



Natural Gas Rate Cases

ASSESSING RATE CHANGE RISK
FOR PIPELINES, SHIPPERS & INVESTORS

WEBINAR

Tuesday, January 31
12:30 p.m. CST | 1:30 p.m. EST



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Discussion Topics

- ▶ What are rate cases?
- ▶ Who needs to know?
- ▶ How are rate cases initiated?
- ▶ Common terms, calculations
- ▶ Impact to companies
- ▶ Recent trends, examples

PIPELINES need to:

- ▶ anticipate filings by competitors
- ▶ benchmark competitors' strategies
- ▶ monitor results; study testimony

SHIPPERS need to:

- ▶ assess rate risk over contract term
- ▶ inform negotiation strategy
- ▶ know cost structure going forward

**INVESTORS need to understand
which companies have rate risk
and how much.**

Rate cuts affect the cash flow
of the business.

KMI's interstates make up 40% of its EBDA, but just five account for 31%.

All but one of these have recently had or are currently subject to a rate case.

Pipeline	2022 EBDA	% of Total EBDA
Tennessee Gas Pipeline	\$1,266	16%
El Paso Pipeline	\$515	7%
Colorado Interstate Pipeline	\$247	3%
Southern LNG	\$213	3%
Florida Gas Transmission	\$154	2%
Southern Natural Gas Pipeline	\$149	2%
Elba Express Pipeline	\$138	2%
NGPL	\$115	1%
Stagecoach	\$113	1%
KM Louisiana Pipeline	\$74	1%
Wyoming Interstate Pipeline	\$67	1%
TransColorado Pipeline	\$32	0%
Cheyenne Plains Pipeline	\$21	0%
Mojave Pipeline	\$11	0%
Sierrita	\$8	0%
Young Gas Storage	\$2	0%
Ruby Pipeline	\$0	0%
Fayetteville Express	-\$14	0%
Midcontinent Express	-\$15	0%
Total Adj. EBDA	\$7,761	40%



The FERC controls **rates** natural gas pipelines can charge, and when/where **new capacity** can be built.

Rates must be JUST and REASONABLE.

Reasonable means a tariff is fair to shippers.

Just means it's also high enough that the pipeline will make the investment needed to provide the transportation service.

SECTION 4 rate cases

are filed by a pipeline that seeks to increase its rates.

SECTION 5 rate cases

are initiated by FERC or a group of shippers and seek to decrease a pipeline's rates.

A pipeline's COST OF SERVICE has two main elements:

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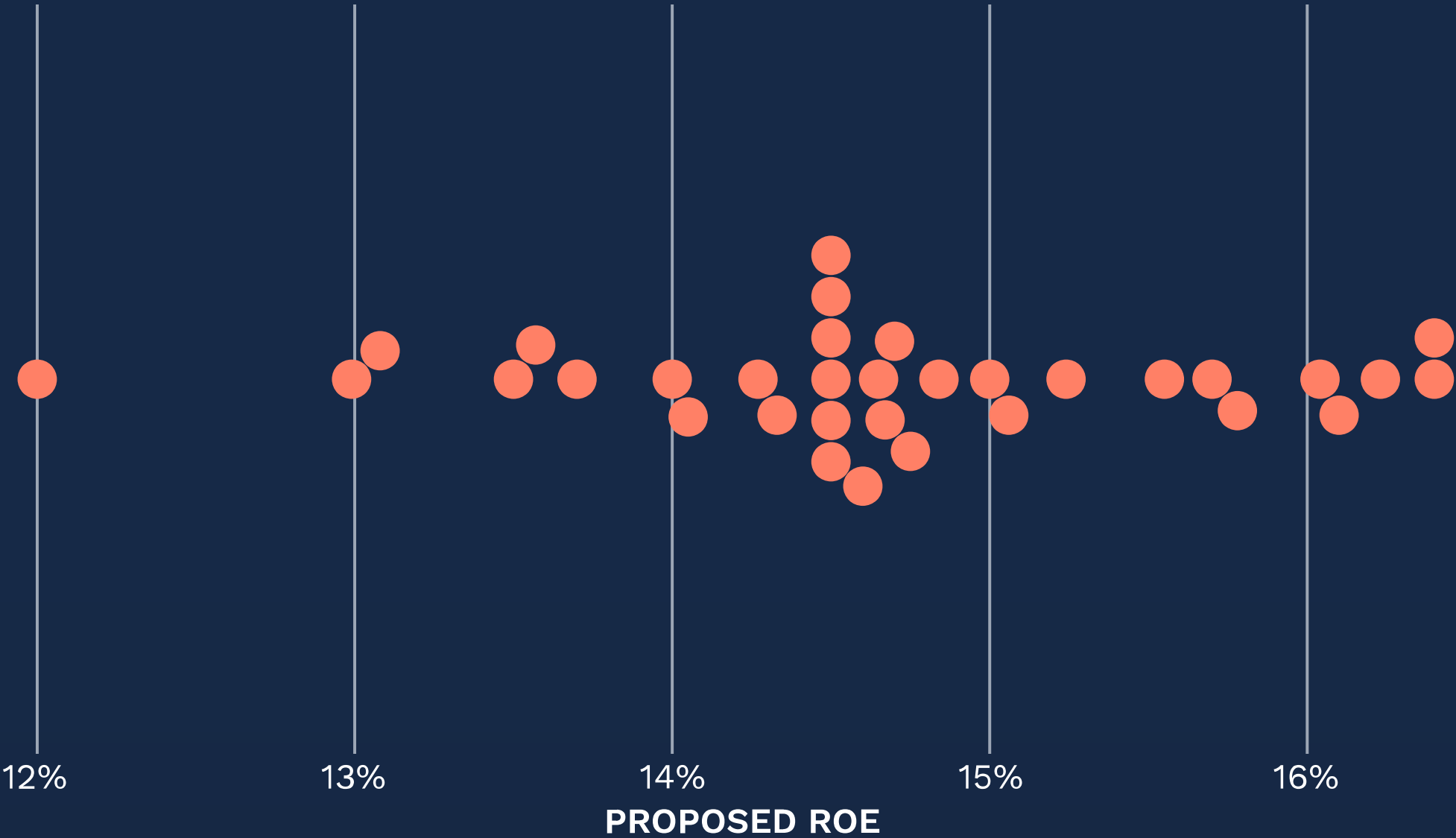
Depreciation is designed to allocate the cost of a long-term asset over its economic useful life.

A pipeline's COST OF SERVICE has two main elements:

Depreciation is designed to allocate the cost of a long-term asset over its economic useful life.

Return on equity (ROE) is essentially the profit for a regulated company and is typically calculated as a percentage of the assets owned by the company.

In recent cases,
pipelines have
asked for about
14-16% ROE.

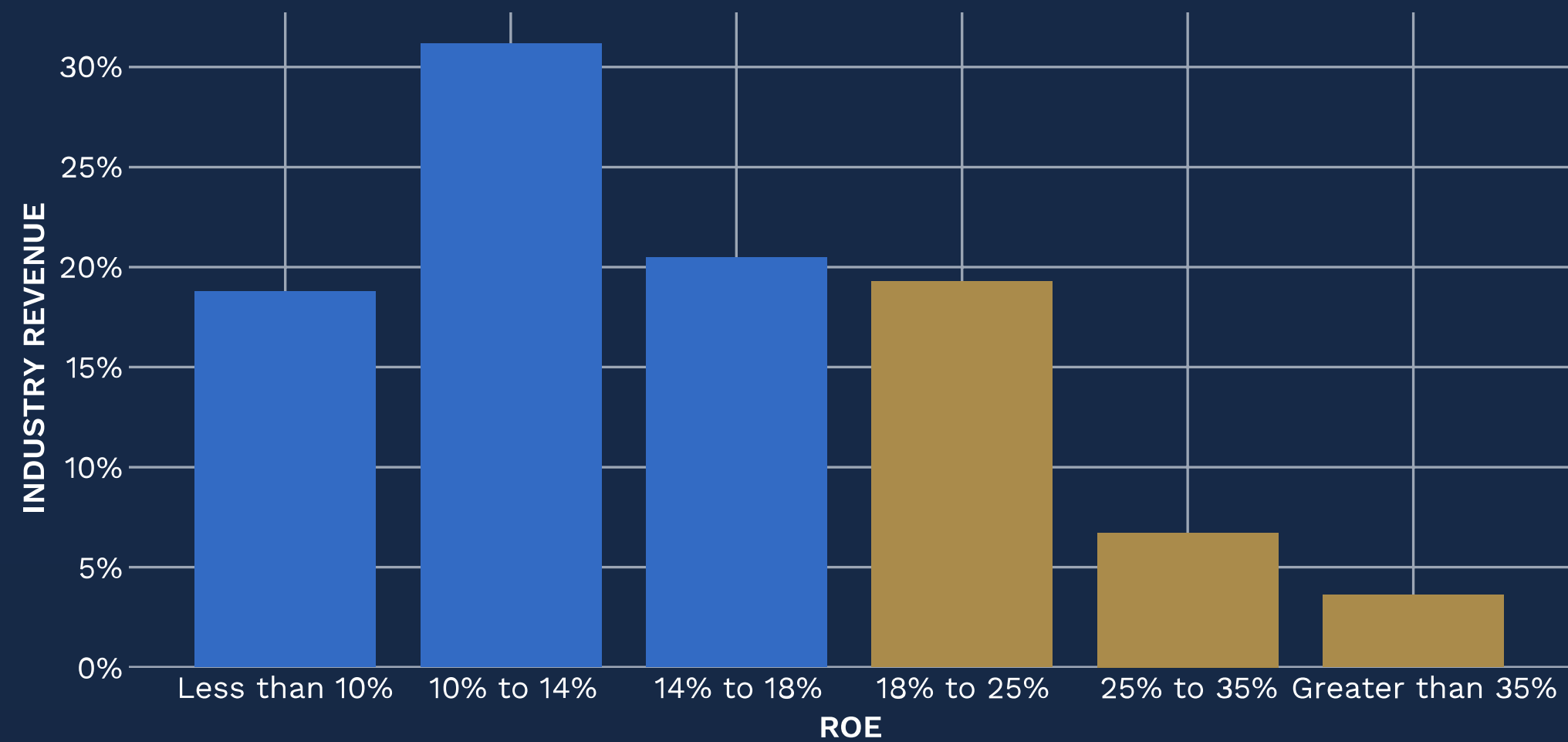


The purpose of the rate case is to fix the tariff rates primarily on **non-incremental** pipeline tariff.

