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

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

In the Matter of Plains Pipeline, L.P.'s Application for Approval, Pursuant to K.A.R. 82-10-2, of Tariff K.C.C. No. 5.12.0	)))	Docket No. 17-PPLP-525-TAR

ORDER APPROVING TARIFF REVISIONS

NOW, the above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed its files and records and being duly advised in the premises, the Commission makes the following findings:

1. On May 25, 2017, Plains Pipeline, L.P. (Plains) filed an Application with the Commission seeking authority to replace Tariff K.C.C. No. 5.11.0 with Tariff K.C.C. No. 5.12.0. Tariff K.C.C. No. 5.12.0 contains rate increases for intrastate gathering and transportation of crude petroleum based upon the Federal Energy Regulatory Commission (FERC) indexing methodology. Plains estimates the new rates will generate approximately $9,306 in additional annual revenue. Tariff K.C.C. No. 5.12.0 also cancels the rates for movements from Satanta Station, Haskell County to Eubanks Station, Haskell County and Salem, Stafford County to Schurr/Jayhawk Pipeline, Rice County. Plains states that for these movements, the pipeline is no longer in service and no further rates or routing will be provided.

2. The Commission has full power, authority, and jurisdiction to control Plains as a common carrier pursuant to K.S.A. 66-1,216. The Commission has jurisdiction over Plains' rates pursuant to K.S.A. 66-1,217, and Plains 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. Commission Staff (Staff) submitted a Report and Recommendation to the Commissioners regarding Plains' proposed tariff on July 11, 2017, attached hereto and made a part hereof by reference. Staff reviewed the proposed tariff to determine whether the rates contained therein were just and reasonable, and whether sufficient and efficient service would continue to be provided without the cancelled routes.

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%). FERC's calculated ceiling will increase by 0.1985% over the July 1, 2016, ceiling, and become effective July 1, 2017. Staff notes that the most commonly accepted method for adjusting rates in the liquids pipeline industry is the annual FERC indexing methodology, and that the Commission has approved the same in previous tariff filings.

6. Staff analyzed Plains' Application and concluded that the proposed intrastate rate increases were appropriately calculated in accordance with the FERC indexing methodology. Staff also reviewed the proposed route cancellations, and noted that because the pipeline is no longer in service, and no shipper complaints and/or protests had been received, the requested cancellation was appropriate. Staff recommended approval of Plains' Application.

7. The Commission finds Staff's findings and recommendation to be reasonable, and hereby adopts the same.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. Plains' proposed Tariff K.C.C. No. 5.12.0 is approved.

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

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

BY THE COMMISSION IT IS SO ORDERED.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: JUL 25 2017

Lynn M. Retz

Lynn M. Retz
Secretary to the Commission

MRN

Order Mailed Date
JUL 26 2017

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REPORT AND RECOMMENDATION
UTILITIES DIVISION

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

FROM: Ryan Cates, Research Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: July 11, 2017

SUBJECT: Docket No. 17-PPLP-525-TAR
In the Matter of Plains Pipeline, L.P.'s Application for Approval, Pursuant to K.A.R. 82-10-2, of Tariff K.C.C. No. 5.12.0.

EXECUTIVE SUMMARY:

Plains Pipeline, L.P. (Plains) is filing for approval of Tariff K.C.C. No. 5.12.0 to replace Tariff K.C.C. No. 5.11.0, which implements an annual rate adjustment utilizing the Federal Energy Regulatory Commission's (FERC's) indexing methodology. The rate adjustment sought would increase overall rates by 0.1985%. In addition, Plains is filing for approval to cancel certain routes contained in Tariff K.C.C. No. 5.11.0.

The estimated aggregate annual revenue value of Plains' proposed rate increase is $9,306. This amount is based on historical annual volumes, anticipated volume changes, and the rate changes described in this filing.

Because Plains has met the two standards used to review liquid pipeline common carriers tariffs in Kansas, Staff is recommending Commission approval of the instant Application.

BACKGROUND:

Plains 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. 2015 Supp. 66-105 and K.S.A. 66-1,215 (which references the 66-105 definition).[1]

[1] Common Carriers are defined in K.S.A. 2015 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."

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.

Plains operates as an intrastate liquids pipeline system in the State of Kansas and, under its current tariffs K.C.C. No. 3.4.0 and K.C.C. No. 5.11.0, transports petroleum products to and from various points in Greeley and Wallace Counties and along two discrete pipeline systems located in western and central Kansas.[2]

Plains was originally certificated by the Commission in Docket No. 05-PPLP-360-COC on March 3, 2005. Approximately 90% of the volume moved on Plains' intrastate system in Kansas is used by Plains to ship its own oil.

On May 25, 2017, Plains filed an Application with the Commission to approve a tariff revision that replaces Tariff K.C.C. No. 5.11.0 with Tariff K.C.C. No. 5.12.0. The proposed tariff implements an overall increase in base rates by 0.1985% contained in K.C.C. No. 5.11.0, utilizing the FERC's annual indexing methodology. Furthermore, Plains is filing for approval to cancel certain routes contained in Tariff K.C.C. No. 5.11.0.

