

January 2, 2004

Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Iroquois Gas Transmission System, L.P.
Docket No. RP04-____

Dear Ms. Salas:

Pursuant to Section 4 of the Natural Gas Act ("NGA"), 15 U.S.C. § 717c, and Part 154 (18 C.F.R. Part 154) of the regulations of the Federal Energy Regulatory Commission ("Commission" or "FERC"), Iroquois Gas Transmission System, L.P. ("Iroquois" or the "Company") hereby submits for filing an original plus 12 copies of a new sheet 4C to its FERC gas tariff, with supporting statements and schedules, reflecting an increase to rates for Iroquois' Eastchester Extension Project ("Eastchester Project") certificated by the Commission in Docket No. CP00-232.¹ Iroquois proposes an effective date for the new tariff sheet of February 2, 2004.

List Of Materials Enclosed (18 C.F.R. § 154.7(a)(1))

The following materials are submitted herewith:

- This transmittal letter;
- A form of notice suitable for publication in the *Federal Register* in paper copy and on a diskette (in compliance with 18 C.F.R. § 154.209);
- The new tariff sheet, and a marked (red-lined) version of the new tariff sheet showing all additions and deletions (in compliance with 18 C.F.R. § 154.201(a)), together with a diskette labeled "TF010204.ASC" containing the new tariff sheet in electronic format;

¹ *Iroquois Gas Transmission System, L.P., preliminary determination*, 95 FERC ¶61,335, *order on reh'g and issuing certificates*, 97 FERC ¶61,379 (2001), *order on reh'g*, 98 FERC ¶61,273, *order denying reh'g*, 101 FERC ¶61,093 (2002).

- A certification of service to all affected customers and interested state commissions (in compliance with 18 C.F.R. § 154.2(d));
- The Representation of Iroquois' Chief Accounting Officer (in compliance with 18 C.F.R. § 154.308);
- Statements A through J, L, M, and O, together with related schedules and workpapers, which are collectively designated Exhibit No. ____ (IGT-1) and co-sponsored by the various Iroquois witnesses as explained in the Statement P testimony (in compliance with 18 C.F.R. § 154.312);
- Statement P, containing the prepared testimony of Iroquois' witnesses supporting this rate filing (in compliance with 18 C.F.R. § 154.312).
- A disc labeled "110A0401," containing the electronic version of this filing (in compliance with 18 C.F.R. § 154.4).

List Of Tariff Sheets (18 C.F.R. § 154.7(a)(5))

Original Sheet No. 4C

Statement Of Nature, Reasons, And Basis For This Filing (18 C.F.R. § 154.7(a)(6))

This filing establishes incremental rates for Iroquois' Eastchester Project, and resulting secondary access rates to Eastchester capacity from Iroquois' existing, non-expansion system (also referred to as the "Rolled-In System"). This filing is specifically permitted by Iroquois' August 29, 2003 rate settlement for the Rolled-In System, which was approved by the Commission on October 24, 2003.² The August 29, 2003 settlement did not establish rates for the Eastchester Project, but that settlement (at section 1.2(b)) provides that "Iroquois shall be permitted to make a rate filing pursuant to Section 4 of the Natural Gas Act . . . limited to establishing rates for service to Eastchester Shippers."

With respect to secondary access rates, the August 29, 2003 settlement (at section 1.2(c)) provides that "For Non-Eastchester Shippers that become Eastchester Shippers by moving gas on the Eastchester Expansion, Iroquois shall establish, as a maximum recourse tariff rate, a surcharge to the Settlement Rates equal to the difference between the applicable Settlement Rate and the recourse rates ultimately approved by the

² *Iroquois Gas Transmission System, L.P.*, 105 FERC ¶ 61,121 (2003).

Commission for the Eastchester Expansion.”³ (footnote omitted). Thus, the instant filing to establish incremental Eastchester rates and secondary access rates is consistent with Iroquois’ August 29, 2003 settlement.

