PIPELINE COST / 2025 RECOVERY REPORT

Natural Gas Supply Association

19 MAJOR PIPELINES 2020-2024

Based on FERC Form No. 2 Data

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Interstate Natural Gas Pipeline
Cost Recovery Analysis

This report is the Natural Gas Supply Association's (NGSA) 25th annual evaluation of earnings by major interstate natural gas pipelines. Each year, NGSA analyzes a selection of major interstate natural gas pipelines to assess the rate of return on equity (ROE) earned by these pipelines over the most recent five-year period. Our pipeline study this year includes 19 of the same 20 pipelines we used last year.

Summary of Results for 2024

- 2024 shows some unusual results compared to prior years. Only 9 of the 19 pipelines in the study had an earned ROE at or above our 12% benchmark, compared to 15 pipelines last year. The average earned ROE for 2024 was 14.1%, down from 15.7% in 2023. In addition, only four pipelines showed improved results this year compared to last year.
- The highest earning pipeline in our study over the five-year period was once again Natural Gas Pipeline Company of America (NGPL), with a five-year average earned ROE of 35.9%. NGPL was also the highest earner for the current year, at 36.8%.
- The percentage returns mask somewhat the size of the net cost over-recovery relative to a 12% benchmark ROE. For 2024, the over-recovery realized by the 19 pipelines in our study was $745 million. This total is net of the cost under-recoveries by pipelines in the group earning less than 12% ROE. For the nine pipelines that over-recovered in 2024, the total over-recovery was $1.6 billion.

Major Developments and Policy Change Impacts

Pipeline returns for 2024 have been impacted by a variety of factors. We believe NGA Section 4 rate case moratoriums are a significant factor for some of the largest pipelines, several of which have rate cases currently underway which are likely to lead to significant rate increases for these pipelines. Others are due to file new rate cases later this year. Still others may be choosing not to file due to the preponderance of negotiated rate contracts on their systems which would not be impacted by a change in recourse rates.

As a result of these current and upcoming rate cases, we expect overall earned ROEs to increase in 2025 compared to 2024. That said, a 14.1% average earned ROE is still well above the 12% benchmark used to measure a healthy return on equity for an interstate natural gas pipeline. We believe that the "junk and jewel" transactions discussed in last year's report continue to inflate the earned returns for several of the pipelines in this study, and that overall earned returns would be lower if these bundled transactions were to be prohibited by the FERC.

We have excluded Trailblazer Pipeline from this year's study because its anomalous return would disproportionately lower the overall average earned returns for 2024. Trailblazer's 2024 earned ROE was -49.3%. This was due to the impact on rate base and revenues of abandoning 392 miles of pipeline to its parent company to be repurposed for carbon dioxide transportation. Concurrently with this, Trailblazer entered into a 15-year capacity lease agreement with Rockies Express Pipeline (REX) which included construction of new facilities by REX for Trailblazer that did not go into service until late 2024. We expect Trailblazer's ROE to normalize next year.

NGSA supports healthy returns for interstate pipelines to ensure that there is an adequate incentive to make necessary investments in infrastructure. However, NGSA, like other pipeline shipper groups, has an interest in ensuring that the Federal Energy Regulatory Commission (FERC) takes action to review pipeline rates when there is evidence that a pipeline has substantially exceeded a reasonable level of earned ROE over a sustained period or when there are major policy, regulatory or commercial changes that necessitate revised rates.

Methodology

NGSA conducts its cost recovery analysis by comparing annual revenues for each pipeline to an estimate of its regulated cost of service for the same year, using the methodology that would be applied by the FERC in a traditional NGA Section 4 rate proceeding. Most of the cost and revenue data used in our model is taken from each pipeline's FERC Form No. 2 for the year. In those instances where interpretation of Form 2 amounts is required, NGSA uses a conservative approach to determine what to include. The resulting over or under-recovery of costs calculated by this method is then translated into an earned ROE.

In 2022 we implemented a change to our methodology which does not impact the earned ROE calculation but does impact the dollar cost over-recovery calculation. Prior to 2022, our dollar cost recovery calculation was based on the ROE reported in each pipeline's Form 2. Because these rates vary widely from pipeline to pipeline, we are now using the benchmark ROE (12.0%) for the cost over-recovery calculation. This change removes any distortion caused by individual pipelines reporting higher or lower ROEs in their Form 2 data and produces a cost over-recovery amount that is measured against the benchmark 12% ROE.

