



NEWS

For Immediate Release: August 30, 2007

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www.NGSA.org and www.NaturalGas.org

NGSA Supports Proposal to Include MLPs in Natural Gas Pipeline Proxy Groups as an Interim Solution

(Washington, DC)... The Natural Gas Supply Association (NGSA) believes federal regulators should implement their proposal to include Master Limited Partnerships (MLPs) in the proxy group used to determine the return on equity (ROE) for natural gas pipeline companies. NGSA sees this proposal as only a temporary solution until the Federal Energy Regulatory Commission (FERC) can develop a more stable long-term solution.

However, the proposal should only be implemented if the commission retains its condition that distributions be capped at earnings.

Using the Discounted Cash Flow (DCF) methodology, FERC determines the appropriate rate of ROE in a pipeline company's rate case based on the median calculated for companies of similar risk in a proxy group. With increasing numbers of traditional corporations converting to an MLP structure, it has become increasingly difficult for parties to present FERC with a proxy group of traditional corporations in which pipeline operations are their primary business.

NGSA commends FERC's proposal to cap MLP distributions at earnings as a means to make an MLP more comparable to traditional corporations for purposes of calculating ROE using the DCF methodology, because MLPs are fundamentally different types of businesses.

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“In order to develop a more valid long-term solution, a new proceeding should be initiated to devise a more straight-forward and transparent approach that departs from the long-held, DCF methodology,” said Patricia W. Jagtiani, vice president of regulatory affairs.

The association suggests FERC consider the potential advantages of adopting a risk premium approach for calculating ROE, an arguably more straight forward and transparent method.

“Not only is this approach simpler and more transparent, requiring less manipulation or adjustments when calculating returns, it also reduces the burden on parties to argue complex return issues in every rate case,” Jagtiani said. “It also provides predictability and certainty to investors about pipeline return expectations.”

NGSA, in its comments, urged regulators not to consider any “retroactive application of this new policy in cases where the hearing phase has been completed and the record has been closed.”

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NGSA represents integrated and independent companies that produce and market natural gas in the United States. NGSA is actively involved in pursuing regulatory and legislative issues that affect the association's members. Established in 1965, NGSA encourages expanded use of natural gas and supports regulatory and legislative actions that foster competitive markets.

(Editor's Note: A copy of the association's complete filing will be available soon at www.ngsa.org, or contact Sandra Crockett at scrockett@ngsa.org, (202) 326-9300).