

# How The Federal Government Sets Interstate Natural Gas Pipeline Rates







The Natural Gas Act (NGA) tasks the Federal Energy Regulatory Commission (FERC) with setting rates charged by interstate natural gas pipelines for the transportation and storage of natural gas.

FERC sets a maximum, “just and reasonable” rate at an amount equal to the pipeline’s actual cost of providing service plus a reasonable return on investment. Competitive market dynamics can lead pipelines to charge less than the maximum rate, but pipelines cannot charge more than the rate after maximum or adjust the rate after maximum without FERC’s authorization.

The NGA provides two paths for FERC to set interstate pipeline rates:

## SECTION 4 RATE CASE

A pipeline can ask FERC under NGA Section 4 to adjust its cost-based rate, but the pipeline must show that its proposed rate is “just and reasonable.” FERC holds a hearing on the pipeline’s request, and many groups can (and typically do) participate by reviewing and commenting on the pipeline’s proposal and supporting evidence. These groups can include:

-  FERC litigation staff (representing ratepaying consumers)
-  State public service commissions
-  Pipeline customers (who transport on the pipeline)
-  Gas consumer advocates

The NGA requires that the pipeline’s proposed rate becomes effective, subject to refund, no later than six months after the pipeline files its request. If FERC later determines that the “just and reasonable” rate is lower than the pipeline’s proposed rate, FERC can order the pipeline to refund the difference to customers.

## SECTION 5 RATE CASE

Under NGA Section 5, FERC - on its own or by request - can review a pipeline’s current rates. If FERC determines that the pipeline’s rate is no longer “just and reasonable,” then FERC must set a new, lower rate that is “just and reasonable.” Like a Section 4 case, many groups participate in Section 5 rate cases to inform FERC’s ultimate decision.

NGA section 5 does not allow FERC to raise a pipeline’s rate, only lower it.

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## RATE CASE SETTLEMENTS

Participants resolve virtually all Section 4 and Section 5 rate cases using **uncontested settlements**. Generally, all participants - including FERC litigation staff, customers, and consumer advocates - negotiate extensively with the pipeline both over the new rate and how to allocate pipeline costs among customers. FERC verifies that the parties' agreement is fair, reasonable, and in the public interest. This approach allows all parties to achieve rate certainty and to avoid unnecessary litigation costs.

Settlements often include other provisions to ensure rates remain predictable, stable, and "just and reasonable," such as:

- ↗ **Rate moratoriums** that prevent the pipeline from seeking to change its rate under Section 4, and other parties from seeking to change rates under Section 5, for a specified period of time.
- ↗ **Come-backs** that require the pipeline to file a Section 4 rate case by a specific date to afford all parties the opportunity to discuss whether a new rate is warranted.

If the settlement includes these provisions, then parties in the rate case will negotiate with the pipeline to set the length of moratoriums or come-backs. While there is no standard length across the pipeline industry, these provisions can lock in a specific rate for years.

These provisions provide certainty for pipelines and can benefit customers. When a pipeline's costs increase during a rate moratorium, for example, the pipeline cannot pass the higher costs through to customers.

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## MARKET COMPETITION AND RATE FLEXIBILITY

FERC's implementation of the NGA has fostered an economically efficient, competitive, and market-responsive integrated natural gas pipeline system. Customers in most large U.S. markets can choose from multiple interstate natural gas pipelines for service. This market dynamic incentivizes natural gas between interstate and pipelines to keep their rates competitive and, in some cases, offer service at a cost less than FERC's maximum "just and reasonable" rate.



**INGAA**  
Interstate Natural Gas Association of America