Below is a summary of the steps used to develop the three elements needed to determine the return on equity for each pipeline.

1. *Rate Base.* Rate base includes gas plant in service, accumulated depreciation, gas stored-noncurrent, ADIT, working capital and regulatory assets and liabilities.
2. *Revenues.* Net revenues are generally calculated as total operating revenues less revenues from sales of gas reported in Account Nos. 480-484.
3. *Cost of Service.* Each pipeline's total cost of service is calculated by adding the annual allowed return on rate base, federal and state income taxes, other taxes, depreciation expense, and operation and maintenance (O&M) costs.
    a. Return on rate base is calculated using the capitalization ratios reported in the Form 2 as long as those ratios are within a range FERC has historically approved. When outside this range, the study uses a deemed capital structure consistent with current FERC policy (65% equity for pipelines showing higher equity ratios).

b. To calculate the federal income taxes, the total allowed return on rate base is multiplied by the ratio of the weighted return on equity to the total weighted return on rate base and then multiplied by the grossed-up federal income tax factor pursuant to FERC regulations. For pipelines still owned by an MLP (Enable Gas and Transwestern), no income tax allowance is included.

c. State income tax rates are calculated as a percentage of federal income tax rates using information from each pipeline's most recent Section 4 rate case, if available. If not, state income tax rates are estimated using statutory state tax rate information from the pipeline's Form 2.

d. In order to appropriately determine a pipeline's non-gas cost of service and properly align costs with reported revenues, compressor and other fuel costs are removed from O&M expenses.

Each pipeline's over- or under-recovery of costs is calculated by subtracting the total cost of service from net revenues. Because the study's total cost of service calculation already includes a return on rate base, the over or under-recovery of costs is added to the return on equity included in the cost of service to determine the earned ROE for the pipeline. The formula to calculate actual earned rate of return on equity is as follows:

$$ROE = \frac{\left[\left(CR - \left(CR * \left(\frac{FGIT}{(1+FGIT)}\right)\right) - \left(CR * (SIT * FGIT)\right)\right) + \left(AR * \left(\frac{ER}{TR}\right)\right)\right]}{RB * EC}$$

Where:

ROE	=	Actual Earned Rate on Equity
CR	=	Cost Over- or Under- Recovery
FGIT	=	Federal Grossed-Up Income Tax Rate
SIT	=	State Income Tax Rate as a Percentage of FIT
AR	=	Calculated Return on Rate Base
ER	=	Weighted Equity Rate of Return on Rate Base
TR	=	Weighted Total Rate of Return on Rate Base
RB	=	Total Rate Base
EC	=	Equity Capitalization Ratio

For the one remaining pipeline in our group that does not have a fuel tracking and true-up mechanism in place (NGPL), NGSA uses the revenues reported by these pipelines for sales of gas and sales of excess fuel retained from shippers to calculate total revenue and earned ROE inclusive of profit from retained fuel amounts in excess of what was consumed.

