UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Cost Recovery Mechanisms for Modernization Of Natural Gas Facilities	))	Docket No. PL15-1-000

COMMENTS OF
THE INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA

The Interstate Natural Gas Association of America (INGAA) submits these comments in response to the Federal Energy Regulatory Commission's (FERC or Commission) November 20, 2014 proposed policy statement on cost recovery mechanisms for modernization of natural gas facilities (Proposed Policy Statement) in the above-referenced docket.[1]

INGAA is a trade organization that advocates regulatory and legislative positions of importance to the natural gas pipeline industry in North America. INGAA's 24 members represent the vast majority of the interstate natural gas transmission pipeline companies in the United States. Its United States members are regulated by the Commission pursuant to the Natural Gas Act (NGA), 15 U.S.C. §§ 717-717w. INGAA's members, which operate approximately 200,000 miles of pipelines, serve as an indispensable link between natural gas producers and consumers.

INGAA appreciates the Commission's flexible approach towards recovery of prudently incurred costs associated with modernizing pipeline infrastructure and complying with governmental regulations requiring the inspection, maintenance and replacement of certain pipeline facilities. The potential to utilize a tracker mechanism to recover such costs, within the proper framework established by the Commission, will be a valuable tool available to pipeline companies to achieve timely cost recovery of very significant investments in the nation's interstate natural gas pipeline network.

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[1] *Cost Recovery Mechanisms for Modernization of Natural Gas Facilities*, Proposed Policy Statement, 149 FERC ¶ 61,147 (2014).

The importance of the Commission's Proposed Policy Statement is signaled by the White House's recent initiative to reduce methane emissions from the oil and gas sector.[2] The Administration's blueprint recognizes that voluntary programs and industry efforts will be required to fully attain the Administration's goal and sets forth a policy approach that also will establish voluntary partnerships between entities within the private and public sectors whose purpose is to implement cost-effective solutions for reducing methane emissions. Such voluntary efforts currently are underway to address sources of methane emissions.

I. The Commission Should Provide Pipelines Flexibility to Comply with the Five Standards Necessary to Establish a Cost Modernization Tracker.

The Commission proposes an analytical framework for evaluating proposed cost recovery mechanisms to recoup infrastructure modernization costs necessary for the efficient and safe operation of the pipeline's system and compliance with new regulations. The Commission establishes five standards that a pipeline would need to satisfy in order to establish a cost modernization tracker: (1) review of existing rates; (2) eligible costs; (3) avoidance of cost shifting; (4) periodic review of the surcharge; and (5) shipper support.[3] INGAA pipelines will work with their shippers to satisfy the five standards but ask the Commission to modify the Proposed Policy Statement to reflect INGAA's clarifications and comments below. Further, INGAA urges the Commission to promptly issue a final policy statement.

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[2] On January 15, 2015, the Administration unveiled its blueprint for mitigating methane emissions from the oil and gas sector, with a goal to cut emissions by 40 to 45 percent by 2025. The White House's blueprint suggests a new rulemaking by the Environmental Protection Agency (EPA) to be finalized in 2016 for new sources of emissions and embraces interagency cooperation among the EPA, the Pipeline and Hazardous Materials Safety Administration (PHMSA), the Department of Energy, the Bureau of Land Management, and the FERC to ensure a harmonized approach. http://www.whitehouse.gov/blog/2015/01/14/new-actions-reduce-methane-emissions-will-curb-climate-change-cut-down-wasted-energy

[3] Proposed Policy Statement at P 20.

