THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

Before Commissioners: Shari Feist Albrecht, Chair
Jay Scott Emler
Dwight D. Keen

In the Matter of NuStar Pipeline Operating Partnership L.P. Pleading Relating to Liquid Pipeline Tariff K.C.C. No. 19.	)))	Docket No. 18-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 record and being duly advised in the premises, the Commission makes the following findings:

1. On May 16, 2018, NuStar Pipeline Operating Partnership L.P. (NuStar) filed an Application with the Commission seeking authority to replace Tariff K.C.C. No. 18 with Tariff K.C.C. No. 19. Tariff K.C.C. No. 19 contains rate increases for the intrastate transportation of petroleum products based upon the Federal Energy Regulatory Commission (FERC) indexing methodology, and contains language changes in Item Nos. 100 and 110 which remove references to cancelled items (Item No. 67 Diesel Handling and Item No. 95 Security Surcharge). NuStar estimates the new rates will generate approximately $265,518 in additional annual revenue based on historical annual volumes, anticipated volume changes, and the rate changes described in NuStar's Application.

2. NuStar is a liquids pipeline common carrier engaged in the transportation of liquid hydrocarbons within the meaning of K.S.A.2017 Supp. 66-105 and K.S.A. 66-1,215. 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. On June 11, 2018, the Commission Staff (Staff) submitted its Report and Recommendation dated June 6, 2018, which is attached hereto and made a part hereof by reference. Staff reviewed NuStar's 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 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%) indexing factor. FERC's calculated ceiling will increase by 4.4087%. Thus, oil pipelines multiply their July 1, 2017, through June 30, 2018 ceiling levels by 1.044087 to compute their ceiling levels for July 1, 2018, through June 30, 2019. In the instant filing NuStar proposes to increase its overall general commodity rates by 4.4087%, in turn increasing aggregate annual revenue by an estimated $265,518, to reflect the annual change in the PPI-FG utilizing FERC's indexing methodology.[1] 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.[2]

[1] Report and Recommendation, page 2.
[2] Id., pages 1 and 2.

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 also found that the language changes in Item Nos. 100 and 110, removing references to cancelled Item Nos. 67 Diesel Handling and 95 Security Surcharge were just and reasonable. No objections to NuStar's proposed tariff have been received by the Commission. Staff recommends approval of NuStar's Application.

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

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. NuStar Pipeline Operating Partnership L.P.'s proposed Tariff K.C.C. No. 19 is approved and shall replace Tariff K.C.C. No. 18 and become effective July 1, 2018.

B. Any party may file and serve a petition for reconsideration pursuant to the requirements and time limits established by K.S.A. 77-529(a)(1).[3]

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.

Albrecht, Chair; Emler, Commissioner; Keen, Commissioner

Dated: 06/14/2018

Lynn M. Retz

Lynn M. Retz
Secretary to the Commission

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[3] K.S.A. 66-118b; K.S.A. 77-503(c); K.S.A. 77-531(b).

STATE OF KANSAS

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REPORT AND RECOMMENDATION
UTILITIES DIVISION

TO: Shari Feist Albrecht, Chair
Jay Scott Emler, Commissioner
Dwight D. Keen, Commissioner

FROM: Josh Frantz, Senior Research Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: June 6, 2018

SUBJECT: Docket No. 18-KNBP-503-TAR: In The Matter of NuStar Pipeline Operating Partnership L.P. Pleading Relating to Liquid Pipeline Tariff K.C.C. No. 19

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 4.4087%. In addition to the rate increases, the proposed tariff contains language changes in Item Nos. 100 and 110, which remove references to cancelled Items.

The estimated aggregate annual revenue value of NuStar's proposed rate increase is $265,518. 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). 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.

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. 18, transports petroleum products between various points in central and southern Kansas.

On May 16, 2018, NuStar filed an Application with the Commission requesting approval of a tariff revision that replaces K.C.C. No. 18 with K.C.C. No. 19 in order to implement an overall rate increase of 4.4087% utilizing FERC's annual indexing methodology.

In addition to the rate increases, K.C.C. No. 19 contains language changes in Item Nos. 100 and 110, removing references to cancelled Items (Item No. 67 Diesel Handling and Item No. 95 Security Surcharge).

NuStar has filed its interstate tariff adjustments under FERC Docket IS18-308-000 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.

ANALYSIS:

Standard of Review

There are two standards typically used to review liquids pipelines common carrier tariff applications in Kansas:[1]

1. Just and reasonable rates: rates with terms and conditions that are non-discriminatory and provide adequate recovery of costs to the suppliers (carriers); and
2. Efficient and sufficient service: 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.[2]

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' 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

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

[2] Order, pp. 33 & 37, Docket No. 02-MAPP-160-COM (Jan. 31, 2005).

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 191.9 for 2016 and 198.0 for 2017, thus the percent change in the annual average PPI-FG from 2016 to 2017 is 1.031787%. Adding the 1.23% indexing factor to the annual percentage change gives an increase of 4.4087%.[3] Thus, oil pipelines multiply their July 1, 2017, through June 30, 2018, ceiling levels by 1.044087 to compute their ceiling levels for July 1, 2018, through June 30, 2019.[4]

In this specific filing, NuStar is proposing to increase its overall general commodity rates by 4.4087%, in turn increasing aggregate annual revenue by an estimated $265,518, to reflect the annual change in the PPI-FG utilizing FERC's indexing methodology described above. NuStar filed its interstate rate adjustments in FERC Docket IS18-308-000 on May 15, 2018. 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 language changes in Item Nos. 100 and 110, removing references to cancelled Item Nos. 67 Diesel Handling[5] and 95 Security Surcharge.[6] These changes are necessary because they were inadvertently not included to be cancelled in a prior tariff and are no longer applicable to the current tariff.

Since the updates are informative, accurately reflect current information, do not affect the terms of service, and are no longer relevant to the Tariff, Staff concludes the changes are just and reasonable.

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. 18 with K.C.C. No.19, increasing its overall general commodity rates by 4.4087%, utilizing FERC's indexing methodology. Staff also recommends Commission approval of the proposed language changes to Item Nos. 100 and 110 which remove references to cancelled Items.

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[3] (198.0-191.9)/191.9 = 0.031787+0.0123 = 0.044087

[4] 1+0.044087 = 1.044087

[5] Item No. 67 was cancelled in Docket No. 16-KNBP-597-TAR.

[6] Item No. 95 was cancelled in Docket No. 08-KNBP-1040-TAR.

CERTIFICATE OF SERVICE

18-KNBP-503-TAR

, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of

irst class mail/hand delivered on 06/15/2018.

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