

June 27, 2008

Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Attention: Ms. Kimberly D. Bose, Secretary

Re: System-wide Rate Case,
El Paso Natural Gas Company;
Docket No. RP08-

Commissioners:

El Paso Natural Gas Company ("EPNG") tenders for filing and acceptance by the Federal Energy Regulatory Commission ("Commission") the tariff sheets listed on Appendix A. These tariff sheets propose a system-wide increase in rates and several incremental refinements to EPNG's existing service and penalty structure in keeping with EPNG's overall goal of minimizing the number of proposed changes in this proceeding. The tariff sheets are proposed to become effective January 1, 2009.

Background

On June 30, 2005, in Docket No. RP05-422-000, EPNG filed a general system-wide rate case, which modified rates, proposed a number of new services and revised a number of terms and conditions of its tariff ("2006 Rate Case"). That proceeding constituted EPNG's first general rate case in ten years, since the settlement of an earlier Section 4 rate proceeding in Docket No. RP95-363-000, et al. As a result of numerous discussions and various compromises by all parties, EPNG submitted a settlement agreement to the Commission on December 6, 2006, which was subsequently approved on August 31, 2007 ("2006 Settlement").¹ The 2006 Settlement terminates on December 31, 2008 and, by the terms of the 2006 Settlement (at Paragraph 15.3), EPNG must file a new general rate case on June 30, 2008, to be effective on January 1, 2009. This filing complies with that requirement. The various components of EPNG's filing are described in EPNG's testimony and in the attached Statement of the Nature, the Reasons and the Basis for the Proposed Changes ("Statement") and are summarized briefly below.

Description of Filing

In this filing, EPNG proposes an increase in base tariff rates to address the impact of increasing costs and changes in billing determinants on its system.

¹ *El Paso Natural Gas Company*, 120 FERC ¶ 61,208 (2007).

From a cost perspective, the proposed rate increase reflects several factors including: 1) costs incurred for various pipeline integrity projects including those to comply with federal pipeline safety regulations; 2) system flexibility and reliability projects; 3) increased right-of-way costs for facilities located on Navajo Nation lands, and 4) increased labor costs. Despite the overall rate increase, EPNG has proposed to continue its existing mainline depreciation rate of 2.2% and storage rate of 1.09%. In addition, EPNG has proposed a moderate 13% return on equity consistent with the Commission's Policy Statement concerning the Composition of Proxy Groups.² EPNG's proposed total cost of service is approximately \$650 million.

In addition, EPNG continues to experience significant changes in its billing determinants as shippers seek to take advantage of an array of competitive alternatives. These alternatives have forced EPNG to discount its services to retain load, and result in shippers increasingly seeking to contract on a shorter-term basis. However, to moderate the rate impact in this case, EPNG has taken a large at-risk capacity position by assuming full subscription for rate design purposes and taking the risk that \$65 million in short-term contracts and that approximately \$60 million in long-term contracts will renew. Moreover, for ratemaking purposes EPNG has designed rates on the assumption that two discounted firm contracts with Southern California Gas Company will be renewed at maximum rates.

On average, EPNG is proposing to increase its rates by about 25% over its currently effective rates. EPNG's overall design revenues would increase by approximately \$83 million or 15%. Both of these computations are detailed on Exhibit No. EPG-1. However, in addition to taking on the billing determinant risk described above, EPNG has worked to moderate the size of the rate increase by proposing a "management adjustment" which reduces the amount of the requested increase in its proposed rates below the level that would be justified by the cost of service. The management adjustment is detailed at Exhibit No. EPG-72. EPNG plans to file a motion seeking to move these lower pro forma rates into effect at the end of the suspension period ("motion rates"). However, EPNG reserves its right to increase its rates during the course of these proceedings up to the rates that result absent this management adjustment. In other words, while EPNG is voluntarily agreeing to move into effect the lower rates resulting from the adjustment, the higher unadjusted rates constitute EPNG's filed rates in this proceeding.

