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Mr. Alan Rathbun, Director  
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Oregon Public Utility Commission

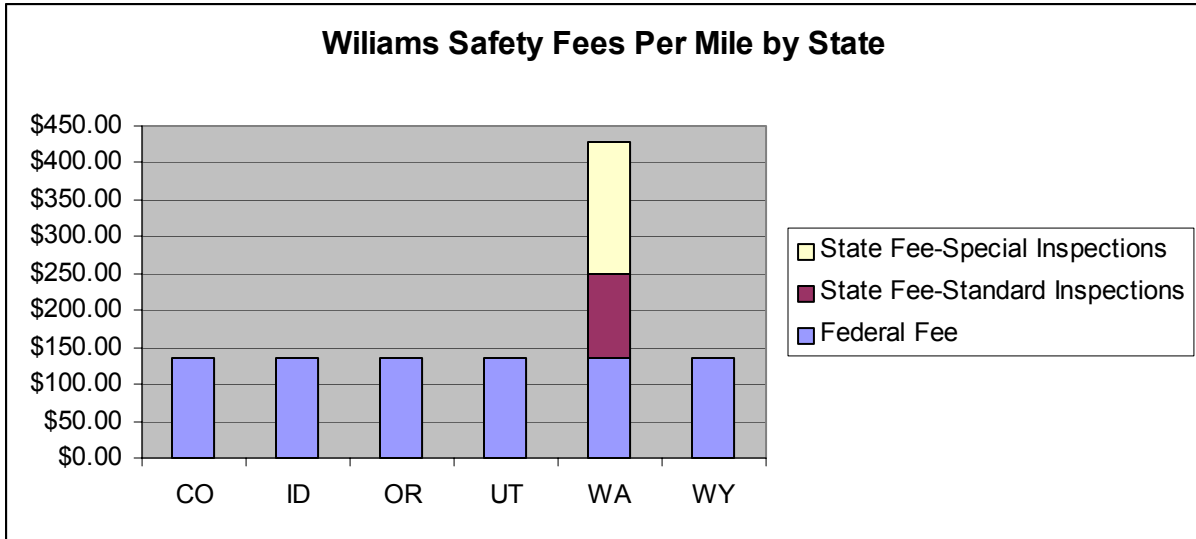
Dear Director Rathbun,

This letter summarizes the comments made during our phone conference on June 1, 2004 regarding the WUTC's proposed pipeline safety fee to be charged to Williams Northwest Pipeline ("Williams") for the fiscal year beginning July 1, 2004. The proposed fee of \$413,884 is the sum of the following components:

- \$ 42,460 Inspections of 3/5ths of the pipeline facilities plus the LNG facility
- \$118,674 Allocation of part of the Pipeline Safety Division's "unassigned costs"
- \$ 33,700 Estimated non-standard and construction inspections in upcoming year
- \$219,050 Direct bill for non-standard inspections during the past year.

This fee is on top of the \$189,759 Williams will pay to the federal Office of Pipeline Safety for inspections and safety regulation of its facilities in the State of Washington. Our total fee for the upcoming year is \$603,643. Although OPS has delegated inspection authority to Washington, since Williams gets no credit for the fee paid to OPS for inspection oversight, our fees are substantially higher in Washington than other states.

The following chart compares the fees Williams pays to each state on a per mile basis. The fees equate to \$134.39 per mile in every state except Washington where we pay \$248.51 per mile. The special inspections take this to \$427.51 per mile.



The fees Williams pays Washington seem out of balance not only when compared to other states but when compared fees paid by third parties that own and operate pipeline facilities in Washington. 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 seven times 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 due to the adjustment in the formula for dividing cost between the interstate and intrastate companies (now divided 37%-63%) 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 to the group of intrastate companies per mile of facilities. When the total charges to the two groups 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 interstates. Thus, the costs of inspections of 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. These figures are based on the state charges only and do not take into account the amounts paid to OPS. Taking those payments into account greatly increases the disparity in fees per mile between the two groups.

The fees imposed on specific companies when examined on a per mile basis vary widely. The proposed state-based charge to Williams for its pipeline inspections (excluding the one-time \$219,050 charge for last year’s special inspections, the charge for the estimated special inspection for next year and the inspection of LNG facilities) is \$106.96 per mile of facilities. This is twelve times more than the charge to PSE for its line facilities when calculated on a per mile basis, and more than three time more than the charge to NW Natural when calculated on a per mile basis.

