

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

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

In the Matter of ONEOK North System, L.L.C.    )  
Filing K.C.C. No. 4.9 Which Contains Rate    ) Docket No. 18-ONSP-521-TAR  
Increases and Cancellation of Certain    )  
Transportation Service.                                    )

**ORDER APPROVING TARIFF REVISIONS**

**I. BACKGROUND**

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. After review of the pleadings, the Commission makes the following findings and conclusions.

1.      On May 31, 2018, ONEOK North System, L.L.C. (ONEOK) filed its Application requesting Approval to implement its annual rate adjustment utilizing the Federal Energy Regulatory Commission's (FERC) annual indexing methodology. The Indexing rate adjustment sought would increase certain rates by 4.4087%. Additionally, ONEOK's seeks approval of other changes, including: rate increases based on Settlement Rates; cancellation of transportation routes between Bushton, KS and Wichita, KS; and minor changes to the tariff, such as removal of a fax contact number and changes to formatting. ONEOK estimates the aggregate annual revenue value of its proposed changes is \$2,579,400, based on January-December 2017.

2.      The Commission has full power, authority, and jurisdiction to control ONEOK as a common carrier pursuant to K.S.A. 66-1,216. The Commission has jurisdiction over Jayhawk's rates pursuant to K.S.A. 66-1,217, and ONEOK is required to publish its tariffs with the



Commission pursuant to K.S.A. 66-1,218. Oil and natural gas pipeline company tariff filings are governed by regulation 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. On July 25, 2018, Staff filed its Report and Recommendation, attached hereto and made a part hereof by reference, which recommended the Commission approve ONEOK's Application.<sup>1</sup>

4. Staff noted that generally, in the absence of shipper complaints and/or protests, the Commission's regulatory practice has been to pattern its regulation of intrastate oil/liquid pipeline rates and tariffs from the federally authorized rates for interstate service. Staff proffers that the use of the FERC indexing methodology with notice to customers appropriately balances the interests of consumers with investors for Kansas liquid pipeline ratemaking purposes.

5. Staff explained that the FERC indexing methodology involves ceiling levels for interstate base rates calculated annually based upon the Producer Price Index-Finished Goods plus 1.23% (PPI-FG + 1.23%). 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%. Adding the 1.23% indexing factor to the annual percentage change gives an increase of 4.4087%. Thus, oil pipelines multiply their July 1, 2017, through June 30, 2018, ceiling levels by 1.044087 to compute their ceiling levels for July 1, 2018, through June 30, 2019.

6. Staff analyzed Jayhawk's Application and noted the following:

- a. **Cancelled Routes.** The transportation routes between Bushton, KS and Wichita, KS are proposed to be cancelled because no shipper has utilized these routes for at least 10 years. Because these routes are not used, Staff

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<sup>1</sup> Notice of Filing of Staff Report and Recommendation, July 25, 2018.



believes these routes can be cancelled without affecting the provision of sufficient and efficient service. Staff recommends approval of this change;

- b. **Other Changes.** K.C.C. No. 4.9 contains minor changes which include the removal of a fax contact number and several changes to formatting (such as the capitalization of the terms in the definitions section). Staff does not have concerns regarding any of these minor changes and therefore recommends approval of these changes.

**IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:**

(A) The Commission hereby adopts Staff's Report and Recommendation and orders the approval of ONEOK North System, L.L.C.'s Application and accompanying tariff revisions.

(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>2</sup>

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

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

Albrecht, Chairman, Emler, Commissioner, Keen, Commissioner

Dated: 08/02/2018



Lynn M. Retz  
Secretary to the Commission

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<sup>2</sup> K.S.A. 66-118b; K.S.A. 77-503(c); K.S.A. 77-531(b).



# STATE OF KANSAS

CORPORATION COMMISSION  
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SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | DWIGHT D. KEEN, COMMISSIONER

## REPORT AND RECOMMENDATION UTILITIES DIVISION

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

**FROM:** Josh Frantz, Senior Research Economist  
Lana Ellis, Deputy Chief of Economics and Rates  
Robert Glass, Chief of Economics and Rates  
Jeff McClanahan, Director of Utilities

**DATE:** July 25, 2018

**SUBJECT:** Docket No. 18-ONSP-521-TAR: In the Matter of ONEOK North System, L.L.C.  
Filing K.C.C. No. 4.9 Which Contains Rate Increases and Cancellation of Certain  
Transportation Services

### **EXECUTIVE SUMMARY:**

ONEOK North System, L.L.C. (ONEOK) is filing for approval of K.C.C. No. 4.9 (cancelling K.C.C. 4.8) to implement its annual rate adjustment utilizing the Federal Energy Regulatory Commission's (FERC) indexing methodology. The Indexing rate adjustment sought would increase certain rates by 4.4087%. In this Application, ONEOK is also filing for approval of other changes including: rate increases based on Settlement Rates; cancellation of transportation routes between Bushton, KS and Wichita, KS; and some minor changes to the tariff such as removal of a fax contact number and changes to formatting.

The estimated aggregate annual revenue value of ONEOK's proposed changes is \$2,579,400. This amount is based on January–December 2017 volumes.

