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United States of America
FEDERAL ENERGY REGULATORY COMMISSION

1022nd Commission Meeting

Thursday, December 17th, 2015

Commission Hearing Room
888 First Street, Northeast
Washington, D.C. 20426

The Commission met in open session at 10:02 a.m. when
were present:

NORMAN C. BAY, Chairman

TONY CLARK, Commissioner

CHERYL LaFLEUR, Commissioner

COLETTE HONORABLE, Commissioner

1 FERC STAFF:

2 NATHANIEL DAVIS, Secretary

3 Joe McClelland, OEIS

4 Mike Bardee, OER

5 Jamie Simler, OEMR

6 Ann Miles, OEP

7 Larry Parkinson, OE

8 Arnold Quinn, OEPI

9 Max Minzner, OGC

10

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12 PRESENTERS:

13 E6, E7 & E8: Michael Goldenberg, OGC

14 Accompanied by Neil Yallabandi, Evan Oxhorn, Jessica

15 Cockrell, Corey Cox and Adam Bednarczyk

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17 G1: Andrew Knudsen, OGC

18 Monil Patel, OGC

19 Accompanied by James Sarikas and Adrianne Cook

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1 P R O C E E D I N G S

2 (10:01 a.m.)

3 SECRETARY DAVIS: Good morning. The purpose
4 of the Federal Energy Regulatory Commission's open
5 meeting is for the Commission to consider the matters
6 that have been duly posted in accordance with the
7 government and the Sunshine Act. Members of the public
8 are invited to observe, which includes attending,
9 listening, and taking notes, but does not include
10 participating in the meeting or addressing the
11 Commission. Actions that purposely interfere or attempt
12 to interfere with the commencement or the conducting of
13 the meeting or inhibits the audience's ability to
14 observe or listen to the meeting, including attempts by
15 audience members to address the Commission while the
16 meeting is in progress, are not permitted. Any persons
17 engaged in such behavior will be asked to leave the
18 building. Anyone who refuses to leave voluntarily will
19 be exported from the building. Additionally, documents
20 presented to the Chairman, Commissioners, or staff
21 during the meeting will not become part of the official
22 record of any Commission proceeding, nor will they
23 require further action by the Commission. If you wish
24 to comment on an ongoing proceeding before the
25 Commission, please visit our website for more

1 information. Thank you for your cooperation.

2 CHAIRMAN BAY: Good morning. This is the
3 time and place that has been noticed for the open
4 meeting of the Federal Energy Regulatory Commission to
5 consider the matters that have been duly posted in
6 accordance with the government and the Sunshine Act.
7 Please join us in the pledge of allegiance.

8 (Whereupon the pledge of allegiance commences.)

9 CHAIRMAN BAY: Good morning everybody. This
10 is our last meeting for calendar year 2015. It has been
11 a busy and productive year. I wish to thank all my
12 colleagues on the Commission, staff for all the good
13 work, the hard work, that has been accomplished this
14 year. I really am such a lucky person to be working
15 with such outstanding colleagues, staff, and I wish
16 everyone a happy holidays. We'll see you next year in
17 2016.

18 Colleagues, any other announcements?
19 Cheryl?

20 COMMISSIONER LaFLEUR: Thank you,
21 Mr. Chairman. I have a personnel change to share in my
22 office. I'm happy to announce that my advisor Steven
23 Wellner is going to be taking some time off to spend
24 with his newborn daughter, a beautiful baby with a
25 beautiful name Juliette Eleanor. And I'm also happy to

1 announce that Eric Vandenberg, who's hopefully going to
2 stand up and be embarrassed behind me.

3 (Laughter.)

4 He will be an advisor in my office. He will
5 be responsible for the things that Steven covered: PGM,
6 MISO, reliability and oil rates. An he's well-suited
7 for that having been an energy industry analyst and
8 working on price formation and previously an electrical
9 engineer in the Office of Electric Reliability. Eric
10 has an BSEE and an MBA from Ohio University, so he
11 firsthand is used to frustration, and hopefully is not
12 in perfect preparation for working in my office.

