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

In the Matter of the Magellan Pipeline Company, L.P., Filing Tariff Revisions to its Local and Volume Incentive Pipeline Tariff.	)))	Docket No. 15-MGPP-380-TAR

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

The Staff of the Corporation Commission of the State of Kansas ("Staff" and "Commission", respectively), files its Report and Recommendation, and states the following: Staff hereby files the attached Report and Recommendation recommending the Commission approve the Application, allowing Magellan to replace Tariff K.C.C. No. 31 with Tariff K.C.C. No. 32.

Wherefore, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and proper.

Respectfully submitted,

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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: April 24, 2015

SUBJECT: Docket No. 15-MGPP-380-TAR:
In the Matter of Magellan Pipeline Company, L.P., Filing Tariff Revisions to its Local and Volume Incentive Pipeline Tariff.

EXECUTIVE SUMMARY:

In the instant Application, Magellan Pipeline Company, L.P. (Magellan) is filing for approval of tariff K.C.C. No. 32 to replace tariff K.C.C. No. 31, which proposes the following changes:

1. Cancels the Item 148 Diesel Handling Surcharge due to allowed capital expenditures and incremental operating costs being recovered within one percent during the first eight years and nine months out of an estimated ten-year recovery period;
2. Decreases the base rate in Item 200 for movements of petroleum products from Coffeyville or El Dorado, Kansas, to Wathena, Kansas, (the St. Joseph delivery point) by 20 cents per barrel (cpb) as part of a sales agreement where the facilities at that destination were sold by Magellan to a third-party; and
3. Makes wording changes to add a notation indicating the St. Joseph delivery point is now an offline facility.

Because an existing surcharge is being cancelled and one base rate is being decreased, no increase in revenue is expected in Kansas at this time.

Staff is recommending approval of the instant Application be granted.

BACKGROUND:

Magellan currently operates as an intrastate liquids pipeline common carrier in the State of Kansas under its current tariff, K.C.C. No. 31. Magellan transports petroleum products from various points in central and southern Kansas to the Kansas City area; from Coffeyville, Kansas, to Great Bend and Scott City, Kansas; and also along two westbound routes from Coffeyville and El Dorado to Wichita, Kansas. Magellan was certificated for the assets related to these movements when it purchased them from Williams Pipe Line Company, LLC on October 14, 2003, in Docket No. 04-MGPP-376-CCN.

Magellan also transports petroleum products from El Dorado to points in Sedgwick County, Great Bend, and Scott City, Kansas. Magellan was certificated for the assets related to these latter movements on February 21, 2005, in Docket No. 05-MGPP-267-ACQ, when it purchased them from Chase Transportation Company and Shell Pipeline Company.

Although Magellan is the largest liquids pipeline common carrier of intrastate shipments in Kansas, its Kansas intrastate shipments account for only about 10% of all the shipments on its interstate *Central System*.[1] Because the majority of this system is interstate in nature and very complex, the tariffs (FERC and respective state tariffs) tend to be complex as well. However, the only rates or charges being referenced and/or changed in the instant Application are defined as follows:

1. Base rates: These rates comprise the primary transportation rate charged for each movement of product from some point of origin to some point of destination through a pipeline. In this filing, Magellan is requesting that only one of these rates be decreased while the rest of them remain unchanged. All of Magellan's base transportation rates and related movements in Kansas are listed in Item No. 200 of its current tariff, K.C.C. No. 31.

2. Surcharges: In the liquids pipeline industry, surcharges are initially established on an interstate system at FERC utilizing FERC's cost-of-service methodology found in 18 CFR §346.1 and §346.2. These surcharges typically result from capital investments, modifications and other expenses incurred outside the scope of what carriers can recover utilizing the annual FERC indexing methodology and have a definable recovery period. Pipeline companies that establish surcharges in this manner typically file the same cost-of-service statements in their concurrent state filings so that both interstate and intrastate shippers moving a designated product along similar routes in the same set of assets (usually an interstate system) will be charged the same per-barrel amount.[2]

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[1] Magellan's *Central System* is the interstate system of assets that all Magellan's Kansas intrastate shipments move within.

[2] Although Staff agrees that it is more cost effective and efficient to allow all shippers on the same set of assets to incur the same surcharge amount rather than to require pipeline companies file a separate rate case in Kansas, it should be noted that this is not to be construed as agreement with the cost-of-service methodology used by FERC or the methodology used for establishing the surcharges. Rather, Staff uses the statements to demonstrate justification for the costs and expenditures requested to be recovered.

- Magellan has only one surcharge applicable to Kansas intrastate movements, a Diesel Handling Surcharge (DHS). This DHS became effective in 2006 following the implementation of new regulations set forth by the Environmental Protection Agency (EPA). The regulations require liquid pipelines transporting diesel products to lower their allowed amount of sulfur content to an Ultra Low Sulfur Diesel (ULSD) standard. The DHS was approved to recover costs of facility modifications and operating expenses incurred as a result of carriers complying with the ULSD regulations. The DHS had an estimated 10-year recovery period, which began on July 1, 2006, and was designated to end on June 30, 2016. Magellan's capital investments were made beginning in 2006 and phased in through June of 2010; with a total capital investment amount of $18.69 million.

- Magellan initially applied for the DHS to its interstate system in FERC Docket No. IS06-254-000 in 2006. Magellan received Commission approval for the initial DHS amount of $0.031 per barrel on the Kansas intrastate movements on the corresponding *Central System* on July 18, 2006, in Docket No. 06-MGPP-1257-TAR.[3] Approval was subject to the condition that if an over-recovery of more than one percent exists at the end of the recovery period, then Magellan should refund that amount to shippers.

