UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Transcontinental Gas Pipe Line Company, LLC)	**Docket No. CP15-117**
Transcontinental Gas Pipe Line Company, LLC)	**Docket No. CP15-118**
Transcontinental Gas Pipe Line Company, LLC)	**Docket No. CP15-138**
	(Not Consolidated)

NOTICE OF INTERVENTION, PROTEST AND REQUESTS FOR PARTIAL CONSOLIDATION AND EVIDENTIARY HEARING OF THE NORTH CAROLINA UTILITIES COMMISSION AND THE NEW YORK STATE PUBLIC SERVICE COMMISSION

Pursuant to Rules 211, 212 and 214(a)(2) of the Federal Energy Regulatory Commission's ("Commission" or "FERC") Rules of Practice and Procedure, the North Carolina Utilities Commission ("NCUC") and the New York State Public Service Commission ("NYPSC") (collectively, "State Commissions") hereby provide notice of intervention in Docket Nos. CP15-117 and CP15-138.[1] While the State Commissions support the construction of needed new natural gas pipeline infrastructure, each of the above-referenced certificate applications submitted by Transcontinental Gas Pipe Line Company, LLC ("Transco") raises issues of material fact regarding the recourse rates proposed therein, which must be resolved in an evidentiary hearing. Accordingly, the State Commissions protest each of the above-referenced proceedings and requests that these proceedings be partially consolidated to resolve the common issues of fact and law raised by each filing. In support thereof, the State Commissions state:

1 On April 3, 2015, the NCUC filed a notice of intervention in Docket No. CP15-118.

I. DESCRIPTION OF THE APPLICATIONS

A. Dalton Expansion Project, Docket No. CP15-117

On March 19, 2015, Transco submitted an abbreviated application for a certificate of public convenience and necessity authorizing Transco to construct and operate its Dalton Expansion Project. Transco states that the project will enable it to provide 448,000 dt/day of incremental firm transportation capacity from Transco's Station 210 Zone 6 Pooling Point in Mercer County, New Jersey, along Transco's mainline to Transco's interconnection with Gulf South Pipeline Company, LP at Holmesville in Pike County, Mississippi, and through a new pipeline lateral, initiating at Transco's Compressor Station 115 in Coweta County, Georgia to interconnections on the Dalton Lateral in northwest Georgia. The total estimated cost of the project is $471.9 million. Docket No. CP15-117 Application at 4. Transco's share of the estimated total project cost is $265.2 million (the reduction is the result of the shared cost responsibility for the Dalton Lateral set out below). *Id.* at n.1. The projected daily reservation recourse rate for the project is $0.50580. Docket No. CP15-117 Exhibit P at 1. The pre-tax return of 15.34% from the settlement in Docket No. RP01-245 was used in those estimates. Transco has executed binding precedent agreements with Atlanta Gas Light Company and Oglethorpe Power Corporation for 100 percent of the incremental, year-round firm transportation service to be provided under the project under negotiated rates. Docket No. CP15-117 Application at 4, 10.

The major mainline facilities to be constructed as part of the project are a new 21,830 horsepower compressor station in Carroll County, Georgia. Among other specific facilities, Transco proposes odor masking/deodorization of valves at valve sites between

Compressor Stations 160 in Rockingham County, North Carolina and 165 in Pittsylvania County, Virginia and odor detection and supplemental odorization at twenty delivery meters on the South Virginia Lateral and between Compressor Stations 160 and 165 in Rockingham, Northampton, Hertford, and Greensville Counties, North Carolina. *Id.* at 5-6. Transco requests that the Commission issue a final order by March 1, 2016, which will enable Transco to maintain the construction schedule required to meet the May 1, 2017 target in-service date for the project.

The Dalton Lateral will be jointly owned by Transco and Dogwood Enterprise Holdings, Inc. ("Dogwood") as tenants in common, with each party holding an undivided 50 percent joint ownership interest in the Dalton Lateral. Dogwood will hold its 50 percent ownership interest as a "passive owner" of the Dalton Lateral. Upon the in-service date of the project, Dogwood will lease its 50 percent ownership interest in the Dalton Lateral to Transco. *Id.* at 7. Under the Lease Agreement, Transco will pay Dogwood a fixed monthly charge of $2,140,916.70 during the 25-year primary term. *Id.* at 9.

B. Virginia Southside Expansion II, Docket No. CP15-118

On March 23, 2015, Transco submitted an abbreviated application for a certificate of public convenience and necessity authorizing Transco to construct and operate its Virginia Southside Expansion Project II. Transco states that this expansion of its existing system will provide 165,000 dt/day of incremental firm transportation service from Transco's Zone 6 Station 210 Pooling Point located on Transco's mainline in Mercer County, New Jersey and 85,000 dt/day from Transco's Zone 5 Station 165 Pooling Point located in Pittsylvania County, Virginia for a total of 250,000 dt/day, to a proposed delivery point located near milepost 4.33 on Transco's proposed Greensville Lateral. Transco has a fully executed, binding precedent agreement with Virginia Power Services Energy Corp., Inc. for the full 250,000 dt/day of incremental year-round firm transportation service that will become available under the project. Docket No. CP15-118 Application at 2-3. The total cost of the project is projected to be over $190 million, with an annual cost of service of over $40 million. Docket No. CP15-118 Exhibit P, Column (C). Transco requests that the Commission issue a final order granting the authorizations by January 1, 2016, which will accommodate the needs of the Project Shipper and enable Transco to meet a December 1, 2017 target in-service date.

