



FEDERAL ENERGY REGULATORY COMMISSION

January 15, 2009

Chairman Joseph T. Kelliher

Docket Nos. RP04-274-000, RP04-274-007 and RP04-274-009

Item No. G-1

Statement of Chairman Joseph T. Kelliher on Kern River Return on Equity

"Today, we apply our policy statement governing the composition of proxy groups for determination of returns on equity for natural gas and oil pipelines in the first instance.

In this case, FERC establishes a proxy group that is composed of three master limited partnerships and two corporations. Use of this proxy group to set a rate for the Kern River pipeline results in a just and reasonable return of 11.55 percent, given the relative risk of Kern compared to other pipelines.

In this order, we reject the contested rate settlement and set a just and reasonable return of 11.55 percent. The settlement would set a return of 12.5 percent, which is 95 basis points above the just and reasonable level determined by the new proxy group. Applying our *Trailblazer* test for review of contested settlements, we cannot approve the settlement, since we cannot find that the 12.5 percent return is just and reasonable.

We revised the composition of the proxy group in response to structural changes that have occurred in both the natural gas and oil pipeline sector in recent years. Our policy change was born out of a practical recognition that the size of the proxy group used under our prior approach had shrunk dramatically. We were careful in our approach. We did not revise our policies with respect to proxy group composition in order to produce higher returns. That much is borne out by our disposition of this rate proceeding."