A. The Commission Should Remain Open to Alternative Approaches to Justifying Existing Base Rates.

INGAA understands that the Commission is interested in ensuring that a pipeline's existing base rates reflect recently reviewed costs and revenues, as of the initial approval date of the tracker mechanism. A recent general NGA Section 4 rate filing, a cost and revenue study under Section 154.313 of the Commission's regulations, and a pre-negotiated base rate settlement are all appropriate methods for determining that existing base rates are just and reasonable. These are not the only circumstances, however, in which relevant rates may be reviewed and approved by the Commission, or the cost recovery tracker may be supported by the pipeline's shippers, and the Commission should not preclude such other possibilities.[4]

As the Commission acknowledges in its Proposed Policy Statement, there may be multiple approaches to ensuring that the pipeline's introduction of a cost recovery mechanism is appropriate. Consistent with its policy favoring settlements, the Commission should allow a pipeline to introduce a cost recovery mechanism when such a proposal is broadly supported by shippers, regardless of whether the settlement addresses other rate issues, or when the pipeline has an upcoming obligation to file a general NGA Section 4 rate filing, a cost and revenue study, or a restatement or re-justification of its rates as the result of a settlement provision. Similarly, the Commission should recognize that a recent review of a pipeline's base rates may be irrelevant to the analysis of a cost tracker when all, or the vast majority, of a pipeline's shippers have entered into long-term negotiated rate agreements accepted by the Commission. In addition, the Commission should recognize that a cost recovery mechanism also may be appropriate when the Commission recently has reviewed and approved a pipeline's base rates in an NGA Section 7 proceeding to ensure that new pipelines are not placed at a disadvantage.

[4] Proposed Policy Statement at P 22.

Moreover, INGAA requests that the Commission recognize that there are other situations, including but not limited to the ones described above, which should satisfy a pipeline's ability to meet the Commission's first prong that a pipeline's base rates reflect recently reviewed costs and revenues as of the date the tracker mechanism initially is approved.

B. The Commission's Proposed Definition of Eligible Facilities Is Too Narrow.

In its Proposed Policy Statement, the Commission proposes several limitations on the tracker mechanism related to the categories of facilities or costs that would be eligible for inclusion into the tracker. While INGAA appreciates the need for, and supports, proper limitations to the use of the tracker mechanism, it appears that the Commission has proposed a policy that is too narrow and does not accomplish, to the greatest extent feasible, the regulatory goals of the Commission's action. As the Commission notes, the Proposed Policy Statement is intended to "ensure that existing Commission ratemaking policies do not unnecessarily inhibit interstate natural gas pipelines' ability to expedite needed or required updates and improvements …to modernize pipeline system infrastructure in a manner than enhances system reliability, safety, and regulatory compliance."[5]

To that end, INGAA offers the following comments on the categories of Eligible Facilities under the tracker mechanism.

1. The Commission should expand the scope and definition of eligible costs.

The Commission has proposed that the tracker mechanism be limited to recovery of capital costs only, and be further limited to "one-time capital costs to modify the pipeline's existing system to comply with safety and environmental regulations…",[6] such as future anticipated greenhouse gas emissions or pipeline safety regulations. This limitation creates

[5] Proposed Policy Statement at P 9.
[6] Proposed Policy Statement at P 23.

significant restrictions on the use of the tracker mechanism. Expanding the applicability of the tracker mechanism as discussed herein would better align the tracker to the Commission's goal of encouraging the replacement of older facilities and the installation of more efficient facilities.

As a matter of policy, INGAA believes that limiting the tracker mechanism only to capital costs is an unnecessary limitation on the type of costs that should be eligible for inclusion into the tracker mechanism. INGAA urges the Commission to adopt a more flexible approach and consider that any non-routine costs be eligible for inclusion in the tracker mechanism, to the extent properly supported by a pipeline proposing a tracker mechanism in an individual proceeding. These costs could include capital replacement projects like mainline pipeline or facility replacement, replacement of or upgrades to compression facilities, and/or early retirement and replacement of facilities that may not meet emission control requirements under new EPA regulations or through voluntary, prudently incurred, initiatives including those encouraged by the White House blueprint for reducing methane emissions. Recovery of these capital costs would be in line with the policy the Commission is advancing, since they relate either to infrastructure modernization necessary for the efficient and safe operation of the pipeline's system, or compliance with new regulation(s) and/or recognized voluntary environmental programs recently outlined by the White House to reduce methane emissions. The costs also would be non-routine costs under any definition. However, they may not be one-time costs, so the current proposal would not allow their recovery. To address this deficiency and better achieve the Commission's goals, the Commission should adjudicate whether to allow recovery of such costs in an individual proceeding based on specific evidence rather than precluding such recovery as a matter of policy.

