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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Pipeline Safety Fee Analysis

Warning to recipients of this draft:
This is a first draft of a collection of comments and analysis. No one from the Commission has yet had an opportunity to challenge whether statements are representative and whether the information provided is accurate. Review by Commission staff is an integral part of project's procedures. Until a review is conducted along with other quality control procedures, this package is subject to significant changes before it is provided to the WUTC in its final form. This document is not a formal report from our firm but is a tool to be used in this project. No reliance on the information in this package is warranted. No conclusions should be made based on this information.

Stakeholder Meeting Package

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Washington Utilities and Transportation Commission

Introduction

The Washington Utilities and Transportation Commission (WUTC) is interested in receiving advice and consultation regarding fee-setting methodologies that could be applied in the Pipeline Safety program. This project is also designed to provide advice and consultation in establishing a regulatory incentive program.

This package provides a framework for eliciting stakeholder feedback on various fee methodologies. The WUTC engaged Miller & Miller, P.S. to conduct this project. The project addresses costs and fees related to the Pipeline Safety program.

A key consideration in this project is how stakeholders (pipeline operators, industry groups and citizens groups) view how fees are established and the fairness of the methodology used in establishing those fees. We hope this information will stimulate thoughts about the current fee methodologies as well as the advantages and disadvantages of the example methods provided.

On Nov. 16, we will hold a workshop and discuss each of the examples of fee method options presented. While we are interested on the potential economic effects on any individual company, our main goal is to obtain a full understanding of stakeholders' perspectives on the inherent equity or fairness of each method. We are also interested in other ideas that are not addressed by the example methodologies.

Information about each method is provided in Appendix B to this meeting package. For a quick summary comparison of the estimated effects on fee-payers to the current fees, comparisons are provided in Appendix A.

We look forward to hearing your ideas at the Stakeholders Meeting.

Legal Framework

General Background

There are various sections of current Washington State Law that have an impact on fee rate methodologies. However, the core requirements are contained in RCW 80.24.060 for Gas pipelines and mirrored in RCW 81.24.090 for Hazardous Liquid pipelines. RCW 80.24.060 states, in part:

> *(2) The commission shall by rule establish the methodology it will use to set the appropriate fee for each entity subject to this section. The methodology shall provide for an equitable distribution of program costs among all entities subject to the fee. The fee methodology shall provide for:*
>
> *(a) Direct assignment of average costs associated with annual standard inspections, including the average number of inspection days per year. In establishing these directly assignable costs, the commission shall consider the requirements and guidelines of the federal government, state safety standards, and good engineering practice[s]; and*
>
> *(b) A uniform and equitable means of estimating and allocating costs of other duties relating to inspecting pipelines for safety that are not directly assignable, including but not limited to design review and construction inspections, specialized inspections, incident investigations, geographic mapping system design and maintenance, and administrative support.*

In addition, both 80.24 and 81.24 contain the following language regarding a regulatory incentive program:

> *(8) After establishing the fee methodology by rule as required in subsection (2) of this section, the commission shall create a regulatory incentive program for pipeline safety programs in collaboration with the citizens committee on pipeline safety. The regulatory incentive program created by the commission shall not shift costs among companies paying pipeline safety fees and shall not decrease revenue to pipeline safety programs. The regulatory incentive program shall not be implemented until after the review conducted according to RCW 81.88.150.*

Fee Methodologies

Description of Cost Accumulation Systems and Data

The WUTC uses two separate systems for tracking time and costs. A separate timekeeping system tracks various activities by nature and industry type. This data is accumulated in an Access database system. Costs are accumulated by using the statewide accounting and financial reporting system and by an internal system.

Costs for the pipeline safety program are tracked in the accounting system by each of four "industry" categories as follows:

- 014 Gas Interstate
- 015 Gas Intrastate
- 224 Hazardous Liquid Intrastate
- 225 Hazardous Liquid Interstate

The cost data includes direct costs charged (or coded) directly to each of the industry categories. In addition to directly coded costs, agency overhead costs are accumulated in specific pools and allocated to industry categories using time as the base for allocation. We obtained the program cost data for 2003 and 2004 for use in creating the estimated fees for some of the example methods.