The Virginia Southside Expansion II Project will involve the construction and operation of approximately 4.33 miles of greenfield pipeline facilities, 21,830 horsepower (ISO) of gas turbine driven compression, 25,000 horsepower of electric motor driven compression and the construction or modification of associated aboveground and underground facilities. Docket No. CP15-118 Application at 5-6.

The original Virginia Southside Expansion Project (Docket No. CP13-30) was for 270,000 dt/day of capacity (250,000 dt/day for Virginia Power and 20,000 dt/day for Piedmont Natural Gas Company, a local distribution company ("LDC") which provides service in North Carolina) at negotiated rates.[2] In light of the Commission's policies requiring roll-in when inexpensive expansibility of pipeline facilities is made possible because of earlier, costly construction, Transco requests a predetermination authorizing

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[2] Transco, Virginia Southside Expansion Project, Application for Certificate of Public Convenience and Necessity, Docket No. CP13-30 at 8 (December 19, 2012). *Transcontinental Gas Pipe Line Co. LLC*, 145 FERC ¶ 61,152 (2013) (order issuing certificate).

combined rate treatment for the original Virginia Southside Expansion Project and the newly proposed Virginia Southside Expansion Project II. Docket No. CP15-118 Application at 9-11. The CP15-118 Application sets out an estimated cost of service for the combined Virginia Southside expansion projects. Transco proposes a fully allocated rate of $0.60174 for Phase I; $0.44806 for Phase II and a rolled-in rate for both phases of $0.52785. Docket No. CP15-118 Exhibit P at 4. The pre-tax return of 15.34% from the settlement in Docket No. RP01-245 was used in those estimates. Docket No. CP15-118 Application at 9.

C. Atlantic Sunrise, Docket No. CP15-138

On March 31, 2015, Transco filed an application in Docket No. CP15-138 for its Atlantic Sunrise Project. That project will enable Transco to provide 1,700,002 dt/day of incremental firm transportation capacity from northern Pennsylvania in Transco's Zone 6 to markets along the Transco pipeline system in Pennsylvania, Maryland, Virginia, North Carolina, South Carolina, Georgia, Alabama and interconnects with existing pipelines serving the Florida Market. Docket No. CP15-138 Application at 3. The estimated total cost of the project is $2.588 billion (Transco's share is approximately $1.839 billion). *Id.* at 6. The estimated daily recourse reservation rate is $0.77473. *See* Docket No. CP15-138 Exhibit P (using the pre-tax return of 15.34% from Docket No. RP01-245). Transco requests that FERC issue a final order granting the authorizations requested by April 29, 2016, which will enable Transco to maintain the construction schedule required to meet the July 1, 2017 in-service date for the project.

Transco has fully executed, binding precedent agreements for the Atlantic Sunrise capacity with the following shippers under negotiated rates:

- Anadarko Energy Services Company: 44,048 dt/day
- Cabot Oil & Gas Corporation: 850,000 dt/day
- Chief Oil & Gas LLC: 420,000 dt/day
- Inflection Energy LLC: 26,429 dt/day
- MMGS, Inc.: 22,024 dt/day
- Seneca Resources Corporation: 189,405 dt/day
- Southern Company Services, Inc.: 60,000 dt/day
- Southwestern Energy Services Company: 44,048 dt/day
- WGL Midstream, Inc.: 44,048 dt/day

The major new construction for the Atlantic Sunrise Project consists of two laterals:

- A 57.3-mile, 30-inch greenfield pipeline from Mile Post L114.0 on Transco's Leidy Line in Columbia County, Pennsylvania to the proposed Zick Meter Station in Susquehanna County, Pennsylvania ("Central Penn Line North").
- A 125.2-mile, 42-inch greenfield pipeline from Mile Post 1683.3 on Transco's mainline in Lancaster County, Pennsylvania to Mile Post L114.0 on Transco's Leidy Line in Columbia County, Pennsylvania ("Central Penn Line South").

The two Central Penn Lines will be jointly owned by Transco and Meade Pipeline Company, LLC ("Meade") as tenants in common, with each party holding an undivided joint ownership interest in the facilities. Transco will hold a 41.18% undivided joint ownership interest in the Central Penn Line North and a 70.59% undivided joint ownership interest in the Central Penn Line South, and will provide all construction, operation, and maintenance services for the two Central Penn Lines. Meade will hold a 58.82% undivided joint ownership interest in the Central Penn Line North and a 29.41% undivided joint ownership interest in the Central Penn Line South. Docket No. CP15-138 Application at 7. Meade will hold its ownership interest as a "passive owner" of the two Central Penn Lines. The Lease Agreement provides for a primary term of 20 years. Transco will pay Meade a fixed monthly lease charge of $7,964,908 during the 20-year primary term.   *Id.* at 9.