This doesn't include most new projects.

EAST DALEY FINDS

Pipelines with **over 20% ROE** are potentially at risk.



MORATORIUM

Neither shipper nor pipeline can file a rate case during this period.

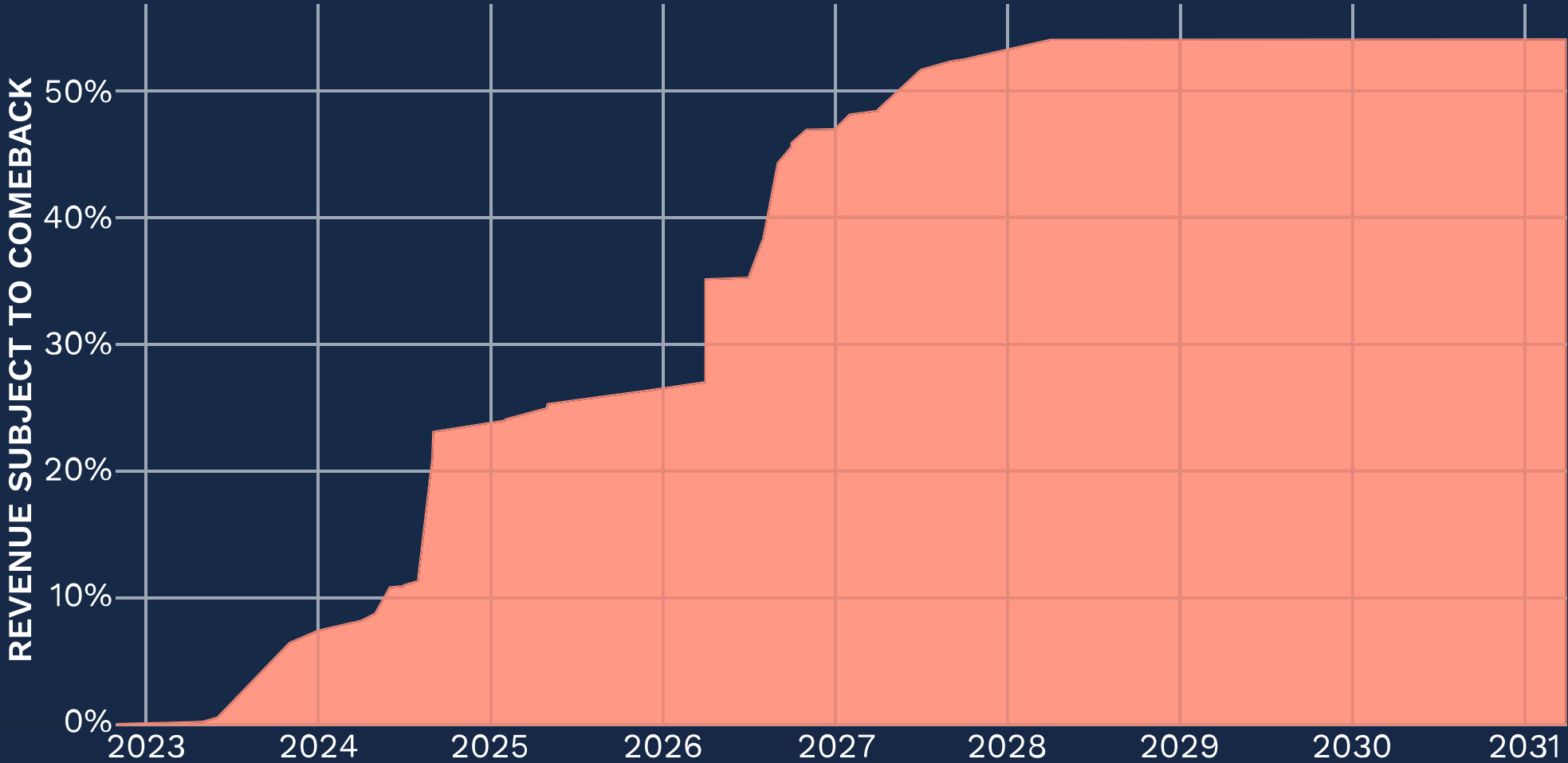
MORATORIUM

Neither shipper nor pipeline can file a rate case during this period.

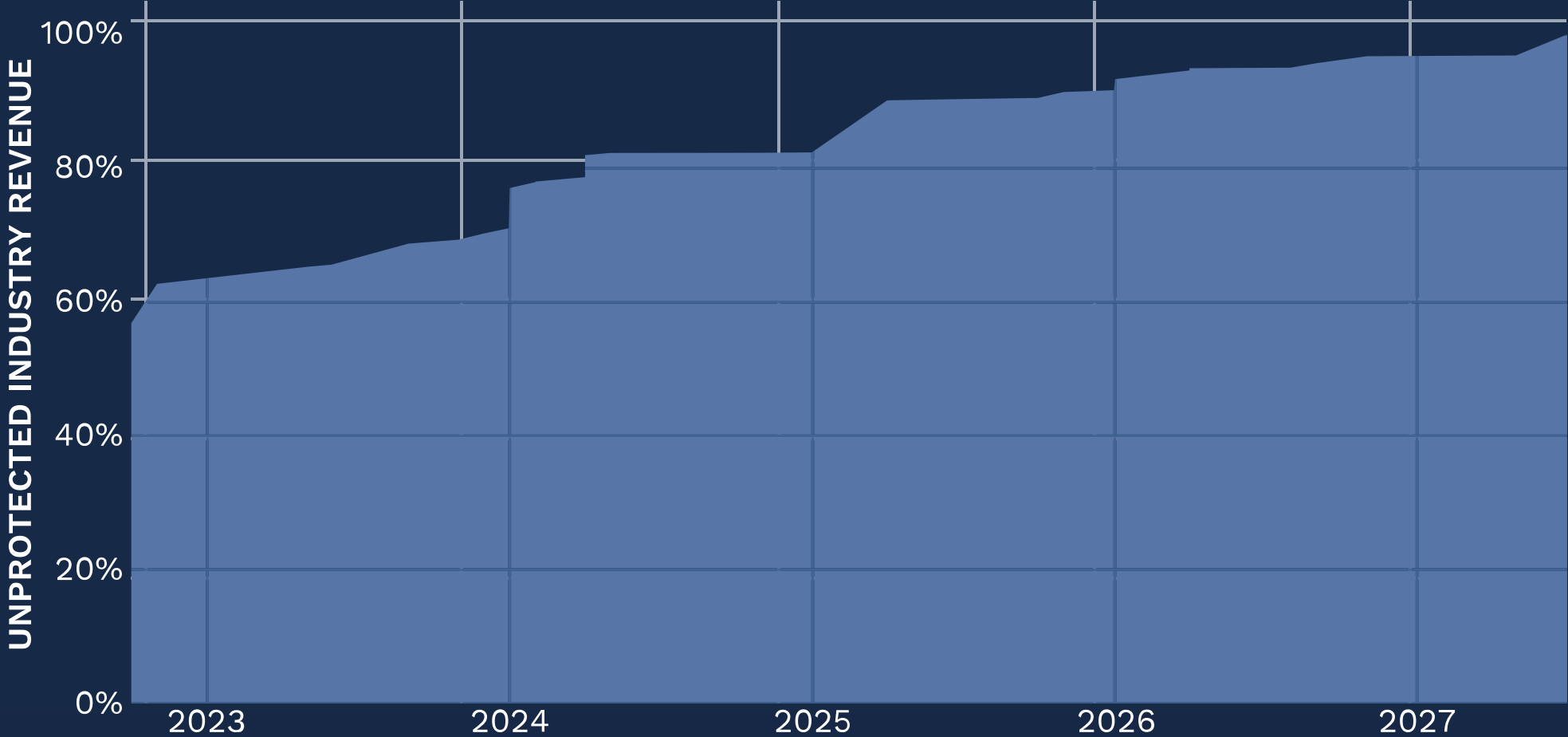
COMEBACK PROVISION

Pipeline is required to file a rate case at a defined point in time.