Fee Methodologies Considered

Several different methods are described in Appendix B. A general description of the method, the estimated effect on combined fees paid by the four industry categories and some discussion of the advantages, disadvantages and other factors to consider for each method. Also included for each method are worksheets that show how the method might be applied to specific companies. Some general comments about the data and methods are useful.

- All methods apply calculations to the net cost to be recovered during fiscal year 2005 of $1,234,424. This means, except where noted, the federal grants are credited from total costs without allocating it to specific industry categories.
- For each methodology, an approximate effect on the four industry groups is provided. For purposes of comparisons, we provide comparisons to current 2005 fees and "normalized" 2005 fees, to account for the extraordinary effect of the two direct billings that occurred in 2005.
- Because the fee statute uses the term "average costs", all methods use actual data for both 2003 and 2004 and average the data. The statute also uses the term "directly assignable." If the WUTC has directly assigned effort by the timekeeping system or directly assigned costs in the accounting system, for this exercise, we consider that time and cost data to be directly assignable.

The methodologies under consideration are briefly described in Appendix B. Many of the options build upon data developed in previous options.

Option 1 is the current fees paid by companies and is used as a comparison for all other options. Option 1 is a valid fee-setting method and is considered along with all other options. In Appendix A, we also provide comparisons to "normalized" 2005 fees by eliminating the two direct billings in the calculation. We were provided the calculation of the current 2005 fees from the WUTC. As such, the process of "normalizing" the 2005 fees for an alternative comparison was straightforward. By eliminating the deductions for the two direct billings, which effectively reduced the amount to be paid by other companies, the pool of costs was increased and we applied the same methodology to that revised pool as is used in the current fee.

Option 2 uses the timekeeping system data for direct hourly charges to each company during 2003 and 2004. Option 2 averages the two years of directly assigned hours to develop a percentage for each company that can be applied to the 2005 net recoverable costs.

Option 3 uses this same time reporting information but segregates them into four major direct inspection types. The total 2003 and 2004 hours are averaged for each type of direct inspection time. The relative percentages for each of these four types are used to create a cost pool only for that inspection activity. Each cost pool is then allocated to individual companies based on their actual inspection time coded to that inspection activity type. Option 3b segregates total costs into a direct inspection pool and an indirect pool based upon total direct versus indirect time. The direct portion is allocated based on the actual time incurred for each company while the indirect portion is allocation by miles of pipeline.

Options 4, 5 & 6 are similar in their application. These methods use actual accounting costs for each industry category. Actual costs for 2003 and 2004 are averaged. **Option 4** uses four distinct pools for each of the four industry categories. **Option 5** combines the four pools into a Gas pool and a Hazardous Liquid pool. **Option 6** combines the industry pools into interstate and intrastate pools. In these three options, all of the **(a)** variations use direct time as the base for allocation. All of the **(b)** options use direct time for only a portion of the costs and uses miles of pipeline for the remainder.

Option 7 averages the results of all of the previous options. **Option 7(a**) corrects for the over-weighting caused by **Options 4,5 and 6** being similar. **Option 7(b)** uses the results of **Option 7(a)** but employs a stop-loss or a maximum increase cap of 20%. This method shows how a limit to individual company impacts might be employed.

Finally, **Option 8** introduces the concept of a base regulatory fee. In this method a base fee of $10,000 is established and is used to offset the indirect costs that are allocated by miles of pipeline.

The final option or options that Miller & Miller, P.S. recommend will likely include components of several different options, and will likely be influenced by ideas and comments by stakeholders.

Regulatory Incentive Program

We have not yet developed an example of a regulatory incentive program as it is to be created after the regulatory fees are established. However, we plan to devote some

time in discussing stakeholder ideas about such a program, what it might look like and how it might be implemented.

