



# Period Three Compliance Filing Kern River Gas Transmission Company Customer Call

April 16, 2026

# Period Three Compliance Filing



- The Commission established that Kern River must file *Pro-Forma* Period Three rates for each shipper group no later than two years before the Period Two contracts of that shipper group expire.
- Kern River will make a compliance filing on April 30, 2026, to seek Commission approval of the first Period Three rate applicable to the 2003 Expansion 15-Yr Period One, 10-Yr Period Two shipper group. This shipper group is made up of one contract for a total of 20,000 Dth/d
  - Since this is the first shipper group eligible for Period Three service, Kern River proposes new tariff section 32 “Contracting for Service Subject to Period Three Rates” which will outline contracting procedures for Period Three service

# Period Three Compliance Filing



## Kern River Rate Structure

- Kern River's rates are based on a levelized rate design, with separate rates for three periods
  - Period One – the term of firm shippers' initial contracts (10 or 15 years)
  - Period Two – the period from the expiration of firm shippers' Period One contracts to the end of their Period Two contract terms (10, 15 or 25 years)
  - Period Three – the period thereafter
- Period One rates were designed to recover 70 percent of Kern River's original capital invested
  - Approximately equal to the portion of original capital funded through debt
- Period Two rates were designed to recover the remaining 30 percent of Kern River's original invested capital; rates assume a capital structure comprised of 100 percent equity
  - At the end of Period Two, Kern River's original capital investments will be fully recovered in rates
  - Current Period Two rates do not provide for the recovery of, and return on capital placed in service since the end of the test period in Kern River's last rate case in Docket No. RP04-274

# Period Three Compliance Filing



## Kern River Rate Structure Continued

- The proposed Period Three rate will be based on the capital costs, and other costs and credits determined for this shipper group in Kern River's last rate case.
  - Given that Kern River's original capital will be fully recovered in rates by the end of Period Two, the cost of service underlying the proposed Period Three rate will include a management fee in lieu of return on and of rate base
  - The management fee will be based on the formula the Commission approved in *High Island Offshore System, L.L.C., 110 FERC ¶ 61,043 (2005)(HIOS)*
  - In HIOS, the Commission applied the pipeline's approved pre-tax rate of return to 10% of 50% of its original investment.

# Period Three Management Fee



- Several Orders of the Commission indicate that Kern River may charge a management fee:
  - Kern River’s Original Certificate Order (1990) and Order Amending Original Certificate (1992):
    - “[Period Three] will provide for the recovery of Kern River’s operating expenses, taxes, and a reasonable management fee that is equivalent to no more than 10% of Kern River’s average pre-tax return”
  - Opinion 486-F (2013):
    - “[Period Three] will provide for the recovery of Kern River’s operating expenses, taxes and a reasonable management fee in lieu of return on rate base”
    - “The only depreciation or costs to be excluded from rate base for purposes of developing Period Three rates is that related to original capital investments and that any subsequent investments in facilities, such as compressors, that are unrecovered at the end of Period Two may be reflected in the rate base used to calculate Period Three rates”

# Contracting Procedures for Service in Period Three



## April 30, 2026 FERC Compliance Filing

- New tariff section 32 “Contracting for Service Subject to Period Three Rates” based on Section 30 “Contracting for Service Subject to Period Two Rates” will outline contracting procedures for Period Three service.
- To contract for Period Three rates, an eligible shipper will be required to:
  - provide a binding request no later than: i) twelve (12) months prior to the expiration of the term of its Period Two transportation service agreement, or ii) thirty (30) calendar days following the date of a Commission order approving the applicable Period Three rates, and
  - execute a new transportation agreement.
- Kern River will propose a minimum term of five years for the initial term for service in Period Three, and for each subsequent extension.

