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

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

In the Matter of NuStar Pipeline Operating Partnership, L.P. Filing Tariff Revisions for Commission Approval of Tariff K.C.C. No. 18 and Canceling K.C.C. No. 17.	))))	Docket No. 17-KNBP-503-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 17, 2017, NuStar Pipeline Operating Partnership L.P. (NuStar) filed an Application with the Commission seeking authority to replace Tariff K.C.C. No. 17 with Tariff K.C.C. No. 18. Tariff K.C.C. No. 18 contains rate increases for the intrastate transportation of petroleum products based upon the Federal Energy Regulatory Commission (FERC) indexing methodology, and contains minor wording adjustments. NuStar estimates the new rates will generate approximately $17,211 in additional annual revenue.

2. The Commission has full power, authority, and jurisdiction to control NuStar as a common carrier pursuant to K.S.A. 66-1,216. The Commission has jurisdiction over NuStar's rates pursuant to K.S.A. 66-1,217, and NuStar 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 NuStar's proposed tariff on August 16, 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 be provided.

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 NuStar's Application and concluded that the proposed intrastate rate increases were appropriately calculated in accordance with the FERC indexing methodology. Staff found that the minor changes pertaining to fax numbers, commas, and employee titles were just and reasonable. Staff also noted that no objections to NuStar's proposed tariff have been received by the Commission. Staff recommended approval of NuStar's 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. NuStar's proposed Tariff K.C.C. No. 18 is approved and shall replace Tariff K.C.C. No. 17.

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: AUG 24 2017

Lynn M. Retz
Lynn M. Retz
Secretary to the Commission

MRN

Order Mailed Date

AUG 25 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: August 16, 2017

SUBJECT: Docket No. 17-KNBP-503-TAR: In the Matter of NuStar Pipeline Operating Partnership, L.P. Filing Tariff Revisions for Commission Approval of Tariff K.C.C. No. 18 and Canceling K.C.C. No. 17.

EXECUTIVE SUMMARY:

NuStar Pipeline Operating Partnership, L.P. (NuStar) is filing for approval to implement its annual rate adjustment utilizing the Federal Energy Regulatory Commission's (FERC) indexing methodology. The rate adjustment sought would increase overall rates by 0.1985%.

The estimated aggregate annual revenue value of NuStar's proposed rate increase is $17,211. This amount is based on historical annual volumes, anticipated volume changes, and the rate changes described in the Application.

Because NuStar has met the two standards used to review liquid pipeline common carriers tariffs in Kansas, Staff recommends the Commission approve the Application.

BACKGROUND:

NuStar 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] NuStar was originally certificated as Kaneb Pipe Line Company (Kaneb) by the Commission over 50 years ago in Docket No. 46,367-R. NuStar purchased the Kaneb system and the Certificate of Convenience and Necessity was subsequently revised to incorporate the name change on May 9, 2008, in Docket, No. 08-KNBP-892-CCN.

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[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 operating within the state 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.

NuStar operates as an intrastate liquids pipeline system in the State of Kansas and, under its current tariff K.C.C. No. 17, transports petroleum products between various points in central and southern Kansas.

On May 17, 2017, NuStar filed an Application with the Commission requesting approval of a tariff revision that replaces K.C.C. No. 17 with K.C.C. No. 18 in order to implement an overall rate increase of 0.1985% utilizing FERC's annual indexing methodology.

In addition to the rate increases, K.C.C. No. 18 contains minor language changes such as changing the fax number on the title page, removing a comma from the name of the carrier, and updating the compiler's title.

NuStar has filed its interstate tariff adjustments under FERC Docket IS17-256-000 and has notified all shippers and subscribers in writing. Additionally, all NuStar's proposed tariffs are posted on the website: http://www.nustarenergy.com/en-us/OurBusiness/Pipelines/Pages/Tariffs.aspx, 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:[2]

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.[3]

Generally, in the absence of shipper complaints and/or protests, the Commission's practice has been to pattern its regulation of intrastate oil/liquid pipeline rates and tariffs after the federal regulation of interstate service. Staff believes that the use of FERC's pricing methodology, with proper notice to customers, appropriately balances the consumers' interests with investors'

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

[3] 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.

interests and meets the two standards of review used for Kansas liquid pipeline ratemaking purposes.

Indexing Methodology

In the liquids pipeline industry, the most commonly accepted method for adjusting rates is FERC's indexing methodology, which establishes a new ceiling level for base rates annually. Further, the Commission has approved the use of FERC's indexing methodology in previous tariff filings. This methodology gives pipeline companies the option to adjust their tariff rates for inflation each 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).

FERC's indexing methodology uses the *Producer Price Index-Finished Goods* (PPI-FG), plus 1.23% (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 in the annual average PPI-FG from 2015 to 2016, is -1.0315%. Adding the 1.23% indexing factor to the annual percentage change gives an increase of 0.1985%, in turn increasing aggregate annual revenue by an estimated $17,211.[4] Thus, oil pipelines multiply their July 1, 2016, through June 30, 2017, ceiling levels by 1.001985 to compute their ceiling levels for July 1, 2017, through June 30, 2018.[5]

In this specific filing, NuStar is proposing to increase its overall general commodity rates by 0.1985% to reflect the annual change in the PPI-FG utilizing FERC's indexing methodology described above. NuStar filed its interstate rate adjustments in FERC Dockets IS17-256-000 and IS17-259-000 on May 18 and 19, 2017. Staff has analyzed the instant Application and verified the correct application of the current indexing factor to each rate. Based on those calculations, NuStar's proposed tariff brings its general commodity rates up to their allowed FERC ceiling.

Since NuStar's proposed rate increase utilizes FERC's indexing methodology, customers have been properly notified, and no shipper complaints or protests were filed, Staff considers the rate increase to meet Kansas's two standards of review for liquids pipelines common carrier tariff applications and recommends approval of this request.

Other Tariff Changes

Also, Staff recommends Commission approval of the following minor language changes: the updated fax number on the title page; removing a comma from the name of the carrier; and updating the compiler's title to reflect his current title. Since the updates are informative, accurately reflect current information, and do not affect the terms of service, Staff concludes the changes are just and reasonable.

[4] [191.9-193.9]/193.9 = -0.010315+0.0123 = 0.001985

[5] 1+0.001985 = 1.001985

RECOMMENDATION:

Because both of Kansas's standards of review for liquids pipelines common carrier tariff applications have been met, Staff recommends the Commission grant NuStar's request to replace K.C.C. No. 17 with K.C.C. No.18, increasing its overall general commodity rates by 0.1985%, utilizing FERC's indexing methodology. Staff also recommends Commission approval of the proposed minor language changes to the Tariff.

CERTIFICATE OF SERVICE

17-KNBP-503-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 2 4 2017.

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/S/ DeeAnn Shupe
DeeAnn Shupe

Order Mailed Date

AUG 2 5 2017