BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of ONEOK NGL Pipeline, L.L.C. for an Order Approving an Amendment to the Pipeline Capacity Lease Agreement with HollyFrontier Refining & Marketing LLC	)))))	Docket No. 18-ONEP-502-CON

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION **PUBLIC VERSION**

The Staff of the Kansas Corporation Commission (Staff and Commission, respectively), having investigated the issues presented in this docket, hereby files its attached Report and Recommendation (R&R). Staff recommends the Commission approve the extension of the Limited Contract Carrier Certificate and the amendment to the Pipeline Capacity Lease Agreement between ONEOK NGL Pipeline, L.L.C. and HollyFrontier Refining and Marketing LLC.

WHEREFORE, Staff respectfully requests that the Commission adopt its recommendation of approval.

Respectfully Submitted,

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PUBLIC REPORT AND RECOMMENDATION
UTILITIES DIVISION

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

FROM: Justin Prentiss, Senior Research Economist
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: December 7, 2018

SUBJECT: Docket No. 18-ONEP-502-CON: In the Matter of the Application of ONEOK NGL Pipeline, L.L.C. (ONEP) for an Order Approving an Amendment to the Pipeline Capacity Lease Agreement with Holly Frontier Refining & Marketing LLC

EXECUTIVE SUMMARY:

On May 16, 2018, ONEP submitted an Application for Commission approval to extend its Limited Contract Carrier Certificate (Certificate) and for an amendment to the Pipeline Capacity Lease Agreement (Agreement) between ONEP and Holly Frontier Refining & Marketing. Based on the previous factors used to analyze the Agreement and the price analysis performed by Staff, Staff has found the rates to be just and reasonable. Therefore, Staff recommends the Commision approve the extention of the Certificate and the amendment to the Agreement.

BACKGROUND:

On December 8, 2011, in Docket No. 12-ONEP-333-CON (12-333 Docket), the Commission approved the Agreement between ONEP and Holly Frontier Refining & Marketing (HFRM)[1] which covers 100% of capacity on a 6-inch and a 4-inch natural gas liquids pipeline owned and operated by ONEP located between Conway, KS, and El Dorado, KS, (Conway/El Dorado Pipeline). In conjunction with approval of the Agreement, the Commission granted ONEP an

[1] Order Approving Application, p. 4, Docket No. 12-ONEP-333-CON (Dec. 8, 2011) (12-333 Order).

extension of the Certificate, limiting certification specifically for fulfillment of ONEP's contractual obligations under the Agreement.[2] The Agreement was set to expire March 31, 2015.

On June 5, 2015, in Docket No. 15-ONEP-460-CON (15-460 Docket), the Commission again granted ONEP an extension of its Certificate and approved an amendment (2015 Amendment) to the Agreement.[3] The purpose of the 2015 Amendment was to extend the Agreement through March 31, 2018.

On May 16, 2018, in the instant Docket, ONEP submitted an Application requesting the Commission grant ONEP another extension of its Certificate and approve an amendment (2018 Amendment) to the Agreement.[4] The purpose of the 2018 Amendment is to extend the Agreement through March 31, 2021.

On October 31, 2018, in the instant Docket, ONEP submitted a Motion for Extension of ONEP's Certificate and the Agreement until the Commission issues its Final Order so that ONEP may continue to operate its pipeline and HFRM may continue to use the pipeline during the interim.[5]

On November 6, 2018, Staff recommended ONEP's Motion for Interim Extension be approved, but requested the Commission put ONEP on notice that if it chooses to seek any further contract amendments or certificate extensions, it must make its filings before the expiration of the existing rates and/or Certificate.[6]

On November 15, 2018, the Commission granted ONEP interim approval,[7] but cautioned that, in the future, ONEP should file for requisite approvals before the prior approvals lapse.[8]

<u>ANALYSIS:</u>

Jurisdiction

Pursuant to K.S.A. 66-1,231, the Commission is given full power, authority and jurisdiction to supervise and control miscellaneous public utilities doing business in Kansas and is empowered to