Additionally, Iroquois has developed its proposed Eastchester rates in a manner consistent with the Commission’s orders certificating the Eastchester Project. *See supra* note 1. With respect to rate design, the certificate orders denied Iroquois’ initial proposal to use “rolled in” ratemaking for the Eastchester Project, finding that “roll-in” would cause existing shippers to subsidize costs of the expansion, in contravention of the Commission’s 1999 certificate policy statement.⁴ Accordingly, Iroquois has developed the Eastchester rates on a project-specific basis using the incremental cost of service for that project, in order to ensure that existing shippers do not subsidize costs of the expansion.

Also, consistent with the Eastchester certificate orders, Iroquois allocated a portion of its overall system administrative and general costs to the Eastchester rates,⁵ and used its overall company capital structure to develop the cost of capital for the Eastchester rates.⁶ Further, the timing of this Eastchester rate filing is consistent with the Commission’s directive in the certificate order tying the date for changes to the Eastchester initial rate to the expiration of the rate change moratorium established in Iroquois’ 1999 rate settlement in Docket Nos. RP94-72, *et al.*, which moratorium expired December 31, 2003.⁷

The initial certificate rate for the Eastchester Project is Iroquois’ general Part 284 inter-zone transportation rate of \$0.4234 per Dth (on a 100% load-factor basis), as established in the 1999 rate settlement. As shown on attached Statements A and G, revenues at that initial rate are inadequate to recover the Eastchester cost of service and would result in a substantial annual revenue deficiency of \$39 million. Accordingly, to partially offset that

³ Shippers using the Eastchester Project will also pay an incremental fuel charge approved by letter order issued on April 8, 2003 in Iroquois’ Docket No. RP03-304.

⁴ *Iroquois*, 95 FERC at 62,200-07 (citing 1999 Policy Statement, 88 FERC ¶ 61,227 (1999), *order clarifying*, 90 FERC ¶ 61,128, *order further clarifying*, 92 FERC ¶61,094 (2000)).

⁵ *Id.* at 62,206-07.

⁶ *Id.* at 62,201.

⁷ *See* Section 3.1 of the December 17, 1999 settlement approved in *Iroquois Gas Transmission System, L.P.*, 90 FERC ¶ 61,132 (2000).

revenue deficiency, Iroquois is proposing an Eastchester rate of \$0.8444 per Dth (on a 100% load factor basis), which would increase annual revenues from Eastchester service by \$17 million. The proposed Eastchester rates were developed using a base period consisting of 12 months of actual experience through September 30, 2003, as adjusted for known and measurable changes projected to occur during the test period ending June 30, 2004.

Also as shown on Statements A and G, even at the higher proposed Eastchester rates, Iroquois is projecting an annual revenue deficiency of \$22 million. That deficiency results from the fact that Iroquois has designed the proposed Eastchester rates using the full project capacity of 230,000 Dth/day, without any adjustments for currently unsubscribed capacity or contracts at less than maximum rate, thereby allocating to Iroquois the full risk of marketing all project capacity at maximum rates. As the result of various post-Enron and post-September 11, 2001 changes to energy markets and the economy that have impacted the Eastchester project, the near-term market value of the Eastchester capacity is substantially below the proposed maximum Eastchester rates. Accordingly, Iroquois will be absorbing a substantial revenue deficiency associated with the Eastchester project at the proposed rates.

Given that the initial certificate rate is a general Part 284 rate developed for the Rolled-In System, while the proposed Eastchester rates have been developed on an incremental basis, it is not possible to compare the changes in individual rate components between the initial rates and the proposed rates. Nonetheless, Iroquois can identify higher plant costs of \$334 million, as compared to the certificate estimate of \$210 million, as the principal factor driving the increased revenue requirement for the Eastchester Project. Those higher plant costs have resulted from a number of factors, including delays in obtaining construction permits and authorizations, unanticipated environmental costs, a failed directional drill, higher than expected labor costs, and construction incidents associated with constructing the project in a highly congested marine (Long Island Sound and East River) right-of-way corridor. The project is now in the final stage of construction, with a projected in-service date of February 1, 2004.

