

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 30, 2007

In Reply Refer To:
Northwest Pipeline Corporation
Docket No. RP06-416-000

Northwest Pipeline Corporation
P.O. Box 58900
Salt Lake City, UT 84158

Attention: Laren M. Gertsch
Director, Rates and Regulatory

Reference: Acceptance of Settlement

Dear Mr. Gertsch:

1. On January 31, 2007, Northwest Pipeline Corporation (Northwest) filed a Stipulation and Settlement Agreement (Settlement) to resolve all outstanding issues in the above-captioned proceeding. On February 20, 2007 the Commission Trial Staff and Puget Sound Energy, Inc. filed comments in support of the Settlement. That same day, Chevron U.S.A. Inc., ExxonMobil Gas & Power Marketing Company, and Occidental Energy Marketing, Inc. (Indicated Shippers) filed comments in non-opposition to the Settlement. On February 21, 2007, the Presiding Administrative Law Judge certified the Settlement to the Commission as uncontested.

2. On June 30, 2006, Northwest filed tariff sheets in Docket No. RP06-416-000 to effectuate a general rate increase that reflected increased revenue requirements of approximately \$119.2 million primarily due to: Northwest's anticipated completion of its rolled-in Capacity Replacement Project, the roll-in of the previously completed Rockies Displacement Project and the rolled-in portion of the Sumas to Chehalis and Columbia Gorge displacement facilities constructed as part of the Evergreen Expansion, and the anticipated completion of the incrementally-priced Parachute Lateral Project. A suspension order was issued by the Commission on July, 31, 2006, accepting and suspending the proposed tariff sheets to be effective January 1, 2007, subject to refund and conditions, and establishing hearing procedures.¹ The Settlement resolves these proceedings.

¹ *Northwest Pipeline Corp.*, 116 FERC ¶ 61,107 (2006).

3. The following is a summary of the major provisions of the Settlement.
- a. Article I provides that the terms of the Settlement will be effective as of January 1, 2007.
 - b. Article II sets Northwest's annual cost-of-service at \$404.0 million, with a combined annual depreciation/net negative salvage rate for general system transmission of 2.80 percent, including a net negative salvage factor of 0.15 percent. Other depreciation rates are reflected in Appendix B of the Settlement.
 - c. Article III defines the principles applied to cost allocation and rate design. It allocates \$11.0 million to Short-Term Firm, Interruptible Transportation, Park and Loan, and DEX-1 Services. For cost allocation purposes, the as-filed plant associated with the Parachute Lateral is considered in the design of the Settlement Rates as though it had been placed in service by the end of the test period. A stipulated volumetric rate of \$0.67209/Dth is established for Rate Schedule TF-1 (Small Customer) service. Consistent with the rates established in Northwest's last general rate case,² the rates for Rate Schedule TF-1 and TF-2 transportation services are based on an Enhanced Fixed Variable (EFV) rate design, with a stipulated commodity rate of \$0.03000/Dth.
 - d. Article IV establishes depreciation rates, and provides that Northwest will continue to use separate sub-accounts to record net negative salvage. Northwest is not precluded from continuing to use accelerated depreciation for income tax purposes.
 - e. Article V clarifies the rate treatment for Northwest's Post-Retirement Benefits Other than Pensions (PBOP). Northwest shall continue to account for PBOP using the Financial Accounting Board Statement of Financial Accounting Standard No. 106.
 - f. Article VI describes how refunds will be calculated and returned to shippers. The Refund Period begins January 1, 2007, and ends the last day before the first day of the month following the effective date of a final Commission order on this Settlement. Refunds will be made within 30 days after the effective date of a final Commission order approving a compliance filing made by Northwest in response to a final Commission order approving the Settlement,

² *Northwest Pipeline Corp.*, 81 FERC ¶ 61,243 (1997).

or 60 days after the effective day of a final Commission order approving the Settlement, whichever is later.