APPENDIX A: COMPARSON OF METHODOLOGIES

APPENDIX B: FEE METHODOLOGIES CONSIDERED

Option 1: Current Fee Methodology

Description Summary:

The current fee methodology applies a standard daily rate for standard inspections to an estimate of the number of inspection days per regulated entity. The standard daily rate is determined by accumulating various hourly rates and multiplying the total hourly rates by 8 hours. This method accumulates the total annual salary and benefits ($506,547) of the seven inspectors and dividing it by 1920 hours (12 months x 4 weeks x 40 hours). This calculation results in a $37.69 hourly rate for inspectors. An allocation between standard inspection time and all other activities is determined by dividing 3000 working days by 929 inspection days which results in a 31% standard inspection to total time ratio.

Supervisor, Support, Commission Overhead, and Direct Expenses are all allocated 31% to Standards Inspections. Director, Policy and GIS time is allocated 5%, 15% and 10% to Standard Inspections, respectively. The result is an $84.21 hourly rate and a $674 daily rate. The remainder of costs is allocated based upon relative miles of pipeline within two pools of costs. These two pools are Interstate and Intrastate. The current method subtracts special company billings for extra effort from the total pool of costs to be allocated. For purposes of comparisons however, we have "normalized" 2005 fees by applying the current fee methodology assuming that these direst billings did not occur. As such, in describing the effect of each method on fees paid by industry category, comparisons to both the current 2005 fees and 2005 fees without direct bills is provided.

Factors to Consider: This method closely follows the statute by isolating standard inspection time from other efforts. Allocating all non-standard inspection costs uses a miles of pipeline method, deemed to be an equitable method. Refer to footnote 49 from the JLARC report, which states "The Research and Special Programs Administration of the U.S. Department of Transportation produced a Report to Congress on pipeline safety user fees. It analyzed mileage, capacity, and diameter as potential factors in a fee and concluded that mileage was the fairest and least administratively burdensome assessment measure. "Pipeline Safety User Fees", Report to Congress, U.S. Department of Transportation, Research and Special Programs Administration, March 1998."

The method does not charge for directly assignable costs for other inspection activity, such as specialized inspections and incident investigations. This method assigns standard inspection effort based on estimated and not actual inspection time. Also this method does not consider the differences in inspection effort among individual entities within a class of companies.

Option 2 Single Pool - Simple Method

Description Summary:

This method assigns the total program costs based upon the average actual effort incurred for each company. Total direct inspection activity for 2003 and 2004 is accumulated for each company, averaged for the two-year period and converted to a percentage of relative effort. All costs are accumulated into one pool and allocated to each company based upon their percentage of directly assigned time from the WUTC time charging system. This method is the most basic in that all costs are allocated based on effort without regard to relative costs for categories of companies or services.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

As Reported	Current 2005 Fees		Without Direct Bills	
Summary by Industry	Option 2	Variance	Option 2	Variance
Gas Interstate	325,520	(126,549)	325,520	30,814
Gas Intrastate	660,071	45,373	660,071	(103,221)
Hazardous Liquid Intrastate	68,888	57,333	68,888	57,169
Hazardous Liquid Interstate	179,945	23,844	179,945	15,238

Factors to Consider: This is a very simple method to implement and is equitable, in so far as costs are assumed to be even (i.e., fair and equitable) between gas, hazardous liquids, intra-state and interstate categories. This method does not recognize that there may be different cost profiles for managing gas versus hazardous liquid companies or the differences between intra and inter-state companies.

