
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION APPROVES 11.2 PERCENT RETURN ON EQUITY FOR RATES CHARGED BY KERN RIVER GAS TRANSMISSION

The return on equity for rates charged for the interstate natural gas transportation services provided by Kern River Gas Transmission Co. should be 11.2 percent, the Federal Energy Regulatory Commission determined in an order approved today.

The Commission's order reversed an administrative law judge's March 2, 2006, initial decision recommending the Commission adopt a 9.34 percent return on equity. The Commission concluded the initial decision should have excluded two companies from the proxy group the judge relied upon in calculating the lower rate of return.

Commission Chairman Joseph T. Kelliher said, "Perhaps the Commission's most important responsibility with respect to the regulation of interstate natural gas pipelines is protecting shippers by setting rates that are just and reasonable. A just and reasonable rate also reflects the risks that face interstate pipelines, and gives them an opportunity to earn a reasonable profit. If we do our job well, shippers are protected against exploitation and pipelines will continue to invest in expansion of the interstate pipeline network. Our decision today balances both policy objectives."

Kern River is an interstate natural gas pipeline that transports up to 1.7 billion cubic feet of gas per day from the Rocky Mountain producing region to customers in the West, including gas and electric utilities and industrial customers in California – in particular the enhanced oil recovery and cogeneration markets in the San Joaquin Valley in Kern County.

The pipeline provides open-access transmission on its system, which stretches 1,924 miles from southwestern Wyoming through southern Utah and the southern portion of Nevada and into southern California. Kern River owns and operates 1,671 miles and co-owns the remaining 293 miles of pipeline in California with the Mojave Pipeline Co., which operates that section.

The Commission's decision today stems from an April 30, 2004, rate filing in which Kern River proposed a return on equity of 15.1 percent. The Commission accepted and suspended the proposed rate, which took effect November 1, 2004, subject to refund and conditions. The Commission ordered hearings to address concerns raised by protesting transportation customers.

In the initial decision, the administrative law judge used a proxy group of six similarly situated companies to compare those companies' rates of return on equity to determine an appropriate return on equity for Kern River. The proxy group included El Paso Corp., Equitable Resources Inc., Kinder Morgan Inc., National Fuel Gas Co., Questar Gas Co., and the Williams Cos. This proxy group had returns on equity ranging from 7.31 percent to 13.62 percent, with a median rate of 9.34 percent, the number chosen by the ALJ as the rate of return for Kern River.

Using a revised proxy group, based on one chosen in a previous case and which excluded El Paso and Williams, the Commission concluded the median return on equity should be 10.7 percent. Since the revised proxy group is small and includes companies with a relatively low proportion of pipeline business and substantial distribution operations, the Commission approved a 50 basis point adjustment above the median to reach an 11.2 percent return on equity for Kern River. The Commission noted this approach is appropriate because it accounts for the differences in risk between Kern River and the proxy group companies.

Although the judge was reversed on the proxy group composition and rate of return, the Commission mostly affirmed the judge's recommendations on Kern River's rates, including the decision to exclude master limited partnerships from the proxy group. The Commission also affirmed the judge's finding that allowed for levelized rates, but will require Kern River to make some modifications to its methodology.

The Commission ordered Kern River to revise its tariff sheets and rates within 30 days of the issuance of today's order. Also, the Commission ordered Kern River to refund amounts in excess of the approved rate within 30 days of the final order's issuance.