

May 12, 2010

Ms. Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Re: Portland Natural Gas Transmission System  
Docket No. RP10-\_\_\_\_\_

Dear Ms. Bose:

Pursuant to Section 4(e) of the Natural Gas Act, as amended, and Subpart D of Part 154, specifically Section 154.312 of the Federal Energy Regulatory Commission's (Commission or FERC) regulations, Portland Natural Gas Transmission System ("PNGTS") hereby submits revised tariff sheets to be included in its FERC Gas Tariff, Second Revised Volume No. 1.

PNGTS is filing the tariff sheets listed on Appendix A ("Tariff Sheets") to become effective as soon as the Commission permits, but in no event later than following a one month notice period and a five month suspension period.

In accordance with Section 154.7 (a)(6) of the Commission's Regulations, the following contains the "Statement of Nature, Reasons and Basis" for the instant filing.

Statement of Nature, Reasons and Basis

In this rate case, PNGTS seeks an increase in its base transportation rates, also known as the maximum recourse transportation rates. PNGTS' witnesses describe PNGTS' business risks. PNGTS faces significantly increased risks relative to those faced by typical pipelines. The heightened risks encountered by PNGTS include changes in supply factors, unsubscribed capacity, and changes in the pipeline infrastructure serving PNGTS' market areas. In order to address its heightened risks, PNGTS is proposing in this proceeding to increase its return on equity to 13.41%.

The enclosed Statement P, in Volume II of this filing, contains prepared direct testimony and exhibits that support PNGTS' filed Tariff Sheets. Set out below is a summary of some of the principal topics addressed by each of PNGTS' witnesses:

Witness	Testimony
David Haag	Business risks; satisfaction of at-risk condition; billing determinants; Statements G and J and their accompanying Schedules and Schedule I-5
Robert Hevert	Range of Return on Equity; Capital Structure
Alex Kirk	Levelization Model; Depreciation Model
Al Lovinger	Levelization; Inputs to Levelized and Pro Forma Rate Models; Calculation of Debt Costs; Known and Measurable Changes
John Reed	PNGTS' posture in the market; Adjustments to IT/PAL Volumes
Scott Sieppert	Gas plant in service; Statements and Schedules A through F and H through I (except for Schedule I-5), and Statements L and M
Barry Sullivan	Depreciation
James Taylor	Negative salvage cost study

PNGTS' proposed rates are consistent with the Commission's policies and implement Commission-approved practices. First, PNGTS continues to design rates using the Commission's straight fixed variable ("SFV") method for classifying costs between the fixed and variable cost categories. Second, PNGTS has functionalized and allocated costs consistent with Commission guidelines.

#### Reasons Demonstrating the Need to Increase Rates

PNGTS' cost of service and determination of rates reflect the costs and throughput for the Base Period (twelve months ended February 28, 2010), as adjusted through the Test Period ending November 30, 2010. Gross plant at the end of the test period is projected to be \$492,406,522, relative to the Docket No. RP02-13 stipulated gross plant of \$492,135,676 (*see* Article 4.2 of Docket No. RP02-13 Stipulation). Total cost of service for PNGTS is projected to be approximately \$86.9 million for the test period, producing a net cost of service of approximately \$81.5 million based upon the deduction, for purposes of setting the rate for long

term FT service, of (1) approximately \$2.5 million of representative levels of revenue for IT and PAL services, and (2) the approximately \$2.9 million rate case credit described in witness Haag's testimony.

The major reasons for the new rate level include the following:

1. Capitalization and Increased Return on Equity

The proposed rates incorporate an overall pretax cost of capital of 15.68 percent, based on PNGTS' capitalization. PNGTS' filed overall rate of return is as follows:

	<u>Capitalization Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	44.42%	7.093%	3.15%
Equity	55.58%	13.41%	7.45%
Overall Rate of Return			10.60%

PNGTS' cost of equity range is supported by PNGTS witness Hevert, who testifies that the range of reasonable equity allowances is from 10.91% to 13.41%. Based on the business and financial risks and circumstances faced by PNGTS, PNGTS is requesting a return on equity of 13.41%.

2. Increased Depreciation Rates and Negative Salvage

PNGTS herein sponsors a depreciation study showing that the pertinent potential supply base for PNGTS supports an average remaining life of 18 years and thus warrants an increase in PNGTS' depreciation rate. PNGTS witness Taylor supplies a terminal value study in support of witness Sullivan's recommendation of a .55% negative salvage rate.

3. Changed Billing Determinants

PNGTS has a certificated capacity of 168,672 Dth/d. *See Portland Natural Gas Transmission System*, 123 FERC ¶ 61,275, *reh'g denied*, 125 FERC ¶ 61,198 (2008). In those orders the Commission determined that its prior orders authorizing the PNGTS facilities ultimately did not establish a system-wide certificated capacity level after the first year of service. *See, e.g.*, 125 FERC ¶ 61,198 at P5.

Tariff Sheets

PNGTS' proposed revisions to its Tariff Sheets include revised base rates which reflect a revised cost of service.

The Tariff Sheets are introduced in the testimony of PNGTS witness Haag.

Motion to Place the Proposed Rates into Effect

PNGTS requests that the rates reflected in the attached Tariff Sheets be placed into effect without suspension. However, to the extent the rates and Tariff Sheets incorporated in the instant filing are suspended, PNGTS pursuant to Section 154.7(a)(9) of the regulations herewith moves that the rates and Tariff Sheets incorporated herein be placed into effect at the conclusion of the suspension period. PNGTS respectfully requests that if a suspension is ordered, that it end November 30, 2010 such that the rates will go into effect December 1, 2010, facilitating the change in rates at the beginning of a month. Further, PNGTS requests such other relief as necessary to achieve each of these results.

