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

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Transcontinental Gas Pipe Line Corporation Docket No. RP06-569-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS SUBJECT TO REFUND AND CONDITIONS, AND ESTABLISHING A HEARING

(Issued September 29, 2006)

1. On August 31, 2006, Transcontinental Gas Pipe Line Corporation (Transco) filed the revised tariff sheets listed in the Appendix to reflect a Natural Gas Act (NGA) section 4 general rate increase. Transco states that this filing fulfills its obligations under the Stipulation and Agreement approved by the Commission in Docket No. RP01-245, et al. requiring Transco to file a NGA section 4 general rate case no later than September 1, 2006.[1] The proposed rates represent a $414 million increase in Transco's revenue requirements. Transco also filed revisions to the terms and conditions of several rate schedules. Transco proposed an October 1, 2006, effective date.

2. This order accepts and suspends the tariff sheets listed in the Appendix, to be effective March 1, 2007, subject to refund, conditions, and the outcome of the hearing established herein.

Details of the Filing

3. Transco states that its proposed changes will increase its revenue requirement to $1,131,526,068 (from $717,154,080) which results in increases in Transco's transportation and storage rates. The changes are based on an updated cost of service to reflect costs for the twelve-month base period ending May 31, 2006, as adjusted for known and measurable changes through the test period ending February 28, 2007. Transco states that the cost of service and rate base amounts underlying its currently effective rates are not directly comparable to the cost of service and rate base amounts

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[1] *Transcontinental Gas Pipe Line Corporation*, 100 FERC ¶ 61,085 (2002).

reflected in this filing because certain expansion projects which increased Transco's cost of service and rate base were placed in effect after the effective date of the rate case underlying its currently effective rates.

4. Transco's filing proposes various changes to its cost of service and cost components. The filing reflects an overall after tax rate of return of 11.45 percent comprised of return on equity of 13.80 percent and long-term debt costs of 7.56 percent on a capital structure consisting of 37.66 percent debt and 62.34 percent equity. Transco proposes to increase depreciation rates for onshore production (gathering) plant, underground storage plant, LNG storage plant, onshore transmission plant and general plant. Transco proposes to decrease the depreciation rate for offshore production (gathering) plant, and to change the rate for offshore transmission plant from separate rates for large and small plant categories to a single composite rate. Transco proposes to leave unchanged the depreciation rates for all of its other plant categories.

5. Transco states that on January 1, 2003, it adopted new Financial Accounting Standards Board (FASB) rules on asset retirement obligations (ARO). Transco states that in March 2005, FASB issued a clarification of the rules related to ARO accounting, and in December 2005 Transco adopted the clarification. Transco states that under those rules and section 154.315 of the Commission's regulations, a company may seek to recover non-rate base costs related to AROs but all ARO cost components that would impact the calculation of rate base must be removed from the rate base calculation. Transco states that it has reflected ARO expenses of $2,696,942 for offshore production (gathering) plant, $19,511,534 for offshore transmission plant, $2,585,757 for onshore transmission plant and $6,300,417 for underground storage plant.

6. Transco has refunctionalized certain facilities from transmission function to gathering function to reflect the abandonment and sale of certain facilities. The facilities involved are the North Padre Island Lateral and the Central Texas Gathering System, the North High Island/West Cameron Gathering System, and the Central Louisiana Lateral.

7. Transco is seeking authorizations to abandon the Hester Storage Field and anticipates that it will receive these authorizations after the end of the test period. However, because the Hester Storage Field is not currently operational, Transco has removed the cost of service associated with Hester from the cost of service underlying its proposed rates. Transco has included ARO expenses for Hester of $2,648,014.

8. Transco proposes to establish incremental rates under Rate Schedules WSS (Washington Storage Service) and WSS-Open Access related to the replacement of base gas. Those rate schedules contain provisions that allow certain buyers to buy specified quantities of base gas at historical prices when they terminate service from the

Washington storage field. Transco must then replace that base gas at significantly higher prices. In this filing Transco is seeking authorization to file a limited section 4 rate filing to recover the higher costs associated with the purchase of base gas in each case where base gas is replenished. The tariff sheets submitted in the instant filing include revisions to section 8.3 of Rate Schedule WSS-Open Access, and section 9 of Rate Schedule WSS that will allow Transco to make such limited section 4 rate filings.