In addition, a pipeline should be able to include certain non-capital expenses within the tracker mechanism, to the extent such costs are non-routine and required to be incurred by regulation or by a voluntary program adopted by a pipeline as a best practice, as discussed below. INGAA agrees with the Commission that routine expenses should not be included in the tracker mechanism. Pipelines, however, often incur non-routine expenses related to pipeline safety and environmental programs. By limiting the tracker mechanism to recovery of capital costs only, the Commission's policy would exclude these discrete, non-routine expenses that have a direct nexus to costs pipelines are required to incur by virtue of regulatory requirements or voluntary programs mandated by good utility practice. For example, a pipeline may be required to perform in-line inspections by running smart tools through various segments of its system. Under Commission policy, these in-line inspections are expensed and not capitalized. These in-line inspections, however, may dictate the need to perform either immediate physical remediation on a segment of pipeline, or, if immediate action is not required, a schedule for future action to be taken. Remediation can take the form of pipeline or facility replacement, pipeline recoating, or installation of structural sleeves on segments of pipeline, among other things.[7] Without the testing, a pipeline typically would not know to perform remediation. Should the Commission wish to encourage pipelines to perform remediation – the costs of which certainly can be tracked if the pipeline meets the Commission's eligibility requirements – then pipelines also should be able to track the cost of the testing that identifies the need to remediate. As a further example, the expectation of new regulations regarding the limitation on greenhouse gas emissions will require pipelines to establish more comprehensive Directed Inspection and Maintenance (DI&M) programs. These programs will require more immediate remediation or repair of pipeline facilities that may have been considered more routine in the past.[8]

[7] Some pipeline companies have internal accounting guidelines that provide for the expensing of this type of remediation to the extent it is less than a certain footage.

[8] INGAA is developing a voluntary program called the DI&M program. This program detects and repairs leaks by focusing resources on monitoring the components that are most likely to leak because research reveals that 20 percent or 10 percent of the leaks cause 80 percent or 90 percent of the methane emissions from compressor station

The expenses associated with such a program similarly would be difficult to budget, would be non-routine and significant, and prudent for inclusion into a tracker mechanism. While the cost of running smart tools through segments of pipeline is relatively known and budgeted as a routine item, the costs associated with these types of remediation expenses are extremely difficult to predict or budget due to the variable nature of what a smart tool may find in any given section of pipeline. Additionally, these non-routine remediation expenses may be significant.

It is reasonable to expect that not all of the costs associated with anticipated pipeline safety and environmental regulations will be capital in nature. These types of expenses are not normal or recurring and can vary widely. Allowing for cost recovery of such non-routine expenses through the tracker mechanism will further the regulatory purpose of the tracker mechanism as articulated by the Commission in the Policy Statement, which is to encourage the replacement of older facilities and the installation of more efficient facilities. The Commission should not preclude recovery of prudently incurred expenses through the tracker mechanism as a matter of policy. Rather, the Commission should defer decision on the potential inclusion of certain non-routine expenses in the tracker mechanism to individual proceedings of pipeline companies proposing to establish their individual tracker mechanisms. Each individual pipeline's facts and circumstances may justify that recovery of expenses through the tracker mechanism would be just and reasonable in certain circumstances. The Commission should not, as a matter of policy, preclude the recovery of such costs within the tracker mechanism in this forum.

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equipment (the so-called 80/20 or 90/10 rule). DI&M is focused on systematically identifying and repairing these leaks. This program will be a key voluntary program for reduction of methane emissions from existing facilities as outlined in the Administration's January 2015 methane blueprint.

