

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

Accrual of Allowance for Funds Used) **Docket No. AD10-3-000**
During Construction)

COMMENTS OF THE NATURAL GAS SUPPLY ASSOCIATION

Pursuant to the procedures established in the Commission's Notice of Technical Conference on Commission Policy on Commencement of Accrual of Allowance for Funds Used During Construction ("AFUDC"), issued December 2, 2009, the Natural Gas Supply Association ("NGSA") hereby submits the following post-conference comments.

I. IDENTITY OF NGSA

NGSA represents integrated and independent companies that produce and market domestic natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. consumers.

II. COMMUNICATIONS

Notices and communications concerning these comments should be addressed as follows:

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III. COMMENTS

NGSA appreciates the Commission's careful consideration of its AFUDC policy and its understanding that parties need time to seriously consider the various proposals put forward to replace a four-decade old policy on AFUDC accruals. As described more fully below, changing the Commission's policy on AFUDC accrual could have wide-ranging impacts on shippers as well as pipelines, which have not yet been fully quantified. While NGSA is still evaluating the proposals outlined at FERC's December 15 technical conference on AFUDC, given the complexity of the issue and the potential impacts on pipeline shippers, NGSA asks the Commission to allow for supplemental comments once parties have had an opportunity to review the additional data from pipeline companies requested by Commission Staff at the technical conference.

Extending the time in which carrying charges for AFUDC can be capitalized increases the potential for profit on the capitalized funds and enhances future cash flows by creating a larger rate base once the project is in service. Thus, the proposals under review to allow AFUDC accrual prior to project certification will tend to lower a

project sponsor's risk while increasing both risk and costs to shippers. Moreover, proposals to modify the standard for challenging such accruals could subject shippers to increased burdens and legal fees to challenge proposed AFUDC costs. For these reasons, shippers need adequate time to review the supplemental information to be provided by the pipelines regarding AFUDC costs as requested by Commission staff in order to fully understand the implications of changing the current policy.

Like the Commission, holders of pipeline capacity need answers to a myriad of questions in order to assess whether it is appropriate to support changing the current policy on AFUDC accruals and what policy would result in an equitable sharing of risk between pipelines and shippers. For example, should the date for capitalizing carrying costs be changed to the date when the pre-filing process begins, when the certificate is filed or when construction commences? What is the overall cost impact to shippers of changing the timeframe for AFUDC accruals or eliminating the generic timeframe entirely, especially given that carrying charges compound monthly? Because of the uncertainty that would be created if there were no defined parameters for AFUDC accruals, NGSA asks that FERC continue to impose a specific standard for determining when accruals begin. While NGSA is not recommending a specific standard for AFUDC at this time, such as a date when AFUDC accruals would begin, NGSA does ask that FERC maintain a clear standard which triggers AFUDC accruals as opposed to a retroactive case-by-case policy as proposed by INGAA in which shippers would face a high level of uncertainty associated with undefined cost parameters.

In addition, pipelines must provide greater transparency when proposing the

recovery of AFUDC-related costs. Complete and detailed information should be filed supporting the calculation and reporting of AFUDC costs as opposed to the Commission compelling such information through a series of data requests. Further, the Commission should clarify how AFUDC will be calculated in those instances in which a greenfield pipeline has yet to establish a capital structure and FERC has not approved an initial rate of return on equity.

NGSA looks forward to the opportunity to comment further after considering the additional information from the pipeline industry which addresses the types of questions outlined above so that both the Commission and shippers can become more fully aware of the implications of these proposals prior to a final Commission determination.

IV. CONCLUSION

For the reasons above, the Commission should carefully consider making changes to its policy on AFUDC accrual and should establish a clear, “bright line” standard for when pipelines may begin to accrue interest on funds used during construction.

Respectfully Submitted,

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