Option 3a All Costs Allocated Based Four Direct Inspection Pools

Description Summary:

This method accumulates effort in terms of hours expended in four direct inspection activity types: Standard Inspections, Specialized Inspections, Incident Investigations and Design Review and Construction Inspections. All other support (non-inspection) effort is allocated based upon the relative percentages in these categories The total program costs allocated to these four direct inspection categories is allocated to individual companies based upon their two-year average (2003 and 2004) of actual time spent in each of these activities.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 3a**	**Variance**	**Option 3a**	**Variance**
Gas Interstate	370,551	(81,518)	370,551	75,845
Gas Intrastate	607,750	(6,948)	607,750	(155,542)
Hazardous Liquid Intrastate	65,426	53,871	65,426	53,708
Hazardous Liquid Interstate	190,696	34,595	190,696	25,990

Factors to Consider: This method allocates all costs based on the effort needed for each entity. This method can be considered equitable in terms of assigning costs based on the major cost driver, time.

This method does not recognize that certain costs are general in nature and may not be equitably shared based upon average actual inspection activity. This method uses a two-year average. For companies with significant incidents during any one or two-year period, they incur extra fees during the two-year averaging period as compared to a longer period, or smaller direct pool smoothing method. Allocating general program effort based upon the hours expended in inspection-type pools may under or overcharge certain pools. For example, if most of the general support activity is based on standard inspection protocols, the result of this method overstates the cost assigned to companies with extra specialized or incident inspections.

Option 3b Direct Costs Allocated Based on Four Direct Inspection Pools , Indirect Cost Allocated based on Pipeline Miles

Description Summary:

This method is the same as Option 3a except that only directly assignable costs are allocated through the four inspection pools. Total costs are allocated between direct costs and indirect costs based on relative hours. Indirect costs are allocated to each company based upon miles of pipeline as one single pool.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 3b**	**Variance**	**Option 3b**	**Variance**
Gas Interstate	192,307	(259,762)	192,307	(102,399)
Gas Intrastate	924,893	310,195	924,893	161,601
Hazardous Liquid Intrastate	23,352	11,797	23,352	11,634
Hazardous Liquid Interstate	93,871	(62,230)	93,871	(70,835)

Factors to Consider: Companies incurring inspection time pay for only the estimated direct cost of conducting inspections. Approximately two-thirds of the total program costs are allocated using a pipeline mileage factor. Indirect costs are assigned to companies using a single pool even though overhead and support (indirect) costs may significantly vary depending on the nature of the inspection activity.

Option 4a All Costs Allocated Based on a Direct-Charge Industry Category

Description Summary:

This method allocates fees based on the four industry categories. It is more complex as it uses existing industry cost data and industry time and effort data together. First total program costs by the four industry categories were obtained for 2003 and 2004 from WUTC's accounting system. The industry categories are:

- 014 Gas Interstate
- 015 Gas Intrastate
- 224 Hazardous Liquid Intrastate
- 225 Hazardous Liquid Interstate

Second, using the time and effort data, all hours that were directly charged to companies and to industry categories were accumulated by industry category. These hours were then divided by the total industry cost pool to obtain a direct charge hourly rate. The company directly charged inspection hours (including some allocated indirect training time) was multiplied by the hourly rate to determine the fees. The results for 2003 and 2004 are averaged.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 4a**	**Variance**	**Option 4a**	**Variance**
Gas Interstate	264,964	(187,105)	264,964	(29,742)
Gas Intrastate	520,713	(93,986)	520,713	(242,580)
Hazardous Liquid Intrastate	166,388	154,833	166,388	154,669
Hazardous Liquid Interstate	282,359	126,258	282,359	117,652

Factors to Consider: This method recognizes that there are cost differences between managing interstate versus intrastate as well as Gas versus Hazardous Liquid pipeline safety programs. It assigns costs related to that specific activity only to the companies included in that activity based upon the major cost driver: time spent. There are no apparent cross-industry subsidies.

This method is more time consuming, in terms of developing the rates, than the current method and requires accurate contemporaneous time keeping and cost allocation regimen. This method does not recognize that there are some general regulatory costs that may be more equitably allocated than using time spent. Because the accounting system cost allocation to the major industries is different than the system use for tracking hours, the hourly rate used to charge direct costs varies widely, from a low of $178 for intrastate gas pipelines to a high of $576 for intrastate hazardous liquid pipelines.