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[2] On April 20, 2006, the Commission issued ONEOK NGL a Limited Contract Carrier Certificate in Docket No. 06-0NEP-646-COC (06-646 Docket) limiting certification specifically for fulfillment of ONEOK NGL's contractual obligations under a Pipeline Capacity Lease Agreement with Frontier El Dorado Refining Company (HFRM is the successor of Frontier El Dorado Refining Company) and Coffeyville Resources Refining & Marketing, LLC, which was also approved in that Docket.12-333 Order, p. 4. Coffeyville elected not to lease capacity on the Conway/El Dorado Pipeline after September 30, 2011, and indicated to HFRM and ONEP it did not object to ONEP leasing the capacity in the Conway/El Dorado Pipeline to HFRM. *See* Application, p. 3, Docket No. 12-ONEP-333-CON (Oct. 31, 2011).

[3] Order Granting Application, p. 4, Docket No. 15-ONEP-460-CON (June 25, 2015).

[4] Application, ¶3 (May 16, 2018).

[5] Motion for Approval to Extend Limited Contract Carrier Certificate on an Interim Basis to Provide Services Pending the Commission's Review of the Pipeline Capacity Lease Agreement, ¶4 (October 31, 2018).

[6] Staff's Response to ONEOK's Motion for Interim Approval, ¶¶7–8 (November 6, 2018).

[7] Order Granting Interim Approval, p. 2 (Nov. 15, 2018).

[8] Order Granting Interim Approval, ¶5 (Nov. 15, 2018).

do all things necessary and convenient for the exercise of such power, authority, and jurisdiction. ONEP is a miscellaneous public utility pursuant to K.S.A. 66-1,230.

Standard of Review
Pursuant to K.S.A. 66-1,232, every miscellaneous public utility is required to furnish reasonably efficient and sufficient service and establish just and reasonable rates, fares, tolls, charges, etc. And, pursuant to K.S.A. 66-131, to obtain a certificate of convenience (permitting said applicants to transact the business of a common carrier or public utility), potential public utilities and common carriers must prove that "public convenience and necessity will be promoted by the transaction of said business."

Past Commission Orders approving the Certificate and initial Agreement subject of this Docket and an extension of that Certificate and Agreement have relied on Staff's analysis. In Dockets 12-333 and 15-460, both Staff's analysis and the Commission's Order found the Agreement and extension of ONEP's Certificate to be just and reasonable, to have no adverse impact on public interest, and to promote public convenience by examining whether: (1) there were separate tariff rates; (2) all parties had been notified; (3) there were no protests or interventions; (4) all of the pipeline's capacity was under lease; (5) the Certificate had been previously approved; (6) the leasor is qualified by its experience and financial strength to meet all of the demands associated with fulfilling its contractual obligations; and (7) the leasee requires the use of the capacity.

Staff believes this type of analysis is appropriate in this particular proceeding, as it addresses the Commission's previous concerns regarding this pipeline and ensures the Agreement results in just and reasonable rates and promotes the public convenience and necessity. Accordingly, Staff analyzed the 2018 Amendment using those factors. In addition, Staff evaluated the reasonableness of the price from HFRM's perspective and from ONEOP's perspective.

Analysis
Previous Factors
Staff has verified the seven factors used to evaluate and approve the Agreement in previous Dockets are all still met:

(1) there are no separate tariff rates for this line and §1.3 (d) (iv) of the Agreement does not allow for any other tariffs to come about;

(2) all pertinent parties have been notified;[9]

(3) to date, there have been no interveners in this Docket nor have any complaints been filed;

(4) 100% of the pipeline's capacity is under lease;[10]

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[9] The pertinent parties are the lessor and the lessee.
[10] Agreement §1.1.

