WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket No P. 041344

Pipeline Safety Fee Methodology Rulemaking

COMMENTS OF WILLIAMS NORTHWEST PIPELINE

May 18, 2005

Williams Northwest Pipeline (“Williams) is an interstate natural gas pipeline with facilities in the state of Washington. Williams applauds the WUTC’s review of the Pipeline Safety Fee Methodology and supports the proposed move to a system where the fees charged to the participants reflect the workload each participant generates for the WUTC.

The current fee system is both grossly inequitable and shifts costs from one group of participants to another. Interstate pipeline companies shoulder a disproportionate share of the costs of the current program. Williams believes that because the current fee system is extremely inequitable, the WUTC should immediately adopt the new fee methodology before it collects fees for the upcoming fiscal year beginning July 1, 2006.

Staff has made two proposals to lessen a perceived blow to some participants that will see their fees increase under the new system. First, staff proposed a stop loss mechanism. This proposal merely perpetuates the cost shifting from one group to another. Since the aim of the new methodology is to align the fees charged to the participants with the workload each participant generates for the WUTC, the new methodology should be adopted without the stop loss mechanism. The goal of the new system is worthy: it attempts to place the costs where they rightfully belong. The WUTC should move to this system without perpetuating the current cost shifting with a stop loss mechanism.

Second, staff proposed delaying the implementation of the new methodology for a year to give those whose fees increase time to adjust to the higher fees. Just as with the stop loss mechanism, this proposal should be rejected and the new fee system adopted without this transitional one-year delay. Since the goal is to get all participants paying their rightfully owed share of the costs of the program based on the workload they generate, there is no need to delay. Get all participants paying their rightfully owed share. To delay for a year is to permit improper cost shifting for another year.

It is worth briefly reviewing the cost shifting that occurs under the current system. The following points in bullet format have been made by Williams before, but it is important to understand the inequity of the current system as a basis for why the new system should be adopted now, not a year from now.

- There are currently 2,459 miles of interstate facilities and 19,328 miles of intrastate facilities in Washington. This means that interstate facilities comprise less than 13% of the total pipeline miles. Absent unusual circumstances, such as the high number of inspections of Williams' facilities in the past year, inspection activity should approximate the relative mileage of interstate and intrastate pipelines. Consequently, absent unusual circumstances, approximately 13% of the program costs should be borne by interstate pipelines and 87% borne by intrastate pipelines.

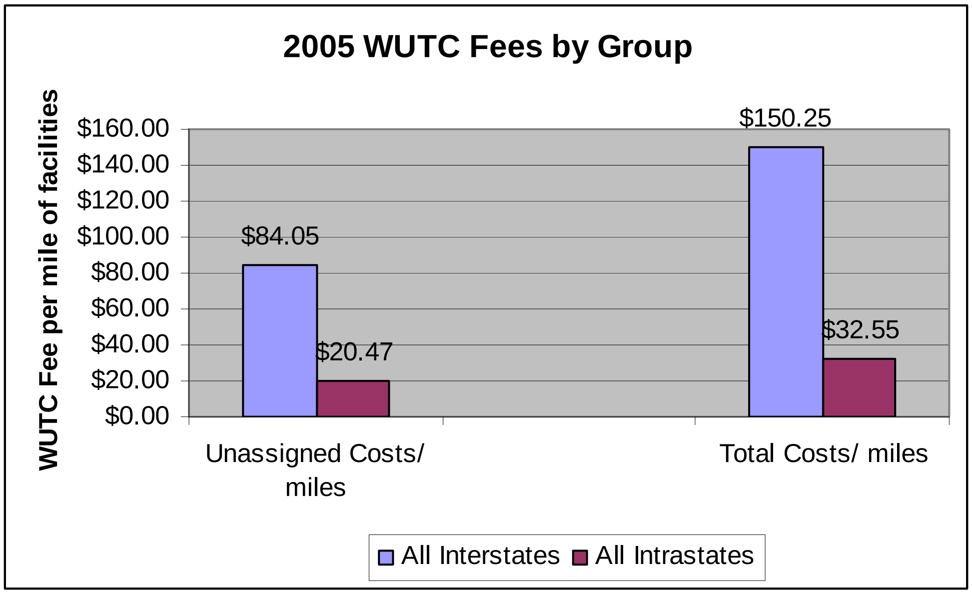
- Under the current fee methodology, interstate pipelines as a group pay 37% of the program costs, not 13%. The allocation of 37% of the costs of the program to interstate pipelines occurs regardless of the work load the group generates for the WUTC. If there are fewer then usual inspections in any year, and thus a smaller amount of direct fees to the interstate group, the amount of "unassigned costs" is increased so that at the end of the day the interstate group has paid 37% of the program costs. This 37% reflects neither workload nor mileage. It was an arbitrary number based on dubious unsubstantiated data pulled together at the time that the WUTC took over interstate inspections from OPS.

