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

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

In the Matter of ONEOK North System, L.L.C. ("ONEOK") Filing K.C.C. No. 4.7, Implementing an Overall Rate Decrease in Accordance with the Federal Energy Regulatory Commission ("FERC") Indexing Methodology.	))))))	Docket No. 16-ONSP-547-TAR

ORDER APPROVING TARIFF REVISIONS

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the pleadings and record and being duly advised in the premises, the Commission makes the following findings and conclusions:

I. BACKGROUND

1. On May 31, 2016, ONEOK North System, L.L.C. (ONS) filed an Application with the Commission seeking to implement tariff revisions that would decrease its rates consistent with the Federal Energy Regulatory Commission's (FERC) annual indexing methodology.[1]

2. On June 7, 2016, this Commission issued a Suspension Order giving Commission Staff (Staff) additional time to conduct a review of ONS's Application.[2]

3. On July 11, 2016, Staff prepared a Report and Recommendation for the above-captioned matter, wherein Staff recommended Commission approval of the instant Application.[3] Staff's R&R is attached hereto and incorporated herein by reference.

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[1] *See* Application for ONEOK North System, L.L.C. (May 31, 2016).
[2] Suspension Order (June 7, 2016).
[3] *See* Report and Recommendation, p. 1 (July 11, 2016) (Staff's R&R).

II. ANALYSIS

4. ONS's Application seeks to replace Tariff K.C.C. No. 4.6 with Tariff K.C.C. No. 4.7, specifically Item Numbers 93 through 99.[4] ONS's proposed revisions seek to implement an annual rate adjustment utilizing the FERC's indexing methodology.[5] ONS also proposes to cancel certain Local Rates contained in Item 97 of Tariff K.C.C. No. 4.7.[6]

5. ONS is proposing to decrease its overall general commodity rates by 2.0135% to reflect the annual change in the Producer Price Index for Finished Goods as utilized in FERC's indexing methodology.[7] As Staff notes, in the liquids pipeline industry (in which ONS is engaged), the most commonly accepted method for adjusting rates is the FERC indexing methodology that establishes ceiling levels for base rates annually.[8] The Commission has approved indexing methodology rate changes for companies engaged in the liquid pipeline business in previous dockets.[9]

6. Staff has analyzed the instant Application and confirms that ONS's Application contains the correct application of FERC's indexing methodology as applied to ONS's proposed intrastate tariff revisions.[10] Based on those calculations, ONS's proposed tariff revisions bring its general commodity rates down to their allowed FERC ceiling levels.[11] Staff considers the requested rate decrease to be both reasonable and consistent with rate methodology applied and accepted throughout the liquids pipeline industry.[12] Staff believes that approval of ONS's Application will result in just and reasonable rates while maintaining sufficient and efficient service.[13] Therefore,

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[4] *See* Application, p. 1. *See also* Staff's R&R, p. 2.
[5] *See* Staff's R&R, p. 1.
[6] *See* Staff's R&R, p. 2.
[7] *See* Staff's R&R, p. 3.
[8] *See* Staff's R&R, p. 2.
[9] *See* Staff's R&R, p. 3.
[10] *See* Staff's R&R, p. 3.
[11] *See* Staff's R&R, p. 3.
[12] *See* Staff's R&R, p. 3.
[13] *See* Staff's R&R, p. 3-4.

Staff recommends the Commission grant ONS's request for tariff revisions in the instant docket. Staff also recommends the Commission approve the cancellation of Local Transportation Rates for Ethane/Propane Mix from Bushton and Hutchinson, Kansas, to Bushton, Kansas, in Item 97 of the aforementioned tariff.

III. FINDINGS AND CONCLUSIONS

7. Pursuant to K.S.A. 66-117, a public utility over which the Commission has jurisdiction cannot make effective any changed rate, joint rate, toll, charge or classification or schedule of charges, or any rule or regulation or practice pertaining to the service of a public utility except by filing with the Commission.[14] The Commission may suspend the effective date of the application or order while it conducts its investigation of the utility's proposal.[15]

8. The Commission finds that utilization of the FERC indexing methodology in this instance is an appropriate means to calculate ONS's base rates. The Commission finds that its practice of patterning regulation of intrastate oil/liquid pipeline rates and tariffs on federally authorized rates for interstate service is proper. However, the Commission reserves the right to subject such filings to further investigations as necessary and proper upon the receipt of complaints and/or protests from third parties, or upon the recommendation from Staff.

9. The Commission finds that approval of ONS's Application will result in sufficient and efficient service at just and reasonable rates.

10. The Commission finds Staff's report and recommendations are reasonable and hereby adopts the same.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. ONEOK North System, L.L.C.'s Application to implement tariff revisions based upon the Federal Energy Regulatory Commission's annual indexing methodology is hereby granted.

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[14] *See* K.S.A. 66-117(a).
[15] *See* K.S.A. 66-117(c).

The Local Transportation Rates for Ethane/Propane Mix from Bushton and Hutchinson, Kansas, to Bushton, Kansas, in Item 97 of Tariff K.C.C. No. 4.7 are hereby canceled.

B. The parties have 15 days, plus three days if mailed service, to petition the Commission for reconsideration.[16]

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

BY THE COMMISSION IT IS SO ORDERED.