- g. Article VII states that supporting and non-opposing parties agree that, to the extent that any comments are filed with the Commission in response to the submission of this Settlement, such comments will not be in opposition to any of the Settlement provisions.
- h. Article VIII defines contesting parties and establishes contested settlement procedures.
- i. Article IX establishes that the Settlement is effective January 1, 2007 and shall continue until superseded by new rates becoming effective pursuant to a subsequent Natural Gas Act (NGA) section 4 or section 5 rate proceeding. The explanatory statement of the settlement states that, to the extent the Commission makes any change to any effective provisions of the Settlement, the applicable standard of review for any such proposed change shall be the “public interest” standard of review set forth in *United Gas Pipe Line Co. v. Mobile Gas Serv. Corp.*, 350 U.S. 332 (1956) and *FPC v. Sierra Pacific Power Co.*, 350 U.S. 348 (1956).³ A two-year moratorium is set on Northwest or any other party from proposing any section 4 or section 5 changes to the levels of Northwest’s general rates that would seek to place such new rates or changes into effect earlier than January 1, 2009. Northwest agrees to file a section 4 rate case not later than July 1, 2012, for rates to become effective not later than January 1, 2013.
- j. Article X indicates that the various provisions of the Settlement are not severable. The Settlement is made on the understanding that it constitutes a negotiated settlement of all issues in Docket No. RP06-416-000.

4. The Commission approves the Settlement on the grounds that it appears fair, reasonable, and in the public interest. The Commission’s approval of the Settlement does not constitute acceptance of, or precedent regarding, any principle or issue in this proceeding.

³ As a general matter, parties may bind the Commission to a public interest standard. *Northeast Utilities Service Co. v. FERC*, 993 F.2d 937, 960-62 (1st Cir. 1993). Under limited circumstances, such as when the agreement has broad applicability, the Commission has the discretion to decline to be so bound. *Maine Public Utilities Commission v. FERC*, 454 F.3d 278, 286-87 (D.C. Cir. 2006). In this case, we find that the public interest standard should apply.

5. Within thirty (30) days from the date of this letter, Northwest will make the refunds necessary to reflect the rates provided in the Settlement. Northwest will file a refund report within thirty (30) days from the date on which Northwest has provided refunds, as described in the Settlement.

6. This letter terminates Docket No. RP06-416-000.

By direction of the Commission. Commissioners Kelly and Wellinghoff
dissenting in part with separate statements
attached.

Philis J. Posey,
Acting Secretary.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Northwest Pipeline Corporation

Docket No. RP06-416-000

(Issued March 30, 2007)

KELLY, Commissioner, *dissenting in part*:

The parties to this settlement have requested that the Commission apply the *Mobile-Sierra* “public interest” standard of review with respect to any future changes to the settlement, whether proposed by a party, a non-party, or the Commission acting *sua sponte*. As I explained in my separate statement in *Transcontinental Gas Pipe Line Corporation*,¹ in the absence of an affirmative showing by the parties and a reasoned analysis by the Commission regarding the appropriateness of approving the “public interest” standard of review to the extent future changes are sought by a non-party or the Commission acting *sua sponte*, I do not believe the Commission should approve such a provision.

Accordingly, I respectfully dissent in part from this order.

Sudeen G. Kelly

¹ 117 FERC ¶ 61,232 (2006).

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WELLINGHOFF, Commissioner, dissenting in part:

The parties in this case have asked the Commission to apply the “public interest” standard of review when it considers future changes to the instant settlement that may be sought by any of the parties, a non-party, or the Commission acting *sua sponte*.

Because the facts of this case do not satisfy the standards that I identified in *Entergy Services, Inc.*,¹ I believe that it is inappropriate for the Commission to grant the parties’ request and agree to apply the “public interest” standard to future changes to the settlement sought by a non-party or the Commission acting *sua sponte*. In addition, for the reasons that I identified in *Southwestern Public Service Co.*,² I disagree with the Commission’s characterization in this order of case law on the applicability of the “public interest” standard.

For these reasons, I respectfully dissent in part.

Jon Wellinghoff
Commissioner

¹ 117 FERC ¶ 61,055 (2006).

² 117 FERC ¶ 61,149 (2006).