- Another way to quantify the inequitable treatment of interstate pipelines under the current fee methodology is to examine the total charges to the two groups on a per mile basis. The final report of the Joint Legislative Audit and Review Committee (JLARC) of Washington's Pipeline Safety Office dated June 19, 2003 noted that interstate pipeline companies as a group paid <u>seven times</u> more per mile of facilities to the WUTC than the intrastate pipeline companies. (JLARC report page 24).

- There has been some improvement to this discrepancy following JLARC due to the adjustment in the formula for dividing cost between the interstate and intrastate companies and the increase in the per day charge for inspectors, but the disparity is still great. The charge to the group of interstate companies for "unassigned costs" is $84.05 per mile of facilities but only $20.46 per mile of facilities to the group of intrastate companies, a four-fold disparity. This disparity occurs because the overarching goal of the current program is to charge interstates with 37% of the program costs at the end of the day.

- When the total safety fee charges by the WUTC to interstate and intrastate companies are compared on a per miles basis, the charge to the interstates is $150.25 per mile of facilities but only $32.55 per mile of facilities for the intrastate pipelines. The cost of inspections for interstate pipelines in Washington as a group is four to five times as great for each mile of facilities as it is for intrastate pipelines.

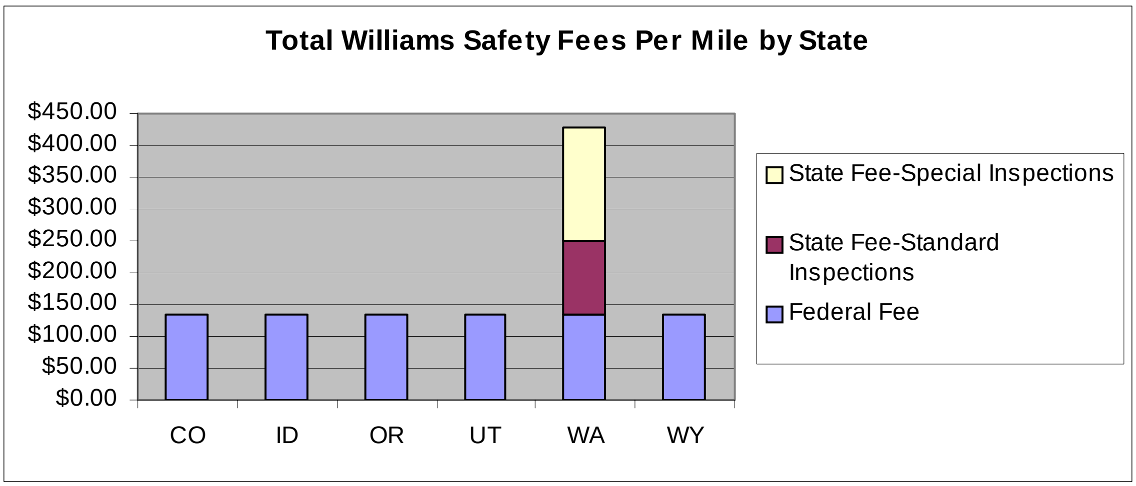
The disparity in the state assessed fees can be graphically represented as follows:



- There seems to be a false notion underlying the current fee methodology that interstate pipelines, which tend to have larger diameter pipeline facilities, pose a greater safety concern to the public than small diameter pipelines, and that higher safety fees charged to interstate facilities are therefore justified. This is not the case. By nearly any metric, the dangers presented by intrastate facilities are equal to or greater than those presented by interstate pipelines. For example, the nation-wide pipeline statistics on the OPS website linked to the WUTC website indicate that transmission pipelines comprise 21% of the miles of the combined natural gas transmission and distribution systems in this nation, but transmission pipelines accounted for 16% of the national fatalities on both systems between 1986 and 2004 and 14.5% of the injuries on both systems during this same period. Conversely, distribution pipelines with 78% of the pipeline miles account for 83% of the fatalities and 85% of the injuries during this period. There is no basis to the notion that natural gas transmission pipelines present a greater danger than distribution pipelines.

- There is also no basis to the notion that large diameter, high capacity pipelines (which tend to be interstate pipelines) are more difficult to inspect than smaller diameter pipelines (which tend to be intrastate lines). Smaller diameter intrastate facilities tend to be concentrated more in urban areas, and the interstate pipelines are in more rural areas. Inspections of intrastate facilities in urban areas involve more records and are more complex than inspection of interstate facilities. There is no basis to the notion that interstate pipelines require a greater level of inspection activity than intrastate pipelines.