Cumulative percentage of **industry revenue subject to comebacks** in coming years

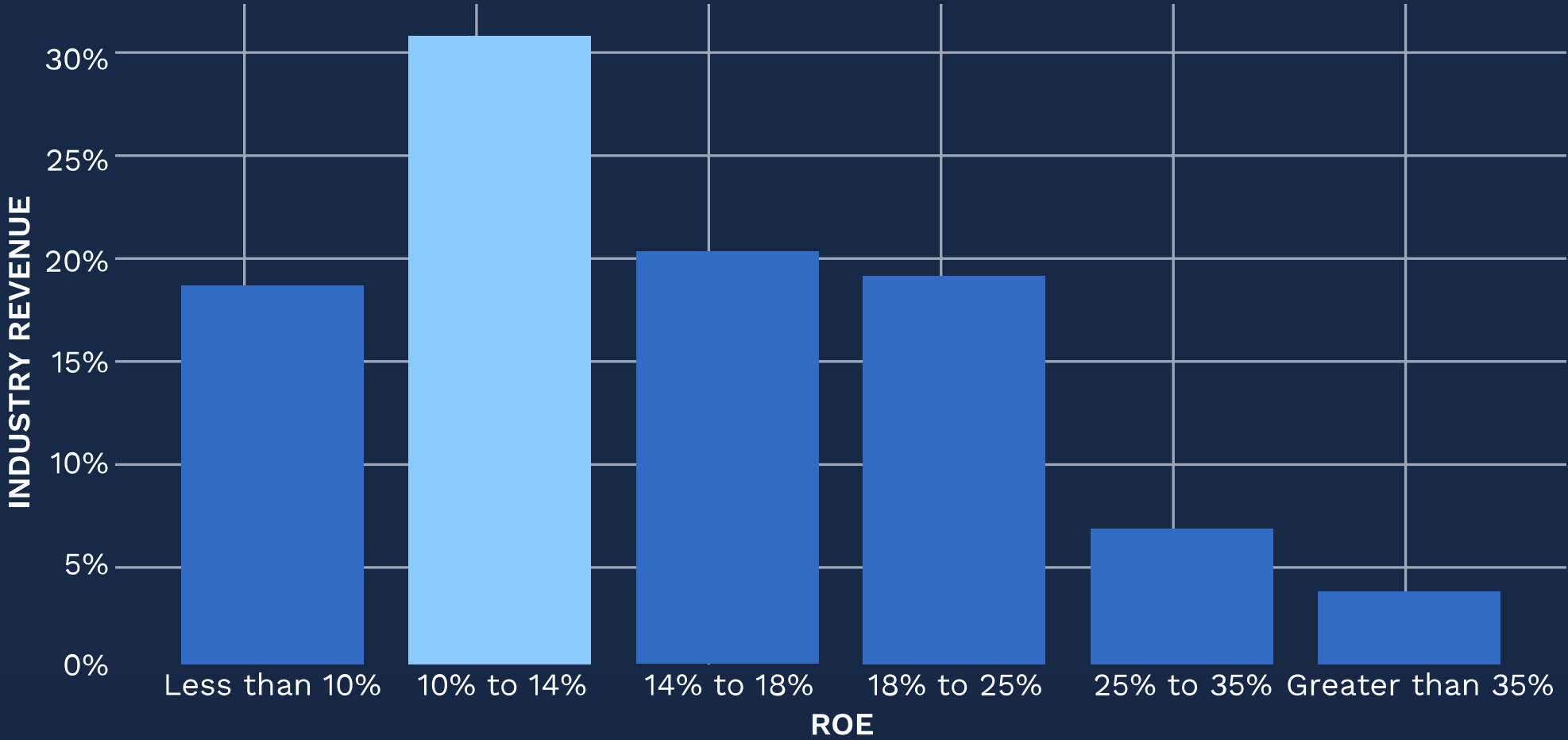


Cumulative percentage of industry revenue not covered by a moratorium



ARBO FINDS

Between
10 and 14%
ROE is the
ideal range.



DISCOUNTED RATES must be lower than the tariff rate, and therefore **can be impacted** by a rate case.

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NEGOTIATED RATES can be higher or lower than the tariff rate and are **not impacted** by a rate case.

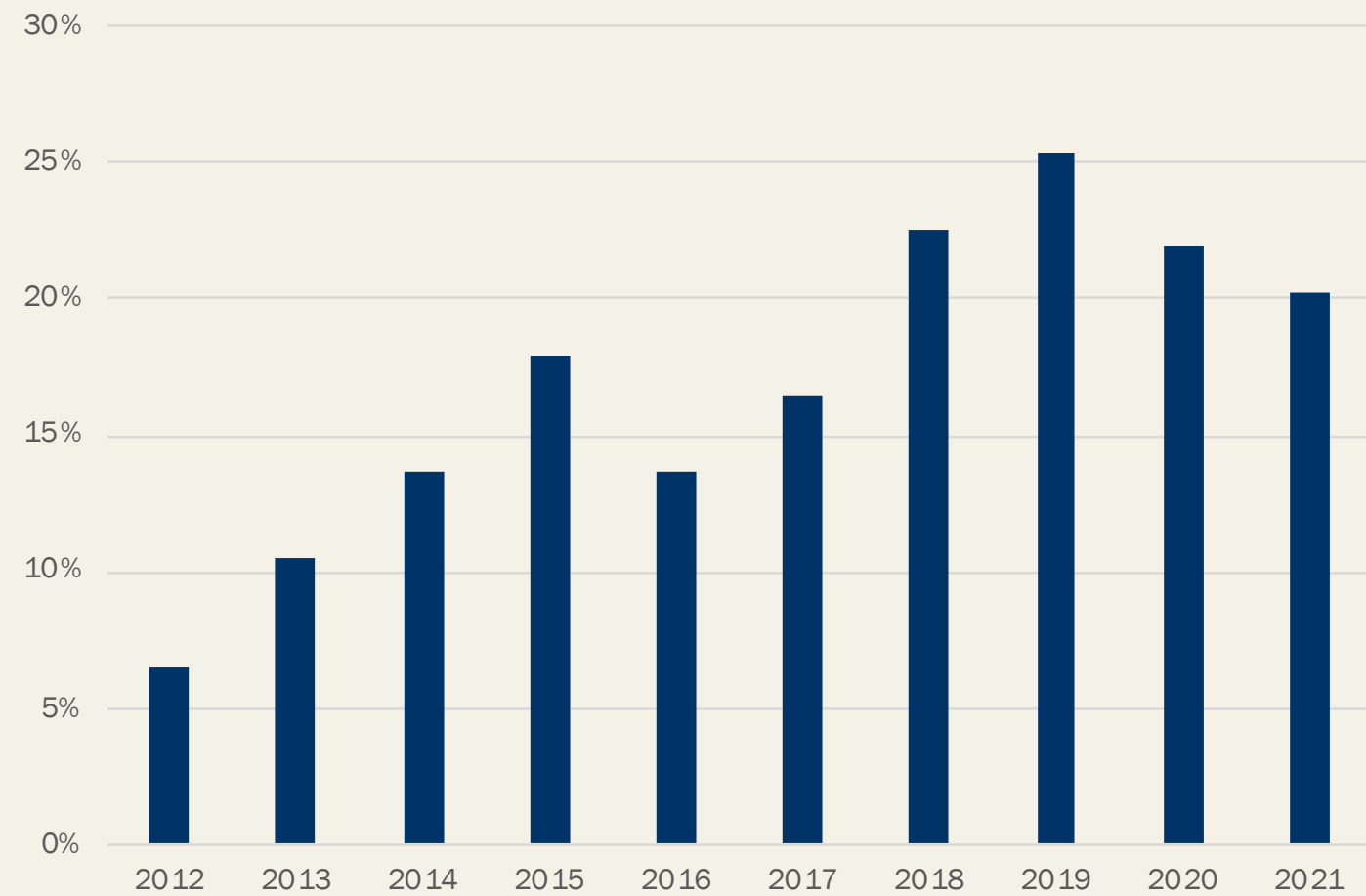
Why would a shipper sign a contract that could be higher than the tariff rate?

