

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

Before Commissioners: Shari Feist Albrecht, Chair
 Jay Scott Emler
 Pat Apple

In the Matter of Mid-America Pipeline)
Company, LLC Seeking Commission)
Approval for KCC Tariff No. 18.2.0 and Tariff) Docket No. 15-MDAP-038-TAR
No. 19.3.0 to Replace KCC Tariff No. 18.1.0)
and Tariff No. 19.2.0)

ORDER ON APPLICATION

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having examined the files, the Commission finds and concludes as follows:

1. On August 1, 2014, Mid-America Pipeline Company (MAPL) filed an Application to modify two of its tariffs concerning Product Deliverability Requirements and to increase the penalty charge from 100 cents per barrel to 104 cents per barrel.¹ In its Application, MAPL stated it seeks to modify its tariffs to coincide with identical amendments made in its FERC general rules and regulations tariff No. 74.1.0.²

2. Staff investigated MAPL's Application and provided a Report and Recommendation, dated August 25, 2014, which is attached hereto and hereby incorporated by reference.

3. In its Report and Recommendation, Staff stated that all shippers and subscribers have received proper written notification as required by the Commission, and there have been no protests or objections filed to-date. Staff further reported that FERC indexing rate methodology

¹ Application, p. 1 (August 1, 2014).

² *Id.*

is an acceptable means of adjusting rates and analyzed the proposed increase in light of MAPL's requirement to charge just and reasonable rates while providing efficient and sufficient service.³ Staff concluded that there will be no adverse impact on public convenience as a result of MAPL's requested rate increase, and therefore recommends approval of MAPL's Application.

4. Upon review of Staff's Report and Recommendation, the Commission adopts Staff's Report and Recommendation and finds that MAPL's Application should be approved.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

(A) Mid-America Pipeline Company's Application is hereby granted.

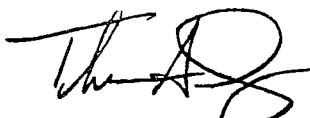
(B) The parties have fifteen (15) days, plus three (3) days if service of this order is by mail, from the date this order was served in which to petition the Commission for reconsideration of any issue or issues decided herein.⁴

(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, Chair; Emler, Com.; Apple, Com.

Dated: AUG 28 2014


ORDER MAILED AUG 29 2014
Thomas A. Day
Acting Executive Director

AS

³ See K.S.A. 66-117, 66-1,217.

⁴ K.S.A. 66-118b; K.S.A. 2013 Supp. 77-529(a)(1).

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Pat Apple

FROM: Kristin Casarona, Natural Gas and Pipeline Operations Analyst
Leo Haynos, Chief of Pipeline Safety
Jeff McClanahan, Director of Utilities

DATE: August 25, 2014

SUBJECT: Docket No. 15-MDAP-038-TAR:
In the Matter of Mid-America Pipeline Company, LLC Seeking
Commission Approval for KCC Tariff No. 18.2.0 and Tariff No. 19.3.0 to
Replace KCC Tariff No. 18.1.0 and Tariff No. 19.2.0.

EXECUTIVE SUMMARY:

In the instant Application, Mid-America Pipeline Company, LLC (MAPL) is filing for approval of tariff K.C.C. No. 18.2.0 to replace K.C.C. No. 18.1.0 and tariff K.C.C. No. 19.3.0 to replace K.C.C. No. 19.2.0. These proposed tariffs make the following changes to Item No. 15, Product Deliverability Requirements, of the general rules and regulations governing the tariffs:

1. The penalty charge to shippers that place below-specification product(s) in its facilities is increased 3.8858%, from 100 cents per barrel (cpb) to 104 cpb, utilizing the Federal Energy Regulatory Commission's (FERC's) indexing methodology; and
2. Tariff language is updated for clarification purposes and to make it consistent with all of MAPL's other state and FERC tariffs.

MAPL does not anticipate any annual revenue increase in Kansas at this time. Historically, MAPL has had no issues with off-specification products being placed in the facilities on its Kansas intrastate system. The primary purpose of the penalty charge increase is to make Item No. 15 in all tariffs throughout its entire system consistent.

Staff is recommending approval of the instant Application be granted.

BACKGROUND:

MAPL operates as an intrastate liquids pipeline common carrier in the State of Kansas and under its current tariffs, transports products as follows:

1. Under K.C.C. No. 18.1.0, transports natural gas liquids (NGLs) to and from various points throughout Kansas, primarily in the Conway, McPherson, Hutchinson, and El Dorado areas; and
2. Under K.C.C. No. 19.2.0, transports:
 - a. NGLs from the Conway, Kansas, area to the Coffeyville Refinery at Coffeyville, Kansas; and
 - b. Refined petroleum products from the Coffeyville Refinery at Coffeyville, Kansas, to El Dorado, Kansas.

