STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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June 21, 2004

Del Draper, Manager
Governmental Affairs – Western Region
Williams Gas Pipeline
295 Chipeta Way
Salt Lake City, Utah 84158-0900

Dear Mr. Draper:

Subject: **Response to Williams Letter on the Commission's Annual Pipeline Safety Fee**

Thank you for your letter of June 4th in reference to the 2004 – 2005 fiscal year pipeline fee for Williams Pipeline Company. We appreciate your comments and your understanding regarding the challenge we face in ensuring that the fees for the regulated pipeline companies in Washington State are fair, equitable, and comply with relevant state laws.

While the Commission worked very diligently to ensure that the current fee methodology is based on actual staff time spent, a review of the methodology is reasonable and timely. The WUTC will conduct a review of the methodology set in rule for the 2005 – 2006 fiscal year, which, will take into consideration the components of a "revised fee system" that you reference. This review may well be conducted with the assistance of an independent consultant. As part of the review process, regulated companies will be asked to review and comment on our findings and recommendations. We appreciate your support in this effort.

Each year the safety fee is calculated by projecting the number of standard inspections for each company and any additional days that inspectors will spend on a company for construction projects or follow-up to a Correction Action Orders (CAO), issued by Federal Department of Transportation – Office of Pipeline Safety (OPS). As an interstate agent of OPS, the Commission (through its Staff) is required to be present at all compliance activities of a pipeline company required by a CAO.

When setting the 2003 - 2004 pipeline safety fee, WUTC Staff estimated that 25 additional days would be spent on Williams Pipeline Company (Williams), and 20 days would be spent on Olympic Pipeline Company (Olympic). The last fiscal year (2003-2004) began with Williams operating under a CAO. Following the Toledo incident in December, OPS issued an Amended CAO, which was followed by the issuance of a Second Amended CAO. Time spent by Commission Staff monitoring Williams' compliance with these Orders resulted in 350 inspection days; 325 more days than were estimated. Therefore, the 2005 fees adjust for the extra 325 inspection days spent on Williams.

We believe the direct allocation of staff's time directly related to the OPS Orders is justified because the WUTC's inspection program, as a whole, has been affected due to the large number of days required to oversee this activity imposed on Williams by OPS. Therefore, the cost of the additional days spent due to the Williams incident should be deducted from the total program cost, then, the percentage split between interstate and intrastate should be applied. While we understand William's belief that the methodology in WAC should be directly applied to these costs, the over-arching policy underlying the fee statutes is that the methodology "shall provide for an equitable distribution of program costs among all the entities subject to the fee." (RCW 80.24.060(2); RCW 81.24.090(2)).

Your letter indicates that Williams pays a fee to the Federal government plus one to the State of Washington with no credit reflected for the amount paid to the Federal government. The WUTC receives Federal reimbursement and applies that amount to interstate companies based on the interstate percentage split. This reimbursement is a partial credit because it is used to reduce the fee paid by every pipeline operator. We estimate that we will receive a $759,897 reimbursement from OPS for our gas program. The interstate's cost of the program is credited by 37 percent ($281,162).

Your letter also states that Williams Pipeline Company pays more per mile in Washington as compared to the states of Colorado, Idaho, Oregon, Utah and Wyoming. We do not feel this is a valid comparison. The states you reference do not have interstate authority. The WUTC provides an enchanced regulatory service in comparison to these states. Your company was a beneficiary of this enchanced program when performing activities to return portions of Williams 26-inch pipeline to service, which was idled by the CAO. Numerous, time-consuming tests required inspectors to be on-site on very short notice. Inpsectors were able to meet the company's extensive testing schedule allowing for an orderly return to service. Consequently, a higher per mile cost would be expected.

As requested, we have previously provided you a copy of the records that form the basis for the number of inspection days billed to Williams. Thank you again for stating your concerns and we look forward to working with all the regulated companies in reviewing our fee setting methodology.

Sincerely,

Alan E. Rathbun
Pipeline Safety Director