



# CENTER FOR PUBLIC UTILITIES

IN CONJUNCTION WITH

**THE ENERGY BAR ASSOCIATION**

and

**THE INTERSTATE NATURAL GAS  
ASSOCIATION OF AMERICA**



Present

## ***FERC PRACTICAL REGULATORY TRAINING*** *for the* ***NATURAL GAS INTERSTATE PIPELINE INDUSTRY***

### **HIGHLIGHTS OF THE COURSE**

- Technology, Industry Structure
- Impact of FERC orders on the Gas Pipeline Industry
- FERC Ratemaking and FERC Enforcement Authority Under the Natural Gas Act
- Examples of Prohibited Conduct and Remedies Imposed by FERC
- Legislative Initiatives and Recent Developments at the FERC
- FERC's Procedure for Developing the Total Cost-of-Service for a Pipeline Company
- Changes to the Proxy Group and Its Impact on the Return on Equity
- FERC Order 710: New Detailed Filing Requirements for Interstate Pipelines
- FERC Order 735: New Contract Reporting Requirements for Hinshaw 311 Pipelines
- FERC's Recent Section 5 Inquiries into Pipeline Earnings
- Cost Allocation and Rate Design for Various Pipeline Services
- Firm Rates, Interruptible Rates, and Alternative Rate Design Methodologies
- FERC's New Pipeline Fuel Cost Recovery Methodology
- FERC's Regulation of Pipeline Construction Under Section 7 of the Natural Gas Act

**Sept. 26 - Oct. 1, 2010**  
**SHERATON UPTOWN**  
**ALBUQUERQUE, NM**

**A ONE WEEK RATE SCHOOL  
DESIGNED SPECIFICALLY TO  
MEET THE TRAINING NEEDS  
OF THE PIPELINE INDUSTRY,  
FERC STAFF MEMBERS,  
AND ATTORNEYS WHO ARE  
PRACTICING BEFORE THE FERC**

# NATURAL GAS INTERSTATE PIPELINE INDUSTRY

Laptops will be used Tuesday and Thursday afternoon

**SUNDAY, SEPT 26** 6:30 – 8:00 p.m.: Registration and Reception

## **MONDAY, SEPT 27**

8:30 – 10:00 Overview of the Natural Gas Industry

**Smead**

### Technology

Moving Gas from the Wellhead to the Burner Tip

Segments of the Natural Gas Industry

Production

Gathering

Processing

Transportation

Storage and Distribution

New Players on the Block

Services Provided

### Federal Jurisdiction

Who is the Federal Regulatory Commission?

Two Major Functions of the FERC

Establishing Rates for Pipeline Services

Issuing FERC Orders Restructuring Pipeline

Services and Monitoring

Conduct of Pipeline Participants

Which Segments of the Natural Gas Industry are Regulated  
by the FERC?

Interstate Pipelines and Hinshaw 311 Pipelines

Transportation Rates---Section 4 of the NGA

Storage Rates-----Section 4 of the NGA

Pipeline Certification----Section 7 of the NGA

10:30 – 12:00 FERC Ratemaking and Enforcement Authority under the  
Natural Gas Act

**Junge**

### Overview of the Natural Gas Act

Purpose and Scope of the Natural Gas Act

FERC's Ratemaking Authorities

Key Concepts Under the NGA

Alternative Ratemaking: Negotiated Rates

### FERC's Ratemaking Authorities

Section 7 of the Natural Gas Act

Section 5 of the Natural Gas Act

Burden of Proof

Available Remedies

FERC's Exercise of Section 5 Authority

Customers' Use of Section 5

### Section 4 of the Natural Gas Act

Mechanics of a "Typical" Section 4 Rate Case

Burdens of Proof

Settlement v. Litigation

Common Rate Case Issues

Potential Future Issues

12:00 – 1:30 Lunch

# INTERSTATE PIPELINE PROGRAM

## **MONDAY, SEPT 27** – *continued*

- 1:30 – 3:30 Enforcement of the Natural Gas Act and Cost-of-Service Issues **Junge**  
Part I. Enforcement and Penalties Under the Natural Gas Act  
Examples of Prohibited Conduct and Remedies Imposed  
Market Manipulation  
Undue Discrimination  
Material Deviations and Non-Conforming Contracts  
Compliance with Capacity Release Regulations  
Standards of Conduct  
Legislative Initiatives and Recent Developments
- 3:30 – 5:00 Part II. Cost-of-Service Issues **Piczak**  
Update of FERC's Section 5 Inquiries of Pipeline Earnings  
Status of FERC's Selection Cost of Equity Proxy Groups