Lastly, a pipeline should be able to include costs associated with both voluntary and mandatory pipeline safety and environmental costs within the tracker mechanism, so long as the costs are prudently incurred, beneficial to the pipeline system and can provide tangible benefits to its customers (for example, in the form of lower operating and maintenance expenses). As the Commission is aware, PHMSA has yet to propose the regulations that will implement the mandates of the Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011, which reauthorized the Pipeline Safety Act. Still, the Department of Transportation has encouraged pipeline operators to undertake voluntary initiatives to improve pipeline safety. For example, in the wake of natural gas and hazardous liquid pipeline accidents in 2010, Transportation Secretary Ray LaHood and PHMSA issued a "Call to Action" to engage state pipeline regulatory agencies, technical and subject matter experts, and pipeline operators to accelerate the repair, rehabilitation, and replacement of the highest-risk pipeline infrastructure.[9] INGAA and its member companies responded to the secretary's "Call to Action" by developing a framework and guidelines for establishing what they believe are industry best practices in safely operating and maintaining their respective pipeline systems. The INGAA board adopted this set of voluntary commitments – known as the Integrity Management Continuous Improvement (IMCI) initiative – to improve further the industry's safety performance and expand public confidence in the natural gas pipeline infrastructure. The INGAA board re-affirmed these commitments in 2014.

These voluntary initiatives and commitments often may exceed what is required by regulation, especially when regulatory uncertainty exists as it currently does. These programs, however, form the basis for developing best practices within the industry. Rather than limit the

[9] *U.S. Department of Transportation Call to Action to Improve the Safety of the Nation's Energy Pipeline System,* April 2011.
http://www.phmsa.dot.gov/staticfiles/PHMSA/DownloadableFiles/110404%20Action%20Plan%20Executive%20Version%20_2.pdf

applicability of the tracker mechanism to costs arising strictly out of compliance with regulations, the Commission should encourage pipeline operators to adopt such voluntary initiatives and commitments to ensure the continued safe operation of their pipeline systems and clarify that costs incurred by a pipeline operator to comply with voluntary pipeline safety and environmental programs may be eligible for inclusion in the tracker mechanism, so long as such costs are prudently incurred. The Commission's goals behind this policy would be well-served by doing so. The reasonableness and appropriateness of defining the specific categories of such costs and limitations on their recoverability through the tracker mechanism should be left to the Commission's adjudication of each pipeline's proposed tracker mechanism in individual proceedings.

2. The Commission should promote flexibility in determining categories of qualifying projects for inclusion in a tracker mechanism.

In the Proposed Policy Statement, the Commission proposes that "when the pipeline files to establish a tracker mechanism, it should specifically identify in its proposal the projects eligible for recovery, the facilities to be upgraded or installed by those projects, and an upper limit on the capital costs related to each project to be included in the surcharge."[10] The Commission's rationale is that requiring the pipeline to establish these criteria up front would allow the Commission to make a determination at the outset that the costs to be incurred are eligible for recovery through the tracker, avoiding the possibility for later disputes about the eligibility of certain costs. While INGAA supports the Commission's desire to provide up-front clarity to the applicability of a pipeline's tracker mechanism to specific project costs, the Commission should permit pipelines to design mechanisms that recover the costs of projects that

[10] Proposed Policy Statement at P 25.

fall within defined categories, where the specific projects are not known when the tracker mechanism first is established.

To that end, INGAA requests the Commission clarify in its final policy statement that pipelines proposing tracker mechanisms either may propose a list of eligible projects or a list of categories of future projects that would be considered eligible for recovery under the tracker mechanism. Such clarification is necessary because it is not possible for pipelines filing to establish a tracker mechanism to provide the Commission with a one-time, comprehensive list of all projects to be proposed by the pipeline in the future that should be covered by the tracker. This is especially relevant when the regulations dictating many of these costs are under development but not yet in effect. Since the PHMSA pipeline safety and EPA greenhouse gas emission regulations are under development, pipelines do not yet have the benefit of the proposed rules to help define the scope of what work may need to be done. At its core, the tracker mechanism is meant to facilitate the recovery of costs incurred either by virtue of new safety or environmental regulations or, as proposed by INGAA herein, by voluntary compliance programs, a fundamental principle of the White House blueprint on reducing methane emissions. The tracker mechanism should not be viewed as a static mechanism that cannot adapt to changing circumstances. Rather, pipelines should be able to design the tracker mechanism to cover certain, specific categories of costs where recovery is warranted, in order to provide for a flexible mechanism meant to facilitate the modernization of pipeline infrastructure on a going-forward basis. The tracker mechanism should be flexible enough to allow pipelines to supplement their filings for different types of eligible costs during the time period the tracker mechanism is in effect, subject to Commission review. The Commission should clarify in its final policy statement that it will not preclude individual pipelines from proposing a tracker mechanism to cover categories of costs rather than projects. Moreover, the Commission should defer decision on the justness and reasonableness of the categories of costs proposed by the pipeline to the individual proceeding establishing the tracker mechanism. The burden of establishing the justness and reasonableness of the proposed categories of cost recovery through the tracker mechanism shall rest with the pipeline proposing the tracker.