- The disparities in the current fee methodology described above do not take into account the fact that those companies with transmission pipelines (generally but not exclusively the interstates) also pay the federal Office of Pipeline Safety a per mile fee that covers the cost of annual pipeline inspections. For Williams Northwest Pipeline, this per mile fee for facilities in Washington was $134.39 per mile for a total of $189,759 for 2005, bringing its total fee for inspection of its facilities in Washington State for the year to $603,643. The following chart compares the safety inspection fees Williams pays on a per mile basis in each state in which Northwest Pipeline operates.



- Thus, disparity in the WUTC's current fee methodology between intra and inter state pipelines is only part of the story. When the inspection fee paid by Williams to OPS for its Washington facilities is considered, the disparity is even greater. The WUTC argues that it is running an "enhanced" pipeline safety program and that justifies the higher fees in Washington. However, though the cost of having its facilities inspected in Washington are more than double the costs of having its facilities inspected in other states in a normal year (i.e. ignoring the special inspection fee in 2005), there are few if any quantifiable measures of this enhanced program other than the fact that all Williams' Washington facilities are inspected every two years and in the other five states all facilities are inspected every three years. This slight increase in the inspection frequency does not justify more than doubling the fee. Williams recognizes that it and the other interstate companies were not able to convince Staff to take the federal fees into account in this review of the pipeline safety fees, and this problem will need to be addressed at some point in the future.

This cost shifting in the Pipeline Safety Program should end now. The WUTC should adopt the proposed fee methodology for the fiscal year beginning July 1, 2005. It should not attempt to soften the blow those whose fees will go up by delaying the implementation for a year. The goal of the new methodology is to align the fees charged to each participant with the work that each participant generates for the WUTC. This is only fair and ends the existing cost shifting. Move there now, not a year from now.

Further, the fees under the existing program have not been static. Participants have no basis for assuming that their fees will remain constant. Williams, for example, saw its fee charged by the WUTC jump from $204,000 in 2004 to $413,884 in 2005. While Williams protested one aspect of how the fee was calculated, it did not protest the primary reason for this doubling of the fee - being directly charged $219,050 for non-standard inspections related to issues on its 26" line. That charge reflected work the WUTC had performed and it seemed fair to Williams that it should be assessed that amount. Similarly, if the WUTC adopts the new methodology for fiscal year beginning July 1, 2005, those participants whose fees increase dramatically will know their higher fees reflect the actual hours the WUTC has expended inspecting their systems. To delay is to ask certain participants to subsidize those participants fees for yet another year.

<u>The Previously Paid Direct Charges to Williams and the Petition</u>.

Williams paid the WUTC a fee for fiscal year 2004 of $204,000. During that year Williams suffered to two incidents on its 26 inch diameter line and undertook a massive inspection, testing and repair program of the line. This resulted in higher than normal activity for the WUTC and resulting in a direct bill to Williams of $219,050 as part of its fee for fiscal year 2005 of $413,884.

As the WUTC now moves to fees based primarily on the hours spent for each participant, and looks back two years to determine the hours that are the basis of the new charge, it needs to be careful that it does not double bill Williams for the hours that were directly paid for above and beyond the regular charge in prior years. Staff has proposed refunding or crediting to Williams the $219,050 previously directly billed as the WUTC shifts to the new fee system. This amount will obviously change depending on whether the new system is implemented for the fee due on July 1, 2005 or implemented for the fee due July 1, 2006. In conversations with Staff, they appear to be fully aware of the need to not double bill for the hours already paid as the WUTC moves to a new system based on hours.

Williams also filed a petition protesting a portion of the fee calculation for 2005. Staff has proposed settlement of this petition in conjunction with moving to the new fee system. Delaying the new system for one more year may impact this settlement, but that impact is not known.

<u>Summary</u>

Williams strongly supports the WUTC's decision to review of the Pipeline Safety Fee Methodology and consider alternatives. Overall, Williams supports the new proposed system. It more closely aligns the fees charged to each participant with the work that each participant generates for the WUTC. This will end the egregious cost shifting from intrastate pipelines to interstate pipelines that occurs under the existing fee methodology.

Williams continues to believe that there should be some credit for the fees the participants pay to OPS to have their facilities inspected. Despite the fact that the WUTC did not make any changes to the program to account for the double fees charged to some participants for the same work, Williams supports the move to a system where the fees charged to the participants by the WUTC reflect the workload each participant generates for the WUTC.

Submitted electronically this 18th day of May, 2005

William Northwest Pipeline

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