Emler, Chairman; Albrecht, Commissioner; Apple, Commissioner

Dated: AUG 02 2016

Amy L. Green
Secretary to the Commission

MJD

Order Mailed Date
AUG 03 2016

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

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REPORT AND RECOMMENDATION
UTILITIES DIVISION

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

FROM: John Turner, 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, 2016

SUBJECT: Docket No.16-ONSP-547- TAR: *In the Matter of ONEOK North System, L.L.C. ("ONEOK") Filing K.C.C. No. 4.7, Implementing an Overall Rate Decrease in Accordance with the Federal Energy Regulatory Commission ("FERC") Indexing Methodology*

EXECUTIVE SUMMARY:

ONEOK North System, L.L.C. (ONS) is filing for approval and implementation of Tariff K.C.C. No. 4.7 to replace Tariff K.C.C. 4.6, which implements an annual rate adjustment utilizing the Federal Energy Regulatory Commission's (FERC's) indexing methodology. The rate adjustment sought would decrease overall rates by 2.0135%. In addition to the rate decrease, ONS is filing for approval to cancel certain Local Transportation Rates contained in Item 97 of Tariff K.C.C. No. 4.7.

The estimated aggregate annual revenue value of ONS's proposed rate decrease is $136,122.65. This amount is calculated using an average of Kansas intrastate volumes moved annually on the ONS system along with the proposed rated changes described in this filing.

Because ONS has met the two standards used to review liquid pipeline common carriers in Kansas and has properly notified all shippers and subscribers as required by the Commission, Staff is recommending Commission approval of the instant Application.

BACKGROUND:

ONS 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 defers to the 66-105) decision.[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

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.[2]

ONS operates as an intrastate liquids pipeline common carrier in the State of Kansas and, under its current tariff, K.C.C. No. 4.6, transports petroleum products to and from four origin and destination points in Kansas: Wichita; Bushton; Conway; and Hutchinson.[3]

On May 31, 2016, ONS filed an Application with the Commission to approve a tariff revision that replaces Tariff K.C.C. No. 4.6 with Tariff K.C.C. No. 4.7, specifically Item Nos. 93 through 99. The proposed tariff implements an overall decrease in base rates by 2.0135% utilizing the FERC's annual indexing methodology. ONS is also proposing to cancel Local Rates contained in Item 97 of the aforementioned tariff.

ONS has properly notified all shippers and subscribers in writing as required by the Commission. Additionally, all ONS tariffs are posted on the tariff website: http://www.onsenergy.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.

ANALYSIS:

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. This methodology gives pipeline companies the option to adjust their interstate 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 rate 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 200.4 for 2014 and 193.9 for 2015, thus the percent change (expressed as a decimal) in the annual average PPI-FG from 2014 to 2015, is -0.032435. Adding the 1.23% indexing factor to annual percentage change gives a negative 0.020135.[4] Thus, oil pipelines must multiply their July 1, 2015, through June 30, 2016, index ceiling levels by positive 0.979865 to compute their index ceiling levels for July 1, 2016, through June 30, 2017.[5] Pipeline companies that take advantage of the interstate tariff adjustments most often file concurrent adjustments in their intrastate rates.[6]

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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."

2 ONS was certificated by the Commission in Docket No. 08-OPIP-140-ACQ on October 5, 2007, after ONEOK acquired assets of what is referred to as "The North System: from Kinder Morgan Operating, L.P. ONS is a subsidiary of ONEOK Partners Intermediate Limited Partnership.

3 ONS transports petroleum based products such as Refinery Grade Butane, Normal Butane, Isobutane, Proprane, Ethane/Propane Mix, Natural Gasoline, and Demethanized Mix along these pipelines.

4 [193.9-200.4]/200.4 = -0.032435+0.0123 = -0.020135

5 1-0.020135 = 0.979865

6 *Notice of the Annual Change in the Producer Price Index for Finished Goods*, FERC Docket No. RM93-11-000, May 19, 2016.

In this specific filing, ONS is proposing to decrease its overall general commodity (base) rates by 2.0135% to reflect the annual change in the PPI-FG by utilizing the FERC indexing methodology described above. Staff has analyzed the instant Application and verified the correct application of the current indexing factor to each rate. Based on those calculations, ONS's proposed tariffs bring its general commodity rates down to their allowed FERC ceiling. Staff considers the requested rate decreases to be both reasonable and consistent with the rate methodology applied and accepted throughout the liquids pipeline industry.

In addition to the rate decreases, the transportation movement from Bushton and Hutchinson, Kansas, to Bushton, Kansas, is cancelled in Item 97, Local Rates-Ethane/Propane Mix. ONS has properly notified all shippers and subscribers in writing of the cancellation, as required by the Commission. Staff has reviewed this cancellation and agrees that it is reasonable and acceptable.

There are two standards typically used to review liquids pipelines common carrier tariff applications in Kansas[7]:

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, while providing adequate recovery of costs to the suppliers (carriers); and
2. Efficient and sufficient service: as defined in Docket No. 02-MAPL-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.[8]

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. Further, the Commission has approved the indexing methodology in previous tariff filings.[9] Staff considers ONS's proposed rate decreases to be comparable within the liquids pipeline industry in Kansas and available to all shippers. Furthermore, because of no shipper complaints and/or protests, Staff considers ONS to be providing efficient and sufficient service. Therefore, based on the two standards of review, Staff determines there will be no adverse impact on public convenience as a result of approving this filing and supports the requested rate decreases.

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

[8] 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.

[9] Examples include KCC Docket Numbers: 15-JYHP-563-TAR, 15-KAWP-564-TAR, 15-MGPP-581-TAR, 15-PPLP-205-TAR, and 15-KNBP-560-TAR.

RECOMMENDATION:

Staff recommends the Commission grant ONS's request for approval of its tariff, K.C.C. 4.7, decreasing its overall general commodity rates by 2.0315%, utilizing the FERC's indexing methodology, and cancelling Local Transportation Rates of Ethane/Propane Mix from Bushton and Hutchinson, Kansas, to Bushton, Kansas, in Item 97.

<u>**CERTIFICATE OF SERVICE**</u>

16-ONSP-547-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 AUG 0 2 2016.

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Order Mailed Date

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