9. Transco has included a discount adjustment to billing determinants for interruptible transportation in this filing. The adjustment results in a reduction of interruptible transportation volumes of 42,108,759 Dth and a reduction of interruptible feeder volumes of 40,981,574 Dth. Transco maintains that these adjustments are consistent with the Commission's policy allowing a pipeline to seek a reduction in the volumes used to design maximum rates if it obtained those volumes by offering discounts to meet competition.

10. Transco proposes to eliminate the revenue sharing provisions under Rate Schedules PAL (Parking and Loaning), ICTS (Interconnect Transfer Service) and (ISS) Interruptible Storage Service. Currently, certain revenues collected under those rate schedules are shared with (refunded to) maximum rate firm transportation customers and maximum rate interruptible transportation customers. Transco proposes to eliminate those provisions from Rate Schedules PAL and ICTS and to instead credit the base period revenues received from those services to the transmission function. Transco states that it did not provide any service under Rate Schedule ISS during the five year period preceding this filing and Transco is therefore eliminating the revenue sharing provision from that rate schedule.

11. Transco proposes to change the methodology it uses to calculate commodity rates for the SunBelt and SouthCoast expansion projects to eliminate an inconsistency. Transco states that both expansion projects are incrementally priced projects from receipt points in Zones 3 and 4 to delivery points in Zones 4 and 5. The design of the SunBelt and SouthCoast commodity rates occurs after all transmission commodity costs have been allocated among services, including each incremental project. In the instant filing, Transco proposes to allocate the mileaged variable costs allocated to the SunBelt and South Coast projects to the zones traversed by each respective project on the basis of commodity Dth-miles. The mileage component of the commodity rate for each project is then derived by dividing the costs allocated to each zone by the total commodity volumes traversing the zone. The volumetric component of the commodity rate for each project is then added to the mileage rate components for each zonal combination to derive the total commodity rate applicable to each zonal combination under each respective project.

12. Finally, Transco proposes to eliminate monthly billing determinants in favor of daily billing determinants. Transco states that with the implementation of its 1Line service delivery system, Transco changed from monthly billing to daily billing. In the instant filing, Transco has included annual billing determinants calculated as daily contract demand times a 365 day billing period.

Notice, Intervention, and Protests

13. Notice of Transco's filing was issued on September 5, 2006. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R § 154.210. Pursuant to rule 214, 18 C.F.R § 385.214, 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 intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties.

14. Numerous parties protested Transco's filing. The protesters take issue with all elements of Transco's rate filing. They contend that Transco's filing includes an excessive return on equity (13.8 percent), unjustified reductions to throughput and billing determinants, significantly revised depreciation rates that are premised upon an unreasonable estimation of the remaining useful life of Transco's facilities and economic future of gas supply in the Gulf, numerous projected test-period cost increases, and a significant allocation of direct and overhead costs from its corporate parent, Williams Companies. Easton Utilities Commission (Easton), Patriots Energy Group (PEG), Transco Municipal Group (TMG), and the Municipal Gas Authority of Georgia (Gas Authority) state that Transco's proposals would increase their reservation rates by more than 40 percent.

15. On the rate of return issue, the City of Richmond, The Public Service Commission of New York (PSCNY), Atlanta Gas Light (AGL), PEG, TMG, and the Gas Authority point to Transco's statement that its proposed return on equity is at the median of the ranges of returns on equity for a group of what Transco claims are comparable proxy companies. They assert that Transco's selection included in the proxy group raises substantial questions as to whether Transco's proposal complies with well developed Commission policies on establishing the appropriate return on equity for interstate pipelines. PEG, TMG, and the Gas Authority state that Transco's proposed capitalization raises equally significant concerns.

16. Numerous protestors request that the Commission scrutinize Transco's proposed negative salvage rates. Transco recommends new negative salvage rates for LNG storage, onshore and offshore production and onshore transmission facilities and a new asset retirement obligation (ARO) expense of $31,499,689. The negative salvage rates

are used to establish a new sub-account that would allow Transco, for the first time, to accrue the costs of retirement of the associated facilities over time. The City of Richmond states that both recommendations should be carefully reviewed to ensure each is appropriate under FERC precedent.