INGAA also supports the Commission's proposal that the tracker mechanism contain some form of upper limit on the costs eligible for tracker recovery. Any upper limit on the recovery of costs through the tracker mechanism, however, should not prejudice or preclude the ability of a pipeline to seek recovery of costs not recovered through the tracker mechanism through an NGA Section 4 proceeding. Further, the specifics of any upper limit on the recoverability of costs through the tracker should be addressed through the individual pipeline's proceeding establishing the tracker mechanism.

3. The Commission should not preclude recovery of eligible costs due to indirect expansions of capacity.

In the Proposed Policy Statement, the Commission also seeks comment on "whether there are any capital costs associated with the expansion of the pipeline's existing capacity or its extension to serve new markets that may reasonably be included…" in the tracker mechanism.[11] While it is likely that some of the projects to be undertaken by pipelines seeking cost recovery through the tracker mechanism would not result in any meaningful increase of capacity, it is very likely that certain types of projects may have an indirect effect of increasing capacity in sections of a pipeline system simply by virtue of replacing older, less efficient facilities with modern equipment.

For example, replacement of worn sections of pipeline with new steel pipeline may allow a pipeline to increase operating pressure through certain segments of its system, thus expanding

[11] Proposed Policy Statement at P 26.

the available capacity in certain sections of its system. In addition, replacement of older compression facilities with new, more modern equipment may allow for a pipeline to replace compression facilities with higher horsepower facilities that have a much smaller environmental and physical footprint, achieving both cost and operating efficiencies. Both of these examples could result in otherwise eligible projects under a tracker mechanism having an indirect effect of increasing a pipeline's capacity on certain segments. The Commission should not preclude the recoverability of costs associated with these types of eligible projects that otherwise would qualify for cost recovery under a pipeline's tracker mechanism simply because the project has the indirect effect of increasing capacity on segments on a pipeline's system. The increase in capacity caused by such projects is a result of the pipeline replacing older portions of its system with more efficient, environmentally-friendly equipment, which is exactly the type of behavior to be encouraged by use of the tracker mechanism.

In addition, the Commission is familiar with dual-purpose projects that involve a needed replacement of older facilities with newer, upsized facilities, designed to meet existing service obligations and to create incremental capacity for new markets. In such cases, the Commission has addressed the allocation of costs between existing and new shippers in certificate proceedings. If the replacement meets the criteria for inclusion in a tracking mechanism, recovery of costs allocated to existing shippers should be permitted by the Commission.

4. The Commission Should Recognize that a Modernization Project May Be Required for Both Safety and Environmental Reasons.