- Magellan filed for DHS increases in subsequent years, which were approved by the Commission.[4] The DHS is currently $0.0600 per barrel in Magellan's current tariff, K.C.C. No. 31.

On February 27, 2015, Magellan filed the instant Application with the Commission requesting approval of a tariff revision that replaces tariff K.C.C. No. 31 with tariff K.C.C. No. 32, cancelling an existing surcharge and proposing to decrease one of its base rates.

All intrastate shippers and subscribers have received proper written notification as required by the KCC for the both the original filing and corrected tariff. Additionally, Magellan posts all revised tariffs on its official company website: http://www.magellanlp.com/tariffs.aspx, providing public access to all possible parties in interest. There have been no complaints or interventions to date.

ANALYSIS:

Magellan 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 66-1,215 (which defers to the 66-105 definition).[5]

[3] The initial Application for the DHS was filed in Docket No. 06-MGPP-1153-TAR.
[4] Other DHS increases were filed in Docket Nos. 08-MGPP-1056-TAR, 10-MGPP-767-TAR, and 11-MGPP-836-TAR. The last increase to $0.0600 per barrel was approved by the Commission on June 29, 2012, in Docket No. 12-MGPP-858-TAR.
[5] 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

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 primary tariff change requested in the instant Application proposes the following:

1. To cancel the existing Item 148 Diesel Handling Surcharge (DHS) due to all capital expenditures and incremental operating costs being recovered within three percent (under recovery) towards the end of its recovery period; and

2. To decrease one base rate in Item 200 by 20 cents per barrel (cpb) for movements of petroleum products from Coffeyville or El Dorado, Kansas, to Wathena, Kansas, at its St. Joseph delivery point as part of a sale agreement where the facilities at that destination point were sold to a third-party.

Staff typically uses two standards to review liquids pipeline common carrier tariff Applications[6]:

1. Just and reasonable rates: Rates with terms and conditions that are non-discriminatory – available to all shippers – 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).

It is Staff's opinion that cancelation of the Item 148 DHS meets these two standards of review. Although the designated recovery period was originally 10 years ending on June 30, 2016, Magellan received an unexpected increase in diesel volumes moved in the past two years that caused an accelerated recovery of investment costs and expenditures for handling low sulfur diesel. At the time of this filing, future volume projections based on current nominations indicated that Magellan would over recover and have to issue a refund if it kept collecting the surcharge. Making the business decision to record a small under recovery, Magellan ceased charging the DHS as of April 1, 2015. Based on numbers provided to Staff by Magellan in an informal data request, Staff compiled a spread sheet showing total investment costs, expenditures made and revenues applied to the DHS investment on its *Central System*, showing an approximate under recovery of one percent (Attachment B). Staff agrees that cancelling the surcharge at this time is fair and nondiscriminatory to all shippers and that the proposed tariff properly reflects this cancellation. Magellan also made a concurrent filing with FERC in FERC Docket No. IS15-196-000 of which there have been no protests or interventions to date.

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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."

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

It is also Staff's opinion that the proposed Item 200 rate decrease for movements of petroleum products from Coffeyville or El Dorado, Kansas, to Wathena, Kansas, at its St. Joseph delivery point from 214.16 cpb to 194.16 cpb also meets the two standards of review. Magellan sold its assets at this destination point to a third party. As part of that sales agreement with the third-party, Magellan agreed to decrease the current rate. The difference between the old rate and the new rate represents a 20 cpb **benefit** to Kansas shippers moving petroleum products along those Kansas routes.

Finally, Magellan adds notation indicating the St. Joseph delivery point is now an offline facility. An offline facility simply means that the facilities at the destination point right off of Magellan's pipeline are now owned by a third party. Staff has no problem with the requested notation.

RECOMMENDATION:

Staff is recommending approval of the instant Application, allowing Magellan to replace Tariff K.C.C. No. 31 with Tariff K.C.C. No. 32, be granted.

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 - Magellan 15-MGPP-380-TAR

Magellan Pipeline Company, LP - ULSD Diesel Handling Surcharge - Central System (interstate)

Total Capital Investments	18,688,933
Total incremental operating Expenses	3,029,840
	21,718,773
Total return on invesment	9,484,633
Allowance for Income taxes	4,508,272
	13,992,905
Total amount to be recovered	35,711,678
Total Revenues received through DHS	35,306,536
PERCENT UNDERRECOVERED:	-1%

YR	Operating Revenues (provided by Magellan)	Depreciation	Accumulated Depreciation	Return (10% X investment less Accum. Depreciation)	Income tax Expense (provided by Magellan)
2006*	1,763,629	934,447	934,447	1,775,449	79,340
2007	2,812,873	1,868,893	2,803,340	1,588,559	174,874
2008	2,978,493	1,868,893	4,672,233	1,401,670	185,719
2009	2,764,421	1,868,893	6,541,127	1,214,781	199,684
2010	3,388,360	1,868,893	8,410,020	1,027,891	309,216
2011	3,980,670	1,868,893	10,278,913	841,002	536,746
2012	4,746,280	1,868,893	12,147,806	654,113	844,319
2013	5,652,305	1,868,893	14,016,700	467,223	1,148,147
2014	5,862,356	1,868,893	15,885,593	280,334	1,220,697
2015**	1,357,149	467,223	16,352,816	233,612	-190,470
	35,306,536			9,484,633	4,508,272

*Beg. Jul 2006

**Jan thru Mar 2015

Total recovery period = 8 years and 9 months

CERTIFICATE OF SERVICE

15-MGPP-380-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served by electronic service on this 10th day of June, 2015, to the following:

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