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The Natural Gas Act (NGA) requires that rates charged for interstate pipeline services be "just and reasonable." Setting just and reasonable rates

requires a balancing of equities between the interests of the pipeline and its

ratepayers. The basic methodology we use to establish just and reasonable

rates is cost-of-service ratemaking. Under cost-of-service ratemaking, rates

are designed based on a pipeline's cost of providing service including an

opportunity for the pipeline to earn a reasonable return on its investment.

The Commission sets rates for interstate pipeline services in a number of proceedings. For example, when a pipeline files to increase its rates, it

makes a filing with the Commission under Section 4 of the NGA.

These

types of filings are referred to as general Section 4 rate cases. In these

proceedings, the Commission reviews all of a pipeline's rates and services. A

pipeline can file a general Section 4 rate case anytime it wishes, provided the

pipeline did not agree otherwise in a settlement. A pipeline must demonstrate

that the new rates it proposes to charge are just and reasonable.

When a rate increase filing is made pursuant to Section 4, the application is typically suspended and set for hearing by Commission Order.

Once the application is set for hearing, it is processed by the Commission's litigation staff in the Office of Administrative Litigation (OAL). The issues in the application can be settled if parties can reach consensus. However, if the issues cannot be resolved, they will proceed to a hearing before an Administrative Law Judge (ALJ). Whether the case is settled or proceeds to hearing, the Commission will eventually need to act upon the settlement, or upon the record in the hearing.

The Commission also has authority under Section 5 of the NGA to require prospective changes in the rates charged by a pipeline when it can be demonstrated that the rates are no longer just and reasonable. Additionally, the Commission sets rates for intrastate pipelines under Section 311 of the Natural Gas Policy Act (NGPA). Under Section 311, intrastate pipelines are permitted to transport gas for interstate pipelines and local distribution companies (LDC) in interstate commerce without becoming subject to jurisdiction under the NGA (intrastate pipelines are regulated by their State Agencies). The rates established under Section 311 must meet a "fair and equitable" standard, as opposed to a "just and reasonable" standard.

When this Commission sets the rates for Section 311 service, the rates are computed using the same cost-of-service methodology used under the NGA.

However, an intrastate pipeline may elect to use an approved cost-based rate

on file with the State agency that regulates its intrastate business.

Finally, there are "limited" Section 4 filings where pipelines file to add a new service and establish new rates, as well as, complaint proceedings that

raise rate issues to be addressed by the Commission.