Because ONEOK has met the two standards used to review liquid pipeline common carriers tariffs in Kansas, Staff recommends Commission approval of the Application.

### **BACKGROUND:**

ONEOK is a liquids pipeline 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> The Commission granted ONEOK its Certificate of Convenience and Necessity to transact business as a liquids pipeline common carrier on October 5, 2007, in Docket No. 08-OPIP-140-ACQ.

Tariffs and associated rates for liquids 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.

ONEOK operates as an intrastate liquids pipeline system in the State of Kansas and, under its current tariff K.C.C. No. 4.8, transports petroleum products between various points throughout Kansas.

On May 31, 2018, ONEOK filed an Application with the Commission requesting approval of tariff revisions in order to implement rate increases utilizing FERC's annual indexing methodology and increases to certain rates based on the FERC Settlement Rates procedure. ONEOK is also seeking approval to cancel transportation routes between Bushton, KS and Wichita, KS. The revised tariff also includes minor changes such as removal of a fax contact number and changes to formatting. In implementing these changes, ONEOK seeks to replace tariff K.C.C. No. 4.8 with K.C.C. No. 4.9.

## **ANALYSIS:**

### **Standard of Review**

There are two standards typically used to review liquids pipelines common carrier tariff applications in Kansas:<sup>2</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>3</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 Kansas liquid pipeline ratemaking purposes.

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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."

<sup>2</sup> Pursuant to K.S.A. 66-117 and 66-1,217.

<sup>3</sup> Order, pp. 33 & 37, Docket No. 02-MAPP-160-COM (Jan. 31, 2005).



### Indexing Methodology

In the liquids 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>4</sup> Adding the 1.23% indexing factor to the annual percentage change gives an increase of 4.4087%.<sup>5</sup> Thus, oil pipelines multiply their July 1, 2017, through June 30, 2018, ceiling levels by 1.044087<sup>6</sup> to compute their ceiling levels for July 1, 2018, through June 30, 2019.

In this specific filing, except in circumstances involving Settlement Rates (which will be discussed separately), ONEOK is proposing to increase rates by 4.4087% to reflect the annual change in the PPI-FG utilizing FERC's indexing methodology described above. Staff has analyzed the instant Application and verified the correct application of the indexing factor to each affected rate. Based on those calculations, ONEOK's proposed tariff brings those rates up to their allowed FERC ceiling.

### Settlement Rates

Pursuant to 18 C.F.R. § 342.4 (c) *Settlement Rates*, a carrier may change a rate without regard to the ceiling level if the proposed change has been agreed to, in writing, by each person who, on the day of the filing of the proposed rate change, is using the service covered by the rate. In FERC Docket No. IS18-249, ONEOK provided a notarized affidavit verifying that the following rates were agreed to by each person using the service covered by the rate:<sup>7</sup>

Product(s)	Origin	Destination	Rate in Cents per Barrel
Isobutane, Normal Butane, Refinery Grade Butane, Propane	Conway and Hutchinson, KS	Wichita, KS	125.00
	Wichita, KS	Conway and Hutchinson, KS	125.00

These rates are in the effective tariff F.E.R.C. No. 43.14.0. Because 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 these proposed Settlement Rates in K.C.C. No. 4.9 are just and reasonable and should be approved.

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<sup>4</sup>  $[198.0-191.9]/191.9 = 0.031787$

<sup>5</sup>  $0.031787 + 0.0123 = 0.044087$

<sup>6</sup>  $0.044087 + 1 = 1.044087$

<sup>7</sup> Response to Staff data request No. 2.



**Cancelled Routes**

The transportation routes between Bushton, KS and Wichita, KS are proposed to be cancelled because no shipper has utilized these routes for at least 10 years.<sup>8</sup> Because these routes are not used, Staff believes these routes can be cancelled without affecting the provision of sufficient and efficient service. Staff recommends approval of this change.

**Other Changes**

K.C.C. No. 4.9 contains minor changes which include the removal of a fax contact number and several changes to formatting (such as changing the capitalization of the terms in the definitions section). Staff does not have concerns regarding any of these minor changes and therefore recommends approval of these changes.

**Notice**

ONEOK has properly notified subscribers of the affected tariff. There have been no objections to the changes nor any complaints made or filed with the Commission to date.

Since ONEOK's proposed rate increases utilize FERC's methodologies, customers have been properly notified, the cancelled routes have not been used for at least ten years, and no shipper complaints or protests were filed; Staff considers the rate increases and route cancellations to meet Kansas's two standards of review for liquids pipelines common carrier tariff applications and recommends approval of this request.

**RECOMMENDATION:**

Because both of Kansas's standards of review for liquids pipelines common carrier tariff applications have been met, Staff recommends the Commission grant ONEOK's request to replace K.C.C. 4.8 with K.C.C. 4.9, thereby increasing rates and cancelling certain transportation services.

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<sup>8</sup> Response to Staff data request No. 1.



**CERTIFICATE OF SERVICE**

18-ONSP-521-TAR

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of first class mail/hand delivered on 08/02/2018.

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