



November 20, 2014

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Docket No. PL15-1

Agenda Item G-1

FERC Proposes Policy on Cost Recovery for Natural Gas Facilities Modernization

The Federal Energy Regulatory Commission is seeking public comment on a proposed policy statement that would allow interstate natural gas pipelines to recover, through surcharge or tracker mechanisms, certain capital expenditures made to modernize pipeline system infrastructure to enhance reliability, safety and regulatory compliance.

As a result of regulatory reforms by the Pipeline and Hazardous Materials Safety Administration, interstate pipelines likely will face new standards requiring significant capital cost expenditures to enhance the safety and reliability of their systems. Under recent Environmental Protection Agency initiatives, they also may face increased environmental monitoring and compliance costs, as well as a need to replace or repair existing compressors and other facilities.

The proposed policy statement is meant to ensure that existing Commission ratemaking policies do not create barriers to the ability of pipelines to expedite needed or required upgrades and improvements. In addition to allowing recovery of modernization costs, FERC may consider capital costs to replace compressor facilities or make other improvements in response to increased federal or state environmental regulations as eligible for inclusion in the surcharge.

Under the proposed policy statement, which is based on principles in a January 2013 FERC order that allowed Columbia Gas Transmission LLC to implement such a tracker, a pipeline seeking a cost-recovery surcharge would have to meet five standards:

- The pipeline's base rates must have been recently reviewed through a Natural Gas Act general section 4 rate proceeding or through a collaborative effort between the pipeline and its customers.
- Eligible costs must be limited to one-time capital costs incurred to meet safety or environmental regulations, and the pipeline must specifically identify each capital investment to be recovered by the surcharge.
- Captive customers must be protected from cost shifts if the pipeline loses shippers or increases discounts to retain business.
- There must be a periodic review to ensure rates remain just and reasonable.
- The pipeline must work collaboratively with shippers to seek their support for any surcharge proposal.

Comments on the proposed policy statement are due 30 days from the date of publication in the *Federal Register*, with reply comments due 20 days later.

R-15-9

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