The Commission should acknowledge the possibility that there will be certain eligible costs that will be tracked that have both safety and environmental benefits and cannot be separated into different buckets. Pipelines are required to "blowdown" gas for safety reasons in certain instances, including when a pipeline replaces a section of pipe, which can release a significant amount of unburned methane into the atmosphere. For example, under the PHMSA rules, as written, a class location based on an increase in population requires a pipeline to replace pipe or to conduct a hydrostatic test, which in turn requires the pipeline to blowdown gas. INGAA believes there are less disruptive and less costly technological alternatives to achieve safely the same safety goals, which should be endorsed by FERC and PHSMA. Specifically, INGAA is advocating to PHSMA to permit pipelines to use advanced in-line inspection tools, such as smart pigs, in lieu of the need to conduct a hydrostatic test. These tools and other technological alternatives have the added benefit of reducing pipeline emissions. If the pipeline utilizes an integrity management tool rather than a hydrostatic test, it would validate the integrity of the pipeline and, at the same time, would identify locations on the pipeline that a pipeline could repair. In addition, a pipeline may be able to repair certain pipelines segments, by installing a pipeline sleeve or a clamp, without the need to replace the pipe, which also would avoid methane emissions from a blowdown. Further, replacing an older compressor with a more energy efficient compressor also could have the dual benefit of decreasing emissions and reducing the consumption of compressor fuel.[12] A pipeline should be permitted to address these types of scenarios in its filing to establish a tracking mechanism.

C. The Commission Should Not Pre-Judge Creative Solutions that Permit Capital Cost Recovery for Modernization Projects while Avoiding Cost Shifting.

The Commission notes that using trackers to shift costs to captive customers has been a historical concern. While Columbia Gas provided one potential solution to this concern by establishing its determinants floor, other pipelines and their customers may develop additional solutions that meet the needs of the individual stakeholders. The Commission should not

[12] In the letter regarding its modernization settlement, Columbia Gas Transmission stated that "work completed under the modernization program will also reduce the emissions of nitrogen oxides and carbon monoxide by an average of approximately 85 percent at modified compressor stations between 2013 and 2017." November 20, 2012 Jimmy Staton Letter to FERC Commissioners, *Columbia Gas Transmission, LLC.* (Docket No. RP12-1021).

preclude the introduction of creative alternatives in its final policy statement, but instead should permit pipelines and their customers to consider a wide range of options.

Further, to the extent that a cost recovery mechanism includes a protection for customers, such as a billing determinant floor, which results in a pipeline not recovering the modernization costs in full, then the pipeline should be allowed to recover such costs prospectively either in rates or a tracker mechanism established during a subsequent rate case. For example, a pipeline should be able to revise the billing determinants level used to calculate tracker costs just as a pipeline can update the billing determinants used to calculate its base rates, in a rate case. Since the purpose of a tracker is to enable cost recovery for the pipeline, while ensuring that customers will not pay more than the actual costs, permitting such cost recovery on a prospective basis in a subsequent rate case is appropriate.

D. Pipelines Support Providing a Periodic Review of Surcharge.

INGAA supports the proposed standard requiring a pipeline proposing a tracker to include some method to allow a periodic review of whether the surcharge and the pipeline's base rates remain just and reasonable. INGAA supports the Commission's stated intent to "remain open to . . . reasonable methods of accomplishing this goal."[13] While the Columbia Gas proposal – in which the surcharge expires automatically after five years – is one that worked for Columbia Gas and its shippers, it certainly is not, and should not be, the only means to satisfy the Commission's standard.

E. Pipelines Shall Seek Shipper Support, but Support Need Not Be Unanimous.

INGAA supports the proposed standard requiring a pipeline to seek shipper support for a modernization surcharge mechanism. INGAA expects that pipeline filings to establish a surcharge mechanism would include a discussion of the pipeline's pre-filing efforts to

[13] Proposed Policy Statement at P 30.

collaborate with its shippers on a broadly-supported proposal. Dialogue between a pipeline and its shippers need not be limited to the period prior to the pipeline's filing, however. Constructive discussions can occur both prior to and during the pendency of the filing. For this reason, the Commission should not reject a proposed mechanism that lacks shipper support at the outset. Furthermore, while the Commission should give appropriate weight to the level of shipper support garnered by the pipeline, it should not establish hard-and-fast criteria regarding the level required, and should approve surcharge mechanisms it deems just and reasonable.

