

# Natural Gas Pipeline Replacement

The Act authorizes investor-owned natural gas utilities to petition its economic regulator (the State Corporation Commission) to implement a separate rider that will allow for recovery of certain costs associated with eligible pipeline replacement projects. Eligible infrastructure replacement projects are projects that:

- enhance safety or reliability by reducing system integrity risks associated with customer outages, corrosion, equipment failures, material failures, natural forces, or other outside force damage;
- do not increase revenues by directly connecting the infrastructure replacement to new customers;
- reduce greenhouse gas emissions;
- are not included in the natural gas utility's rate base in its most recent rate case; and
- are commenced on or after a specified date. The costs recoverable from an eligible infrastructure replacement project include a return on the investment, a revenue conversion factor, depreciation, property taxes, and carrying costs on the over- or under-recovery of the eligible infrastructure replacement costs.

Submitted as:

Virginia

[Chapter 142 of 2010](#)

Status: Enacted into law in 2010.

## Suggested State Legislation

(Title, enacting clause, etc.)

1           Section 1. [*Short Title.*] An Act relating to natural gas utilities; cost recovery for certain  
2 infrastructure improvement costs.

3  
4           Section 2. [*Definitions.*]

5           As used in this chapter:

- 6           1. "Commission" means the [insert appropriate state utility regulatory agency].
- 7           2. "Eligible infrastructure replacement" means natural gas utility facility replacement projects  
8 that: (i) enhance safety or reliability by reducing system integrity risks associated with  
9 customer outages corrosion, equipment failures, material failures, or natural forces; (ii) do  
10 not increase revenues by directly connecting the infrastructure replacement to new  
11 customers; (iii) reduce or have the potential to reduce greenhouse gas emissions; (iv) are  
12 commenced on or after [insert date]; and (v) are not included in the natural gas utility's rate  
13 base in its most recent rate case using the cost of service methodology set forth in [insert  
14 citation], or the natural gas utility's rate base included in the rate base schedules filed with a  
15 performance-based regulation plan authorized by [insert citation], if the plan did not include  
16 the rate base.
- 17           3. "Eligible infrastructure replacement costs" includes the following:

18           A. Return on the investment. In calculating the return on the investment, the Commission  
19 shall use the natural gas utility's regulatory capital structure as calculated utilizing the weighted  
20 average cost of capital, including the cost of debt and the cost of equity used in determining the  
21 natural gas utility's base rates in effect during the construction period of the eligible infrastructure

1 replacement project. If the natural gas utility's cost of capital underlying the base rates in effect at the  
2 time its proposed SAVE plan is filed has not been changed by order of the Commission within the  
3 preceding five years, the Commission may require the natural gas utility to file an updated weighted  
4 average cost of capital, and the natural gas utility may propose an updated weighted average cost of  
5 capital. The natural gas utility may recover the external costs associated with establishing its updated  
6 weighted average cost of capital through the SAVE rider. Such external costs shall include legal  
7 costs and consultant costs;

8 B. A revenue conversion factor, including income taxes and an allowance for bad debt  
9 expense, shall be applied to the required operating income resulting from the eligible infrastructure  
10 replacement costs;

11 C. Depreciation. In calculating depreciation, the Commission shall use the natural gas  
12 utility's current depreciation rates;

13 D. Property taxes; and

14 E. Carrying costs on the over- or under-recovery of the eligible infrastructure replacement  
15 costs. In calculating the carrying costs, the Commission shall use the natural gas utility's regulatory  
16 capital structure as determined in subsection 2 of the definition of eligible infrastructure replacement  
17 costs.

- 18 4. "Investment" means costs incurred on eligible infrastructure replacement projects including  
19 planning, development, and construction costs; costs of infrastructure associated therewith;  
20 and an allowance for funds used during construction. In calculating the allowance for funds  
21 used during construction, the Commission shall use the natural gas utility's actual regulatory  
22 capital structure as determined in subsection 2 of the definition of eligible infrastructure  
23 replacement costs.
- 24 5. "Natural gas utility" means any investor-owned public service company engaged in the  
25 business of furnishing natural gas service to the public.
- 26 6. "Natural gas utility facility replacement project" means the replacement of storage, peak  
27 shaving, transmission or distribution facilities used in the delivery of natural gas, or  
28 supplemental or substitute forms of gas sources by a natural gas utility.
- 29 7. "SAVE" means Steps to Advance [insert state, Virginia] Energy Plan.
- 30 8. "SAVE plan" means a plan filed by a natural gas utility that identifies proposed eligible  
31 infrastructure replacement projects and a SAVE rider.
- 32 9. "SAVE rider" means a recovery mechanism that will allow for recovery of the eligible  
33 infrastructure replacement costs, through a separate mechanism from the customer rates  
34 established in a rate case using the cost of service methodology set forth in [insert citation],  
35 or a performance-based regulation plan authorized by [insert citation].