Option 4b Direct Costs Allocated on Direct-Charge Industry Category, Indirect Costs Allocated by Pipeline Mileage

Same as 4a, except only directly assignable costs are distributed through the industry-specific hourly rate. The remainder is allocated based upon the relative mileage within each pool. Therefore, each industry's costs were allocated to only companies within those industries, both on a direct charge and pipeline miles basis.

There was also a significant amount of indirect time that was coded to other program identifiers and not coded to the industry types. These "uncoded" indirect time categories and method used to allocate them to major industry codes is as follows:

OTHER PROGRAMS	ALLOCATION BASE
Leave (program 000)	Directly assigned time to Industry as a percent of total directly assigned time
Gas Master Meter (program 17)	Gas Intrastate
Gas Cities (program 18)	Gas Intrastate, allocated only to cities
GIS Mapping Intrastate (program 42)	Allocated to only intrastate programs based on relative directly charged time
GIS Mapping Interstate (program 46)	Allocated to only interstate programs based on relative directly charged time
GIS Legislative Project (program 800 grant)	Not allocated for 2003 as revenues offset costs. 2004 allocated to only interstate programs based on relative directly charged time
Citizens Advisory Committee (program 44)	2003 allocation only based on relative directly charged time
Technical Assistance Cities (program 45)	2003 allocation only based on relative directly charged time
Pipeline Safety- General (program 540)	Directly assigned time to Industry as a percent of total directly assigned time

Approximate Effect: This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 4b**	**Variance**	**Option 4b**	**Variance**
Gas Interstate	281,514	(170,555)	281,514	(13,192)
Gas Intrastate	480,294	(134,404)	480,294	(282,998)
Hazardous Liquid Intrastate	90,170	78,614	90,170	78,451
Hazardous Liquid Interstate	382,446	226,345	382,446	217,739

Factors to Consider: This method allocates support time to industries on a rational basis and allocates direct inspection effort on a more consistent hourly rate based on the program's total ours within each industry. Instead of a single pool for allocating indirect costs by pipeline miles as is used in previous methods, the indirect cost for each pool is only allocated to companies within that pool based upon their relate percentage of total pipeline miles. The hazardous liquid pipelines have a much smaller total miles base upon which to distribute costs than do the gas pipelines.

Option 5a Gas and Hazardous Liquid Pools, Allocated Based on Relative Direct Inspection Effort

Description Summary:

This method accumulates effort in terms of hours expended in the four industry pools used in option 4 and combines them into Gas and Hazardous Liquid pools. The federal gas pipeline grant is allocated as a reduction of cost to only the Gas pool. Likewise, the federal hazardous liquid pipeline grant is allocated as a reduction of cost to only the Hazardous Liquid pool. Federal grants are allocated to interstate and intrastate portions of the pools based on the relative percentage of costs from the WUTC accounting system. The costs are allocated based upon directly charged time. The costs are then added together for each company. Percentages for each pool (Gas and Hazardous Liquids) are then calculated and applied to the total program costs to be recovered for that pool. The cost for that pool is the result of applying costs from the accounting system net of the allocated federal grant reimbursements. The result is that the Gas pool allocated 63.03% of total program costs to companies within that pool and Hazardous Liquids allocated 36.97% to those companies.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 5a**	**Variance**	**Option 5a**	**Variance**
Gas Interstate	270,251	(181,818)	270,251	(24,455)
Gas Intrastate	538,088	(76,610)	538,088	(225,204)
Hazardous Liquid Intrastate	157,398	145,842	157,398	145,679
Hazardous Liquid Interstate	268,687	112,586	268,687	103,980

Factors to Consider: This method recognizes that there are cost differences between managing Gas versus Hazardous Liquid pipeline safety programs. It assigns costs related to that specific activity only to the companies included in that activity based upon the major cost driver: time spent. There are no apparent cross-industry subsidies.

