

October 12, 2006

Honorable Joseph T. Kelliher
Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: Docket No. RP04-274

Dear Chairman Kelliher:

On behalf of the Process Gas Consumers Group (PGC), the Independent Petroleum Association of America (IPAA), and the Natural Gas Supply Association (NGSA), we are writing in response to certain assertions and requests made by the Interstate Natural Gas Association of America (INGAA) in both its letter of June 30, 2006 as well as an August 24 white paper prepared on the behalf of INGAA.¹ In that paper, INGAA states that the Commission should modify its existing policy that does not allow Master Limited Partnerships (MLP) in its determination of a proxy group in the calculation of a pipeline's return on equity. We urge the Commission not to alter its rate of return ratemaking policies in the Kern River proceeding. The Commission's existing policies have served the industry well over time. We see no reason for the Commission to revisit the MLP issue;² however it would be more appropriate if the Commission did so in the context of a generic, public proceeding that addressed a broad spectrum of ratemaking policies with an opportunity for comment by all industry participants.

Like INGAA, our groups fully support the need for adequate pipeline infrastructure and agree with INGAA's premise that, in determining just and reasonable rates, the Commission must balance the interest of consumers and investors. However, we believe that we are in a robust environment for making investments in transmission facilities. We see no evidence that there is a lack of investment under the Commission's existing policy. In fact, one only needs to look at the large number of proposed pipelines and recently constructed projects to know that the industry continues to be a very attractive prospect, particularly since the vast majority of those projects continue to be backed by long-term contracts that mitigate investor risk. The amount of investment in the pipeline community that has occurred under *existing* policies demonstrates that the tried and true ratemaking methods result in an appropriate regulatory balance.

¹ INGAA's August 24, 2006 white paper entitled "Allowed Returns on Equity in the Interstate Gas Pipeline Industry Issues and Options Regarding the FERC DCF Approach."

² This issue is pending in a High Island Offshore System (HIOS) proceeding currently before the DC Circuit.

We remain concerned that the heightened attention generated by INGAA on the issues raised in the whitepaper could lead to unnecessary delays in resolution of this case and could inject extra-record considerations into the Commission's decision. Indeed, it is critical that the Kern River case be decided expeditiously on the basis of the full and very complete record established in that proceeding.

Thank you for your consideration.

Regards,



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General Counsel for The Process Gas Consumers Group



Barry Russell
President
Independent Petroleum Association of America



R. Skip Horvath
President & CEO
Natural Gas Supply Association

cc: Hon. Suedeen Kelly, Commissioner, Federal Energy Regulatory Commission
Hon. Phil Moeller, Commissioner, Federal Energy Regulatory Commission
Hon. Marc Spitzer, Commissioner Federal Energy Regulatory Commission
Hon. Jon Wellinghoff, Commissioner, Federal Energy Regulatory Commission