Federal Energy Regulatory Commission
November 19, 2009
Open Commission Meeting
Staff Presentation
Items G-3, G-4 and G-5

"Good morning Chairman Wellinghoff and Commissioners.

It is the Commission's responsibility under the Natural Gas Act to ensure that rates charged by pipeline companies are just and reasonable, including taking action sua sponte under section 5 to investigate existing rates and modify them if they are found to be unjust and unreasonable. Commission staff conducted a review of the revenues and expenses of various pipelines to determine whether they are charging just and reasonable rates. As part of the review, staff analyzed cost and revenue data that pipelines provided in their 2008 Form 2's. 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. Additionally, staff looked at the level of infrastructure investments that a pipeline placed in service in 2008 and the level of additional estimated infrastructure investments that will be made, since the 2008 Form 2 data may not fully reflect the effect of such investments on a pipeline's rates.

Based on our review, in the orders identified in G-3 through G-5, the Commission would initiate investigations, pursuant to section 5 of the Natural Gas Act, to determine whether the rates charged by three specific pipeline companies are just and reasonable. The three pipelines are Natural Gas Pipeline Company of America, Northern Natural Gas Company, and Great Lakes Gas Transmission Limited Partnership.

In determining that each of these pipelines may be over recovering their costs of service, staff first calculated a cost of service for each pipeline using Form 2 cost of service data for 2008. Staff then determined what that pipeline's revenues were for 2008. Staff used this information to estimate an earned return on equity for each pipeline for calendar year 2008. Our analysis indicates that Natural Gas Pipeline Company of America earned an estimated return on equity of 24.50 percent, and that it is over recovering the fuel gas used on its system. In the case of Northern Natural Gas Company, it earned an estimated return on equity of 24.36 percent; and Great Lakes Gas Transmission Limited Partnership earned an estimated return on equity of 20.83 percent. These returns lead staff to believe that these three 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 existing settlements with their customers that place a moratorium on existing rates, or require them to file a new general section 4 rate case in the future. Accordingly, in these orders, the Commission would initiate an investigation pursuant to section 5 of the Natural Gas Act into the rates charged, establish a hearing, and require the pipeline to file a cost and revenue study within 45 days of the issuance date of that pipeline's order. In addition, the orders would establish a deadline for the Administrative Law Judges to issue an initial decision.

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