This method is more time consuming, in terms of developing the rates, than the current method and requires accurate contemporaneous time keeping and cost allocation regimen. This method does not recognize that there are some general regulatory costs that may be more equitably allocated than using time spent.

Option 5b Gas and Hazardous Liquid Pools Direct Costs, Indirect costs allocated based on Pipeline Miles

Description Summary:

Same method as Option 5a above except indirect costs are allocated based upon the relative mileage within each pool. Therefore, each industry's costs were allocated to only those companies within those industries, both on a direct charge basis and miles of pipeline basis. This method is different from option 4bin how mileage pools work. In 4b there are four separate mileage pools. In this method, there are only two mileage pools, one for Gas and one for Hazardous Liquids.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 5b**	**Variance**	**Option 5b**	**Variance**
Gas Interstate	132,904	(319,165)	132,904	(161,802)
Gas Intrastate	649,822	35,123	649,822	(113,471)
Hazardous Liquid Intrastate	38,088	26,532	38,088	26,369
Hazardous Liquid Interstate	413,610	257,509	413,610	248,904

Factors to Consider: This method recognizes cost differences between gas and hazardous liquid components of the pipeline safety program more fully than do the other methods. This method provides for an allocation of direct inspection effort based on time incurred and indirect costs by miles of pipeline calculated within each of the two pools.

This method is similar in many respects to Option 4b in that the Hazardous Liquid pool has a much smaller mileage base than the Gas pool. However, the results vary because of differences in the cost pools and the mileage base used to allocate indirect costs.

Option 6a Intrastate and Interstate Pools, Allocated Based on Relative Direct Inspection Effort

Description Summary:

Option 6a follows the same process as Option 5a except that the industry pool cost data and the directly charged time is resorted into an interstate pool and an intrastate pool.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 6a**	**Variance**	**Option 6a**	**Variance**
Gas Interstate	270,251	(181,818)	270,251	(24,455)
Gas Intrastate	538,088	(76,610)	538,088	(225,204)
Hazardous Liquid Intrastate	157,398	145,842	157,398	145,679
Hazardous Liquid Interstate	268,687	112,586	268,687	103,980

Factors to Consider: This method recognizes there are cost differences between managing interstate versus intrastate pipeline safety programs. It assigns costs related to that specific activity only to the companies included in that activity based upon the major cost driver: time spent.

This method is more time consuming, in terms of developing the rates, than the current method and requires accurate contemporaneous time keeping and cost allocation regimen. This method does not recognize that there are some general regulatory costs that may be more equitably allocated than using time spent. There may be some cross-industry subsidies.

Option 6b Intrastate and Interstate Pools Direct Costs , Indirect costs allocated based on Pipeline Miles

Description Summary:

Same method as Option 6a above except indirect costs are allocated based upon the relative mileage within each pool. Therefore, each industry's costs were allocated to only those companies within those industries, both on a direct charge basis and miles of pipeline basis. This method is different from option 4b in how mileage pools work. In 4b there are four separate mileage pools. In this method, there are only two mileage pools, one for Interstate and one for Intrastate.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 6b**	**Variance**	**Option 6b**	**Variance**
Gas Interstate	342,504	(109,565)	342,504	47,798
Gas Intrastate	695,280	80,582	695,280	(68,012)
Hazardous Liquid Intrastate	30,382	18,826	30,382	18,663
Hazardous Liquid Interstate	166,258	10,157	166,258	1,552

Factors to Consider: This method recognized that there are different cost profiles for managing an interstate and intrastate program. This method provides for an allocation of direct inspection effort based on time incurred and indirect costs by miles of pipeline calculated within each of the two pools.

This method is similar in many respects to Options 4b and 5b in its application. However the results vary because of differences in the cost pools and the mileage base used to allocate indirect costs.