## **TUESDAY, SEPT 28**

- 8:30 – 12:00 FERC Requirements for Determining 'Just and Reasonable' Rates **Sosnick**  
Overview of the 5 Steps Involved in Cost-of Service Ratemaking  
Step 1: Establishing a Pipeline's Total Cost-of-Service  
Establishing a Test Period: What is it? Why is it Necessary?  
Test Period Components  
Rate Base  
Rate of Return  
Weighted Cost of Debt  
Weighted Cost of Preferred Stock  
Weighted Cost of Equity  
O&M/A&G Expenses  
Test Period Adjustments  
Rate of Return at Existing Rates  
Rate of Return at Proposed Rates
- 12:00 – 1:30 Lunch
- 1:30 – 5:00 Cost-of-Service Problem **Roscher/Johnson**  
Assignment of Cost-of-Service Problem to Groups  
Presentation of Group Solutions  
Summary and Clarification of Cost-of-Service

## **WEDNESDAY, SEPT 29**

- 8:30 – 12:00 Step 2: Developing Pipeline Rates from Total **Roscher/Johnson**  
Cost-of-Service  
Functionalization of Cost-of-Service  
Direct Assignment vs. Allocation  
Kansas-Nebraska ("KN") Methodology

# INTERSTATE PIPELINE PROGRAM

Wednesday 8:30 – 12:00 *continued*

Step 3: Cost Classification  
Fixed Costs v. Variable Costs  
Reservation v. Delivery  
Impact of Load Factor  
Changes to Rate Design Policy Over Time

**Roscher/Johnson**

1:00 – 7:00 Trip to Santa Fe (Optional)

## **THURSDAY, SEPT 30**

8:30 – 12:00 Steps 4 & 5: Allocation and Rate Design For Transportation and Storage **Roscher/Johnson**

Allocation Factors and Billing Determinants  
Establishing Cost-Based-Rates from the Total Cost-of-Service  
Firm Rates  
Interruptible Rates  
Establishing Market-Based Rates for Some Services  
Establishing Rates for Services Provided by Natural Gas Market Centers  
Fuel Cost Recovery: Where Does It Appear in Transportation Rates?  
FERC's New Pipeline Fuel Cost Recovery Methodology

12:00 – 1:30 Lunch

1:30 – 5:00 Rate Design Problem  
Assignment of Rate Design Problem  
Presentation of Group Solutions  
Summary of Rate Design  
Rate Design Proposals on the Horizon

**Roscher/Johnson**

## **FRIDAY, OCT 1**

8:30 – 11:00 Federal Regulation of Pipeline Construction Under the NGA **Christin**

FERC Jurisdiction of Pipeline Construction and Exemptions to that Jurisdiction  
Steps in Certifying Pipeline Construction Projects  
Holding Open Season  
Role of Foundation Shippers  
Pre-Filing Procedures  
Application Process  
Post Certification Compliance  
Development of Initial Rates for New Pipeline Construction  
Interaction Between Cost-Based "Recourse Rates" and Negotiated Rates Offered to Foundation Shippers  
What is the Extent of New Pipeline Construction Proposals and Those Projects Recently Completed?

## WHO SHOULD ATTEND

Employees with less than one year's experience in the regulatory arena and anyone wishing to obtain a basic understanding of the principles involved in gas pipeline ratemaking should attend this course. This course has been designed to meet the specific training needs of attorneys practicing before the FERC, new pipeline employees who will be working in rate departments and FERC staff members including accountants, economists, engineers, administrative law judges, and attorneys.

## WHY EMPLOYEES SHOULD ATTEND THIS PROGRAM

The issues confronting the Natural Gas Pipeline Industry can be very complex and confusing to the employee with newly acquired responsibilities in the area of regulation. It is essential, therefore, for the employee not only to be able to understand these issues but also to be provided with an integrated framework that shows the interrelationships of the topics and how they fit together. This course will give attendees the analytical skills necessary to be more productive in the changing environment.

## FACULTY

**Robert F. Christin**, Attorney at Law, Van Ness Feldman, P.C.  
**Ben Johnson**, Manager, Rates, TransCanada US Pipelines  
**Greg Junge**, Attorney at Law, Van Ness Feldman, P.C.  
**Todd Piczak**, Attorney at Law, Hogan & Hartson LLP  
**John Roscher**, Director, Rates & Tariffs, TransCanada US Pipelines  
**Rick Smead**, Director, Navigant Consulting Inc.  
**David Smith**, Director Emeritus, CPU, New Mexico State University  
**Kenneth Sosnick**, Accountant, Office of Administrative Litigation, FERC

## CENTER FOR PUBLIC UTILITIES SPONSORS

The Center for Public Utilities sponsors listed below provide invaluable financial support to the Center which helps cover expenses associated with conducting courses and conferences. If you are interested in becoming a Center sponsor or would like more information, please contact Jeanette Walter at [jeawalte@nmsu.edu](mailto:jeawalte@nmsu.edu).

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## WHO WE ARE

### CENTER FOR PUBLIC UTILITIES



The Center for Public Utilities (CPU) is a branch of the College of Business at New Mexico State University. Our primary missions are:

- To provide educational and outreach services to firms in the Electric, Natural Gas LDC and Gas Pipeline Industries as well as regulatory commissions
- To coordinate the Center's activities with the M.A. in economics program to secure employment for our graduates in the Public Utilities Option

Through a forum of conferences and graduate degree programs such as the Masters of Economics Regulatory Option, the CPU strives to become the leader by keeping industry and commissions in tune with the ever changing market realities and challenging regulatory policies.