II. NCUC NOTICE OF INTERVENTION AND CORRESPONDENCE

The North Carolina Utilities Commission, a regulatory body of the State of North Carolina, having jurisdiction to regulate the sale and transportation of natural gas within said State, including regulating local distribution companies taking service from Transco, hereby gives notice that it is intervening as a matter of right pursuant to Commission Rule 214(a)(2) in Docket Nos. CP15-117 and CP15-138.[3]

The names and addresses of the persons upon whom service of pleadings, documents, or communications in this proceeding should be made are designated as follows, in accordance with Commission Rule 203:

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III. NYPSC NOTICE OF INTERVENTION AND CORRESPONDENCE

The NYPSC is a regulatory body established under the laws of the State of New York with jurisdiction to regulate rates or charges for the sale of natural gas to consumers within the State. It is, therefore, a State Commission as defined in section 2(8) of the

[3] As explained above, on April 3, 2015, the NCUC filed a notice of intervention in Docket No. CP15-118.

NGA, 15 U.S.C. §717a(8), and 18 C.F.R. § 1.101(k). Accordingly, NYPSC hereby provides its notice of intervention pursuant to Rule 214(a)(2), 18 C.F.R. § 385.214(a)(2) (2014) in all three above-captioned dockets.

Copies of all documents and correspondence in this proceeding should be sent to:

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IV. PROTEST

Section 7(c) of the Natural Gas Act ("NGA") and the Commission's implementing regulations, 18 C.F.R. § 157.5 *et seq.* (2014), require that a pipeline seeking a certificate of public convenience and necessity demonstrate that the application is required by the present or future public convenience and necessity. The three projects addressed herein represent over $3 billion in new investment. The newly proposed services will be provided under negotiated rates.

The Commission permits pipelines to negotiate individualized rates[4] which, unlike discounted rates,[5] are not constrained by the maximum and minimum rates in the pipeline's tariff.[6] However, pipelines must permit shippers the option of paying the traditional cost of service recourse rates in their tariffs, instead of requiring them to negotiate rates for any particular service.[7] The Commission relies on the availability of recourse rates to prevent pipelines from exercising market power by assuring that the customer can revert to the just and reasonable tariff rate if the pipeline unilaterally demands excessive prices or withholds service.[8]

Recourse rates are also important because FERC's general policy is that interruptible and firm transportation ("FT") authorized overrun rates are designed to be equivalent to a 100 percent load factor derivative of the maximum FT cost-based rate and are to be charged based on usage. Therefore, even if all service is being provided under negotiated rates, recourse rates need to be properly designed so that they provide a check on the pipeline's market power during the establishment of negotiated rates, and so that

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4 *Alternatives to Traditional Cost of Service Ratemaking for Natural Gas Pipelines*, 74 FERC ¶ 61,076, *reh'g denied*, 75 FERC ¶ 61,024 (1996), *petitions for review denied sub nom. Burlington Resources Oil & Gas Co. v. FERC*, 172 F.3d 918 (D.C. Cir. 1998); *Natural Gas Pipelines Negotiated Rate Policies and Practices; Modification of Negotiated Rate Policy*, 104 FERC ¶ 61,134 (2003), *order on reh'g and clarification*, 114 FERC ¶ 61,042 (2006), *dismissing reh'g and denying clarification*, 114 FERC ¶ 61,304 (2006) (Negotiated Rate Policy Statement).

5 *See* 18 C.F.R. § 284.10(c)(5).

6 *See Northern Natural Gas Co.*, 105 FERC ¶ 61,299 at PP 12-17 (2003) (clarifying the distinction between discounted and negotiated rates).

7 A recourse rate is a cost of service based rate for natural gas pipeline service that is on file in a pipeline's tariff and available to customers who do not negotiate a rate with the pipeline company.

8 Negotiated Rate Policy Statement at P 4.

the rates for any interruptible or overrun service conforms with the NGA's just and reasonable requirement. As demonstrated below, Transco's applications in each of the certificate proceedings raise material issues of fact as to whether the recourse rates proposed therein conform with the statutory requirement that the rates be just and reasonable.

A. Transco's Proposed Use of a Pre-Tax Return of 15.34% in All Three Certificate Applications Raises a Material Issue of Fact as to Whether the Proposed Recourse Rates are Just and Reasonable

Commission policy requires that rates for incremental expansion projects in an NGA Section 7(c) proceeding be designed on the pipeline's approved capital structure and rate of return.[9] In each of these certificate applications, Transco used "a pre-tax return of 15.34%, the pre-tax return underlying the design of Transco's approved settlement rates in Docket No. RP01-245-000 *et al*." *See* Docket No. CP15-117 Application at 11, Docket No. CP15-118 Application at 9, Docket No. CP15-138 Application at 12. While the State Commissions recognize that Transco's filing comports with the above-stated Commission policy, in this instance, application of that policy would appear to conflict with the unambiguous statutory requirement that a filing entity demonstrate that the rates proposed are just and reasonable.