17. Several protestors, including PSCNY, NJR Energy Services Company (NJRES), and South Jersey Gas Company (South Jersey) state that Transco also fails to fully support several large expense adjustments, including but not limited to: (1) an $8.839 million adjustment from base to test period for pipeline integrity costs; (2) a $15.656 million test period adjustment for property insurance payments (an increase from $5.888 million in the base period); (3) $85.9 million in total costs charged to Transco by its parent company, Williams during the base period;[2] and (4) $16.5 million in total costs associated with a new information technology contract with IBM Corporation. South Jersey states that Transco has not fully detailed its proposed working capital amount of $89,542,358.

18. In addition, several protestors state that Transco's filing raises numerous other issues in addition to those discussed above that should be investigated by participants in the context of a trial-type evidentiary hearing, including, but not limited to, (1) the refunctionalization of certain transmission facilities to jurisdictional gathering facilities, (2) issues associated with the abandonment of the Hester Storage Field, (3) Transco's proposal with respect to base gas replacement at the Washington Storage Field, (4) the proposed discount adjustment for interruptible transportation, (5) elimination of revenue sharing under Rate Schedules PAL, ICTS and ISS, and (6) the change in the way Transco calculates the commodity rates for its SunBelt and SouthCoast expansion projects.

19. Statoil Natural Gas LLC (Statoil) states that Transco has not justified its treatment of the multiple expansion projects put into service since its last rate case. Statoil argues that Transco's proposals included in its August 31 filing require further scrutiny and must be tested through discovery to ensure that the projects are treated appropriately as "incremental" or eligible to be "rolled-in" to the general cost of service.

20. Public Service Company of North Carolina, _et_ _al_. (PSNC) asserts that Transco's failure to offer GSS and LSS service under Part 284 is unjust and unreasonable and unduly discriminates again GSS and LSS shippers vis a vis shippers taking service under

[2] The costs allocated by Williams to Transco also include costs of its affiliate, Williams Field Services, associated with its operation of some of Transco's production-area facilities.

Transco's other storage rate schedules. PSNC asks the Commission to order Transco to offer an open-access version of Rate Schedule GSS and LSS which may contain reasonable restrictions on point flexibility and segmentation to accommodate Transco's operational concerns.[3]

21. Indicated Shippers seek summary rejection of one specific aspect of Transco's filing. Specifically, they note that Transco's filing does not reflect the Commission's final resolution of reserved cost allocation issues litigated in Docket No. RP01-245. [4] These issues include, among others, the allocation of A&G costs to incremental services, the allocation of A&G costs to Transco's LNG service, and the allocation of storage costs to incremental services and the transportation component of bundled services. They reject Transco's argument that its rate filing in this case need not reflect these final, unequivocal determinations because the cost-of-service settlement in Docket No. RP01-245 provided that the resolution of the reserved issues would be made effective prospective from when the Commission issues a final order no longer subject to rehearing. They point to Transco's statement that this contingency has not yet been met because the Commission recently issued an order remanding one reserved issue for further hearing procedures and another for a technical conference. Indicated Shippers agree that the remanded issue and issue set for a technical conference have not yet been finally resolved by the Commission. Indicated Shippers maintain that all other reserved issues, such as the cost allocation issues noted above, were resolved in final Commission orders in Docket No. RP01-245 and are no longer subject to rehearing. Accordingly, Indicated Shippers asserts that Transco should have reflected the implementation of the determinations made on those issues.

Discussion

22. The instant application raises many typical rate issues that need to be investigated further. Accordingly, the Commission will establish a hearing to explore issues including, but not limited to, cost of service, cost allocation, rate design, rate of return, throughput, and depreciation rates. These issues should be examined in the context of a hearing where a factual record can be developed by the parties.

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[3] Currently, Transco offers service under Rate Schedules GSS and LSS under Part 157 of the Commission's regulations and Section 7(c) of the Natural Gas Act.

[4] *See* Cover Letter, dated August 31, 2006, accompanying Transco's rate filing in Docket No. RP06-569-000.

