FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF THE CHAIRMAN

March 22, 2012

The Honorable Cynthia L. Quarterman
U.S. Department of Transportation
Pipeline and Hazardous Materials Safety Administration
1200 New Jersey Avenue SE
Washington, DC 20590

Dear Administrator Quarterman:

Thank you for your December 19, 2011 letter regarding the management of pipeline integrity risks through ratemaking proceedings. You suggest that FERC consider using its ratemaking authority to accelerate the repair, rehabilitation, and replacement of the nation's most risky pipeline systems. You note that the costs associated with wide scale pipeline repair, rehabilitation, and replacement may be significant, and operators may be unwilling to assume such costs without the ability to recover these costs through ratemaking.

I appreciate having the benefit of your views and share your concern about maintaining a safe and reliable pipeline infrastructure. As you know, pipeline integrity management programs have essentially become multi-faceted management systems that encompass engineering, operations, inspections, maintenance, as well as communications systems designed to monitor the mechanical condition of pipelines and ensure their reliable operation. The programs may include replacement of and upgrades to facilities to meet the Pipeline and Hazardous Materials Safety Administration standards.

Pipelines routinely incur a wide variety of costs, including costs necessary to ensure their safe operation. The Commission, based on its long experience in regulating natural gas pipelines, has found that the most appropriate mechanism to determine the proper recovery for these costs, including the recovery of integrity management costs, is through general rate case proceedings pursuant to section 4 of the Natural Gas Act. Similarly, crude and products pipelines may seek to recover these costs by adjusting their rates pursuant to sections 341 and 342 of the Commission's regulations. Such proceedings allow the parties to review all costs incurred by the pipeline in the context of the overall operation of the pipeline and not in isolation.

Furthermore, please note that in a general rate proceeding, a pipeline's revised rates may become effective subject to refund after a short suspension period, thus allowing a pipeline to avoid any potential revenue shortfall. For these reasons, I believe that a general rate proceeding is the best mechanism for dealing with integrity management costs.

Please rest assured, however, if the Commission determines that other measures are required to ensure pipeline integrity, we will be vigilant in monitoring those needs.

If I can be of further assistance in this or any other Commission matter, please let me know.

Sincerely,

Jon Wellinghoff
Chairman