Over half of the cost of service underlying the proposed recourse rates in two of the certificate applications is "Pre-tax return at 15.34%."[10] In the other application, "Pre-

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9 *See, e.g., Dominion Cove Point LNG, LP*, 115 FERC ¶ 61,337 at P 139 (2006); *Northwest Pipeline Corp.*, 98 FERC ¶ 61,352 at p. 62,499 (2002).

10 Docket No. CP15-118 Exhibit P at page 4 (compare line 8 with line 12); Docket No. CP15-138, Exhibit P (compare line 8 with line 12).

tax return at 15.34%" is approximately 48% of the overall cost of service.[11] Accordingly, the return on equity, debt costs and capital structure chosen to compute the proposed recourse rates have a material impact on the level of those rates. Because Transco simply followed the Commission's policy without regard to whether the pre-tax return reflects current market conditions, Transco's applications are devoid of any detail which would support a finding that the return underlying the cost of service of its proposed recourse rates reflects the costs associated with the projects. Instead, the totality of the support for pre-tax returns are Transco's statements that "a pre-tax return of 15.34%, the pre-tax return underlying the design of Transco's approved settlement rates in Docket No. RP01-245-000 et al" was used to calculate the recourse rates. *See* Docket No. CP15-117 Application at 11, Docket No. CP15-118 Application at 9, Docket No. CP15-138 Application at 12.

The State Commissions have no doubt that application of the Commission's policy may result in recourse rates within the zone of reasonableness when a pipeline's rate of return, debt costs and capital structure were recently, or are being concurrently, reviewed. In this instance, however, application of the policy would result in recourse rates being developed using rate inputs established in Docket No. RP01-245—a rate case filed almost 15 years ago. The State Commissions submit that it would not be reasoned decisionmaking to establish recourse rates without taking into account the significant changes in the financial markets which have occurred since the rates in Docket No. RP01-245 were established.

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[11] Docket No. CP15-117 Exhibit P (compare line 8 with line 12).

As the Commission has recognized, it cannot allow a pipeline to design recourse rates that do not reflect the costs associated with the incremental project.[12] In each of these three certificate applications, use of a pre-tax return of 15.34%, from a rate case filed almost 15 years ago, raises issues of material fact as to whether the proposed recourse rates are overstated. As the Commission is well aware, financial markets are very different now than in the early years of this century. Attached hereto is a preliminary DCF analysis for natural gas pipelines reflecting current market conditions prepared by Kristine Prylo, Associate Utility Financial Analyst, of the NYPSC. That analysis reflects a median ROE of 10.95%.

The Commission's most recent pronouncements on return also provide valuable perspective on the reasonableness of Transco's proposed 15.34% pre-tax return. For example, on February 19, 2015, FERC issued Opinion No. 524-A where it reaffirmed a decision using a DCF analysis based on the six month period ending March 31, 2011 which resulted in a median ROE of 10.28%.[13] In addition, the Commission recently approved an ROE of 10.55% for El Paso Natural Gas Company and 11.55% for Kern River Gas Transmission Company.[14] The State Commissions recognize that these ROEs are not directly comparable to the pre-tax return of 15.34% used by Transco in each of

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12 *CMS Trunkline LNG Co.*, 100 FERC ¶ 61,217 at P 66 (2002).

13 *Portland Natural Gas Transmission System*, 150 FERC ¶ 61,107 at P 195 (2015). In Opinion No. 524-A, the Commission placed Portland at the top of the range of reasonableness 11.59%. It found that "a potential investor could reasonably reach the conclusion that Portland is the most risky of comparable companies" (*id*. at P 231) based on its significant risk and having a credit rating below investment grade. *Id*. at PP 207, 209. As evidenced by its ability to attract capital for each of the projects at issue herein, Transco has a very different risk profile than Portland.

14 *El Paso Natural Gas Co.*, Opinion No. 528, 145 FERC ¶ 61,040 at P 686 (2013); *Kern River Gas Transmission Co.*, Opinion No. 486-F, 142 FERC ¶ 61,132 at P 263 (2013).

the applications. However, the State Commissions submit that the lack of specified ROE, debt costs, and capital structure in the applications precludes any apples-to-apples comparison.

The three applications are devoid of any analysis of the actual means and costs to finance the projects. Transco's low-risk status and ability to attract investment is vividly demonstrated by, *inter alia*, its ability to finance its share of the Atlantic Sunrise Project of approximately $1.839 billion through short-term loans and funds on hand. Docket No. CP15-138 Application at 6-7. Absent an analysis of Transco's actual capital structure and the debt and equity costs underlying the project, the record lacks the necessary factual basis to support a finding that the proposed recourse rates are just and reasonable. Accordingly, the Commission should set this issue for an evidentiary hearing for each of the Applications.

B. Transco Has Failed to Provide Sufficient Analyses in its Dalton and Atlantic Sunrise Applications to Demonstrate that its Proposed Lease Arrangements Benefit Ratepayers.

