

## Introduction

### A. The Tariff Process Opens with a Bad Beginning: A Recourse or Ceiling Tariff

- *Creates natural incentive to highball the ceiling*

### B. The Next Stage Is Even Worse: There's a Negotiated Tariff with shippers. The negotiated tariff process has two important structural defects

- *Assumes shippers will negotiate down (cf. TAPS experience)*
- *No refunds*

### C. Viewed in historical context, the Negotiated/Recourse tariff system, instituted in 1996, appears to have much in common with a slow-moving train wreck.

- *Can you say "Enron"?*
- *BP propane price-fixing*

### D. (Remedy #1) To engage constructively in this arcane process, the state needs access to timely and complete information. All the information., As I understand it, AGIA does not make this demand.

- *Confidentiality narrows the circle of informed players.*
- *Information provisions have loophole defects.*

### E. (Remedy #2) If AGIA is set in motion, the state should begin preparing immediately to work on the cost estimates to assure the cost bar is not set too high by the recourse tariff. Next, we have to establish accounting oversight and auditing mechanisms to track closely, year-in and year-out, to guard against (1) cost reporting in grey areas which those sharing the same net revenue pie legitimately wish to maximize; and (2) inappropriate gaming of the system.

- *70/30 and Rolled-In Tariffs are not belt-and-suspenders guarantees; they are mechanical elements that can be gamed*
- *Need to understand critical distinction between incurred costs and reported costs; need to examine effective income taxes on specific reported transactions (v. nominal or normative tax rates)*