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June 2025

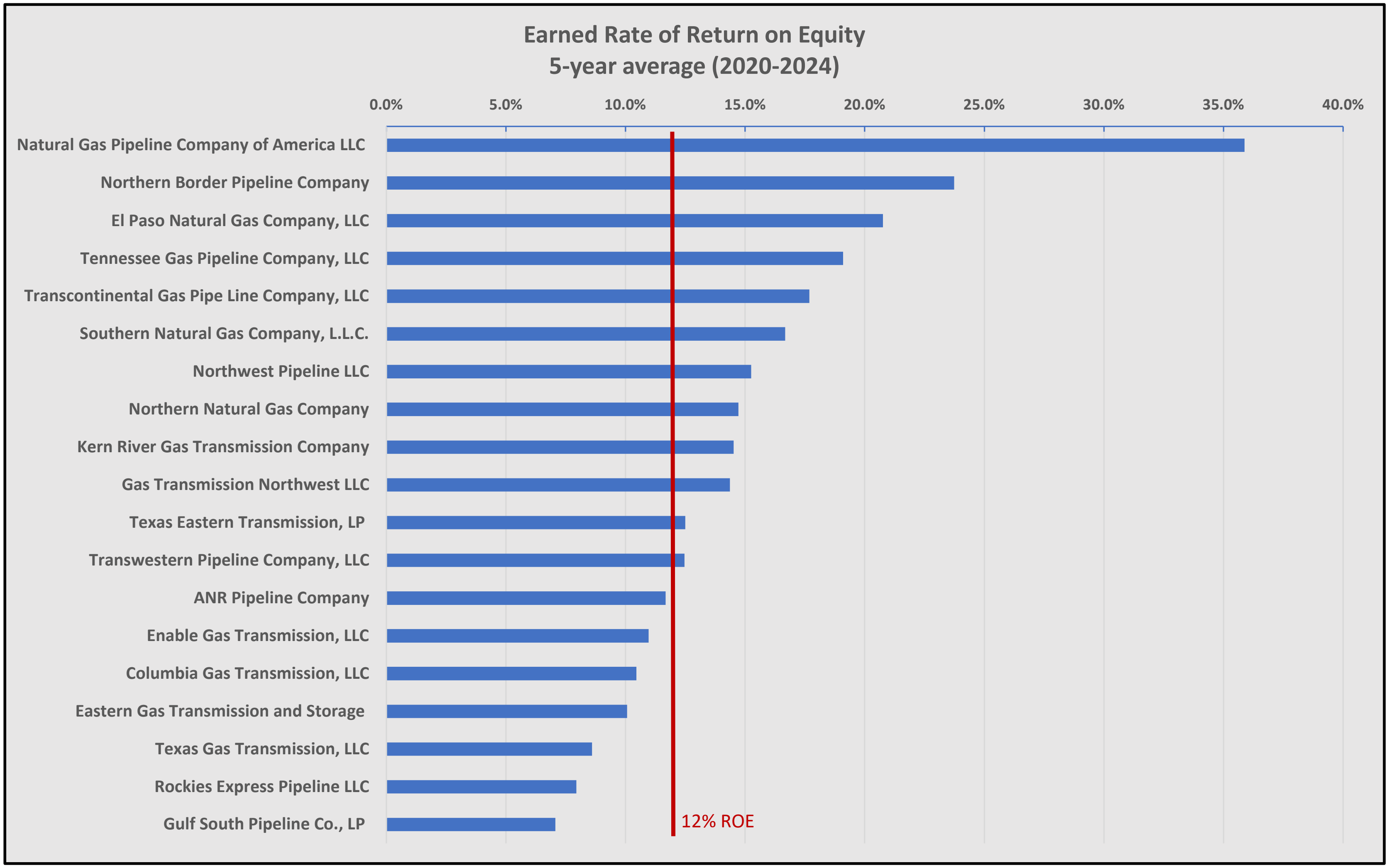
Natural Gas Supply Association
Earned Pipeline Rate of Return on Equity

NGSA Analysis - 20 Pipelines

	Pipeline Name	Notes	Year Ended 2020	Year Ended 2021	Year Ended 2022	Year Ended 2023	Year Ended 2024	Five-year average
●	Natural Gas Pipeline Company of America LLC		31.4%	33.8%	38.7%	38.7%	36.8%	35.9%
	Northern Border Pipeline Company		19.6%	20.0%	23.9%	27.8%	27.4%	23.7%
	El Paso Natural Gas Company, LLC		21.0%	20.3%	17.1%	24.7%	20.7%	20.8%
	Tennessee Gas Pipeline Company, LLC		18.2%	19.6%	20.0%	18.8%	18.9%	19.1%
	Transcontinental Gas Pipe Line Company, LLC		16.2%	18.1%	19.5%	18.1%	16.4%	17.7%
	Southern Natural Gas Company, L.L.C.		16.6%	16.2%	18.9%	15.9%	15.8%	16.7%
	Northwest Pipeline LLC		17.6%	16.7%	15.9%	14.2%	11.9%	15.3%
	Northern Natural Gas Company		14.3%	16.6%	13.6%	14.0%	15.1%	14.7%
	Kern River Gas Transmission Company		15.2%	17.3%	16.6%	13.2%	10.4%	14.5%
	Gas Transmission Northwest LLC		20.8%	11.5%	12.9%	14.3%	12.4%	14.4%
	Texas Eastern Transmission, LP		13.9%	10.1%	12.9%	13.5%	12.1%	12.5%
	Transwestern Pipeline Company, LLC		11.9%	12.7%	14.5%	12.7%	10.5%	12.5%
	ANR Pipeline Company		13.4%	11.5%	9.7%	12.3%	11.6%	11.7%
	Enable Gas Transmission, LLC		8.9%	13.6%	16.7%	12.3%	3.4%	11.0%
	Columbia Gas Transmission, LLC		12.4%	11.2%	10.8%	9.6%	8.4%	10.5%
	Eastern Gas Transmission and Storage		11.4%	7.0%	10.7%	10.7%	10.6%	10.1%
	Texas Gas Transmission, LLC		10.9%	7.6%	8.9%	7.4%	8.2%	8.6%
	Rockies Express Pipeline LLC		4.9%	7.4%	9.9%	8.9%	8.7%	8.0%
	Gulf South Pipeline Co., LP		5.3%	6.2%	6.5%	8.1%	9.2%	7.1%
	Average earned ROE		16.5%	15.6%	16.0%	15.7%	14.1%	15.0%
	Net Cost Over-Recovery (including fuel)		925,370,217	777,354,590	1,280,330,259	1,150,198,048	744,543,643	975,559,351

