

**THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

Before the Commissioners:            Shari Feist Albrecht, Chair  
   Jay Scott Emler  
   Dwight D. Keen

In the Matter of the Application of Kaw Pipe            )  
Line Company Revising its Tariff Rates Based            )            Docket No. 19-KAWP-177-TAR  
on the FERC Index for 2018.                                    )

**ORDER APPROVING TARIFF REVISIONS**

This matter comes before the State Corporation Commission of the State of Kansas (“Commission”) for consideration and decision. Having reviewed the pleadings and records, the Commission makes the following findings:

1. On October 30, 2018, Kaw Pipe Line Company (“Kaw”) filed an Application for approval to revise its tariffs, implementing its annual rate adjustment utilizing the Federal Energy Regulatory Commission’s (FERC) indexing methodology.<sup>1</sup>
2. The Commission has full power, authority, and jurisdiction to control Kaw as a common carrier pursuant to K.S.A. 66-105. The Commission has jurisdiction over Kaw’s rates and tariffs pursuant to K.S.A. 66-1,217, K.S.A. 66-1,218 and K.A.R. 82-10-2. No tariff changes shall be effective until approved by the Commission pursuant to K.S.A. 66-117.
3. The standards of review that Staff uses to analyze an application are “just and reasonable” and “efficient and sufficient service”.<sup>2</sup> The rates must be non-discriminatory and provided adequate recovery of costs to the suppliers.<sup>3</sup> Further, as defined in Docket No. 02-MAPP-160-COM, efficient service acts to produce the least waste or unnecessary effort in using capacity

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<sup>1</sup> *Kaw Pipe Line Company Application to Revise Tariffs*, (“Kaw Application”), (Oct. 30, 2018).

<sup>2</sup> *Staff’s Report and Recommendation*, at 2 (January 4, 2019).

<sup>3</sup> K.S.A. 66-1,217.

of the pipelines and sufficient service provides adequate public service to meet the needs of the shippers.<sup>4</sup>

4. The Commission Staff (“Staff”) submitted its Report and Recommendation (R&R) dated January 4, 2019, recommending the Commission grant Kaw’s request for approval of tariff revisions in order to implement rate increases utilizing FERC’s annual indexing methodology.<sup>5</sup> “Staff believes that the use of FERC’s pricing methodology, with proper notice to customers, appropriately balances consumers’ interests with investors’ interests and meets the two standards of review used for liquid pipeline ratemaking purposes in Kansas”.<sup>6</sup>

5. Based on the foregoing information, and the absence of any objection, Staff recommends the Commission find that public convenience will be promoted by the granting Kaw’s Application for approval to revise its tariffs.

#### **I. Findings and Conclusion**

6. The Commission finds pursuant to K.S.A. 66-117 and K.S.A. 66-1,217, K.S.A. 66-1,218 and K.A.R. 82-10-2, Kaw’s request for approval to revise its tariffs, implementing its annual rate adjustment utilizing FERC’s indexing methodology is just and reasonable and provides efficient and sufficient service.

7. The Commission adopts Staff’s Report and Recommendation dated January 4, 2019, which is attached hereto and made a part hereof by reference.

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<sup>4</sup> Order, at 33, 37, Docket No. 02-MAPP-160—COM (Jan. 31, 2005).

<sup>5</sup> *Staff’s Report and Recommendation*.

<sup>6</sup> *Id.* at 2.

**THEREFORE, THE COMMISSION ORDERS:**

A. Kaw's Application is granted pursuant to K.S.A. 66-117, K.S.A. 66-1,217, K.S.A. 66-1,218 and K.A.R. 82-10-2.

B. Any party may file and serve a petition for reconsideration pursuant to the requirements and time limits established by K.S.A. 77-529(a)(1).<sup>7</sup>

C. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders, as it may deem necessary.

**BY THE COMMISSION IT IS SO ORDERED.**

Albrecht, Chair; Emler, Commissioner; Keen, Commissioner

Dated: 01/10/2019



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Lynn M. Retz  
Secretary to the Commission

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<sup>7</sup> K.S.A. 66-118b; K.S.A. 77-503(c); K.S.A. 77-531(b).

# STATE OF KANSAS



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## REPORT AND RECOMMENDATION UTILITIES DIVISION

**TO:** Shari Feist Albrecht, Chair  
Jay Scott Emler, Commissioner  
Dwight D. Keen, Commissioner

**FROM:** Josh Frantz, Managing Rate Analyst  
Lana Ellis, Deputy Chief of Economics and Rates  
Robert Glass, Chief of Economics and Rates  
Jeff McClanahan, Director of Utilities

**DATE:** January 4, 2019

**SUBJECT:** Docket No. 19-KAWP-177-TAR: In the Matter of the Application of Kaw Pipe Line Company Revising Its Tariff Rates Based on the FERC Index for 2018

### **EXECUTIVE SUMMARY:**

Kaw Pipe Line Company (Kaw) has filed an Application for approval from the Kansas Corporation Commission (Commission) to revise its tariffs, implementing its annual rate adjustment utilizing the Federal Energy Regulatory Commission's (FERC) indexing methodology. The rate adjustment sought would increase certain rates applying on the transportation of crude petroleum by 4.4087%.

The estimated aggregate annual revenue increase from Kaw's proposal is \$107,000 based on estimated volumes for December 1, 2018, through June 30, 2019, and the rate changes included in the Application.

Because Kaw has met the two standards used to review liquid pipeline common carrier tariffs in Kansas, Commission Staff (Staff) recommends approval of the Application.