- ▶ Projects
- ▶ Index based rates
- ▶ Avoid rate case risk

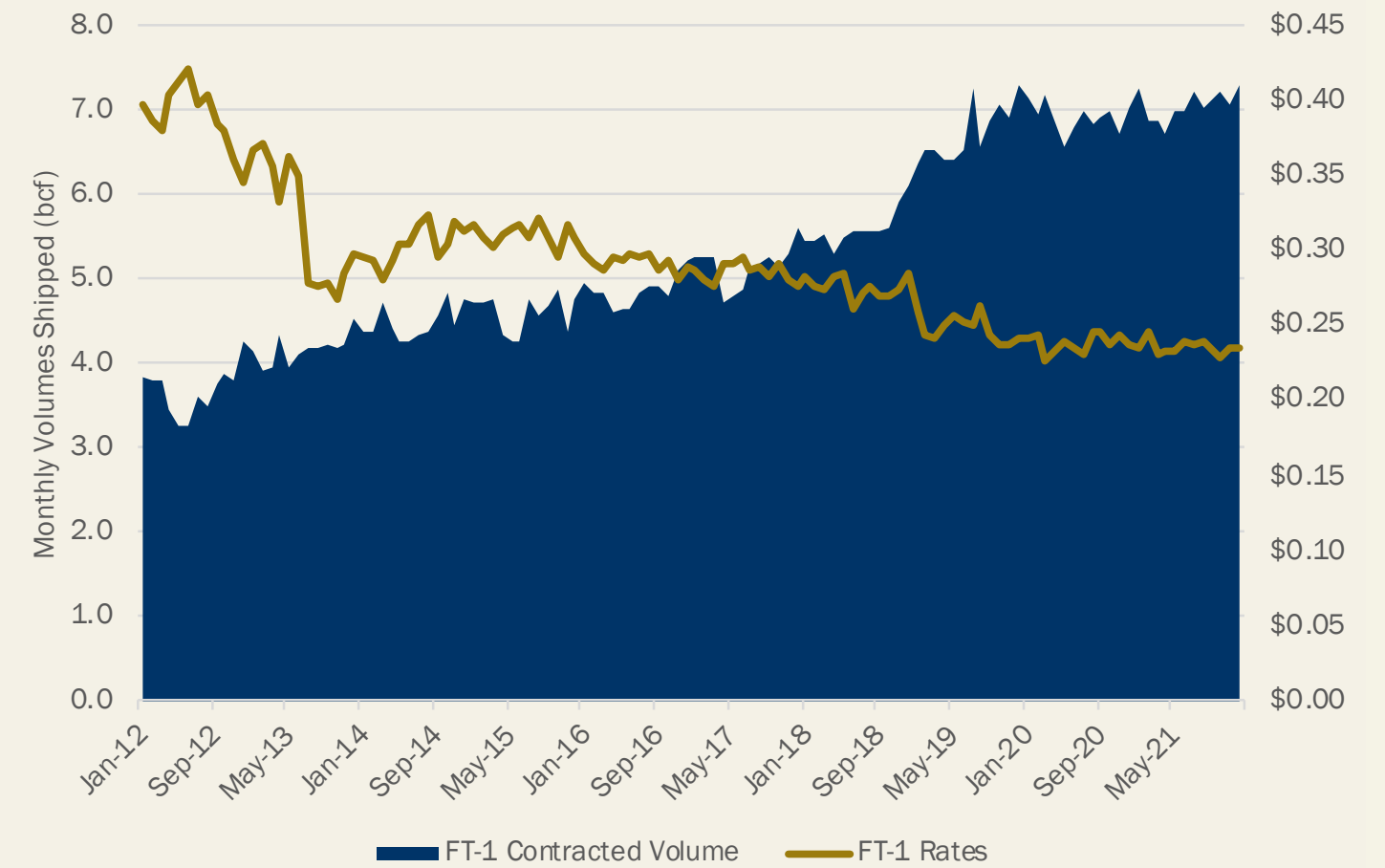
Pipeline	Moratorium	Next Rate Case	Current ROE	Max Tariff	Revenue Risk (\$MM)	Status
Tennessee Pipeline	10/31/22	11/1/2023*	19%	29%	\$15	Rate cut planned as a part of previous settlement
El Paso	9/30/27	10/1/2027*	20%	27%	\$31	Submitted S&A 16% rate cut to max tariff rates
CIG	9/30/20	9/30/26	15%	66%	\$0	Settled
WIC	12/31/20	4/1/2026*	10%	43%	\$5	Settled
NGPL	6/30/27	7/1/2027*	39%	33%	\$53	Submitted Settlement: 5% reduction Nov 22' and additional 4% Nov 23'
Southern Natural Gas	8/31/21	9/1/24	14%	79%	\$0	Nothing filed
Florida Gas	Mid year 2024	8/1/26	15%	53%	\$42	Protected until 2024
Stagecoach			29%	55%	\$16	Ongoing