Option 7 Average Options 2 through 6

Description Summary:

This method uses the results of all of the options previously presented and averages the variances. The variance is then added to the current fees to determine the fees for each company.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 7**	**Variance**	**Option 7**	**Variance**
Gas Interstate	272,307	(179,761)	272,307	(22,399)
Gas Intrastate	623,889	9,190	623,889	(139,404)
Hazardous Liquid Intrastate	88,610	77,054	88,610	76,891
Hazardous Liquid Interstate	249,618	93,517	249,618	84,911

Factors to Consider: This method smoothes the impact of each of the options by averaging the different impacts. It is a composite of all of the benefits from each of the various method as well as the negative aspects of each option. Since methods 4, 5 and 6 are similar, this method over-weights that type of method.

Option 7a Average of Five Main Options

Description Summary:

This method uses the results of all of the options previously presented and averages the variances. Options 4a, 5a and 6a are combined as one main option type and options 4b, 5b and 6b are combined as another main option type. These two combined options are then averaged with option 2, 3a and 3b. The variance is then added to the current fees to determine the fees for each company.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 7a**	**Variance**	**Option 7a**	**Variance**
Gas Interstate	342,111	(109,958)	281,835	(12,871)
Gas Intrastate	748,655	133,957	666,695	(96,597)
Hazardous Liquid Intrastate	75,729	64,173	74,188	62,469
Hazardous Liquid Interstate	232,519	76,418	211,706	46,999

Factors to Consider: Similar to Option 7, this method smoothes the impact of each of the options by averaging the different impacts. It is a composite of all of the benefits from each of the various method as well as the negative aspects of each option. This option corrects for the over-weighting of options 4,5 and 6 discussed above.

Option 7b Average of 5 Main Options with an example of stop loss on increases

Description Summary:

This method starts with the results of option 7a but employs the use of a stop loss or a cap on increases for the first time. This option is important because it recognizes that all methods can have a significant impact on an individual companies and that the impact can be mitigated by using this or a similar technique. This method assumes that no company may incur any increase in fees of over 20%. As such, it caps the increase at 20 % and applies any overages to companies with increases less than 20% or companies with decreased fees.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 7b**	**Variance**	**Option 7b**	**Variance**
Gas Interstate	350,181	(101,888)	306,344	11,638
Gas Intrastate	683,055	68,356	722,065	(41,228)
Hazardous Liquid Intrastate	13,867	2,311	14,062	2,344
Hazardous Liquid Interstate	187,321	31,220	191,953	27,246

Factors to Consider: While not evident from the chart above, this method has a significant affect on individual companies, which show large variances in their fees from using other methods. See Appendix A for individual company impacts.

Option 8 Base regulatory fee, used to offset indirect costs otherwise allocated by miles and retains a portion of direct charges

Description Summary:

This method starts with the results of option 4b, which allocates direct charges based upon direct time and allocates indirect costs by using pipeline miles within each of four industry pools. However, a standard regulatory fee of $10,000 to cover costs of general regulatory matters, not related to direct inspection activity is assessed to each company. The base regulatory fee is then subtracted from indirect costs within each industry pool to determine the amount that is allocated using the percentage of pipeline miles within each industry group. This option is important because it recognizes that certain costs are generated equally by all companies regardless of direct inspection effort of size of the system. Because the calculation is made on the average of 2003 and 2004 gross costs and the resulting percentages are applied to the lower 2005 fee pool the actual standard base fee is approximately $6,700.

Approximate Effect: The approximate effect of this method is to shift fees among industry groups as is presented in the following chart. This is an approximation as there are some companies that have operations in more than one industry but they have been included in only one industry for purposes of this illustration.

	Current 2005 Fees		Without Direct Bills	
Summary by Industry	**Option 8**	**Variance**	**Option 8**	**Variance**
Gas Interstate	278,355	(173,714)	278,355	(16,351)
Gas Intrastate	479,369	(135,330)	479,369	(283,924)
Hazardous Liquid Intrastate	102,644	91,088	102,644	90,925
Hazardous Liquid Interstate	374,057	217,956	374,057	209,350

Factors to Consider: This method establishes a base fee that is applies to all companies regardless of size. However, this method shifts substantial costs from larger systems to smaller system