From a cost allocation and rate design perspective, EPNG's filing largely continues to use the approach underlying its existing rates and/or its prior rate case filing. For example, EPNG continues to use the straight fixed variable rate design method, the zone of delivery method (whereby rates are generally

² *Composition of Proxy Groups for Determining Gas and Oil Pipeline Return on Equity*, 123 FERC ¶ 61,048 (2008).

designed using state boundaries as zones), and the method of designing premium firm hourly rates approved in *Gulfstream* and other Commission orders. See, e.g., *Gulfstream Natural Gas System*, 91 FERC ¶ 61,119 (2000). In addition, to encourage long-term firm contracting, EPNG also proposes to implement short-term value-based services, consistent with similar proposals by other pipelines that the Commission has previously approved subject to refund.³ Under EPNG's proposal, customers who do not wish to speculate in the short-term market and be subject to somewhat higher recourse rates for short-term services can always acquire long-term capacity (which on EPNG's system includes seven-month summer contracts, five-month winter contracts, as well as firm contracts of a year or longer) from EPNG at the recourse rate.

EPNG's filing also addresses the rate issues raised by Article 11.2 of the 1996 Settlement. EPNG's primary tariff sheets assume the continued applicability of Article 11.2 consistent with the Commission's March 20, 2006 Order in Docket No. RP05-422. However, as permitted by the March 20 Order, EPNG also contends that Article 11.2 is no longer in the public interest, no longer just and reasonable and no longer applies given previous changes to the 1996 Settlement. EPNG thus has submitted alternate tariff sheets that reflect the elimination of Article 11.2. If the Commission does not allow these alternate tariff sheets to go into effect at the end of the suspension period and later finds that Article 11.2 should not apply, EPNG requests that such finding be implemented prospectively only. EPNG urges the Commission to resolve the Article 11.2 issue as expeditiously as possible, consistent with the Commission's statement in a December 2006 order that it intended to issue an order on rehearing of the March 20 Order providing guidance to assist the parties in the new June 30, 2008 rate case. An expeditious order issued in the instant docket would be more beneficial to the parties than the still pending rehearing order.

Finally, EPNG proposes several changes to the non-rate provisions of its existing tariff. However, these changes are refinements and do not represent a fundamental change to the new service and penalty structure the Commission approved in the March 23, 2006 Order and that was included in the settlement of the last rate case. For example, and as more fully described in the Statement, EPNG is proposing a new limited hourly firm service in its virtual area, some enhancements to the NNT service, a reduction in penalty levels, and a suspension of the non-critical MDO/MHO penalties. Consistent with its goal of minimizing change in this case, EPNG is not proposing a non-critical daily scheduling penalty in this filing, although daily non-critical scheduling differences, which are not deterred by EPNG's hourly scheduling penalty, continue to be large for certain shippers on EPNG's system.

³ *Texas Gas Transmission Corporation*, 98 FERC ¶ 61,244 (2002); *Northern Border Pipeline Company*, 113 FERC ¶ 61,230 (2005); *Gas Transmission Northwest Corporation*, 122 FERC ¶ 61,012 (2008); *Portland Natural Gas Transmission*, 123 FERC ¶ 61,128 (2008).

Submission of Filing

EPNG submits this rate filing pursuant to Section 4 of the Natural Gas Act, 15 U.S.C. § 717c, and Subpart D of Part 154 of the Commission's regulations. The rates reflect system costs and throughput for the twelve-month base period ending March 31, 2008, as adjusted for known and measurable changes through December 31, 2008.

The enclosed Statement P contains prepared direct testimony setting forth and explaining the evidence that supports EPNG's case. The testimony of EPNG's witnesses supports the following components of EPNG's rates:

Witness	Testimony
Catherine E. Palazzari	Overview of Services and Tariff Proposals, Article 11 of the 1996 Settlement, Business and Financial Risk, Including Selection of Return on Equity, Depreciation Rates for Transmission and Storage Assets
Rex Adams	Rate Design and Cost Allocation Issues, Roll-In of Certain Expansion Facilities
Richard Derryberry	Tariff Changes, New Services, Penalties, General Terms and Conditions
Mark Westhoff	Operations, Impact of Hourly Capacity Utilization
Sean Kolassa	Market Issues, Contract Levels, Load Patterns, Discounting Practices
M. Catherine Rezendes	Cost Allocation and Rate Design, Miles of Haul
H. Lynn Dougherty	Certain Depreciation Rates and Various Costs of Service Issues
George Wayne	Commodity Billing Determinants/ Throughput
Janice Rabalais	Revenues, Fuel Savings Sharing Mechanism
Paul Tatman	Various Operation and Maintenance Expenses, Functionalization between Mainline Storage and Transmission, Allocation of Costs to Willcox Lateral