**Indicates pipeline must file cost and revenue study and does not guarantee a full rate case.*

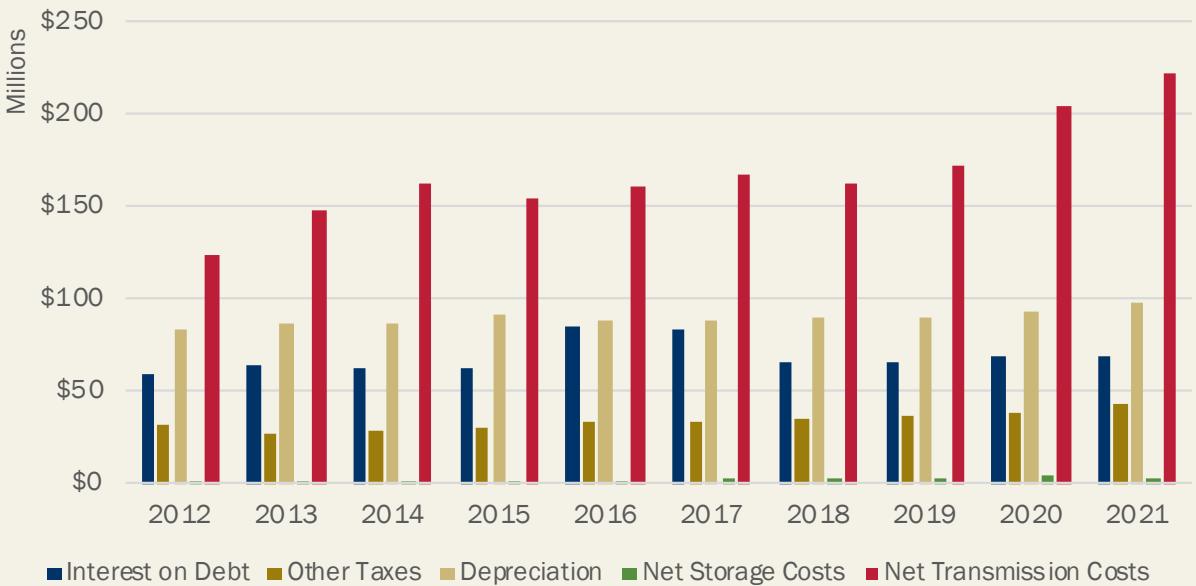
El Paso ROE



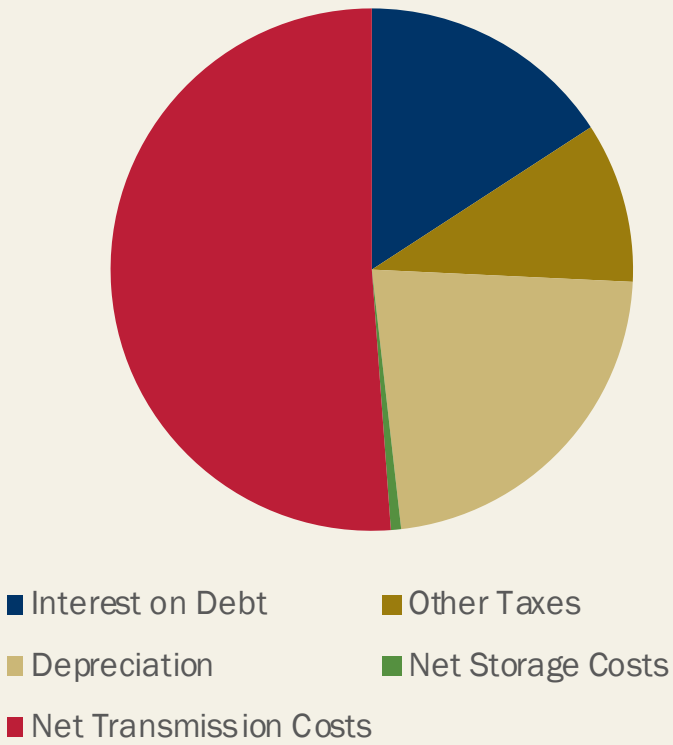
El Paso Rates Vs. Volumes



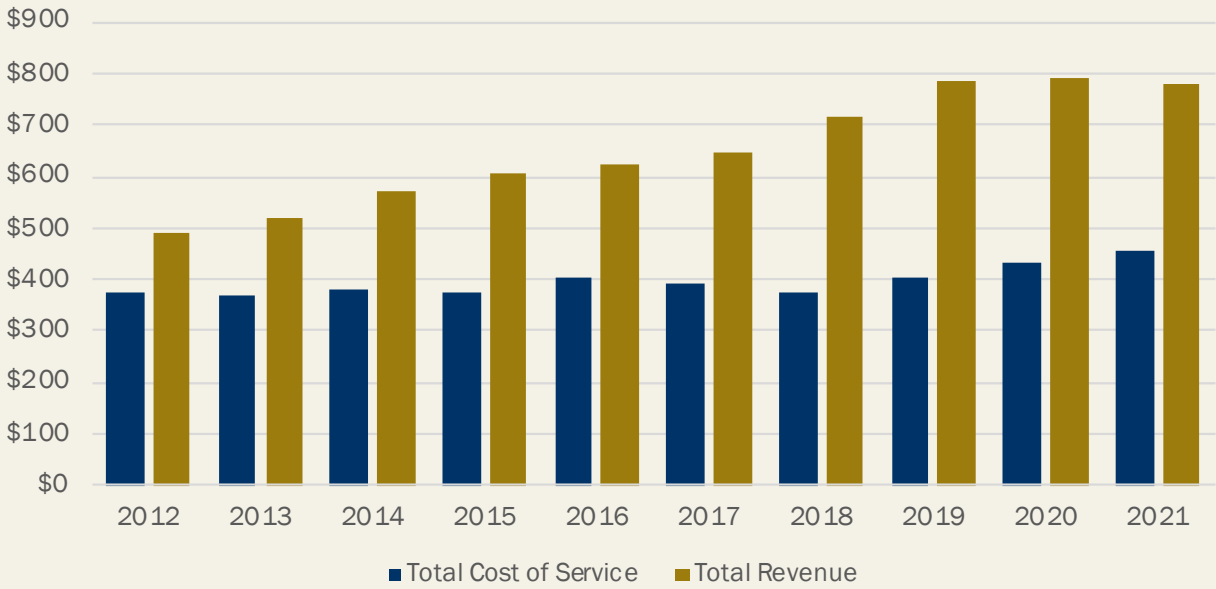
Cost Trends El Paso



Cost of Service Breakout



El Paso Total Cost Vs Total Revenue

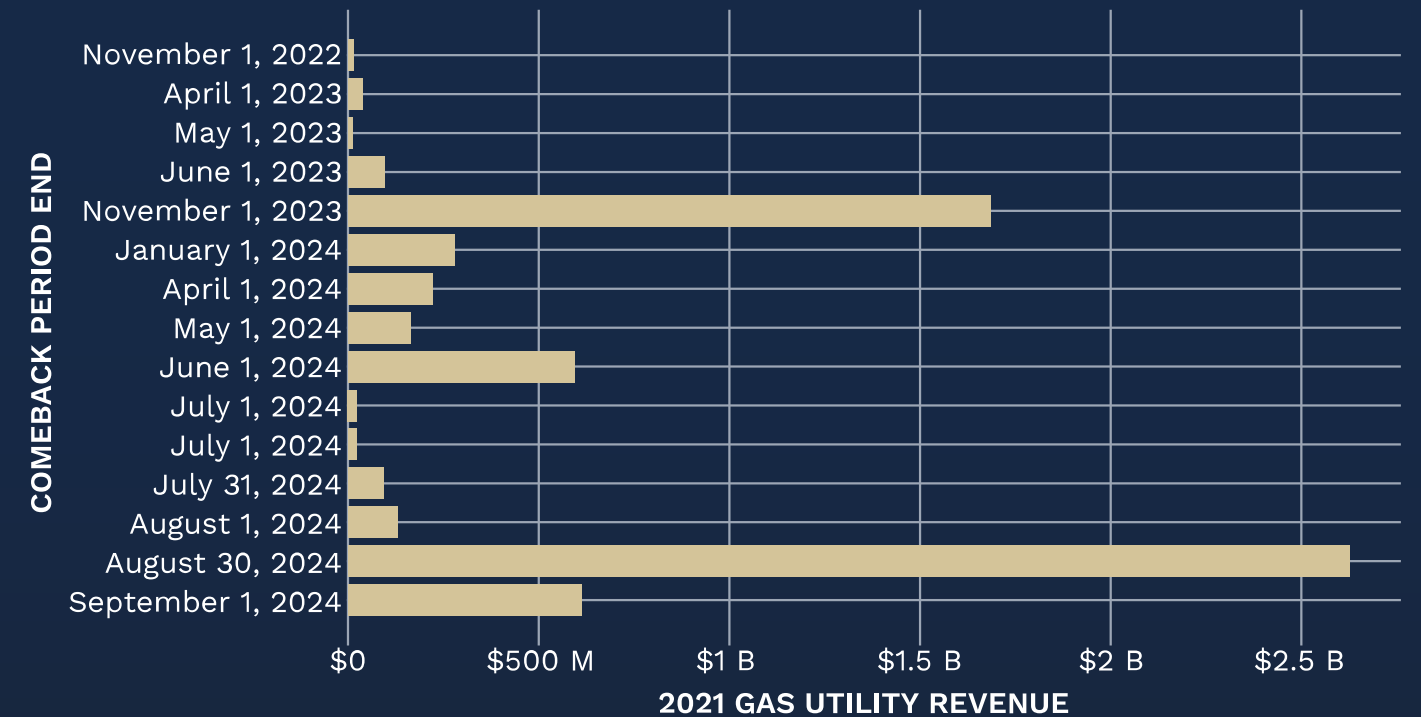
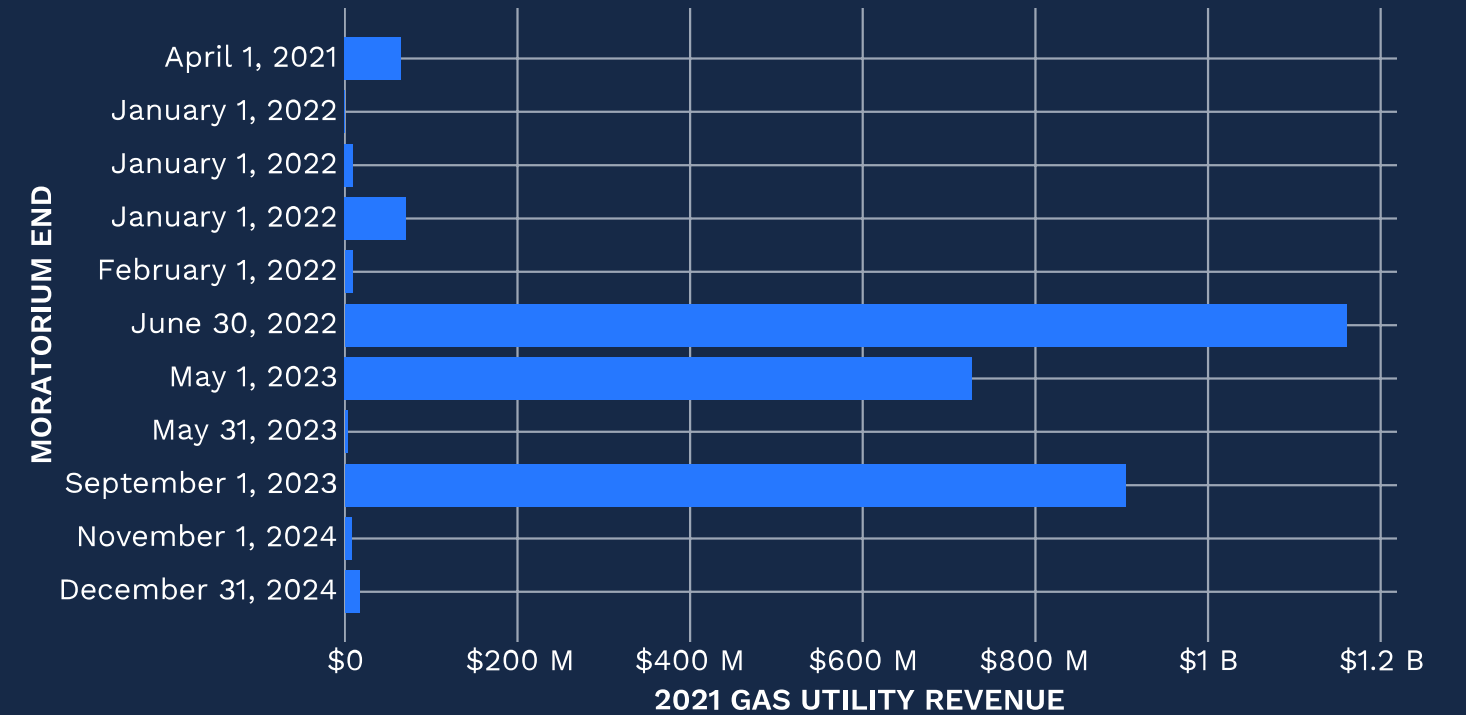


East Daley modeled a 4% cut overall, resulting in \$31 M in revenue cut.

El Paso ultimately agreed to a 16% cut to max tariff revenue (\$33 M cut) over a period of three years.

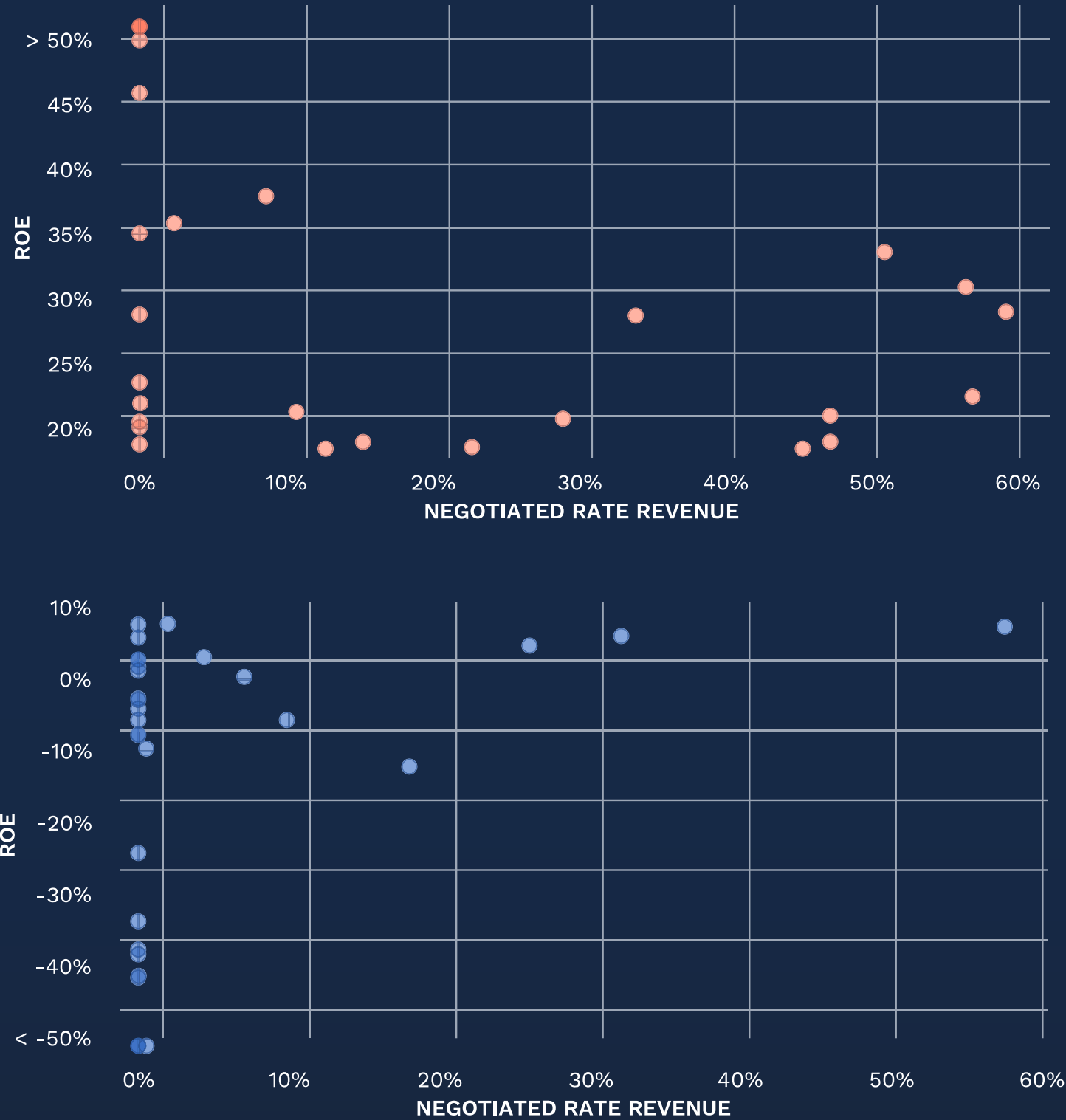
ARBO TRACKS

Industry-wide moratorium and comeback dates



AND MAINTAINS A

Matrix of pipeline companies arrayed by ROE and percentage of negotiated rate revenue