As detailed *supra*, both the Dalton Expansion Project (Docket No. CP15-117) and Atlantic Sunrise Project (Docket No. CP15-138) include significant lateral facilities that Transco will jointly own with unaffiliated third parties. The Dalton Project Lease payment is over 30% of the total estimated cost of service of that project.[15] The Atlantic Sunrise Lease payment is approximately 20% of the total estimated cost of service of the

[15] *See* Docket No. CP15-117 Exhibit P at line 11 (showing a Lease Payment of $25,691,000 out of a Total Cost of Service of $82,708,551 shown on line 12).

project.[16] In each instance, the third party will be a passive owner that will lease its ownership interest in the lateral to Transco under long-term fixed lease agreements.

Transco recognizes that:

> The Commission's practice is to approve a lease if it finds that: (1) there are benefits from using a lease arrangement; (2) the lease payments are less than, or equal to, the lessor's firm transportation rates for comparable service on the same facilities; and (3) the lease arrangement does not adversely affect existing customers.

Docket No. CP15-117 Application at 17-18; Docket No. CP15-138 Application at 19 (both citing *Southern Natural Gas Co.*, 124 FERC ¶ 61,058, at P 42 (2008)).

Transco claims that it has demonstrated that its annual lease payments will be less than the equivalent cost of service that would apply if Transco directly owned 100 percent of the facilities.[17] Unfortunately, those analyses are deficient because while the Dalton Project Lease has a 25 year primary term[18] and the Atlantic Sunrise Lease has a primary term of 20 years,[19] Exhibit N to each of those applications only analyzes one year of each of the leases. Transco did not provide any life of the lease analyses. Therefore, the analyses are deficient because they do not take into account, *inter alia*, the impact of depreciation of the leased facilities on the cost of service. As the leased facilities are depreciated over time, the cost of service should decrease due to the decrease in rate base. By limiting its analyses of multi-year leases to one year, Transco

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16 *See* Docket No. CP15-138 Exhibit P at line 11 (showing a Lease Payment of $95,578,896 out of a Total Cost of Service of $480,719,972 shown on line 12).

17 *See* Docket No. CP15-117 Application at 9 and Exhibit N thereto; Docket No. CP15-138 Application at 9 and Exhibit N thereto.

18 Docket No. CP15-117 Application at 9.

19 Docket No. CP15-138 Application at 8.

has failed to show that the lease payments over the life of the lease will be less than the equivalent cost of service that would apply if Transco directly owned the facilities. Therefore, Transco has failed to demonstrate its proposed lease arrangements benefit ratepayers. The failure to provide any analysis beyond the first year of the lease calls into question whether Transco has demonstrated that ratepayers actually benefit from the leases.

In both the Dalton Expansion Project and the Atlantic Sunrise Expansion Project applications, Transco explains that each of the joint owners[20] of the leased facilities are not currently NGA jurisdictional entities and do not intend to become such as a result of the lateral ownership structure. Transco therefore requests that the Commission find that the co-owners do not require a certificate in connection with the projects.[21] At the termination of the Dalton Expansion Project lease agreement, "possessory and operational rights to the leased facilities will revert to Dogwood, subject to the receipt of the necessary authorizations from the Commission."[22] At the termination of the Atlantic Sunrise Project Lease, both Transco and its co-owners will be discharged from any further obligations under the leases, including "any obligation to provide," in the case of Meade, the lease of facilities, "subject to the receipt of the necessary authorizations from the Commission."[23]

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[20] As detailed, *supra*, Dogwood is the co-owner of the leased facilities that are part of the Dalton Expansion Project and Meade is the co-owner of the leased facilities that are part of the Atlantic Sunrise Expansion Project.

[21] Docket No. CP15-117 Application at 7-8; Docket No. CP15-138 Application at 8.

[22] Docket No. CP15-117 Application at 8-9.

[23] Docket No. CP15-138 Application at 8-9.

The State Commissions do not object to the use of leases when the use of that business structure benefits ratepayers. However, the State Commissions are concerned that Transco has not fully fleshed out the impact of its requests that the co-owners of the leased capacity be exempt from any certificate obligations with regard to the leased facilities. That concern arises because: 1) at the termination of the Dalton Expansion Project lease agreement "possessory and operational rights to the leased facilities will revert to Dogwood, subject to the receipt of the necessary authorizations from the Commission,"[24] and 2) at the termination of Atlantic Sunrise Project Lease, both Transco and its co-owners will be discharged from any further obligations under the leases, including "any obligation to provide," in the case of Meade, the lease of facilities "subject to the receipt of the necessary authorizations from the Commission."[25]

The State Commissions recognize that the reversions at the end of the term of the leases are "subject to the receipt of the necessary authorizations from the Commission." Despite that qualification, the State Commissions are concerned that approval of the leases, including the provisions regarding what occurs at the termination of those leases, should not prejudge any issues regarding continuity of service, or any other issue, at the end of those leases. FERC's long-standing, well supported policy is that when examining proposals to abandon service, it weighs all relevant factors, but considers "continuity and stability of existing services . . . the primary considerations in assessing whether the

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[24] Docket No. CP15-117 Application at 8-9.

