framework as to how the Commission will evaluate pipelines' proposals for recovering costs associated with replacing old and inefficient compressors or leak-prone pipelines and for performing other infrastructure improvements and upgrades to enhance the efficient and safe operations of their pipeline systems.

The Policy Statement adopts the standards proposed in the Commission's November 2014 Proposed Policy Statement. FERC will evaluate on a case-specific basis any proposal for a modernization cost surcharge subject to five guiding standards intended to ensure that the resulting rates are just and reasonable and protect natural gas consumers from excessive costs.

These five criteria are based on principles outlined in a January 2013 FERC order that allowed Columbia Gas Transmission, LLC to implement a similar tracker:

- 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;
- 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.
- Captive customers must be protected from cost shifts if the pipeline loses shippers or increases discounts to retain business;
- The pipeline must include some method to allow a periodic FERC review to ensure rates remain just and reasonable; and
- The pipeline must work collaboratively with shippers to seek their support for any surcharge proposal.

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.

The Policy Statement is implemented as a result of regulatory reforms by the U.S. Pipeline and Hazardous Materials Safety Administration that likely will require interstate natural gas pipelines to make significant capital cost expenditures to enhance the safety and reliability of their systems. In addition, recent U.S. Environmental Protection Agency initiatives may increase pipelines' environmental monitoring and compliance costs, and require them to replace or repair existing compressors and other facilities.

The Policy Statement takes effect October 1, 2015.