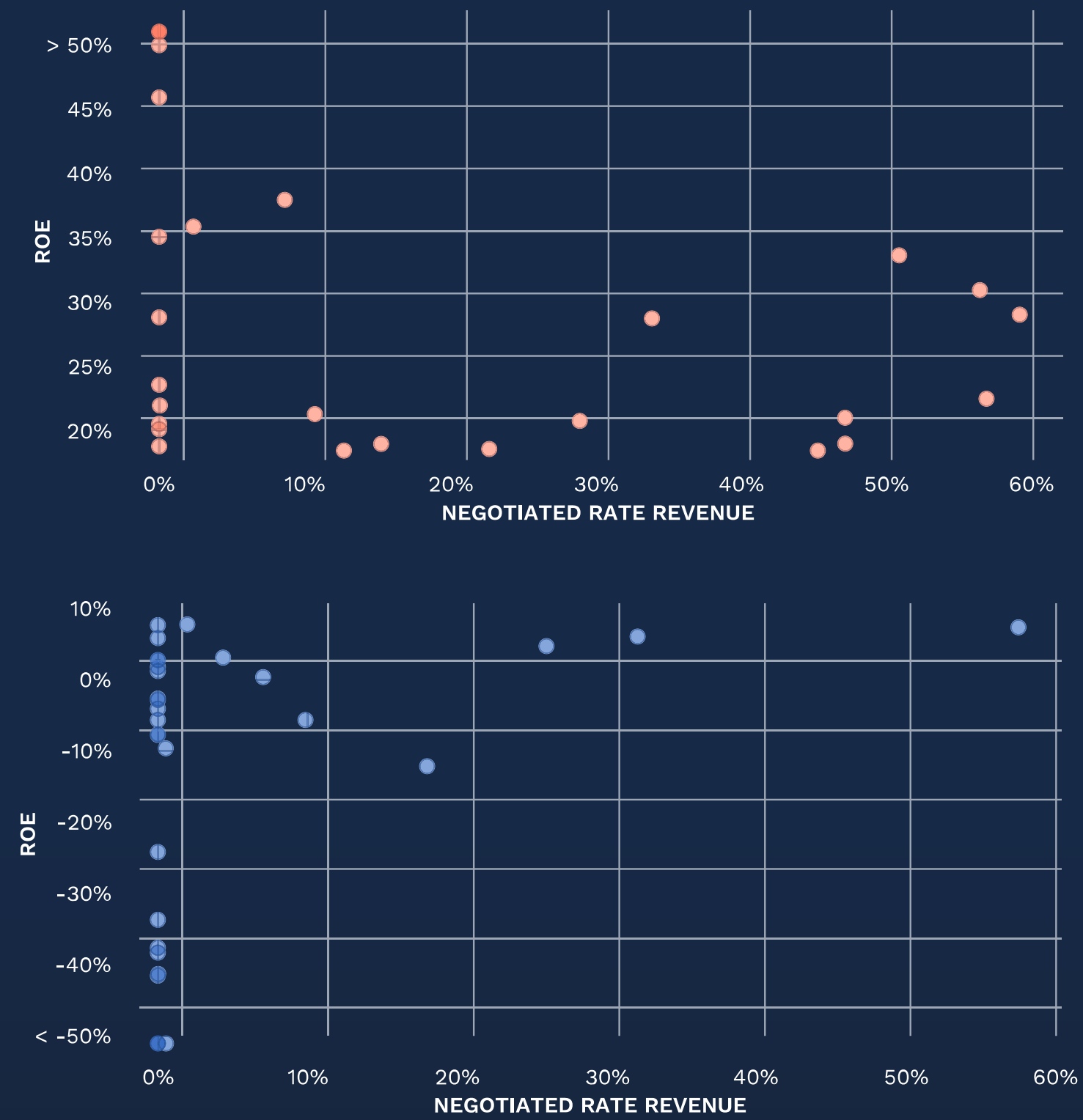


ABOVE 18% ROE
BELOW 60% NEGOTIATED

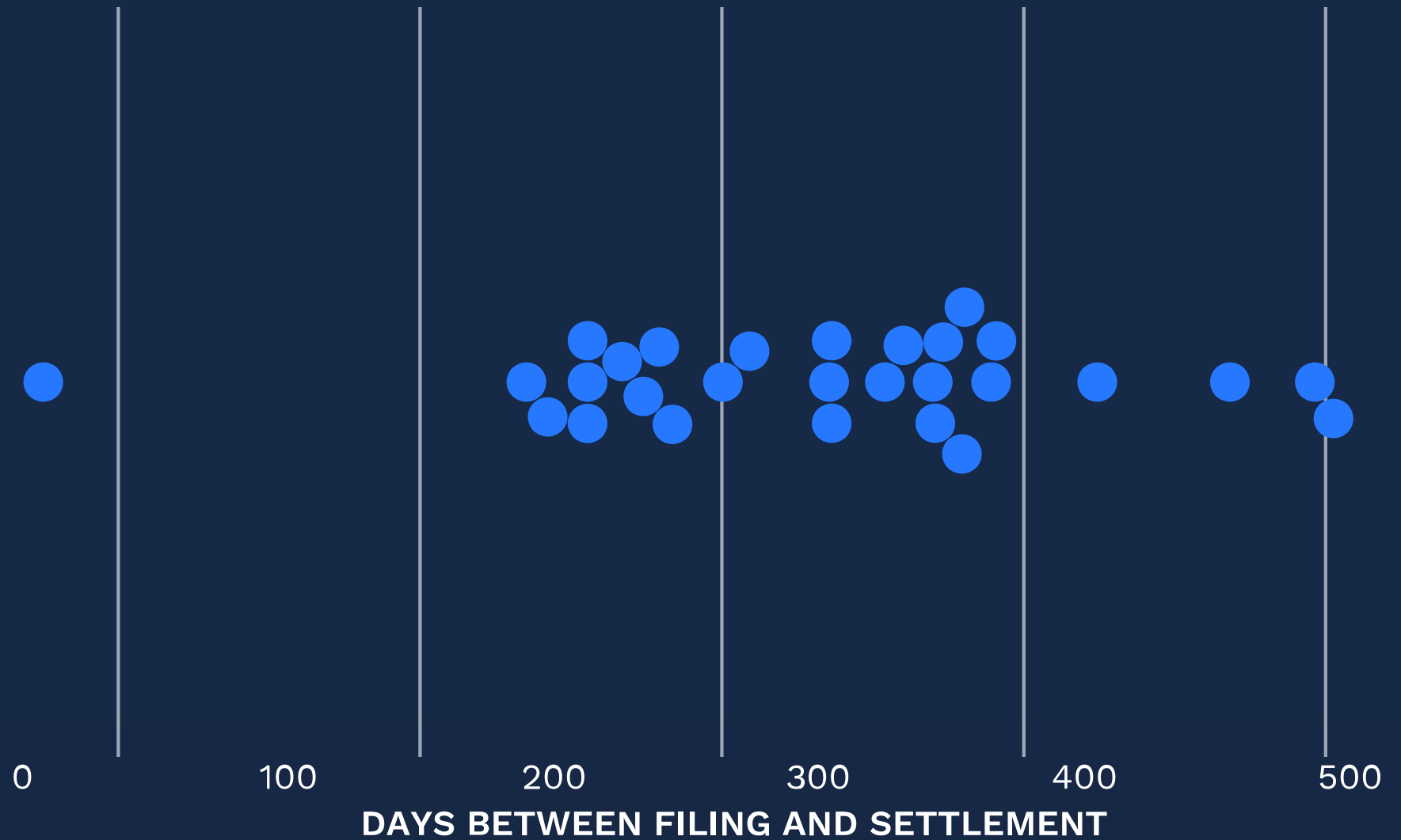
Subject to rate
reduction **risk**

BELOW 10% ROE
LOW PERCENTAGE NEGOTIATED

May seek to
raise rates



Most rate cases end in a settlement, **but the process can still take two years.**



For analysis of the Panhandle case, visit:
goarbo.com/arview/pepl-rate-case



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FERC Finally Makes a Decision in the Panhandle Eastern Pipe Line Rate Case

ArboIQ • December 29, 2022

What's the issue?

Last week at its open meeting, FERC finally issued an order in the rate case involving Panhandle Eastern Pipe Line which had been pending since 2019 and which had been awaiting a Commission decision for eighteen months.

Why does it matter?

While the outcome of the case is clearly important for the pipeline and its shippers, it will also impact the entire industry because FERC uses the ROE from the last fully litigated case for various other purposes.

What's our view?

The previous fully litigated case was one involving El Paso Natural Gas Pipeline from 2011, which resulted in a 10.55% ROE. Thus, even though the FERC decision reduced the ROE proposed by the administrative law judge to 11.25%, the ruling will be important for the entire industry for perhaps another ten years as it essentially raised the ROE floor by seventy basis points.