[25] Docket No. CP15-138 Application at 8-9.

public convenience and necessity permit an abandonment."[26] Applicants seeking to terminate service are required to demonstrate that the "public interest will in no way be disserved by abandonment."[27] The use of the lease ownership structure should not be allowed to evade or weaken the certificate holder's obligations regarding continuity of service. In the event the Commission approves the leases, it should clarify that nothing therein prejudges any issues as to the status of the leased facilities, or the service provided on those facilities, at the end of the leases.

C. Transco Failed to Address the Issue of Inexpensive Expansibility in its Dalton Expansion Project Application

The Dalton Expansion Project will enable Transco to provide 448,000 dt/day of incremental firm transportation capacity from Transco's Station 210 Zone 6 Pooling Point in Mercer County, New Jersey, along Transco's mainline to Transco's interconnection with Gulf South Pipeline Company, LP at Holmesville in Pike County, Mississippi, and through a new pipeline lateral, initiating at Transco's Compressor Station 115 in Coweta County, Georgia to interconnections on the Dalton Lateral in northwest Georgia. The total estimated cost of the project is $471.9 million. Transco's share of the estimated total Project cost is $265.2 million (the reduction is the result of the shared cost responsibility for the Dalton Lateral under the lease arrangements discussed *supra*). The projected daily reservation recourse rate for the Dalton Expansion Project is $0.50580. Docket No. CP15-117 Exhibit P at 1.

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[26] *Northern Natural Gas Co.*, 142 FERC ¶ 61,120 at PP 10-11 (2013); *see also El Paso Natural Gas Co.*, 136 FERC ¶ 61,180 at P 22 (2011).

[27] *ANR Pipeline Co.*, 139 FERC ¶ 61,238 at P 32 (2012) (citations omitted).

The fact that the Dalton Expansion Project allows shippers to ship gas on Transco's mainline from New Jersey to Mississippi, but not pay for any major facilities north of the State of Georgia[28] raises the question of whether this project is being subsidized by prior expansions which created southbound capacity on Transco's mainline. As FERC explained in its Policy Statement regarding new pipeline facilities:

> A requirement that the new project must be financially viable without subsidies does not eliminate the possibility that in some instances the project costs should be rolled into the rates of existing customers. In most instances incremental pricing will avoid subsidies for the new project, but the situation may be different in cases of inexpensive expansibility that is made possible because of earlier, costly construction. In that instance, because the existing customers bear the cost of the earlier, more costly construction in their rates, incremental pricing could result in the new customers receiving a subsidy from the existing customers because the new customers would not face the full cost of the construction that makes their new service possible. The issue of the rate treatment for such cheap expansibility is one that always should be resolved in advance, before the construction of the pipeline.

Certification of New Interstate Natural Gas Pipeline Facilities, 88 FERC ¶ 61,227 at p. 61,746 (1999); *Order Clarifying Statement of Policy*, 90 FERC ¶ 61,128 (2000); *Order Further Clarifying Statement of Policy*, 92 FERC ¶ 61,094 (2000).

As noted above, the estimated recourse rate for the Dalton project is $0.50580. Transco's Leidy Southeast Project submitted in Docket No. CP13-551 will enable Transco to provide an additional 525,000 dt/day of incremental firm transportation service from two receipt points on Transco's Leidy Line in Pennsylvania to various delivery points along Transco's Mainline as far south as Transco's existing Station 85

[28] A description of the proposed facilities that Transco claims are necessary to create the incremental firm transportation capacity under the Dalton Expansion Project is set out at pages 5-6 of the CP15-117 Application.

Zone 4 and 4A Pooling Points in Choctaw County, Alabama at a cost of $607 million.[29] The recourse rate for the Leidy Southeast project was estimated to be $0.67393.[30] Thus, the new Dalton Expansion Project will allow shippers to ship gas further south on Transco's mainline at a lower recourse rate than the Leidy Southeast shippers. The Dalton Expansion Project application appears to be deficient because Transco has not addressed the possibility of inexpensive expansibility in that application. The failure to address the possibility of inexpensive expansibility raises an issue of material fact regarding the recourse rates proposed for the Dalton Expansion Project, which should be addressed in an evidentiary hearing.

V. REQUEST FOR PARTIAL CONSOLIDATION

The Commission should partially consolidate Transco's three certificate applications on the issue of whether Transco's proposed of use of a 15.34% pre-tax return results in recourse rates that are just and reasonable. Consolidation will conserve Commission and party resources, as well as ensure consistency of decisions.[31] When separate dockets raise common issues of law and fact, the Commission consolidates the dockets for purposes of hearing and decision.[32] In the instant cases, partial consolidation is warranted because of the common issues of law and fact regarding whether Transco's use of a 15.34% pre-tax return results in just and reasonable recourse

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[29] Transco, Leidy Southeast Project, Application for Certificate of Public Convenience and Necessity, Docket No. CP13-551 at 1, 7 (September 27, 2013). *Transcontinental Gas Pipe Line Co., LLC*, 149 FERC ¶ 61,258 (2014) (order issuing certificate and approving abandonment).