On August 1, 2014, MAPL filed an Application with the Commission to approve tariff revisions that replace tariffs K.C.C. No. 18.1.0 and K.C.C. No. 19.2.0 with tariffs K.C.C. No. 18.2.0 and K.C.C. No. 19.3.0, respectively. These proposed tariffs implement changes to Item No. 15, Product Deliverability Requirements, increasing the penalty charge for off-specification product by 4 cpb (or 3.8858%) utilizing the FERC's annual indexing methodology and updating language for clarity and consistency purposes.

All shippers and subscribers have received proper written notification as required by the Commission. Upon Commission approval, the tariff will also be posted for public access to all parties in interest to MAPL's official tariff web site:

<http://www.eprod.com/customers/tariffs.shtm>. There have been no protests or objections filed to date.

ANALYSIS:

MAPL 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. 2013 Supp. 66-105 and K.S.A. 66-1,215 (which defers to the 66-105 definition).¹

Tariffs and associated rates for liquids pipeline common carriers 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. Relevant excerpts are included in Attachment A.

The two most common types of rates in liquids pipeline tariffs are:

¹ Common Carriers are defined in K.S.A. 2013 Supp. 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."

1. Base Rates: These comprise the primary transportation rates charged for each movement of product from some point of origin to some point of destination through a pipeline; and
2. Other transportation-related rates and ancillary charges and fees: These are additional fees necessary to the transportation of certain products and charged in addition to the base rates. Examples used in the industry include, but are not limited to, service charges, penalties for off-specification product, excess storage, demurrage charges, and special handling fees.

In the liquids pipeline industry, the most commonly accepted method for adjusting rates is the FERC's indexing methodology that establishes ceiling levels for base and other transportation-related rates annually. The FERC's indexing methodology is based on the *Producer Price Index for Finished Goods* (PPI-FG) indexing factor and is detailed in Attachment B to this Report and Recommendation. The indexing factor used for the period of July 2014 through June of 2015 is 3.8858%.

In this specific filing, MAPL is proposing to increase the Item No. 15 penalty charge to shippers that place below-specification product(s) in its facilities by the 3.8858% FERC indexing factor. Although MAPL's base rates were increased by the FERC indexing factor to their ceiling levels on July 1, 2014,² MAPL has not increased the penalty charge addressed in this filing since March of 2000. This charge remains well below its allowed ceiling level in the proposed tariffs.

There are two standards typically used to review liquids pipeline common carrier tariff applications³:

1. Just and reasonable rates: rates with terms and conditions that are non-discriminatory – available to all shippers and are comparable with rates for shipping similar products over similar routes and facilities within the industry in Kansas; and
2. Efficient and sufficient service: Service that is non-discriminatory and attempts to meet the needs of the shippers while providing adequate recovery of costs to the suppliers (carriers).

Generally, in the absence of shipper complaints and/or protests, the Commission's regulatory practice has been to pattern its regulation of intrastate oil/liquids pipeline rates and tariffs from the federally authorized rates for interstate service. Staff finds a consistent application of rates and regulatory treatment is prudent and also believes the FERC's indexing rate methodology is an acceptable means of adjusting rates and meets the two standards of review. Staff therefore determines there will be no adverse impact on public convenience as a result of approving this filing and supports the requested rate increase.

² Commission approval received in Docket Nos. 14-MDAP-548-TAR and 14-MDAP-549-TAR.

³ Pursuant to K.S.A. 66-117 and 66-1,217.

MAPL is also proposing to change and update language in Item No. 15, Product Deliverability Requirements, for clarification purposes and to make the language consistent throughout all of its intrastate and FERC interstate tariffs. Staff believes this change is reasonable.

MAPL has filed identical Item No. 15 changes in all of its other intrastate tariffs and at FERC. The corresponding FERC docket is IS14-637-000, in which there have been no protests, complaints or interventions filed to date.

RECOMMENDATION:

In conclusion, Staff recommends the Commission grant MAPL's request for approval of:

1. Tariff K.C.C. No. 18.2.0 to replace K.C.C. No. 18.1.0; and
2. Tariff K.C.C. No. 19.3.0 to replace K.C.C. No. 19.2.0.

Attachments

ATTACHMENT A

KCC Liquids Pipeline Jurisdiction - excerpts:

K.S.A. 66-117(d) states in part:

(d) Except as provided in subsection (c), no change shall be made in any rate, toll, charge, classification or schedule of charges or joint rates, or in any rule or regulation or practice pertaining to the service or rates of any such public utility or common carrier, without the consent of the commission.

