Federal Energy Regulatory Commission
January 21, 2016
Open Commission Meeting
Staff Presentation
Items G-1, G-2, G-3 & G-4

"Good morning Mr. Chairman and Commissioners.

"Items G-1 through G-4 are draft orders that initiate investigations, pursuant to section 5 of the Natural Gas Act, to determine whether the rates charged by four interstate natural gas pipelines are just and reasonable. The four pipelines are: Columbia Gulf Transmission, LLC, Iroquois Gas Transmission System, L.P., Empire Pipeline, Inc., and Tuscarora Gas Transmission Company.

"By way of background, Order 636 eliminated the requirement for interstate natural gas pipelines to periodically file restated rates. Beginning in 2009, the Commission began a systematic and in-depth review of the cost and revenue information filed by large pipelines in Form 2. In 2011, Staff expanded its section 5 analysis to also include cost and revenue information filed by smaller pipelines in Form 2-A. As a result of this analysis, since 2009, the Commission has initiated a total of ten section 5 proceedings to determine if the pipelines' revenues significantly exceed their annual cost of service such that those pipelines' existing transportation and storage rates may no longer be just and reasonable. Eight of those proceedings ended with settlement agreements and two of those proceedings were terminated.

"In addition to the Commission initiating NGA section 5 actions to adjust pipeline's rates, since 2009, pipelines, themselves have: 1) initiated 29 NGA general section 4 rate proceedings to adjust their rates, 2) filed 19 pre-packaged settlements to adjust their rates, and 3) filed 19 cost and revenue studies to give the Commission and interested entities an opportunity to examine the pipeline's rates.

"As relevant to items G-1 through G-4, Commission staff conducted a review of all Form 2 and Form 2-As submitted by interstate natural gas pipelines for calendar years 2013 and 2014. The review included an analysis of the revenues and expenses of pipelines to determine whether revenues were exceeding an estimated cost of service on a consistent basis. 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, and the length of time since the pipeline last revised its rates. Additionally, staff looked at the level of infrastructure investments that a pipeline placed in service in 2014 and the level of additional estimated infrastructure investments that will be made, as the 2014 Form 2 or 2-A data may not fully reflect the effect of such investments on a pipeline's rates.

"Staff calculated a cost of service for each pipeline using Form 2 or Form 2-A cost of service data for the years 2013 and 2014. 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 2013 and 2014. Our analysis indicates that the first pipeline, Columbia Gulf, has a calculated return on equity for 2013 of 17.3 percent and 18.2 percent for 2014. The second pipeline, Iroquois, has a calculated return on equity for 2013 of 16.2 percent and 16.3 percent for 2014. The third pipeline, Empire, has a calculated return of equity for 2013 of 15.8 percent and 20.2 percent for 2014. The fourth, and final pipeline, is Tuscarora with a calculated return on equity for 2013 of 23.6 percent and 24.9 percent for 2014.

"These estimated levels of returns lead staff to believe that these four pipelines are over-recovering their costs of service and may be charging rates that are no longer just and reasonable. In addition, none of these pipelines have an existing settlement with its customers that places a currently effective moratorium on existing rates, or requires it to file a new general section 4 rate case in the future. Accordingly, these draft orders initiate investigations pursuant to section 5 of the Natural Gas Act into the rates charged, establishes a hearing, and requires each pipeline to file a cost and revenue study within 75 days of the issuance date of that pipeline's order. In addition, each of the draft orders establishes a deadline for the Administrative Law Judges to issue an initial decision.

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