13 (Laughter)

14 And I want to thank Jamie and Anna for
15 facilitating this detail. So thank you.

16 CHAIRMAN BAY: Thank you, Cheryl.

17 Tony?

18 COMMISSIONER CLARK: Good morning and
19 welcome. Happy holidays to everyone. A couple of
20 announcements that I have. First, a personnel
21 announcement for my office. David Forshstein (phonetic)
22 who was on detail for the past four months and is now
23 back with Mike Bardee in the Office of Electric
24 Reliability. So thanks to Jason for all the work he did
25 on my staff. And welcome back to Rebecca Witstein

1 (phonetic), who is back from maternity leave, so happy
2 to have her back in the office as well. Just a
3 shout-out, I guess, to one of our teams here in the
4 office, E3 and E4 both related to CAISO and the EIM,
5 we're starting to get towards the end of the EIM orders
6 we've had on the agenda, but it's in been a significant
7 amount of work, very technical, very lengthy documents,
8 and the team that's been working on all of these EIM
9 orders also have been working for a number of issues who
10 CAISO has put in a lot of effort in that. So I just
11 want to recognize the team that's been involved with
12 that and look forward to maybe a few more towards the
13 end of the backlog on those.

14 With that, I'll turn it back. Thanks.

15 CHAIRMAN BAY: Thank you, Tony.

16 Colette?

17 COMMISSIONER HONORABLE: Thank you,
18 Mr. Chairman. Good morning. It has indeed been a busy
19 month, a busy year, and I would like to thank our
20 colleagues and our incredible staff here for your
21 support as I transition here. I've learned so much and
22 I've greatly appreciated all of the support from the
23 respective teams and bureaus and Commission for that. I
24 would like to acknowledge Eric, welcome aboard, and to
25 welcome back Rebecca, and also to thank Tony for

1 referencing the EIM work; I, too, would like to make a
2 point of mentioning that. I mentioned in a meeting
3 yesterday that things are so dynamic everywhere, but
4 everyone is watching I think with particular interest
5 and hopefulness. And I also want to mention how much I
6 appreciate the work of staff on the gas-electric
7 coordination dockets; we'll take up a few of those
8 today. We took up some last agenda meeting, if you'll
9 recall. So thank you, thank you, thank you to all of
10 our team and the stakeholders.

11 CHAIRMAN BAY: Thank you, Colette.

12 Mr. Secretary, I think we're ready to
13 proceed to the consent agenda.

14 SECRETARY DAVIS: Good morning,
15 Mr. Chairman. Good morning, Commissioners. Since the
16 issuance of the Sunshine Act orders on December the 15th
17 item E14 has been struck from this morning's agenda.
18 Your consent agenda for this morning is as follows:
19 Electric item: E1, E3, E4, E5, E9, E10, E11, E12, E13,
20 E15, and E16. Hydro items: H1 and H2. Certificate
21 items: C1, C2, C3, C4, and C5. As required by law,
22 Commissioner Honorable is not participating in consent
23 items E11, E13, and E15.

24 We will now take a vote on this morning's
25 consent agenda, beginning with Commissioner Honorable.

1 COMMISSIONER HONORABLE: Thank you,
2 Mr. Secretary. Noting my recusals on items E11, E13,
3 and E15, I vote aye.

4 SECRETARY DAVIS: Commissioner Clark?

5 COMMISSIONER CLARK: Aye.

6 SECRETARY DAVIS: Commissioner LaFleur?

7 COMMISSIONER LaFLEUR: I vote aye.

8 SECRETARY DAVIS: Chairman Bay?

9 CHAIRMAN BAY: I vote aye.

10 SECRETARY DAVIS: The first item today is a
11 joint presentation and discussion on items E6, E7, and
12 E8 concerning the Commission's ongoing efforts to
13 improve coordination between the Electric Act and
14 electric industries in docket numbers EL14-22-000,
15 EL15-27-0000, and EL 15-2256-000 respectfully. There
16 will be a presentation by Michael Goldenberg from the
17 Office of General Counsel. He is accompanied by Neil
18 Yallabandi, Evan Oxhorn from the Office of General
19 Counsel, Jessica Cockrell from the Office of Energy
20 Policy Innovation, and Corey Cox and Adam Bednarczyk
21 from the Office of Energy Market Regulations.

22 MR. GOLDENBERG: Good morning, Mr. Chairman
23 and Commissioners. These three orders represent the
24 next milestone on the Commission's ongoing efforts to
25 improve coordination between the natural gas and

1 electric industries in light of the increasing reliance
2 on the use of natural gas for electric generation. The
3 people at the table before you today represent only a
4 small portion of the staff that have worked diligently
5 on these efforts over the past few years. We would also
6 like to take this opportunity specially to recognize
7 Anna Fernandez and Josh Kirstein who have worked on this
8 project. I think I would like to mention out of us Anna
9 and I are the only three that actually attended every
10 one of these conferences going all the way back as well.