Neal Thompson	Depreciation, Depletion, and Amortization Allowance, Regulatory Assets and Liabilities, Working Capital
Glenn Martin	Capital Structure, Cost of Debt, Accumulated Deferred Income Taxes, Federal and State Income Taxes
Paul Trousil	Gas Supply Study
Ed Feinstein	Depreciation Study for Transmission and Storage, Negative Salvage
Barry Sullivan	Short-Term Value-Based Rates
Dr. Michael Vilbert	Range of Return on Equity

Motion and Proposed Effective Date

The primary tariff sheets filed herein reflect a January 1, 2009 effective date, thereby assuming a five-month suspension period, which is consistent with the effective date provisions set forth in the 2006 Settlement.⁴ Though EPNG is requesting the maximum suspension period of five months, EPNG respectfully requests the Commission issue an order addressing the proposals contained on the tariff sheets by December 1, 2008. An early order date will afford EPNG and its shippers time to program and implement business system changes. Given the expected suspension, EPNG reserves its right to file a later motion to place the proposed rates into effect at the end of the suspension period.

Following the anticipated suspensions, EPNG intends to move the motion rates and the tariff changes into effect on January 1, 2009. Pursuant to Section 154.7(a)(7) of the Commission's regulations, EPNG respectfully requests that the Commission grant all waivers necessary to effectuate this filing, including any waivers necessary to place the tariff sheets into effect on January 1, 2009 and any necessary waivers necessary to permit EPNG to move the pro forma sheets into effect at the same time.

⁴ Article 15.3 of the 2006 Settlement states that EPNG will "file a NGA Section 4 rate case on June 30, 2008, and will request a five-month suspension period with the tariff changes to be effective on January 1, 2009."

Request for Extension of Comment Period

EPNG respectfully requests waiver of the 12-day comment period requirement of Section 154.210 of the Commission's regulations. Due to the 4th of July holiday weekend, EPNG submits that good cause exists to extend the comment period by one additional day in order to provide parties sufficient time to prepare and file pleadings with the Commission in response to this rate filing. As such, EPNG proposes that responsive pleadings be submitted by July 15, 2008.

Electronic Filing Requirements

Pursuant to Section 154.4 of the Commission's regulations, this filing includes a computer disk containing all statements and schedules contained in this application in electronic media in the same format generated by the spreadsheet software used in developing the statements.

Procedural Matters

In accordance with Section 154.7(a)(1) of the Commission's regulations, EPNG has enclosed the original and five copies of the following:

Volume 1

Statement of the Nature, the Reasons
and the Basis for the Proposed Changes
Certifications
Listing of Tariff Sheets (Appendix A)
Table of Contents
Magnitude of the rate change
Statements A through O

Volume 2

Statement G

Volume 3

Tariff Sheets (Filed and Marked Version) and one diskette containing the filed tariff sheets (File Name: Primary - TF063008A.ASC; Alternate - TF063008B.ASC).

Volume 4

Statement P - Prepared Direct Testimony/Exhibits

Correspondence and communications concerning this filing should be directed to:

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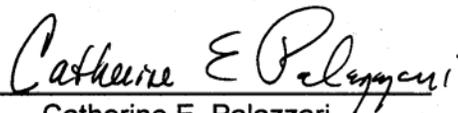
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These persons have been designated for service in accordance with Rule 203 of the Commission's Rules of Practice and Procedure. EPNG requests the Commission waive Rule 203(b)(3) to allow more than two persons to be designated to receive service.

The undersigned hereby certifies that she has read this filing and knows (i) the contents of the paper copies and electronic media; (ii) that the paper copies contain the same information as contained on the electronic media; (iii) that the contents as stated in the copies and on the electronic media are true to the best of her knowledge and belief; and (iv) that she possesses full power and authority to sign this filing.

Respectfully submitted,

EL PASO NATURAL GAS COMPANY

By 
Catherine E. Palazzari
Vice President

Enclosures

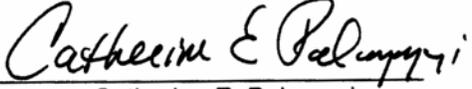
Mr. David R. Cain
Senior Counsel
Mr. Craig V. Richardson
Vice President & General Counsel
El Paso Natural Gas Company

Mr. Kenneth M. Minesinger
Greenberg Traurig, LLP

Certificate of Service

I hereby certify that I have this day caused a copy of the foregoing document, except for the diskette, to be served upon all shippers on EPNG's pipeline system and interested state regulatory commissions, in accordance with the requirements of Section 385.2010 of the Commission's Rules of Practice and Procedures.

Dated at Colorado Springs, Colorado as of this 30th day of June 2008.


Catherine E. Palazzari

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