[30] Docket No. CP13-551 Exhibit P at line 15.

[31] *Utah Power & Light Co.*, 23 FERC ¶ 61,287 at p. 61,597 (1983).

[32] *See, e.g., Midwest Indep. Sys. Operator, Inc.*, 103 FERC ¶ 61,090 at P 29 (2003).

rates is present in each of the certificate applications. Consolidation is especially appropriate where, as here, it would avoid duplicative litigation and would not disrupt ongoing proceedings, as the Commission has not yet ruled on any of Transco's applications.

VI. REQUEST FOR EVIDENTIARY HEARING

The State Commissions respectfully request that FERC establish hearing procedures regarding Transco's three certificate applications to resolve the disputed issues of fact raised herein. The State Commissions' preliminary analysis, prepared without the benefit of discovery, has raised material issues of fact regarding significant cost elements (*i.e.*, return and the lease costs) which require further investigation. Therefore, a hearing is necessary to ensure that the necessary facts can be developed to ensure Transco's proposed recourse rates are just and reasonable. The Commission has the obligation to conduct a hearing where there are genuine issues of material fact and the disputed issues of fact cannot be determined on the written record.[33] As described in detail above, there are numerous material issues of fact raised by each of Transco's three applications. The Commission should therefore establish hearing procedures for all three filings.

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[33] *See Cajun Elec. Power Coop., Inc. v. FERC*, 28 F.3d 173, 177 (D.C. Cir. 1994); *Moreau v. FERC*, 982 F.2d 556, 568 (D.C. Cir. 1993); *Vt. Dept. of Pub. Serv. v. FERC*, 817 F.2d 127, 140 (D.C. Cir. 1987).

VII. CONCLUSION

WHEREFORE, the North Carolina Utilities Commission and the New York State Public Service Commission respectfully request that the Federal Energy Regulatory Commission:

(1) Consider the foregoing arguments in ruling on each of Transco's certificate applications addressed herein;

(2) Set each of the certificate applications addressed herein for evidentiary hearing;

(3) Grant the State Commissions' request for partial consolidation of the three applications on the issue of whether use of a pre-tax return of 15.34% results in recourse rates that are unjust and unreasonable; and

(4) Grant such other relief, as the Commission may deem necessary and appropriate.

Date: April 22, 2015

Respectfully Submitted,

North Carolina Utilities Commission

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Preliminary Pipeline DCF Analysis

Company	Ticker	S&P Rating	6 mo Average Stock Price	Total Dividends	6 mo Average Dividend Yield	Growth Rate ("g") Yahoo Finance	Growth Rate ("g") GDP	Growth Rate ("g") Composite	Adjusted Dividend Yield	DCF Result
Questar Corp	STR	A	24.01	0.78	3.25%	4.05%	4.41%	4.17%	3.32%	7.49%
Enbridge Inc	ENB	A-	47.86	1.35	2.82%	13.30%	4.41%	10.34%	2.97%	13.30%
TC Pipelines, L.P.	TCP	BBB-	67.33	3.33	4.95%	11.05%	2.205%	8.10%	5.15%	13.25%
Spectra Energy Corp	SE	BBB	36.03	1.41	3.91%	5.00%	4.41%	4.80%	4.01%	8.81%
Nisource	NI	BBB-	42.17	1.03	2.44%	10.40%	4.41%	8.40%	2.55%	10.95%

Average:	10.76%
Midpoint:	10.40%
Median:	**10.95%**
Range:	7.49%
	13.30%

	S&P Score	
	6	
	7	
	10	
	9	
	10	
Average:	8.40	*BBB to BBB+ Rating*

Moody's "Baa" Public Utility Index Yield	
Oct-14	4.67%
Nov-14	4.75%
Dec-14	4.70%
Jan-15	4.39%
Feb-15	4.44%
Mar-15	4.51%
Average:	**4.58%**

LEGEND:

S&P	Moody's	Score
AAA	Aaa	1
AA+	Aa1	2
AA	Aa2	3
AA-	Aa3	4
A+	A1	5
A	A2	6
A-	A3	7
BBB+	Baa1	8
BBB	Baa2	9
BBB-	Baa3	10
BB+	Ba1	11
BB	Ba2	12
BB-	Ba3	13

