

How a Natural Gas Rate Case Works

The first goal listed on Southern Star's 2013 goals brochure is "File rate case by May 31 with rates effective December 1." If you're not sure how a rate case works, read on – you will hear the term often this year because it will effectively determine how much money the company can make over the next several years.

So what is a rate case?

Because natural gas companies are considered public utilities, the [Federal Energy Regulatory Commission](#) (FERC) ensures the rates they charge for interstate pipeline services are "just and reasonable." Just like other businesses, though, utilities must occasionally adjust their rates to account for changes in cost of service.

To do this, companies must prepare a rate case that justifies the new charges. Southern Star's last rate case was in 2008; the settlement required the company to file the next rate case in five years.

Now that 2013 is here, Southern Star's new rate case will be built on a base period that documents the actual cost to run the company from March 1, 2012, to February 28, 2013. This includes all expenses, such as day-to-day operating costs, payroll, taxes, pipeline integrity work, etc.

During the base period, Cindy Thompson, Manager, Rates and her team, including Sandy Gish, Analyst, Staff, and Scott Lamar, Analyst, Staff, prepare analyses and strategy for the rate case. When the base period ends, the group shifts into high gear as they use the collected data to build the case for Southern Star's new rates.



The company must file the rate case by May 31, 2013, asking for the new rates to take effect on July 1. FERC will then move the effective date back to December 1 (the Commission has the authority to suspend rates for a full five months) while it reviews the case and

Southern Star continues to determine costs. (The 12-month period that ends on November 30, 2013, is called the test period. This allows time to include known and measurable changes that occur after May 31 in the rate case.)

Capital Projects Important

The rates Southern Star asks for are important because they will determine what the company will be allowed to charge until the next case, typically in another five years. Usually, as a result of the settlement, Southern Star cannot just come back the next year and ask for a higher rate. One of the most vital pieces of this puzzle is capital projects that are currently under construction. To be included in the rate base (the value of the property on which we are permitted to earn a return) these projects must be placed into service before the effective date of December 1, 2013.

If projects are not completed by the deadline, Southern Star will lose income on them until the next rate case (typically five years) because they cannot be added to the rate base after the effective date. Placing capital projects into service this year will help keep the company's rate base higher over the next five years, which will result in higher earnings for that period.

IMPORTANT DATES



March 1, 2012

Beginning of BASE Period



Feb. 28, 2013

End of BASE Period



May 31, 2013

Filing Date



Nov. 30, 2013

End of TEST Period



Dec. 1, 2013

Effective Date

Employee Participation

So, how can employees help?

As Thompson and her team prepare the case and respond to questions from FERC, employees can contribute in two critical areas: completing capital projects and providing accurate, timely information when asked. If you're involved in a capital project, the objective is simple – do everything you can to finish it before December 1.

On the data front, FERC often requests additional information to support the case. When those requests come in, Thompson distributes them to the person or department best able to provide the needed data, whether that is accounting, integrity management, operations, etc. "It will potentially touch everyone in the company," she said. A quick response from employees will enable Southern Star to build on its reputation as one of the most responsive companies to FERC's requests.

Through the settlement process FERC will try to adjust Southern Star's proposed rates down, while the company will argue for the new, higher rates. Good relationships are valuable here, as the settlement conferences will include FERC, Southern Star's customers and representatives with the public utility commissions from the states where Southern Star operates. "We've worked hard to establish very good relationships with our customers, state commissions and FERC," Thompson said.

"It's not just a rate department initiative," she said. It's a company initiative. It's how we make money. We are all very appreciative of all the work people are doing and will do to make this a successful case."