Last week at its open meeting, FERC finally issued an order in the rate case involving Panhandle Eastern Pipe Line (Panhandle) which had been pending since 2019 and which had been awaiting a Commission decision for eighteen months. While the outcome of the case is clearly important for the pipeline and its shippers, it will also impact the entire industry because FERC uses the ROE from the last fully litigated case for various other purposes.

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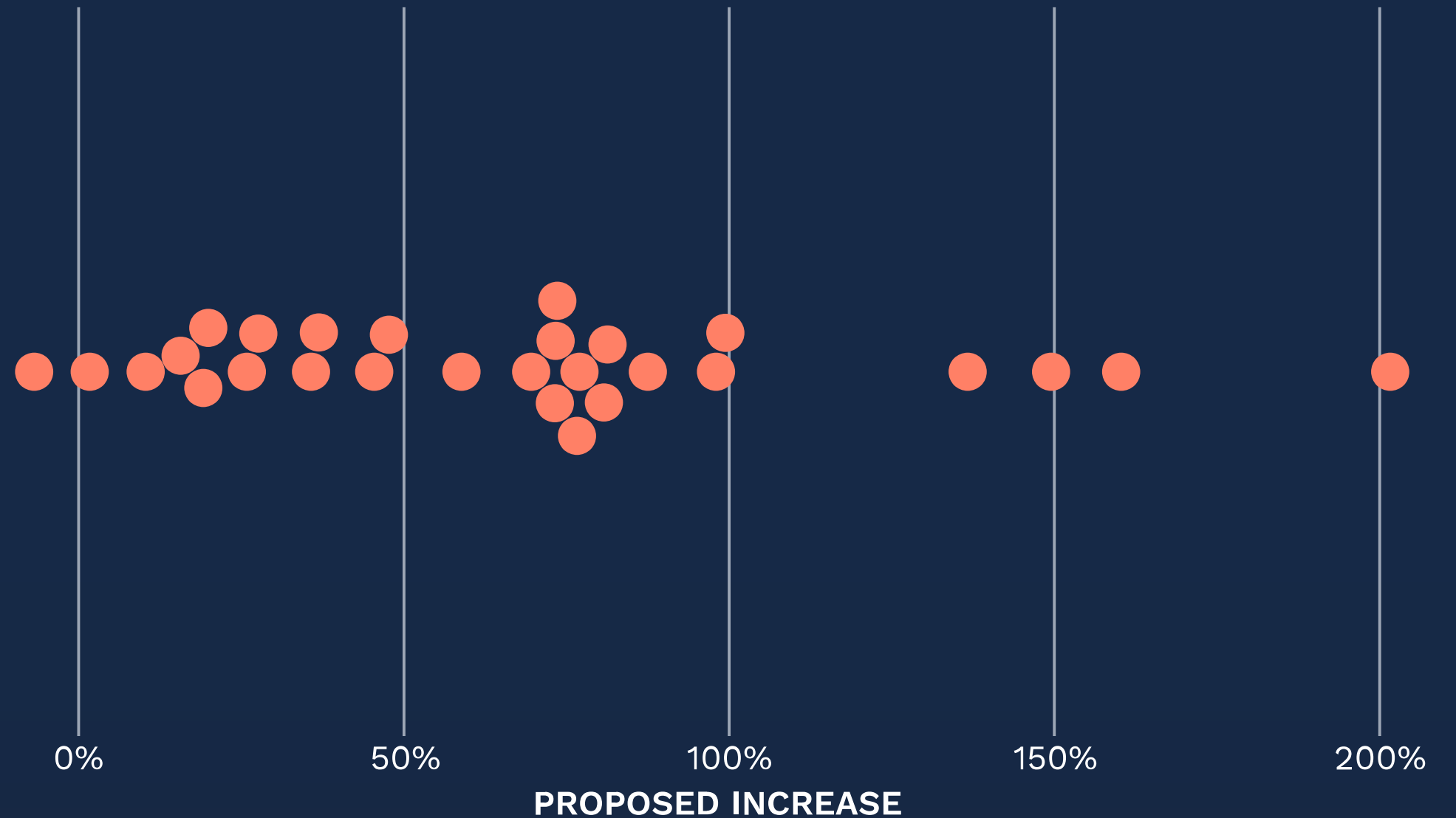
Section 5 Process

- ▶ The FERC order sets the case for a hearing.
- ▶ The pipeline is required to file a cost of service report in 75 days. The new rate starts only after the case is resolved.
- ▶ *El Paso settled in 211 days, but its shippers were given a cost of service study before FERC initiated the case.*

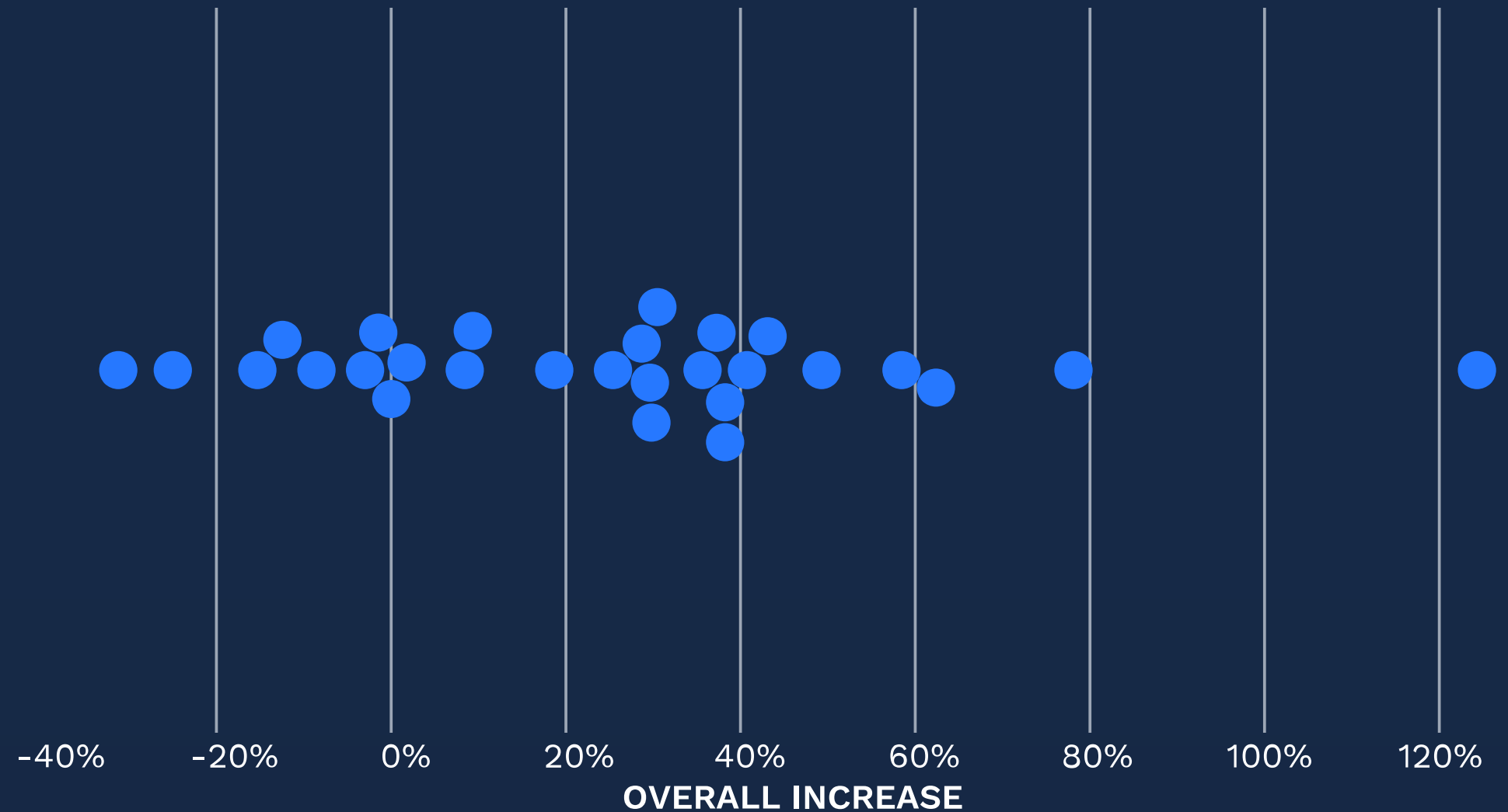
Section 4 Process

- ▶ The rate is technically effective 30 days after filing.
- ▶ FERC always suspends the rate increase for five months and sets the case for a hearing.
- ▶ When suspension ends the pipeline begins collecting at the proposed rate, subject to refund following resolution or settlement.