Request for Waiver and Other Commission Action

Pursuant to Section 154.7(a)(7) of the Commission's regulations, PNGTS respectfully requests that the Commission grant all waivers necessary to effectuate this filing. PNGTS also requests any other waiver of the Commission's regulations including those under Parts 154, 284 and 385, or any other Commission rule, order, policy or pronouncement, as necessary to implement the tariff sheets and collect the rates included as part of the instant filing.

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 to the extent possible.

Materials Included in this Filing

Pursuant to Section 154.7(a)(1) of the Commission's regulations, PNGTS has enclosed the original and twelve (12) copies of the following material:

Volume 1

- A. Transmittal Letter including Statement for Nature, Basis and Reasons for Filing;
- B. Federal Register Notice and one diskette containing a copy of the notice;
- C. A Certificate of Service;
- D. Statement of authorized accounting representative pursuant to § 154.308 of the Commission's Regulations;
- E. Listing of Tariff Sheets (Attached as Appendix A);
- F. Tariff Sheets (Filed and Marked Version) and one diskette containing the filed Tariff Sheets (File Name: Tariff Sheets - TF110105.ASC);

G. Statements and Schedules A through J, L, M and O; and

H. Statement P – Prepared Direct Testimony/Exhibits (Partial).

Volume 2

Statement P – Prepared Direct Testimony/Exhibits (Partial).

Correspondence and communications concerning this filing should be directed to:

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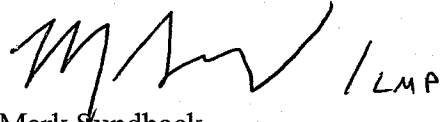
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\* Designated for service in accordance with Rule 203 of the Commission's Rules of Practice and Procedure. PNGTS requests the Commission waive Rule 203(b)(3) to allow three persons to be designated to receive service.

The undersigned hereby certifies that he 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 his knowledge and belief; and (iv) that he possesses full power and authority to sign this filing.

Ms. Kimberly D. Bose, Secretary  
May 12, 2010  
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Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark Sundback', followed by the initials 'LMP'.

Mark Sundback  
One of Counsel for Portland Natural Gas  
Transmission System

Attachments

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

Portland Natural Gas Transmission System )

Docket No. RP10- -000

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

Take notice that on May 12, 2010, Portland Natural Gas Transmission System ("PNGTS") tendered for filing as part of Second Revised Volume No. 1 of its FERC Gas Tariff, revised tariff sheets set forth in Appendix A ("Tariff Sheets") to effectuate changes in the rates and terms applicable to PNGTS' jurisdictional services. PNGTS is proposing in this proceeding to increase its return on equity to 13.41% and projects a net cost of service of approximately \$81.5 million for the test period. The rates reflected in the Tariff Sheets are to be effective as soon as a suspension period (if any) concludes with respect to the instant filing.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). 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 notice of intervention or motion to intervene, as appropriate. Such notices, motions, or protests must be filed in accordance with the provisions of Section 154.210 of the Commission's regulations (18 C.F.R. § 154.210). Anyone filing an intervention or protest must serve a copy of that document on the Applicant. Anyone filing an intervention or protest on or before the intervention or protest date need not serve motions to intervene or protests on persons other than the Applicant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at <http://www.ferc.gov>. Persons unable to file electronically should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

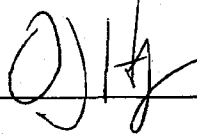
This filing is accessible on-line at <http://www.ferc.gov>, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email [FERCOnlineSupport@ferc.gov](mailto:FERCOnlineSupport@ferc.gov), or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Kimberly D. Bose  
Secretary

**CERTIFICATE OF SERVICE**

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

Dated at Portsmouth, New Hampshire this 12<sup>th</sup> day of May, 2010.

A handwritten signature in black ink, appearing to read 'DH', is written over a horizontal line.

David Haag  
Manager, Rates and Regulatory Affairs

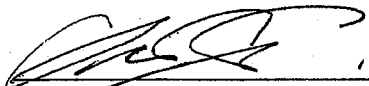


**STATEMENT OF AUTHORIZED ACCOUNTING REPRESENTATIVE  
RATE FILING OF PORTLAND NATURAL GAS TRANSMISSION SYSTEM**

**OF MAY 12, 2010**

**TO THE FEDERAL ENERGY REGULATORY COMMISSION**

I, Scott Sieppert, Manager, U.S. Pipeline Accounting, TransCanada PipeLines Limited which serves as the Operator of Portland Natural Gas Transmission System, do hereby represent that the cost statements and supporting data submitted as part of the above-mentioned filing by Portland Natural Gas Transmission System, together with working papers required therein, which purport to reflect the books of Portland Natural Gas Transmission System, do, in fact, set forth the results shown by such books.



Scott Sieppert  
Manager, U.S. Pipeline Accounting  
TransCanada PipeLines Limited

Dated May 12, 2010

**APPENDIX A**

**PNGTS FERC Gas Tariff  
Second Revised Volume No. 1**

Eighth Revised Sheet No. 100  
Seventh Revised Sheet No. 101  
Seventh Revised Sheet No. 102