### **BACKGROUND:**

Kaw is a common carrier under the jurisdiction of the Commission that is engaged in the transportation of liquid hydrocarbons within the meaning of K.S.A. 66-105 and K.S.A. 66-1,215 (which references the 66-105 definition).<sup>1</sup>

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<sup>1</sup> Common Carriers are defined in K.S.A. 66-105, which states, "As used in this act, 'common carriers' shall include all freight-line companies, equipment companies, pipe-line companies, and all persons and associations of persons, whether incorporated or not, operating such agencies for public use in the conveyance of persons or property within this state."

Tariffs and associated rates for liquid pipeline common carriers operating within the state are subject to the Commission's authority pursuant to K.S.A. 66-117, K.S.A. 66-1,217, K.S.A. 66-1,218, and K.A.R. 82-10-2.

On October 30, 2018, Kaw filed an Application with the Commission requesting approval of tariff revisions in order to implement rate increases utilizing FERC's annual indexing methodology. In implementing these changes, Kaw seeks to replace existing Supplements No. 11 to K.C.C. No. 140, No. 13 to K.C.C. No. 143; and No. 15 to K.C.C. No. 145 with Supplements No. 12, 14, and 16, respectively.<sup>2</sup> These tariffs apply on the transportation of crude petroleum.

## **ANALYSIS:**

### **Standard of Review**

There are two standards typically used to review liquid pipeline common carrier tariff Applications in Kansas:<sup>3</sup>

1. Just and Reasonable Rates: rates with terms and conditions that are non-discriminatory and provide adequate recovery of costs to the suppliers (carriers); and
2. Efficient and Sufficient Service: as defined in Docket No. 02-MAPP-160-COM, efficient service acts to produce a minimum amount of waste or unnecessary effort in using the capacity on the pipelines and sufficient service furnishes adequate or enough public service to meet the needs of the shippers.<sup>4</sup>

Generally, in the absence of shipper complaints and/or protests, the Commission's practice has been to pattern its regulation of intrastate oil/liquid pipeline rates and tariffs after the federal regulation of interstate service. Staff believes that the use of FERC's pricing methodology, with proper notice to customers, appropriately balances consumers' interests with investors' interests and meets the two standards of review used for liquid pipeline ratemaking purposes in Kansas.

### **Indexing Methodology**

In the liquid pipeline industry, the most commonly accepted method for adjusting rates is FERC's indexing methodology, which establishes a new ceiling level for base rates annually. Further, the Commission has approved the use of FERC's indexing methodology in previous tariff filings. This methodology gives pipeline companies the option to adjust their tariff rates for inflation each year, effective July 1st, provided the adjusted rates do not exceed their annual calculated ceiling level (unless circumstances warrant an alternative rate adjustment be used).

FERC's indexing methodology uses the *Producer Price Index-Finished Goods* (PPI-FG) plus 1.23% (PPI-FG + 1.23%) indexing factor. The annual average PPI-FG index factors were 191.9 for 2016 and 198.0 for 2017, thus the percent change in the annual average PPI-FG from 2016 to 2017 is 3.1787%.<sup>5</sup> Adding the 1.23% indexing factor to the annual percentage change gives an

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<sup>2</sup> Additionally, Kaw's issuing officer of these tariffs is different from the prior tariffs due to a change in personnel. Staff finds this to be a non-substantive revision.

<sup>3</sup> Pursuant to K.S.A. 66-117 and 66-1,217.

<sup>4</sup> Order, pp. 33 & 37, Docket No. 02-MAPP-160-COM (Jan. 31, 2005).

<sup>5</sup>  $[198.0-191.9]/191.9 = 0.031787$ .

increase of 4.4087%.<sup>6</sup> Thus, oil pipelines multiply their July 1, 2017, through June 30, 2018, ceiling levels by 1.044087<sup>7</sup> to compute their ceiling levels for July 1, 2018, through June 30, 2019.<sup>8</sup>

In this specific filing, Kaw is proposing to increase rates by 4.4087%—increasing aggregate annual revenue by an estimated \$107,000<sup>9</sup>—to reflect the annual change in the PPI-FG utilizing FERC’s indexing methodology described above. Staff has analyzed the Application and verified the correct application of the indexing factor to each affected rate. Based on those calculations, Kaw’s proposed tariff brings those rates up to their allowed FERC ceiling.

**Notice**

Kaw has notified all shippers it serves in Kansas of the proposed tariff changes.<sup>10</sup> There have been no objections to the changes nor any complaints made or filed with the Commission to date.

Since Kaw’s proposed rate increases utilize FERC’s methodologies, customers have been properly notified, and no shipper complaints or protests were filed, Staff considers the rate increases to meet Kansas’s two standards of review for liquid pipeline common carrier tariff Applications and recommends approval of this request.

**RECOMMENDATION:**

Because both of Kansas’s standards of review for liquid pipeline common carrier tariff Applications have been met, Staff recommends the Commission grant Kaw’s request by approving tariff Supplements No. 12 to K.C.C. No. 140, No. 14 to K.C.C. No. 143, and No. 16 to K.C.C. No. 145, thereby increasing rates using FERC’s indexing methodology.

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<sup>6</sup>  $0.031787 + 0.0123 = 0.044087$ .

<sup>7</sup>  $0.044087 + 1 = 1.044087$ .

<sup>8</sup> FERC, *Notice of Annual Change in the Producer Price Index for Finished Goods* (May 11, 2018).

<sup>9</sup> Application, p. 1 (Oct. 30, 2018).

<sup>10</sup> Application, p. 1 (Oct. 30, 2018).

**CERTIFICATE OF SERVICE**

19-KAWP-177-TAR

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of electronic service on 01/10/2019.

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