Other key elements underlying the proposed Eastchester rates are: total cost of service of \$70.9 million; allocated administrative and general costs of \$3.1 million; direct operation and maintenance costs of \$1.2 million; depreciation expense reflecting Iroquois' existing approved transmission depreciation rate of 2.77%; and an overall rate of return of 10.52%, with a return on equity of 14.9%, based on Iroquois' overall company capital structure consisting of 58% debt and 42% equity. With respect to the equity return, while Iroquois' witness J. Stephen Gaske supports an equity return of at least 15.25%, Iroquois is proposing an equity return of 14.9%, which (along with Iroquois assumption of the full risk associated with marketing the expansion capacity at maximum rates) will help mitigate the impact of the proposed rate increase on shippers.

Motion (18 C.F.R. §154.7(a)(9))

Iroquois reserves the right to file a motion as appropriate to place all suspended rates into effect at the end of any suspension period ordered by the Commission, in accordance with 18 C.F.R. § 154.206.

Waivers (18 C.F.R. § 154.7(a)(7))

While Iroquois knows of no required waivers, Iroquois respectfully requests that the Commission grant any waivers of its regulations, policy or precedent that the Commission may deem necessary to make this tariff change effective as proposed herein.

Certification Of Posting And Service (18 C.F.R. §§ 154.7(b) and 154.2(d))

The undersigned certifies that copies of this filing have this day been posted and mailed to all affected customers and interested state commissions.

Communications And Service (18 C.F.R. §§ 154.7(a)(2) and 385.2010(c))

All correspondence, orders, pleadings or other communications concerning this filing should be served upon the following persons:

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*Designated to receive service pursuant to 18 C.F.R. § 2010(c).

Questions regarding this filing should be directed to Mr. Bruner, as shown above.

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Electronic Filing (18 C.F.R. §§ 154.4 and 385.2011(c))

The undersigned states that he has read this filing and knows the contents of the paper copies and electronic media, that the paper copies contain the same information as the electronic media, and that to the best of his knowledge, information and belief, the contents as stated therein are true.

Respectfully submitted,

Jeffrey A. Bruner

Vice President, General Counsel and Secretary

IROQUOIS PIPELINE OPERATING

COMPANY, as Agent for,

IROQUOIS GAS TRANSMISSION SYSTEM, L.P.

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

Iroquois Gas Transmission System, L.P.) Docket No. RP04-_____

**NOTICE OF PROPOSED CHANGES
IN FERC GAS TARIFF**

Take notice that on January 2, 2004, Iroquois Gas Transmission System, L.P. ("Iroquois") tendered for filing a new Sheet No. 4C to its FERC Gas Tariff, First Revised Volume No. 1, proposed to become effective on February 2, 2004. The proposed changes would increase revenues from service on Iroquois' Eastchester Extension Project ("Eastchester Project") by \$16,990,556 million, based on the 12-month period ended September 30, 2003, as adjusted for changes projected to occur through June 30, 2004.

Iroquois states that the purpose of its filing is to establish incremental rates for the Eastchester Project, and resulting secondary access rates to Eastchester capacity from Iroquois' existing, non-expansion system. Iroquois further states that its rate filing is consistent with the Commission's directives in the Eastchester certificate orders in Docket No. CP00-232, and with section 1.2 of Iroquois' August 29, 2003 rate settlement in Docket No. RP03-589. Additionally, Iroquois states that the proposed rate increase is necessary to recover the higher actual costs of constructing the Eastchester Project, as well as allocated administrative and general costs, direct operation and maintenance costs, taxes, depreciation expense based on Iroquois' approved transportation depreciation rate, and an adequate return on its investment.

Any person desiring to be heard or to protest this filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, DC 20426, in accordance with Sections 385.214 and 385.211 of the Commission's Rules and Regulations. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. All such motions or protests should be filed on or before the comment date, and, to the extent applicable, must be served on the applicant and on any other person designated on the official service list. This filing is available for review at the Commission or may be viewed on the Commission's web site at <http://www.ferc.gov>, using the eLibrary (FERRIS) link. Enter the docket number excluding the last three digits in the docket number field to access the document. For assistance, please contact FERC Online Support at FERCOnlineSupport@ferc.gov or toll-free at (866) 208-3676, or for TTY, contact (202)502-8659. Protests and interventions may be filed electronically via the Internet in lieu of paper; see 18 CFR 385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: January 14, 2004