NEWS

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Natural Gas Supply Association

Cost-tracker Not the Right Means for Pipeline Modernization Cost Recovery, NGSA Says

(Washington, D.C.) -- (Washington, D.C.) – In comments filed today at the Federal Energy Regulatory Commission (FERC), the Natural Gas Supply Association (NGSA) outlined strong practical and legal reasons that the Commission should not permit interstate natural gas pipelines to track and recover the capital costs of pipeline modernization through a potential new surcharge mechanism that would circumvent traditional Section 4 rate case methodology.

Dena E. Wiggins, president and CEO of NGSA said, "Certainly, pipelines should have the opportunity to recover costs for actions taken to comply with environmental and safety requirements. However, using a surcharge mechanism for recovery of these capital costs undermines the existing methodical and careful Section 4 rate case process that currently provides strong protections for pipeline shippers."

Adopting a surcharge represents a major policy reversal in pipeline rate regulation that is inconsistent with decades of regulation under the Natural Gas Act by permitting a significant portion of the pipeline's costs to be collected outside the base transportation rate, NGSA wrote in its comments. NGSA cautioned that once a policy statement is implemented in a specific case, it becomes binding law.

NGSA Senior Vice President Patricia Jagtiani added, "There are effective, time-tested rate case and settlement procedures in place today that permit pipelines the opportunity to recover modernization costs."

Jagtiani said, "For three decades, the Commission's regulations have required pipelines to file a rate case to recover their prudently-incurred costs through transportation rates based on projected units of service. A cost-tracker essentially eliminates all risk on the pipeline by guaranteeing cost recovery of the tracked costs. The tracker also fails to account for cost-savings in other areas, which would have been required under a Section 4 rate case and could have potentially offset tracked costs."

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Commenting on the various conditions that FERC is considering for protection of consumers, NGSA wrote, "Such conditions, no matter how carefully crafted and enforced, are no substitute for a full-fledged Section 4 rate case, subject to an evidentiary hearing, with an opportunity for discovery, cross-examination and decision before an impartial fact finder. With limited exceptions, the Commission has adhered to its policy against cost-trackers and with good reason."

NGSA asked FERC to abandon exploration of the modernization surcharge and instead adhere to its well-established framework for pipeline cost recovery in the context of a Section 4 proceeding.

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