36  
37 Section 3. [*Filing of petition with Commission to establish or amend a SAVE plan; recovery*  
38 *of certain costs; procedure.*]

39 A. Notwithstanding any provisions of law to the contrary, a natural gas utility may file a  
40 SAVE plan as provided in this chapter. Such a plan shall provide for a timeline for completion of the  
41 proposed eligible infrastructure replacement projects, the estimated costs of the proposed eligible  
42 infrastructure projects, and a schedule for recovery of the related eligible infrastructure replacement  
43 costs through the SAVE rider, and demonstrate that the plan is prudent and reasonable. The  
44 Commission may approve such a plan after such notice and opportunity for hearing as the  
45 Commission may prescribe, subject to the provisions of this chapter.

46 B. The Commission shall approve or deny, within 180 days, a natural gas utility's initial  
47 application for a SAVE plan. A plan filed pursuant to this section shall not require the filing of rate  
48 case schedules. The Commission shall approve or deny, within 120 days, a natural gas utility's

1 application to amend a previously approved plan. If the Commission denies such a plan or  
2 amendment, it shall set forth with specificity the reasons for such denial, and the utility shall have  
3 the right to refile, without prejudice, an amended plan or amendment within 60 days, and the  
4 Commission shall thereafter have 60 days to approve or deny the amended plan or amendment. The  
5 time period for Commission review provided for in this subsection shall not apply if the SAVE plan  
6 is filed in conjunction with a rate case using the cost of service methodology set forth in [insert  
7 citation], or a performance-based regulation plan authorized by [insert citation].

8 C. Any SAVE plan and any SAVE rider that is submitted to and approved by the  
9 Commission shall be allocated and charged in accordance with appropriate cost causation principles  
10 in order to avoid any undue cross-subsidization between rate classes.

11 D. No other revenue requirement or ratemaking issues may be examined in consideration of  
12 the application filed pursuant to the provisions of this chapter.

13 E. At the end of each 12-month period the SAVE rider is in effect, the natural gas utility shall  
14 reconcile the difference between the recognized eligible infrastructure replacement costs and the  
15 amounts recovered under the SAVE rider, and shall submit the reconciliation and a proposed SAVE  
16 rider adjustment to the Commission to recover or refund the difference, as appropriate, through an  
17 adjustment to the SAVE rider. The Commission shall approve or deny, within 90 days, a natural gas  
18 utility's proposed SAVE rider adjustment.

19 F. A natural gas utility that has implemented a SAVE rider pursuant to this chapter shall file  
20 revised rate schedules to reset the SAVE rider to zero, when new base rates and charges that  
21 incorporate eligible infrastructure replacement costs previously reflected in the currently effective  
22 SAVE rider become effective for the natural gas utility, following a Commission order establishing  
23 customer rates in a rate case using the cost of service methodology set forth in [insert citation], or a  
24 performance-based regulation plan authorized by [insert citation].

25 G. Costs recovered pursuant to this chapter shall be in addition to all other costs that the  
26 natural gas utility is permitted to recover, shall not be considered an offset to other Commission-  
27 approved costs of service or revenue requirements, and shall not be included in any computation  
28 relative to a performance-based regulation plan revenue-sharing mechanism. Further, if the  
29 Commission approves (i) an updated weighted average cost of capital for use in calculating the  
30 return on investment, (ii) the carrying costs on the over- or under-recovery of the eligible  
31 infrastructure replacement costs, (iii) the allowance for funds used during construction, (iv) or any  
32 combination thereof, such weighted average cost of capital shall be used only for the purpose of the  
33 eligible infrastructure replacement costs for the SAVE rider shall not be used for any purpose in any  
34 other proceeding.

35  
36 Section 4. [*Severability.*] Insert severability clause.

37  
38 Section 5. [*Repealer.*] Insert repealer clause.

39  
40 Section 6. [*Effective Date.*] Insert effective date.