U.S. Department
of Transportation

**Pipeline and Hazardous
Materials Safety
Administration**

Administrator

1200 New Jersey Avenue SE
Washington, DC 20590

DEC 19

The Honorable Jon Wellinghoff
Chairman
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Dear Chairman Wellinghoff:

I am writing to request that the Federal Energy Regulatory Commission (FERC) consider opening a proceeding into the management of pipeline integrity risks through ratemaking proceedings. According to the Natural Gas Act of 1938 (NGA) and the Interstate Commerce Act (ICA), FERC must consider the interests of pipeline operators and ratepayers in an efficient and safe pipeline system. On March 7, 2011, we discussed a mutual plan to encourage the acceleration of pipeline rehabilitation, repair, and replacement of interstate natural gas and hazardous liquid pipelines. As you know, 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. Therefore, we suggest that FERC consider using its ratemaking authority to accelerate the repair, rehabilitation, and replacement of the nation's most risky pipeline systems.

While an affordable and reliable energy supply is critical to both the public welfare and our nation's economy, operators may delay pipeline repair, rehabilitation, and replacement due to cost concerns, at significant risk to public safety and the environment. In order to address this state of affairs, it is essential that rate proceedings account for the pressing integrity challenges facing the nation's pipeline system. Serious accidents occur every year and some of these incidents are caused by failures in pipeline infrastructure.

High-risk pipeline infrastructure is piping or equipment that poses an integrity risk. Integrity risks are precipitated by a wide variety of factors. As noted below, however, certain types of pipe are of particular concern, including:

- Hazardous liquid and gas transmission pipelines are typically constructed from steel, which is particularly susceptible to corrosion, material and weld failures, and natural force damage. From 2006 – 2010, corrosion, material failures, and weld failures accounted for 51% of significant gas transmission incidents, which have been trending upward for the past 20 years. On August 19, 2000, a transmission pipeline ruptured and killed 12 campers near Carlsbad, New Mexico. Internal corrosion was determined to be the cause of the rupture.

- Other kinds of pipe installations, including bare steel pipe without adequate corrosion control and copper piping, are also more susceptible to failure.

- Pipelines that fail to pass or take adequate assessment tests can lead to pipeline failures, as in San Bruno, California.

Several recent gas pipeline accidents demonstrate that, if high-risk pipeline infrastructure is not properly repaired, rehabilitated, or replaced, grave consequences may ensue. For example, on September 9, 2010, an intrastate natural gas transmission line ruptured in San Bruno, California. The ensuing explosion and fire resulted in 8 fatalities, multiple injuries, and the destruction of 38 homes.

Age is an important factor in determining whether pipeline infrastructure is vulnerable to failure from time-dependent forces, such as corrosion, stress corrosion cracking, settlement, or cyclic fatigue. Over 12% of the nation's cross-country gas transmission and hazardous liquid pipelines were built prior to the 1950's. For gas transmission pipelines, 59% were built prior to 1970 and 69% prior to 1980; 55% of hazardous liquid transmission pipelines were built prior to 1970 and 71% before 1980.

Meaningful rate recovery should reflect efforts to repair, replace, and rehabilitate some of this high risk infrastructure in a timely fashion. The NGA and ICA impose a "just and reasonable" requirement on all charges for interstate gas and oil pipeline transportation, a standard that requires FERC to consider both the interests of pipeline operators and ratepayers. FERC utilizes varying ratemaking methodologies to meet the "just and reasonable" standard, such as selective discounting, market-based rates, and negotiated rates. The Commission has publicly stated that it "recognizes the need for investment in energy transportation infrastructure to meet the nation's growing demand for energy," albeit in the context of new and expanding pipelines.[1] Existing pipeline infrastructure merits similar attention. Therefore, we request that FERC consider the interests of ratepayers and operators in the repair, replacement, and rehabilitation of pipeline infrastructure through ratemaking proceedings. I look forward to your comments on this proposal and working with you to address these issues now and into 2012.

Regards,

Cynthia L. Quarterman

[1] Testimony of the Honorable Joseph T. Kelliher, Chairman, Federal Energy Regulatory Commission, before the Senate Subcommittee on Energy and Water Development. September 3, 2008.