Plains has filed its interstate tariff adjustments under FERC Docket IS17-425-000 and has notified all shippers and subscribers in writing. Additionally, all Plains' proposed tariffs are posted on the tariff website: http://www.paalp.com, for all parties in interest. There have been no objections to the changes nor any complaints made or filed with the Commission to date.

<u>ANALYSIS:</u>

Standard of Review

There are two standards typically used to review liquids pipelines common carrier tariff applications in Kansas:[3]

1. <u>Just and reasonable rates</u>: rates with terms and conditions that are non-discriminatory, and provide adequate recovery of costs to the suppliers (carriers); and

2. <u>Efficient and sufficient service</u>: 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.[4]

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[2] The first of these pipelines is the Eubanks System, which is located in Kearney and Haskell Counties. Oil from this system is delivered into the Jayhawk pipeline system at Eubanks Station. The second is the Schurr/Jayhawk System, which is located in Trego, Ellis, Russell, Ellsworth, Stafford and Rice Counties. Oil from this system is delivered into the Jayhawk pipeline system at Schurr station.

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

[4] Docket No. 02-MAPP-160-COM: *In the Matter of the Complaint of Farmland Industries, Inc., Seeking an Order Directing Mid-America Pipeline Company and Texaco Natural Gas, Inc. to Cease and Desist the Unlawful Abandonment of Service on the Six Inch Pipeline Between Conway, Kansas and El Dorado, Kansas*, Order, January 31, 2005, pp. 33 & 37.

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 believes that the use of the FERC pricing methodology with proper notice to customers for Kansas liquid pipeline ratemaking purposes appropriately balances the interests of consumers with investors and meets the two standards of review.

Indexing

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 rates annually. Further, the Commission has approved the FERC's indexing methodology in previous tariff filings. This methodology gives pipeline companies the option to adjust their tariff rates every 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).

The FERC's indexing methodology uses the *Producer Price Index-Finished Goods* (PPI-FG), plus one point two three percent (PPI-FG + 1.23%) indexing factor. The annual average PPI-FG index factors were 193.9 for 2015 and 191.9 for 2016, thus the percent change (expressed as a decimal) in the annual average PPI-FG from 2015 to 2016, is -0.010315. Adding the 1.23% indexing factor to the annual percentage change gives a 0.001985.[5] Thus, oil pipelines must multiply their July 1, 2016, through June 30, 2017, index ceiling levels by positive 1.001985 to compute their index ceiling levels for July 1, 2017, through June 30, 2018.[6]

In this specific filing, Plains is proposing to increase its overall general commodity rates, located in K.C.C. No. 5.11.0, by 0.1985% to reflect the annual change in the PPI-FG utilizing the FERC indexing methodology described above. Plains filed its interstate rate adjustments in FERC Docket IS17-425-000 on May 25, 2017. Staff has analyzed the Application and verified the correct application of the current indexing factor to each rate. Based on those calculations, Plains' proposed tariffs bring its general commodity rates up to their allowed FERC ceiling. In addition, customers have been properly notified and no shipper complaints or protests were filed regarding the increase in base rates.

Since Plains' proposed rate increase is in line with FERC indexing methodology, customers have been properly notified and no shipper complaints or protests were filed; Staff considers the rate increase to meet the two standards of review and recommends approval.

Route Cancellation

Additionally, Plains requested the cancellation of the rates for movements from Satanta Station (Haskell County) to Eubanks Station (Haskell County) and from Salem (Stafford County) to Schurr/Jayhawk Pipeline (Rice County). Plains indicated that these pipeline segments have been

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[5] [191.9-193.9]/193.9 = -0.010315+0.0123 = 0.001985

[6] 1+0.001985 = 1.001985

purged and taken out of service for integrity reasons and no further rates or routing will be provided at this time.[7]

The cancellation of the movements described above is appropriate because the pipeline is no longer in service and, at this time, there are no plans to be put back into service. Therefore, the corresponding routes and rates contained in Plains' current Tariff K.C.C. 5.11.0 are no longer necessary.

Furthermore, because customers have been properly notified and no shipper complaints or protests have been filed regarding the cancellation of certain movements, Staff considers Plains to be providing efficient and sufficient service for the liquids pipeline industry. Because there is no rate impact, the just and reasonable rates standard does not apply. Therefore, Staff supports the cancellation of the routes within K.C.C. 5.11.0 and recommends approval.

RECOMMENDATION:

Because both standards of review have been met, Staff recommends the Commission grant Plains' request to replace Tariff K.C.C. No. 5.11.0 with Tariff, K.C.C. No. 5.12.0, increasing its overall general commodity rates by 0.1985%, utilizing the FERC's indexing methodology, and cancelling the routes from Satanta Station (Haskell County) to Eubanks Station (Haskell County) and from Salem (Stafford County) to Schurr/Jayhawk Pipeline (Rice County).

[7] Staff Data Request 1

CERTIFICATE OF SERVICE

17-PPLP-525-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 JUL 25 2017.

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/S/ DeeAnn Shupe
DeeAnn Shupe

Order Mailed Date
JUL 26 2017