(5) the Certificate and Agreement has been previously approved;[11]

(6) ONEP is still qualified by its experience and financial strength to meet all of the demands associated with fulfilling its contractual obligations under the Agreement;[12] and

(7) HFRM requires the use of the capacity in the Conway/El Dorado Pipeline in conjunction with its refinery operations in El Dorado, Kansas.[13]

Price Analysis
Staff also evaluated the reasonableness of the price from HFRM's perspective and from ONEP's perspective.

HFRM's Perspecitve
Staff calculated the price of the Agreement as the sum of the base rent and operating expense rent charged to HFRM. This price is fixed annually (i.e., not volumetric) so calculating an effective price per barrel depends upon usage. Based on HFRM's 2016-2017 average usage, that price per barrel is *[redacted]* (average price).

The closest comparable option for HFRM is a pipeline operated by Mid-America Pipeline (MAPL) with a tariff rate of about 66 cents per barrel for shipping refinery grade butane from Conway ONEOK Storage to El Dorado Frontier. However, there are notable differences: (1) it only goes in one of their needed directions; (2) it is a shared pipeline with other customers, so that capacity is not fully available to HFRM at all times; and (3) not all of the needed products of HFRM[14] have an exact origin and destination needed (although it reaches the same area, it does not reach the storage site they have contracted). For some products, there would still need to be some sort of transfer to move the products from the destination into the storage.

Although HFRM's average price is higher than the comparable rate, as stated above, the Agreement allows for shipping both directions—even granting HFRM the option of switching the direction of the pipes as needed.

In addition, HFRM has chosen to lease the entirety of the ONEP pipe. This lease would give them a rate of about *[redacted]*,[15] should they utilize the full capacity (maximum capacity price).[16] HFRM has almost hit the full capacity of the pipelines, using *[redacted]* at peak daily

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[11] Docket 12-333 Order Approving Application and Docket 15-460 Order Granting Application.
[12] Staff found that the owner of the Applicant possess significant capital resources and investment-grade credit ratings. ONEOK NGL Pipeline, LLC is a subsidiary of ONE Partners L.P. and ONEOK, Inc. is the ultimate parent of both companies. ONEOK, Inc. is a publicly traded company with an equity-market capitalization of $25.7 billion and a total capitalization of $34.7 billion. Both ONEOK, Inc. and ONEOK Partners L.P. possess investment-grade bond ratings from Moody's (Baa3 rating with a stable outlook) and Standard & Poor's (BBB, stable) credit rating services.
[13] Per Supplemental to KCC DR1, HFRM uses the 6" line to move blendstocks and feedstocks to the Eldorado refinery for the purpose of making gasoline. As for the 4" line, HFRM utilizes it to move propane and butane to Conway either to store it for future use or sell it into the marketplace.
[14] Per Agreement Exhibit B, the products to be shipped are *[redacted]*.
[15] Based on the current price of *[redacted]*.
[16] Agreement, §1.2 (a); *[redacted]*.

usage. Moreover, since the contract began in 2012, HRM has used at least 90.00% of the maximum capacity of one or both pipelines *[redacted]*.

ONEP's Perspective

ONEP owns this pipeline and would require a customer base with a monthly flow of *[redacted]* on average to earn the same amount of revenue in the market. The operation and maintenance costs of this pipeline to ONEP are about *[redacted]*,[17] but they are currently charging [redacted].

Summary

Because the seven factors are still met, the pricing is in line with the closest comparable option for HFRM, and ONEP is guaranteed to meet their variable costs and pay towards their fixed costs, Staff finds the Agreement results in just and reasonable rates and promotes the public convenience and necessity.

RECOMMENDATION:

Because Staff finds the Agreement results in just and reasonable rates and promotes the public convenience and necessity, Staff recommends the Commisison approve the 2018 Amendment to the Agreement, extending the Agreement and the Certificate to March 31, 2021.

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[17] KCC DR 3.

CERTIFICATE OF SERVICE

18-ONEP-502-CON

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation (Public Version) was served via electronic service this 12th day of December, 2018, to the following:

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