II. The Commission Should Not Require Pipelines to Provide Reservation Charge Credits for Modernization Work.

The Commission's reservation charge crediting policy is inconsistent with the Commission's stated goal that its existing "ratemaking policies do not unnecessarily inhibit interstate natural gas pipelines' ability to expedite needed improvements"[14] as well as the Administration's goal to encourage aggressive compliance to reduce emissions through voluntary efforts. INGAA recommends that reservation charge crediting should not apply for interruptions of firm service when pipelines are performing either voluntary or mandatory activities to improve safe and efficient pipeline operations.

The Commission recognizes in its Proposed Policy Statement that "given recent legislative and other actions to address pipeline efficiency, safety and environmental concerns, it is likely that pipelines will be required to meet additional requirements that may include performing facility upgrades and replacements"[15] and that this work may result in a disruption of primary firm service. Pursuant to the Commission's existing policy, one-time outages, if necessary to comply with government orders, may be treated as *force majeure* outages, for which

[14] Proposed Policy Statement at P 9.
[15] Proposed Policy Statement at P 34.

only partial reservation charge credits are required,[16] *i.e.*, subject to a 10-day Safe Harbor or No Profit tariff provisions. Yet, this does not go far enough to achieve the Commission's goal to allow interstate pipelines to modernize pipeline system infrastructure to enhance system reliability, safety, and regulatory compliance. Requiring reservation charge credits when pipelines make needed system improvements, encouraged or mandated by the Administration, PHMSA and EPA, penalizes efforts that should be encouraged by the Commission.

The Commission's existing reservation charge crediting policy fails to recognize that pipelines sometimes must perform maintenance and other scheduled work that requires an outage in order to keep their facilities operating in a safe and reliable manner. Requiring that pipelines pay reservation charge credits from the first day of any scheduled outage effectively penalizes reasonable and prudent operators. A modernization cost recovery tracker is itself recognition of the fact that pipelines must undertake regular replacement of their facilities to provide firm service, and the Commission should not discourage pipelines from undertaking such necessary work by requiring reservation charge credits for outages resulting from such programs.

The key premise underlying the Commission's current application of reservation charge credits to non-*force majeure* service outages, including scheduled maintenance, is that such outages are the result of mismanagement by the pipeline. The theory is that requiring reservation charge credits for such outages will create incentives for the pipeline to manage its system in order to avoid such outages in the future.[17] While INGAA disagrees with that premise, the Commission would be justified here in adopting the position that pipelines should be allowed to perform maintenance and other scheduled work without the obligation to provide reservation

[16] *Id.*, citing *TransColorado Gas Transmission Co., LLC,* 144 FERC ¶ 61,175 (2013); *Gulf South Pipeline Co., LP,* 144 FERC ¶ 61,215 (2013).
[17] *Tennessee Gas Pipeline Co.*, 76 FERC ¶ 61,022 (1996) (referring to maintenance outages as mismanagement and suggesting that requiring reservation charge crediting when service cannot be provided during a maintenance outage would provide an incentive for pipelines to better manage their systems).

charge credits and, as a result, in permitting modernization to occur *without* associated reservation charge credits. By their nature, the modernization work and any cost recovery mechanisms under consideration are not representative of pipeline mismanagement, but instead reflect proactive steps by the pipeline to ensure the long-term viability of the system. Pipeline work to update and modernize existing infrastructure as a result of the focus and efforts of this Administration, PHSMA and EPA are significantly different than conducting routine maintenance, and should not be subject to immediate reservation charge credits. Incentivizing pipelines to implement modernization programs voluntarily will further public policy benefits that the Administration and other government agencies have determined are in the public interest. The Commission's reservation charge crediting policy – requiring reservation charge credits starting on day one for this type of maintenance or other scheduled work – would unfairly penalize a pipeline undertaking such *voluntary* efforts, and, thus, is inconsistent with the Commission's stated goals of establishing a framework that prompts pipelines to make such system modifications in an expeditious manner to further the public interest. The suggestion that reservation charge credits should apply to modernization costs performed pursuant to a cost recovery mechanism is particularly troubling at this time, when the natural gas industry, state and federal governments, and the public are focused more than ever on initiating more comprehensive safety programs and when more stringent safety requirements are forthcoming from PHMSA. Further troubling is the Commission's request for comment on whether the Commission should modify its current policy to require reservation charge crediting to start on day one for *force majeure* outages related to modernization projects performed pursuant to government orders,[18] such as those forthcoming from PHMSA. This would shift the Commission's policy further away from achieving its goals in this proceeding.