23. With regard to Indicated Shippers' motion for summary rejection, the Commission notes that it is addressing this issue in an order to be issued contemporaneously in Docket No. RP01-245-018. In that docket, Transco is being directed to make a compliance filing within 30 days to implement the Commission's findings in the various orders in Docket No. RP01-245. Parties will have an opportunity to comment on the filing. After the Commission has reviewed Transco's filing and finds that it has properly complied, Transco will be directed to reflect the Commission's RP01-245 findings in its current RP06-569-000 rate case filing. Therefore, the Commission denies Indicated Shipper's motion in this proceeding.

Suspension

24. Based upon a review of the filing, the Commission finds that the proposed tariff sheets listed in Appendix A have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission shall accept such tariff sheets for filing and suspend their effectiveness for the period set forth below.

25. The Commission's policy regarding rate suspensions is that rate filings generally should be suspended for the maximum period permitted by statute where 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 recognized, however, that 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 do not exist here. Accordingly, the Commission will suspend Transco's revised tariff sheets listed in the attached Appendix for five months and will permit them to take effect March 1, 2007, subject to refund.

The Commission orders:

(A) The tariff sheets listed in the Appendix are accepted and suspended, to be effective March 1, 2007, subject to refund and subject to the outcome of the hearing established in this proceeding.

(B) Pursuant to the authority of the NGA, particularly sections 4, 5, 8 and 15 thereof, a public hearing will be held in Docket No. RP06-569-000 concerning the lawfulness of Transco's proposed rates.

(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 twenty (20) days after issuance of this order, in a hearing or conference room of the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C 20426. The prehearing conference shall be held for the purpose of establishment of a procedural schedule. The Presiding Administrative Law Judge is authorized to conduct further proceedings in accordance with this order and the Commission's rules of practice and procedure.

(D) The Commission denies Indicated Shippers' motion for summary rejection as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

Appendix

Tariff Sheets

Transcontinental Gas Pipe Line Corporation: FERC Gas Tariff,
Third Revised Volume No. 1

Forty-Fifth Revised Sheet No. 27
Eighteenth Revised Sheet No. 27A
Thirty-Fifth Revised Sheet No. 28
Sixtieth Revised Sheet No. 28A
Thirty-Third Revised Sheet No. 28B
Thirty-Ninth Revised Sheet No. 28C
First Revised Ninth Revised Sheet No. 33
Second Revised Sheet No. 33A
Fourth Revised Sheet No. 33B
Original Sheet No. 33C
Original Sheet No. 33D
Original Sheet No. 33E
Fourth Revised Sheet No. 34
Forty-Second Revised Sheet No. 35
Fourteenth Revised Sheet No. 35.01
Thirty-Seventh Revised Sheet No. 35A
Fifty-Sixth Revised Sheet No. 38
Thirtieth Revised Sheet No. 40
Twenty-Seventh Revised Sheet No. 40.01
Twenty-Fourth Revised Sheet No. 40.02
Twenty-Ninth Revised Sheet No. 40C
Twenty-Seventh Revised Sheet No. 40I
Eighteenth Revised Sheet No. 40J
Fifteenth Revised Sheet No. 40J.01
Twelfth Revised Sheet No. 40J.02
Tenth Revised Sheet No. 40J.03
Twenty-Sixth Revised Sheet No. 40K
Fourteenth Revised Sheet No. 40L
Ninth Revised Sheet No. 40M
Seventh Revised Sheet No. 40M.01
Fifth Revised Sheet No. 40M.02
Fifth Revised Sheet No. 40M.03
Eleventh Revised Sheet No. 40O

Seventh Revised Sheet No. 40P
Fourth Revised Sheet No. 40P.01
Fourth Revised Sheet No. 40P.02
Fifth Revised Sheet No. 40P.03
Ninth Revised Sheet No. 40Z
First Revised Sheet No. 40Z.01
Twenty-Fifth Revised Sheet No. 42
Fourteenth Revised Sheet No. 42.01
Twenty-Second Revised Sheet No. 45
Thirteenth Revised Sheet No. 45.01
Eighteenth Revised Sheet No. 45A
Twenty-Third Revised Sheet No. 46
Twenty-Third Revised Sheet No. 47
Eighth Revised Sheet No. 54
Twelfth Revised Sheet No. 61
Eighth Revised Sheet No. 61A
Third Revised Sheet No. 134
Second Revised Sheet No. 135G
First Revised Sheet No. 135H
Third Revised Sheet No. 155D
Fifth Revised Sheet No. 249R
Sixth Revised Sheet No. 249U