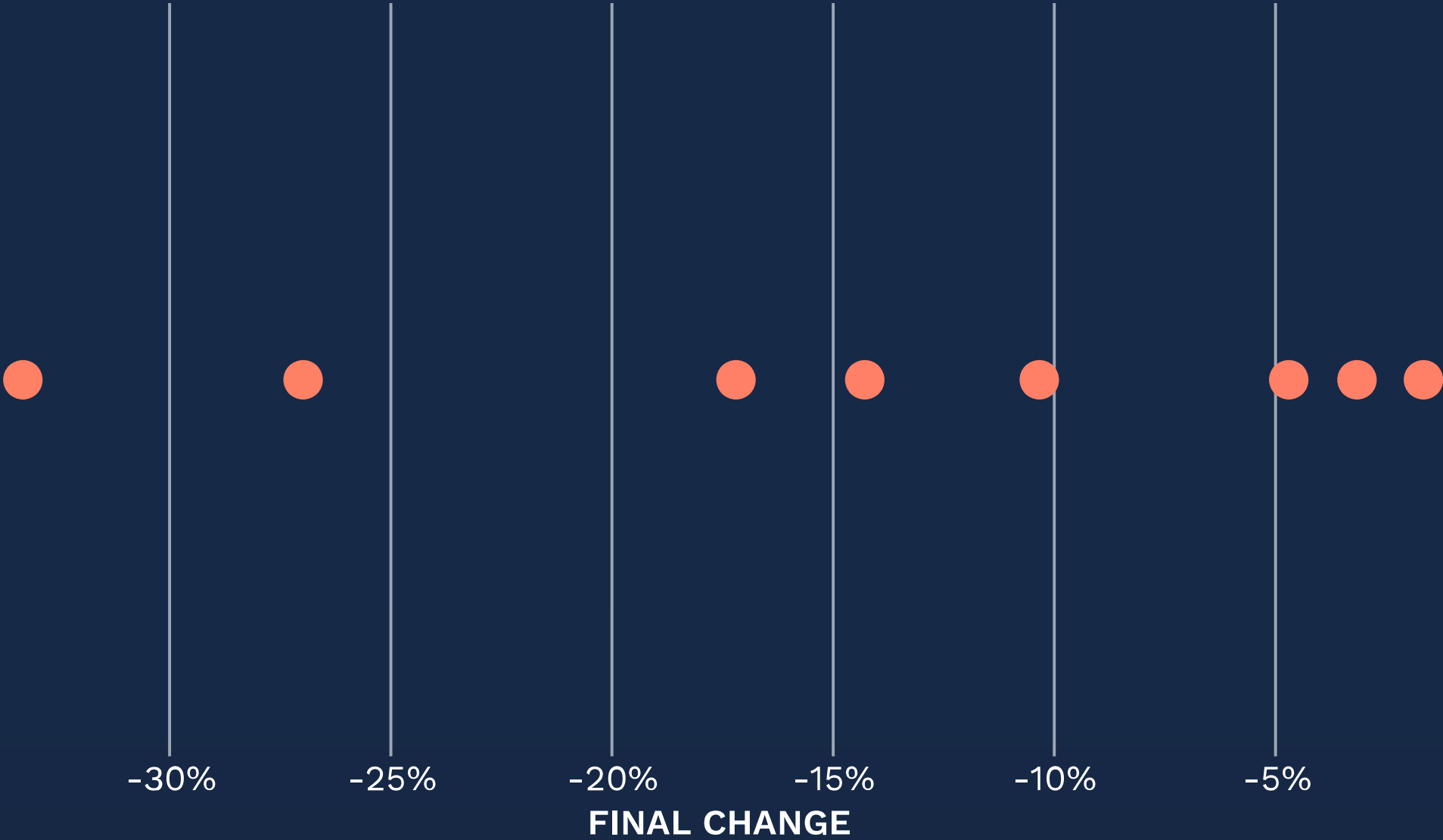
The proposed increase may be high — as much as **three times** the current tariff.

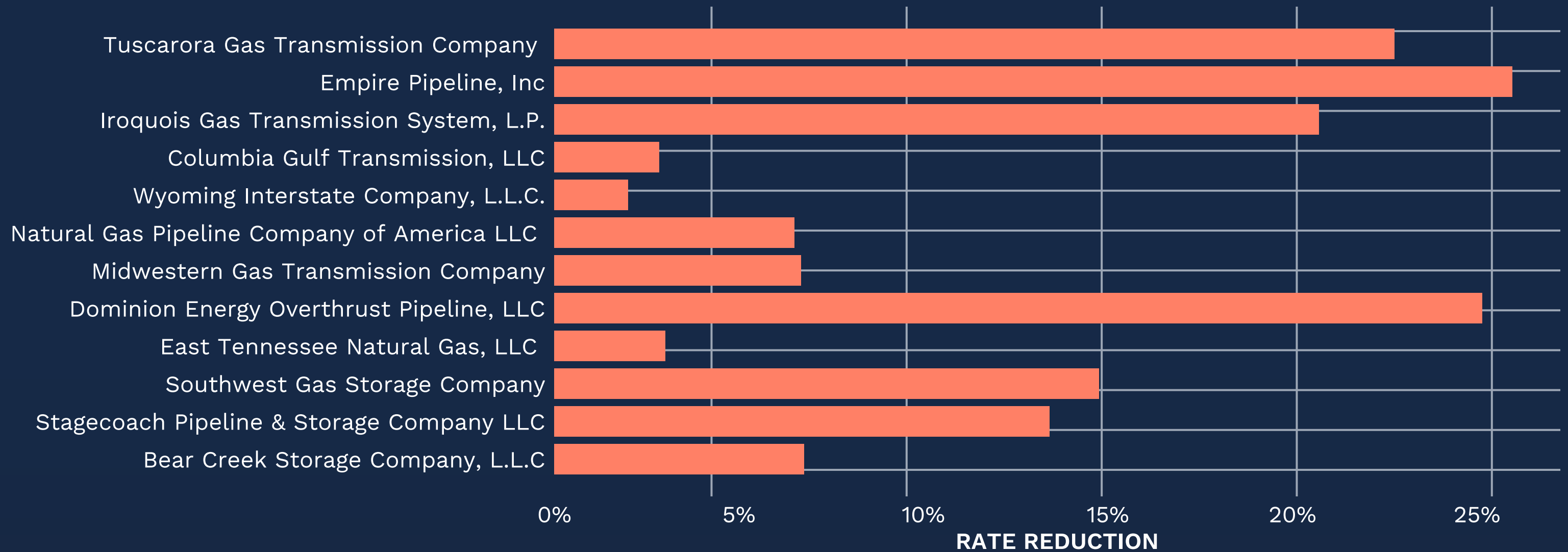


However,
the settlement
percentage is
typically in the
40-50% range
of the proposed
increase.



Section 5 cases
almost always
result in a rate
reduction —
**sometimes by
25% or more.**





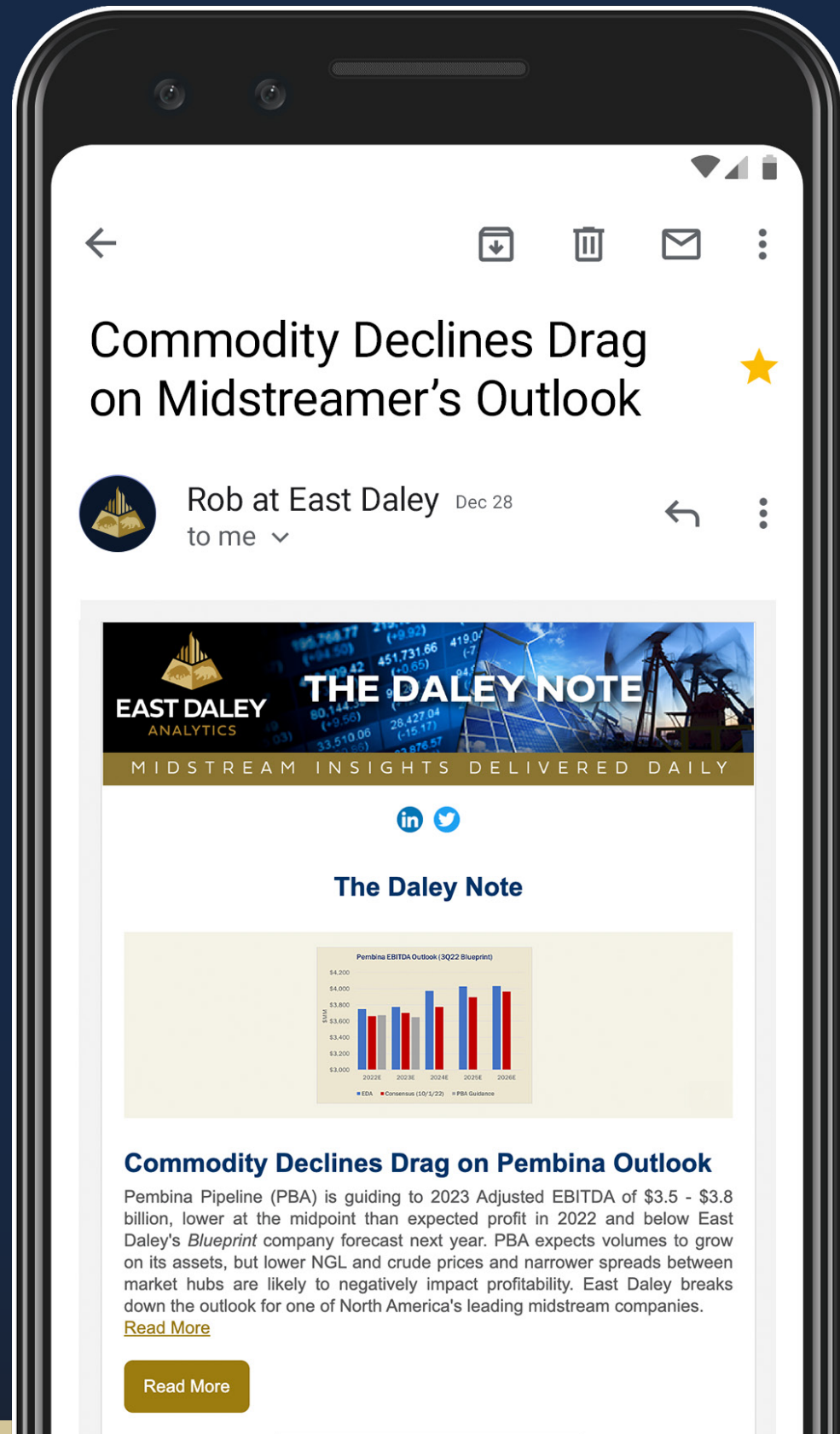
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