K.S.A. 66-1,217 states in part:

Every common carrier, except a motor carrier holding a certificate of public service, governed by this act shall be required to furnish reasonably efficient and sufficient service, joint service and facilities for the use of any and all products or services rendered, furnished, supplied or produced by such common carrier, to establish just and reasonable rates, joint rates, tolls, charges and exactions and to make just and reasonable rules, classifications and regulations.

Further, K.S.A. 66-1,218 further requires every liquids pipeline common carrier doing business in Kansas:

... to publish and file with the Commission copies of all schedules of rates, joint rates, tolls, charges, classifications and divisions of rates affecting Kansas traffic, either state or interstate, and shall furnish copies of all rules, regulations and contracts between common carriers ... pertaining to any and all services to be rendered by such common carriers. The Commission shall have power to prescribe reasonable rules and regulations regarding the printing and filing of all schedules, tariffs, and classifications of all rates, joint rates, tolls, charges and all rules and regulations of such common carriers.

Finally, K.A.R. 82-10-2 provides the Commission with the authority to require, "all relevant facts and data pertaining to its [liquids common carrier pipeline companies'] business and operations which will assist the commission in arriving at a determination of rates which will be fair, just and reasonable both to the applicant and the public."

ATTACHMENT B

In the liquids pipeline industry, the most commonly accepted method for adjusting rates is the Federal Energy Regulatory Commission's (FERC's) indexing methodology. FERC established this methodology in FERC Order No. 561, Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act of 1992, and deemed that all rates being charged by pipeline companies in 1995 be considered **ceiling** levels for each pipeline company's rates. Subsequently, every pipeline company must recalculate its ceiling rate annually using this indexing methodology to compensate for both inflationary and deflationary costs (unless circumstances warrant an alternative rate adjustment to be used). Every pipeline company then has the option to adjust the actual rates it charges, effective July 1st of each year, based on these adjustments **as long as** it does not exceed its calculated ceiling rate. The indexing methodology is delineated in 18 CFR Part 342.3.

Currently, the index is based on the annual change in the Producer Price Index for Finished Goods (PPI-FG). The index is usually calculated each year around the month of May to be used in tariff filings for the following fiscal year. If it is determined at any time that a pipeline company had been charging its ceiling tariff and subsequently failed to lower its tariffs when its ceiling rate was recalculated at a lower rate due to deflationary costs (as was the case in 2003 and 2010 when the annual change in PPI-FG was negative), then that pipeline becomes subject to refunding the amount of overcharge with interest applied. The rules regarding refunds and interest can be found in 18 CFR Part 340.1 (c). The interest rate applied is typically derived from this section of the federal code and the quarterly rates are posted on the FERC web site at <http://www.ferc.gov/legal/acct-matts/interest-rates.asp>. The code also states that "interest shall be computed from the date of collection (of the overcharged amounts) until the date refunds are made ... and interest is to be compounded quarterly."

Every five years the FERC reviews the annual reports for each period of all the liquid pipeline companies. Based on costs, expenses and revenues, FERC determines an indexing factor based on the PPI-FG. Pipeline companies may use this factor to establish new ceiling base rates for each July through June fiscal year. A table of the indices applied each year from 1995 to present can be found at <http://www.ferc.gov/industries/oil/gen-info/pipeline-index.asp>. FERC completed a five-year review in 2010 and established the factor to be used in annual indexing for the five-year period ending in 2015 to be PPI-FG PLUS 2.65%. Their "Order Establishing Index for Oil Price Change Ceiling Levels" was issued on December 16, 2010. **Pipeline companies that take advantage of the interstate tariff adjustments have always filed concurrent adjustments in their state rates, where applicable.** Furthermore, if a pipeline company does not take advantage of an indexing rate adjustment in one particular year, it is then allowed to take advantage of that indexing adjustment in subsequent years, aggregated, to bring its rates up to its current ceiling base rate allowed by FERC. Again, this aggregate index filing is accepted as long as the pipeline company **does not exceed its calculated ceiling base rates.**

IN RE: DOCKET NO. **15-MDAP-038-TAR**

DATE **AUG 28 2014**

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
AMBER SMITH, LITIGATION COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD RD TOPEKA, KS 66604-4027 ***Hand Delivered***		
STEVE MIAO, REGULATORY AFFAIRS MID-AMERICA PIPELINE COMPANY,LLC 1100 LOUISIANA ST, 14TH FLOOR HOUSTON, TX 77002-5227		

ORDER MAILED **AUG 29 2014**

The Docket Room hereby certified that on this _____ day of _____, 20_____, it caused a true and correct copy of the attached ORDER to be deposited in the United States Mail, postage prepaid, and addressed to the above persons.