There is no reasonable justification for this disparity. On a per mile basis, intrastate pipeline are not four or seven or twelve times safer than interstate pipelines. The data collected by OPS suggests that risk per facility mile of intrastate and interstate gas pipelines is about equal.

We continue to believe that the rules used by the WUTC Pipeline Safety Division to allocate its costs to the pipeline companies it regulates need to be substantially revised to eliminate these disparities. We request that you make what changes you can in the fee allocation for the upcoming year, and work throughout the coming year to continue to revise this fee system. We are prepared to testify as needed in support of changing the current fee structure.

A revised fee system should include the following components:

- Those pipeline companies that pay fees based on their Washington facilities to both the state and federal governments should get a credit for the federal fees paid before the federal dollars received by Washington are allocated to the interstate and intrastate programs.
- The pool of “unassigned costs” to be divided up among the companies should be net of all amounts charged to companies for specific or special services. Currently, this computation is done in separate intra and interstate programs, and this is one basis for great discrepancies in fees within Washington noted above.
- As a guiding principle, the charge to any company should reflect the workload that company generates for the Pipeline Safety Office. For example, if Williams requires an estimated 47 days of inspector time for annual inspections as was originally projected for the past year (less than 8% of the total inspector days for standard inspections) its fee, before adjustments for unusual circumstances like those we encounter in 2003, should be about 8% of the total budget. (Inspector days per company used in this example is one metric for determining workload, but we recognize it is not the only or necessarily the best metric.)

Turning to the specifics on the sheets you provided:

You have directly billed Williams and Olympic for non-standard inspections before any program cost allocations are made. You have represented that these inspections comprise all of the non-standard inspections conducted by the Pipeline Safety Division in the past year and that is why there are no direct bills to any other companies.

This direct billing before any program cost allocations are made is a departure from past practice and is not in compliance with either the words of WAC 480-93-240 or the past interpretation of the rule by the WUTC. The prior direct billing to Olympic Pipeline for anomaly digs was handled in the fee calculations after the program costs were divided up for the intra- and interstate programs. While we have expressed dissatisfaction with the current fee methodology, until the rule is revamped these directly billed items should be treated in the same manner as they were in previous years and in compliance with the methodology set forth in the rule.

You have agreed to furnish us with a copy of the records that form the basis for the number of inspector days Williams is being billed for. We have asked for this since our accounting

treatment of standard inspections and return-to-service inspections is different and we need the records to support this accounting.

You indicated that inspector days are the sum of hourly increments and not an arbitrary assignment of a full day to Williams when only a few hours were involved in an inspection. For example, two four-hour inspections on separate days would equal one inspection day. Two inspectors on a site for a full day would be two inspector days.

In instances where multiple inspectors were on a site, we ask that you review and determine whether a direct bill is appropriate. Were multiple inspectors needed at the site or required by OPS standards or were they present for another reason such as the training opportunity posed by inspection of Williams' facilities? If so, their time belongs with the "unassigned costs."

We are pleased that the number of inspection days per unit for standard inspections has fallen from 24 to 16 days. We believed that the estimated number of inspector days per unit when the program was new was excessive, and are glad to see that you have made appropriate adjustments as the program has gained experience.

I want to make sure it is clear that Williams does not disagree that it should be paying for the inspections of its system, whether standard inspections or the special inspections, subject to the above request that the inspections are tallied correctly. Williams has argued for years that the fees imposed by the WUTC should be allocated to reflect the workload the various companies require. Our objection is that to select this single category of costs, the special inspections, and treat them the way you have proposed 1) is not supported by the governing rule, 2) deviates from past practice whereby the rule was interpreted, and 3) disadvantages the group of interstate companies. The vast disparities noted in the first portion of this letter in the costs per mile charged to the interstate companies versus the intrastate companies is a function of the fact that the program is divided into two pots before the intrastate companies, with their vast networks of facilities, split up their portion of the "unassigned costs" based on mileage. The direct billing to Williams for the special inspections should remain, pursuant to the rule and past practice, at the interstate program level, thereby reducing the pool of unassigned costs to be shared by the interstate companies. That is where it belongs until the rule as a whole is revamped, as we believe any sense of fairness requires.

Thank you for considering these comments. We understand that designing an equitable means of allocating fees is not an easy task and appreciate your willingness to listen to comments on ways to improve this system.

Sincerely,

Del Draper