### THE ENERGY BAR ASSOCIATION



The Energy Bar Association (EBA) is a non-profit voluntary association of attorneys, non-attorney professionals, and students, whose mission is to promote the professional excellence and ethical integrity of its members in the practice, administration, and development of energy laws, regulations and policies. Established in 1946 as the Federal Power Bar Association, the Association generally was focused on those lawyers practicing energy regulatory law at the federal level. In 1977, the organization changed its name to the Federal Energy Bar Association to reflect the name change of the Federal Energy Regulatory Commission. Today, the Energy Bar Association is an international, non-profit association of members active in all areas of energy law. It has over 2400 members, six formal chapters across the U.S. and an increasing number of members across the United States and Canada.

### THE INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA



The Interstate Natural Gas Association of America (INGAA) is a trade organization that advocates regulatory and legislative positions of importance to the natural gas pipeline industry in North America. INGAA represents virtually all of the interstate natural gas transmission pipeline companies operating in the U.S., as well as comparable companies in Canada and Mexico. Its members transport over 95 percent of the nation's natural gas through a network of 200,000 miles of pipelines. The interstate natural gas pipeline industry has two principal federal regulators: the Federal Energy Regulatory Commission (FERC) is responsible for the economic regulation of pipelines, while the U.S. Department of Transportation (DOT) Office of Pipeline Safety oversees the industry's safety efforts.

## GENERAL INFORMATION

**LOCATION and HOTEL RESERVATIONS:** The conference will be held at the newly renovated Sheraton Uptown, Albuquerque, NM. A block of rooms has been reserved at a special rate of \$125 single, \$140 double which includes a full breakfast. To guarantee this rate, you must mention the NMSU Basics Course. Reservations must be received on or before September 10, 2010. All guests should make reservations directly through the hotel's reservations department, at 505-881-0000, Monday through Friday, 8 AM – 5 PM MST. **Please ask for in-house reservations.** Reservations may be cancelled up to 48 hours prior to arrival without penalty. For general information about the hotel, please call 505-881-0000.

**COST:** The registration fee is \$1195 for company representatives; \$995 for center sponsors, EBA and INGAA members and all Government Agencies. The fee covers all instructional materials presented, the reception, transportation to Santa Fe, and coffee breaks. The fee does not include travel, hotel accommodations or meals.

**CLE and CPE CREDIT:** While NMSU does not apply to each state as a sponsor, CLE and CPE credits for this course have been awarded by numerous states on an individual basis. Each individual requesting CLE and CPE credits should contact their state board individually prior to the course. If there are special requirements in addition to the certification of completion you will receive at the end of the course, please let us know in advance.

**REGISTRATION: MUST BE MADE IN ADVANCE.** To reserve a space, telephone 575-646-4876 or 575-646-3242, send a fax to 575-646-6025, e-mail to [cpustaff@nmsu.edu](mailto:cpustaff@nmsu.edu) or mail your completed enrollment form to the address below. You will receive confirmation of your registration prior to the course. Payment by check or credit card with enrollment is preferred.

**CANCELLATION POLICY:** If notice is received more than five working days prior to the meeting, the tuition fee will be refunded in its entirety. Cancellations after that time are subject to a \$100 service charge per person. No refunds will be made after the start of the program; however, tuition may be applied to future programs. Substitutions can be made at any time.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA - OCT 2-10:** The Albuquerque International Balloon Fiesta is a world-renowned attraction and destination for kids of all ages. The first week in October brings the beautiful, magical moving picture show of hot air balloons sailing through the air. From Oct. 2 to Oct. 10, the skies are painted as hundreds of balloons lift off from Albuquerque's Balloon Fiesta Park. There's something for everyone to enjoy.... whimsical special shapes filled with equal parts of hot air and wonder, and Balloon Glows that create a magical night landscape for spectators to enjoy. No matter who you are, the Albuquerque International Balloon Fiesta will leave you awestruck and wanting more. See <http://www.balloonfiesta.com/> for more information. **As Balloon Fiesta is a prime time in Albuquerque and all hotels increase their room rates substantially, the Sheraton has agreed to offer our participants a discounted rate of \$169 for Friday and Saturday night if you wish to stay. Breakfast is not included in the rate.**

### FOR MORE INFORMATION CONTACT:

Center for Public Utilities MSC 3MPD, New Mexico State University, Box 30001, Las Cruces, NM 88003-8001, 575-646-4876 or 575-646-3242, Fax: 575-646-6025, E-Mail: [jeawalte@nmsu.edu](mailto:jeawalte@nmsu.edu) or [cpustaff@nmsu.edu](mailto:cpustaff@nmsu.edu)  
Website: <http://cpu.nmsu.edu>

## PIPELINE ENROLLMENT FORM - SEPT 26-OCT 1, 2010

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Name on Nametag \_\_\_\_\_

Title \_\_\_\_\_

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