Federal Energy Regulatory Commission
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Open Commission Meeting
Staff Presentation
Item G-1

"Mr. Chairman and Commissioners, thank you.

"The draft order before you establishes the new oil pipeline index level for the next five years. By way of background, the Commission developed its indexing methodology in response to the Energy Policy Act of 1992's directive to implement a "simplified and generally applicable" ratemaking methodology for oil pipelines. Under the indexing methodology, oil pipelines may adjust their rates to applicable ceiling levels as opposed to making cost-of-service filings. Every July 1, the rate ceilings levels are modified by multiplying the existing ceilings by the index for that year. The Commission reviews the index level every five years to ensure that the index continues to correspond to industry-wide oil pipeline cost changes.

"In June 2015, the Commission issued a Notice of Inquiry to initiate this latest five-year review of the index level. In performing this review, as in prior reviews, we examined the difference between oil pipeline cost changes and the changes to the Producer Price Index for Finished Goods, or PPI-FG, over the prior five-year period. The index level is set at PPI-FG plus (or minus) this differential.

"Following the issuance of the June Notice of Inquiry, Commission staff held a technical conference and the Commission reviewed comments and reply comments from industry participants.

"Now, my colleague Monil Patel from the Office of Energy Market Regulation will provide a summary of our analysis.

"Our analysis of the record in this proceeding supports an index level of PPI-FG+1.23 to be effective for the July 2016 – June 2021 period. This represents a reduction from the existing index level, and from the preliminary range of PPI-FG+2.0-2.4 proposed in the Notice of Inquiry. This reduction from the range mentioned in the Notice of Inquiry results, in part, from updated Form No. 6 filings made by oil pipelines and other corrections to the data set used in calculating the index.

"In addition, based upon the record and in response to comments, it became evident that Form No. 6 Page 700 provides a superior means for measuring oil pipeline cost changes. First, the calculation of the index is meant to reflect changes in recoverable pipeline costs, and thus, the calculation of the index should use data that is consistent with the Commission's cost-of- service methodology. In contrast to the accounting data historically used by the Commission as a proxy for this information, page 700 includes actual total cost-of-service data. Second, by directly measuring total oil pipeline costs, page 700 eliminates the need for proxies for capital costs and income tax costs which are necessary when using the accounting data employed in prior five-year reviews. Third, given that the index is used to determine interstate rates, it is preferable to use the interstate-only data reflected on page 700 as opposed to the comingled interstate and intrastate accounting data used in previous five-year review proceedings.

"Accordingly, based upon our analysis of the oil pipeline costs as reported on Page 700, the draft order concludes that the appropriate index level is PPI-FG+1.23. This concludes our presentation. We are happy to answer any questions you may have."