



Federal Energy Regulatory Commission
October 20, 2016
Open Commission Meeting
Staff Presentation
Item G-1

"Good morning, Mr. Chairman and Commissioners.

"The draft Advance Notice of Proposed Rulemaking in G-1 seeks comment on potential modifications to the Commission's policies for evaluating oil pipeline index rate changes and to the data reporting requirements on page 700 of Form No. 6. The purpose of these proposed changes is to improve the Commission's ability to ensure that oil pipeline rates are just and reasonable.

"The Commission regulates the rates, terms, and conditions that oil pipelines charge under the Interstate Commerce Act. In the Energy Policy Act of 1992, Congress mandated that the Commission establish a simplified and generally applicable ratemaking methodology for oil pipelines, while maintaining the statutory requirement that all oil pipeline rates be just and reasonable.

"The Commission's index ratemaking methodology has served as the predominant mechanism for adjusting oil pipeline rates for over two decades. The ability to ensure that index rate increases do not cause pipeline revenues to unreasonably depart from oil pipeline costs, as well as ensuring that the Commission and oil pipeline shippers have sufficient information to assess the relationship between oil pipeline rates and costs, is essential to the Commission's implementation of its statutory obligations under the ICA.

"The proposals presented in the draft ANOPR are the result of the Commission's ongoing monitoring and evaluation of the relationship between oil pipeline costs and rates. In part, G-1 is an outgrowth of a petition for rulemaking filed by a consortium of shippers in April 2015 that urged the Commission to require pipelines to report additional information on page 700. Through the Commission's ongoing monitoring of the oil pipeline index and how it affects pipeline rates, that the draft ANOPR notes that some pipelines continue to obtain additional index rate increases despite reporting on Form No. 6, page 700 revenues that significantly exceed costs. Experience with index proceedings has also indicated that the standards for evaluating shipper objections to index filings could be strengthened and clarified, to both protect against excessive rate increases and, consistent with the streamlined and simplified methodology required by Congress, minimize costly and time-consuming litigation regarding pipeline rates.

"Accordingly, G-1 proposes reforms to the Commission's review of oil pipeline index rate filings and the reporting requirements for Form No. 6, page 700 to better fulfill the Commission's statutory obligations under the ICA. First, G-1 seeks comment on whether the Commission should adopt a new policy that would deny proposed index increases if (a) a pipeline's Form No. 6, page 700 revenues exceed the page 700 total cost-of-service by 15 percent for both of the prior two years or (b) the proposed index increases exceed by 5 percent the annual cost changes reported on the pipeline's most recently filed page 700.

"Second, G-1 seeks comment on whether the Commission should apply these new reforms to costs more closely associated with the proposed indexed rate than the total company-wide costs and revenues presently reported by oil pipelines on page 700. In particular, G-1 proposes to require pipelines to file supplemental page 700s for (a) crude pipelines and product pipelines, (b) non-contiguous systems, and (c) major pipeline systems.

"G-1 also seeks comments regarding a proposed requirement that pipelines report (a) information regarding the allocations used to prepare the supplemental page 700s, and (b) separate revenues for cost-based rates (e.g. indexing), non-cost-based rates (e.g. market-based rates or settlement rates), and other jurisdictional revenues (such as penalties).

"In considering revisions to page 700, G-1 declines to adopt the April 2015 proposal by the shipper consortium to require pipelines to file a separate supplemental page 700 for each rate design segment and to require pipelines to file work papers. Among other things, G-1 notes that most pipelines have never made a filing with the Commission identifying their rate design segments, and rate design segmentation of page 700 would likely insert into the Commission's "simplified" indexing methodology complex, fact-specific disputes regarding the appropriate rate design segmentation.

"Regarding work papers, G-1 states that the proposals in the ANOPR should provide sufficient information to allow the Commission and shippers to evaluate index findings and conduct a preliminary evaluation of a pipeline's rates prior to bringing a cost-of-service challenge. However, G-1 invites comments on the sufficiency of this additional information in evaluating index filings and conducting preliminary evaluations of a pipeline's rates.

"Finally, G-1 seeks comment on the potential costs associated with the proposals being considered.

"This concludes our presentation. We are happy to answer any questions you may have."