										Stock Prices												
		Jun-14		Jul-14		Aug-14		Sep-14		Oct-14		Nov-14		Dec-14		Jan-15		Feb-15		Mar-15		6 Month Average
Company	**Ticker**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**	**Price**
Questar Corp	STR	24.89	23.61	24.85	22.23	23.55	21.49	23.64	22.05	24.22	21.87	24.60	23.28	26.44	21.06	26.44	24.46	26.10	23.22	23.97	22.47	24.01
Atmos Energy Corp	ATO	53.41	49.87	53.47	48.29	50.69	46.77	51.47	46.64	53.56	47.22	54.92	52.64	58.18	52.02	59.35	54.36	58.18	52.05	56.05	51.26	54.15
Enbridge Inc	ENB	48.20	46.25	51.23	46.79	50.60	48.27	51.95	47.28	48.24	42.14	47.97	44.96	57.19	45.29	51.76	44.00	51.34	45.93	50.45	45.00	47.86
Kinder Morgan Inc	KMI	36.50	33.33	38.05	35.20	42.49	35.20	40.31	37.34	39.60	33.25	42.41	37.20	43.18	37.06	42.93	39.95	42.33	40.34	42.30	39.45	40.00
TransCanada Corp	TRP	48.13	45.72	52.27	47.24	54.05	48.78	58.40	51.02	51.84	43.71	51.44	47.21	51.06	44.40	49.64	42.11	48.08	42.89	45.13	41.51	46.59
Boardwalk Pipeline Partners, L.P.	BWP	19.12	16.66	19.85	17.81	20.51	18.51	19.98	18.18	18.70	14.67	18.05	16.14	18.25	15.03	18.32	14.77	17.40	15.29	16.59	15.75	16.58
Spectra Energy Partners, L.P.	SEP	54.00	50.00	56.45	51.10	57.69	51.01	57.28	50.67	56.00	47.01	58.81	52.91	60.07	50.17	58.56	52.54	56.47	53.07	54.00	49.13	54.06
TC Pipelines, L.P.	TCP	52.56	47.52	55.86	50.74	58.99	50.93	68.37	55.68	69.34	57.69	80.46	62.34	78.54	65.42	73.76	60.76	71.89	63.01	67.98	56.79	67.33
Spectra Energy Corp	SE	42.61	40.60	43.12	40.91	41.69	39.23	42.18	38.55	40.00	34.46	40.00	37.66	37.79	32.50	36.81	32.43	36.90	33.56	36.90	33.34	36.03
Nisource	NI	39.69	36.18	39.70	37.31	39.81	36.00	41.70	38.41	42.50	37.58	42.77	40.59	44.91	38.84	44.90	41.23	45.10	42.09	44.64	40.89	42.17

							Dividends												
Company	Ticker	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Total Dividends (1 yr period)
Questar Corp	STR	0.18	-	-	0.18	-	-	-	0.19	-	0.19	-	-	0.19	-	-	0.21	-	0.78
Atmos Energy Corp	ATO	0.37	-	-	0.37	-	-	0.37	-	-	0.37	-	-	0.39	-	-	0.39	-	1.52
Enbridge Inc	ENB	0.30	-	-	0.318	-	-	0.321	-	-	0.32	-	-	0.309	-	-	0.40	-	1.35
Kinder Morgan Inc	KMI	-	-	0.41	-	-	0.42	-	-	0.43	-	-	0.44	-	-	0.45	-	-	1.74
TransCanada Corp	TRP	-	0.432	-	-	0.432	-	-	0.448	-	-	0.432	-	-	0.413	-	-	0.417	1.71
Boardwalk Pipeline Partners, L.P.	BWP	0.532	-	-	0.10	-	-	0.10	-	-	0.10	-	-	0.10	-	-	0.10	-	0.40
Spectra Energy Partners, L.P.	SEP	-	-	-	0.546	-	-	0.556	-	-	0.566	-	-	0.576	-	-	0.589	-	2.287
TC Pipelines, L.P.	TCP	0.81	-	0.81	-	-	-	0.81	-	-	0.84	-	0.84	-	-	0.84	-	-	3.33
Spectra Energy Corp	SE	0.305	-	-	0.335	-	-	0.335	-	-	0.335	-	-	0.37	-	-	0.37	-	1.41
Nisource	NI	-	-	-	0.25	-	0.25	-	-	0.26	-	-	0.26	-	-	-	0.26	-	1.03

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Transcontinental Gas Pipe Line Company, LLC)	**Docket No. CP15-117**
Transcontinental Gas Pipe Line Company, LLC)	**Docket No. CP15-118**
Transcontinental Gas Pipe Line Company, LLC)	**Docket No. CP15-138**
	(Not Consolidated)

AFFIDAVIT OF KRISTINE PRYLO

I, Kristine Prylo, being duly sworn, depose and state that the foregoing is my Discounted Cash Flow (DCF) Analysis on behalf of the New York Public Service Commission in the above entitled proceeding, that the foregoing DCF Analysis was prepared by me or under my direction, that the matters and facts set forth in the foregoing DCF Analysis are true and correct to the best of my knowledge, information and belief, and that if asked the questions appearing therein, my answers would, under oath, be the same.

Kristine Prylo

Subscribed and sworn before me this 22nd day of April 2015

Notary Public

ALAN T. MICHAELS
Notary Public, State of New York
No. 02MI6092164
Qualified in Rensselaer County
Commission Expires May 12, 2019

CERTIFICATE OF SERVICE

Pursuant to Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (2014), I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, DC this 22nd day of April 2015.

/s/ Kathleen L. Mazure
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