Excessive Pipeline Rates Cost Customers Billions of Dollars

NGA Section 5 reform needed to rein in cases of excessive pipeline earnings

Legislation is needed to provide the Federal Energy Regulatory Commission (FERC) with the authority under the Natural Gas Act (NGA) to require interstate natural gas pipelines to pay refunds from the date a complaint is filed if the pipeline is found to have been charging rates that are too high.

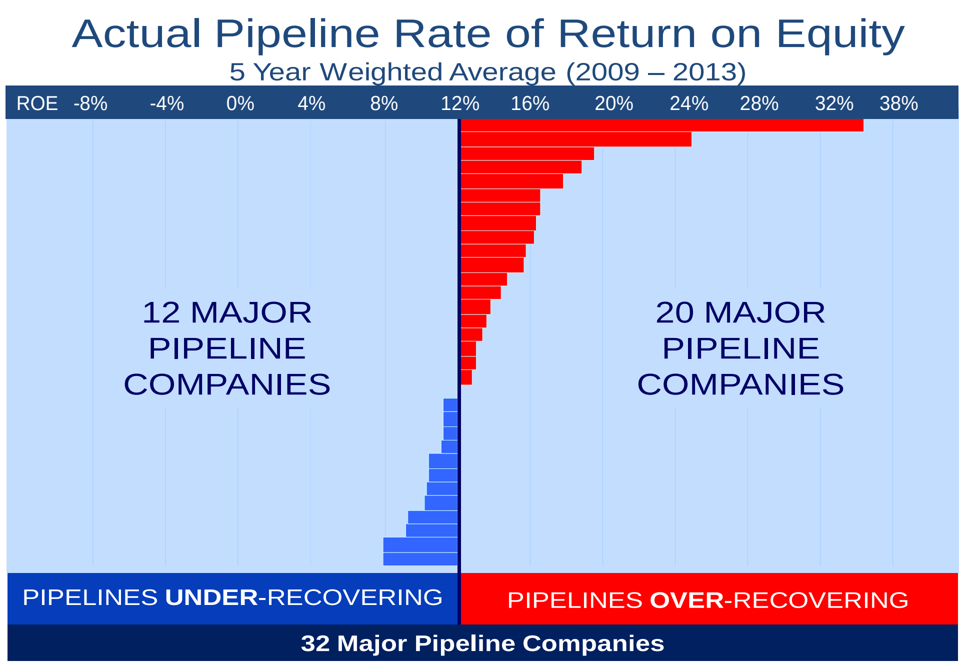
Currently, when FERC determines that a pipeline customer is correct in complaining that the interstate natural gas pipeline's rates are too high, the NGA does not allow FERC to order the pipeline to refund any of the overcharges to the customer. As a result, customers are never reimbursed the money that FERC agrees they were overcharged. Instead, FERC can only order the pipeline to lower its rates going forward from the date of the FERC order. Meanwhile, a considerable amount of time may have passed between the time the customer filed its complaint under Section 5 of the NGA and the time FERC issued its order, since pipelines have a strong incentive to delay the outcome of the proceeding and continue to charge the higher rate until FERC lowers it.

The Federal Power Act (FPA) was amended in 1988 to give FERC the authority to grant refunds in a complaint case involving electricity rates. The NGA must have a comparable provision. The law must provide natural gas customers with the same protections afforded to electricity customers.

Excessive pipeline rates cost consumers billions of dollars. In a study calculating 32 pipelines' return on equity (ROE) over a five-year period, data revealed that 20 pipelines earned above 12% ROE and nine pipelines earned above 16% ROE. The 20 over-earning pipelines cost customers $5 billion over that five-year period.

The regulatory landscape has changed. Despite widespread customer opposition, FERC recently adopted a modernization surcharge policy giving interstate pipelines new opportunities to recover costs outside of a general rate case. This decision creates an opportunity for unfettered pipeline cost recovery and makes NGA Section 5 reform more important than ever. Pipeline customers must have protection from unjust and unreasonable pipeline rates.

Interstate pipelines will claim that allowing customer refunds will hurt the pipeline's bottom line, adversely impacting the ability to invest in needed infrastructure. Those arguments are hollow. Section 5 reform does not impact pipeline rates across the board. Instead, initiation of a Section 5 complaint is targeted at a single pipeline in instances of egregious over-earning.



Source: NGSA Pipeline Cost Recovery Report 2009-2013

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