



Federal Energy Regulatory Commission
January 19, 2017
Open Commission Meeting
Staff Presentation
Item G-1 and G-2

"Good morning Mr. Chairman and Commissioners.

"Items G-1 and G-2 are draft orders that initiate investigations, pursuant to section 5 of the Natural Gas Act, to determine whether the rates charged by two interstate natural gas pipelines are just and reasonable. The two pipelines are: Natural Gas Pipeline Company of America LLC and Wyoming Interstate Company, L.L.C.

"By way of background, Order 636 eliminated the requirement for interstate natural gas pipelines to periodically file restated rates. Beginning in 2009, the Commission began a systematic and in-depth review of the cost and revenue information filed by large pipelines in Form 2. In 2011, Staff expanded its section 5 analysis to also include cost and revenue information filed by smaller pipelines in Form 2-A. As a result of this analysis, since 2009, the Commission has initiated a total of 14 section 5 proceedings to determine if pipelines' revenues significantly exceed their annual cost of service such that those pipelines' existing transportation and storage rates may no longer be just and reasonable. Twelve of those proceedings ended with settlement agreements and two of those proceedings were terminated.

"In addition to the Commission initiating NGA section 5 actions to adjust pipelines' rates, since 2009, pipelines themselves have: 1) initiated 32 NGA general section 4 rate proceedings to adjust their rates, 2) filed 24 pre-packaged settlements to adjust their rates, and 3) filed 23 cost and revenue studies to give the Commission and interested entities an opportunity to examine the pipeline's rates.

"As relevant to items G-1 and G-2, Commission staff reviewed all Form 2 and Form 2-As submitted by interstate natural gas pipelines for calendar years 2014 and 2015. The review included an analysis of the revenues and expenses of pipelines to determine whether revenues were exceeding an estimated cost of service on a consistent basis. Staff's review also considered other factors including whether a pipeline's currently effective rates are the result of a settlement that either has a rate moratorium in effect or requires the pipeline to file a general section 4 rate case in the near future, and the length of time since the pipeline last revised its rates. Additionally, staff looked at the level of infrastructure investments that a pipeline placed in service in 2016 and the level of additional estimated infrastructure investments to be made, as the 2015 Forms 2 and 2-A data may not fully reflect the effect of such investments on a pipeline's rates.

"Staff calculated a cost of service for each pipeline using Form 2 or Form 2-A cost of service data for the years 2014 and 2015. Staff then determined what that pipeline's revenues were for those years. Staff used this information to estimate an earned return on equity for each pipeline for the calendar years 2014 and 2015. Our analysis indicates that the first pipeline, Natural Gas Pipeline Company of America, has a calculated return on equity of 28.5 percent for calendar year 2014 and 20.8 percent for calendar year 2015. The second pipeline, Wyoming Interstate Company, has a calculated return on equity of 17.7 percent for calendar year 2014 and 19.0 percent for calendar year 2015.

"These estimated levels of return lead staff to believe that these two pipelines are over-recovering their costs of service and may be charging rates that are no longer just and reasonable. In addition, none of these pipelines have an existing settlement with their customers that places a currently effective moratorium on existing rates, or requires them to file a new general section 4 rate case in the future. Accordingly, these draft orders initiate investigations pursuant to section 5 of the Natural Gas Act into the rates charged, establishes a hearing, and requires each pipeline to file a cost and revenue study within 75 days of the issuance date of that pipeline's order. In addition, each of the draft orders establishes a deadline for the Administrative Law Judges to issue an initial decision.

"Thank you. We are happy to answer any questions."