

Policy Statement on Natural Gas Pipeline Modernization



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Disclaimer

The views and opinions expressed today are mine alone and do not necessarily reflect those of the Commission or any Commissioner



Agenda

- **Background**
- **Policy Statement**
 - **Review Existing Rates**
 - **Identify Eligible Facilities**
 - **Avoid Cost Shifts**
 - **Periodic Review of Surcharge**
 - **Shipper Support**
- **Utilization**



Background – Rate Design

- **NGA - rates and charges shall be just and reasonable and not unduly discriminatory**
- **Commission regulations**
 - **18 C.F.R. § 284.10(c)(2) (2015)**
- **Historically – rates designed based on projected units of service**
- **Cost Recovery surcharge or tracker exception**
 - **governmental safety and environmental initiatives**
 - **pipelines may face increased costs to enhance the safety and reliability of their systems**



Background – Safety Initiatives

- **Pipeline Safety, Regulatory Certainty, and Job Creation Action of 2011**
- **United States Department of Transportation (DOT) required to:**
 - **consider expansion and strengthening of its integrity management regulations,**
 - **consider requiring automatic shut-off valves on new pipeline construction,**
 - **require pipelines to reconfirm their Maximum Allowable Operating Pressures, and**
 - **conduct surveys to measure progress in plans for safe management and replacement of cast iron pipelines**



Background - Safety Initiatives

- **PHMSA implementing a multi-year Pipeline Safety Reform Initiative to comply with the Pipeline Safety Act's mandate to enhance the agency's ability to reduce the risk of future pipeline failures.**
- **ANOPR - Pipeline Safety: Safety of Gas Transmission Pipelines**
- **Leak detection and valve workshop**
- **High Consequence Area – expand the definition?**



Background – Environmental Protection Agency

- **United States Environmental Protection Agency (EPA) technical white papers**
- **Greenhouse Gas Reporting Program**
- **Revised Petroleum and Natural Gas Systems source category (Subpart W) and the General Provisions (Subpart A) of the GHGRP.**



Background – Columbia Gas Transmission LLC – CCRM

- ***Columbia Gas Transmission, LLC, 142 FERC ¶ 61,062 (2013)***
- **CCRM**
 - **Immediate reduction of Columbia’s base rates;**
 - **Delineated and limited the amount of capital costs and expenses;**
 - **Specifically detailed eligible facilities;**
 - **Agreed to spend \$100 million for normal system maintenance annually during the initial term of the tracker, which would not be recovered through rates;**
 - **Set billing determinant floor for calculating the cost recovery mechanism; and**
 - **Established temporary surcharge that would terminate unless otherwise agreed**
- **Contested settlement**



Modernization Policy Statement, Docket No. PL15-1

- **Proposed Policy Statement (November 20, 2014)**
 - ***Cost Recovery Mechanisms for Modernization of Natural Gas Facilities*, 149 FERC ¶ 61,147 (2014)**
- **Policy Statement (April 16, 2015)**
 - ***Cost Recovery Mechanisms for Modernization of Natural Gas Facilities*, 151 FERC ¶ 61,047, *reh'g denied*, 152 FERC ¶ 61,046 (2015)**
- **Effective October 1, 2015**
- **Purpose**
 - **To provide greater certainty regarding the ability of interstate natural gas pipelines to recover the costs of modernizing their facilities and infrastructure to enhance the efficient and safe operation of their systems**



Modernization Policy Statement, Docket No. PL15-1

- **The Policy Statement adopted give guiding standards a pipeline would need to satisfy for the Commission to approve a proposed modernization cost tracker or surcharge.**
- **Those criteria are:**
 - **review of the pipeline’s existing base rates;**
 - **defined eligible costs;**
 - **avoidance of cost shifting;**
 - **periodic review of the surcharge and the pipeline’s base rates; and**
 - **shipper support**



Just and Reasonable Rates

- **Existing rates are just and reasonable**
- **Review of the pipeline's existing base rates**
 - **by means of an NGA general section 4 rate proceeding,**
 - **a cost and revenue study,**
 - **or through a collaborative effort between the pipeline and its customers**



Eligible Costs

- **One-Time Capital and Certain Non-Capital Costs**
- **one-time capital costs that are incurred**
 - **to modify existing system infrastructure to (1) comply with new, more stringent regulations and/or (2) employ new technologies that reasonably increase safety and/or efficiency**
 - **Pipelines may seek to use a recent history of their ordinary capital system maintenance costs as a means for establishing a representative level of capital maintenance costs to exclude from a proposed modernization surcharge mechanism.**



Eligible Costs (continued)

- **Commission declined to limit eligible costs to those incurred in compliance with already enacted laws and currently effective regulations**
- **Pipelines may be able to recover certain *non-capital* costs**
- **Must identify specifically each capital investment to be recovered and an upper limit on the capital costs related to each project to be included in the recovery mechanism, although pipelines may be permitted to modify this list and the associated cost limits**



Avoid Cost Shifts

- **Captive customers must be protected from cost shifts**
- **Cost recovery mechanism must be designed to protect such customers even if the pipeline loses shippers or must offer increased discounts to retain business**
- **The Policy Statement notes that one way to achieve this goal is for the pipeline to agree to a billing determinant floor that can be used to design the recovery mechanism**



Periodic Review

- **Pipeline required to include a method to allow for periodic review of the cost recovery mechanism and the pipeline's base rates to ensure that they remain just and reasonable**
- **Complaints may raise an issue of material fact regarding the continued justness and reasonableness of a pipeline's base rate or surcharge**



Shipper Support

- **A pipeline must work collaboratively with shippers to seek shipper support for a proposed cost recovery mechanism**
- **FERC declined to establish a minimum level of shipper support needed for approval of a pipeline's proposal**
- **100% shipper support not required**



Modernization Policy Statement Utilization

- **Transwestern**
- **Florida Gas**
- **Tallgrass**

Thank you



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