● NGPL does not have a fuel tracker with a true-up provision, so can earn additional revenues from fuel within a certain band of allowed over- or under-recoveries.

Natural Gas Supply Association Pipeline Cost Recovery Report
Summary of Results



Notes to Summary Chart (Ownership and Tax Status)

1/ **Natural Gas Pipeline Company of America:** NGPL is organized as an LLC but is a disregarded entity for tax purposes. All its income is included in the tax returns of NGPL Holding Co., which is a corporation.

2/ **Northern Border Pipeline Company:** Northern Border is a limited partnership owned 50% by TC Pipelines, LP and 50% by ONEOK, Inc. In 2018, Northern Border elected to eliminate all ADIT and associated regulatory assets and liabilities from their balance sheet. The partnership also now claims eligibility for an income tax allowance due to the fact that it is 50% owned by a corporation (ONEOK, Inc.) and TC Energy now owns all shares of TC Pipelines, LP.

3/ **El Paso Natural Gas and Tennessee Gas Pipeline:** Both pipelines are owned by Kinder Morgan Energy Partners, formerly an MLP that is now 100% owned by Kinder Morgan, Inc. (KMI). Their Form 2s state that all "activities" of the pipelines are included in the tax returns of KMI.

4/ **Northwest Pipeline:** Northwest was formerly owned by Williams Partners, an MLP which was acquired in full by Williams Companies, a corporation. Northwest's income is included in Williams' federal tax returns.

5/ **Enable Gas Transmission:** Enable is wholly owned by Energy Transfer LP, which acquired Enable Midstream Partners in December 2021. Enable has eliminated its ADIT balances from its Form 2 report as of 2020. Because Energy Transfer LP is an MLP, we have also continued to exclude an income tax allowance for Enable in its cost of service.

6/ **Kern River Gas Transmission and Dominion Energy / Eastern Gas Transmission:** Both pipelines are owned by Berkshire Hathaway, Inc. (Dominion was acquired by Berkshire Hathaway in 2020, which changed its name to Eastern Gas Transmission & Storage, Inc.). Both pipelines have retained their ADIT and regulatory asset/liability balances and are eligible for an income tax allowance in our analysis.

7/ **ANR Pipeline:** ANR is a wholly-owned indirect subsidiary of TC Energy. Its income is included on the tax returns of TransCanada PipeLine USA Ltd.

8/ **Texas Eastern Transmission:** Texas Eastern is a wholly-owned subsidiary of Enbridge, Inc., which acquired all outstanding units of its former owner, Spectra Energy Partners, in 2018. Enbridge has requested authorization from the Chief Accountant to retain all the ADIT and associated regulatory liabilities of Texas Eastern, even though the pipeline is now indirectly owned by a corporation. Texas Eastern has elected to continue reporting these balances on its Form 2. While we include an income tax allowance given Texas Eastern's ownership by Enbridge, we also include a calculation of earned ROE with all ADIT and associated regulatory liability balances removed from rate base.

9/ **Texas Gas Transmission and Gulf South Pipeline:** Both pipelines are owned by Boardwalk Pipeline Partners, a former MLP now owned by Loews Corporation. Both pipelines have retained their ADIT and regulatory asset and liability balances. Thus, we continue to include an income tax allowance for these pipelines.