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[18] *Id*.

Elimination of the policy requiring pipelines to provide reservation charge credits from the first day of the outage would reduce disincentives to lessen methane emissions. Such an approach would, for example, allow a pipeline to reduce pressure in a pipe segment gradually over a number of days,[19] significantly reducing the amount of gas that the pipeline would need to blowdown without facing higher reservation charge credits. If the Commission modified its reservation charge policy to excuse crediting for this type of work, it would encourage reductions in methane emissions related to certain modernization projects rather than encourage the pipeline to blowdown gas in order to avoid reservation charge credits. The Commission also should explicitly provide that costs to comply with other statutory or regulatory requirements, such as hydrostatic testing to confirm maximum pressure levels, are not subject to crediting (or that such crediting costs are recoverable in trackers). Although such events may be scheduled, they are not necessarily maintenance nor are they voluntary for the pipeline.

Furthermore, to the extent that a pipeline must provide reservation charge credits for a service outage required by a system improvement eligible for surcharge cost recovery, it should be permitted to treat those credits as a cost eligible for recovery through the surcharge. This would be necessary to achieve the Commission's goal in establishing the surcharge mechanism – *i.e.*, to ensure that its ratemaking policies do not inhibit the ability of pipelines to make system improvements driven by safety or environmental concerns. Permitting timely recovery of expenditures for pipe, materials and contractors but not the revenues forgone due to a reservation charge credit would go only part way towards achieving this policy goal, especially where a pipeline cannot avoid a service outage when a system improvement of this type must be performed. In this regard, any concerns that the pipeline could double-recover these foregone

[19] Instead of blowing down gas from the pipeline, a pipeline can at times drawdown gas over a number of days by using a portable compressor to transfer gas to another pipeline or use the gas as fuel.

revenues (*e.g.,* through both the surcharge and through an adjusted revenue forecast in a rate case) could be addressed in the design of the surcharge mechanism.

Moreover, the Commission permits pipelines to recover reservation charge credits as part of a rate case in similar circumstances, and the same reasoning would apply here.[20] Under current policy, reservation charge credits reflect costs to the pipeline of performing modernization and maintenance work, and the pipeline therefore should be able to recover all of these costs through the modernization cost recovery tracker.

III. FERC Should Allow Pipelines the Flexibility to Propose to Use Accelerated Amortization Methodologies.

In its Proposed Policy Statement, the Commission requests comments on whether pipelines should be allowed to use accelerated amortization methodologies, akin to that approved by the Commission for hurricane repair cost trackers, to recover the costs of any facilities installed pursuant to a modernization cost recovery mechanism or whether the Commission should require pipelines to depreciate facilities subject to a modernization cost tracker over the life of the facilities.[21]

INGAA requests that the Commission allow pipelines to propose to use, but not mandate, accelerated amortization methodologies. Each pipeline faces different competitive circumstances. If a pipeline must discount to meet its competitive market situation, it may not be able to recover the additional annual costs associated with the accelerated depreciation, and will face under-recovery. Therefore, these pipelines would not likely be able to avail themselves of this accelerated amortization option. Other pipelines, however, may wish to accelerate amortization and recover only the interest necessary to compensate the pipeline for the time value of money.

[20] *Southern Natural Gas Co.*, 137 FERC ¶ 61,050, at P 14 (2011).
[21] Proposed Policy Statement at P 33.

Accordingly, the Commission should not require pipelines to depreciate facilities subject to a modernization cost tracker over the life of the facilities but instead provide each pipeline that proposes a modernization cost tracker the ability to propose either accelerated amortization methodologies or depreciation over the life of the facilities.

IV. Conclusion.

WHEREFORE, INGAA requests the Commission promptly issue a final policy statement subject to INGAA's clarifications and comments above.

Respectfully submitted,

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