11 (Laughter)

12 The Commission's efforts on the natural
13 gas-electric harm negotiation began after the Southwest
14 cold weather event in 2011, which highlighted the
15 interrelationship between the natural gas and the
16 electric systems. Starting in February of 2012 the
17 Commission requested comments on gas-electric
18 coordination issues and convened five regional
19 conferences with over 1,200 registrants. The Commission
20 then requested additional comments and directed staff to
21 hold conferences concerning two issues: The first being
22 the respective ability of each industry to share
23 information in furtherance of the enhancing gas-electric
24 coordination; and the second being scheduling
25 harmonization between the gas and electric industries

1 including the impact of the Commission's no bump and
2 pipeline capacity release rules. The Commission held
3 these technical conferences in February and April of
4 2013.

5 Based on the comments and discussion
6 regarding the need for better communication between the
7 gas and electric industries, the Commission issued order
8 No. 787 in November 2013 to ensure that its regulations
9 would not inhibit crucial communications. This order
10 provided explicit authority to interstate natural gas
11 pipelines and public utilities to share nonpublic
12 operational information with each other for the purpose
13 of promoting reliable service and operational planning.

14 Following the technical conference
15 scheduling coordination in March 2014 the Commission
16 issued a notice of proposed rulemaking proposing a
17 number of revisions to the interstate natural gas
18 scheduling process. At the same time the Commission
19 issued an order under section 206 of the Federal Power
20 Act requiring each of the six independent system
21 operators and regional transmission organizations known
22 as ISO's and RTO's, to make a filing that proposes
23 tariff changes and their scheduling timelines to
24 coordinate with the eventual changes to the natural gas
25 scheduling process adopted by the Commission or to show

1 cause why such changes were not needed.

2 Recognizing that the natural gas and
3 electricity industries were best positioned to work out
4 the details of how changes in these natural gas
5 scheduling practices could most efficiently be made, the
6 Commission provided natural gas and electric industries
7 through the North American Energy Standards Board, or
8 NAESB, the opportunity to reach consensus on any
9 revisions to the Commission's proposals. In six months
10 NAESB developed a comprehensive set of natural gas
11 scheduling standards, which the Commission adopted on
12 April 16, 2015, in order No. 809. The principal
13 scheduling changes in these standards were twofold:
14 First, the standards moved the natural gas timely
15 nomination cycle from 11:30 a.m. central clock time to
16 1:00 p.m. central time to provide ISO's and RTO's with
17 the ability to complete their electric scheduling in
18 time for generators to submit nominations at the natural
19 gas timely nomination cycle at 1:00 p.m. This change
20 would help assure that natural gas fired generation has
21 the opportunity to secure sufficient transportation
22 capacity to fulfill their electric commitments. Second,
23 the standards expanded the number of intraday nomination
24 opportunities from two to three, providing more
25 opportunity for all shippers to reschedule natural gas

1 nominations due to changing condition.

2 Each ISO and RTO filed in response to the
3 Commission's section 206 order regarding coordination
4 with the changes to the natural gas scheduling process.
5 As a result of the three orders on ISO and RTO filings
6 on last month's agenda and the three draft orders on
7 this agenda, the Commission will have issued orders on
8 all of the ISO and RTO filings. Four of the ISO's and
9 RTO's, MISO, PGM, ISO New England and the New York ISO,
10 with the most serious concerns regarding coincident peak
11 conditions regarding electricity and gas, they all have
12 scheduling with timelines that provide generators with
13 commitments prior to the timely nomination cycle. All
14 of the ISO's and RTO's will now provide reliability unit
15 commitment prior to the natural gas evening nomination
16 cycle, which is the second-most liquid period for
17 acquiring natural gas in pipeline transportation.

18 The next phase in the gas-electric
19 coordination effort is still ongoing as the Commission
20 has urged NAESB, in order No. 809, to explore the
21 potential for faster computerized, schedule to provide
22 shippers with more opportunities to reschedule gas.

23 This concludes our presentation; we will be
24 happy to answer any questions you may have.

25 CHAIRMAN BAY: Thank you, Michael, Corey,

1 Jessica, Evan, Neal and Adam, as well as the entire
2 cross office of gas-electric coordination team. The
3 gas-electric coordination issues are obviously important
4 and remain a priority for the Commission, given the
5 increasing use of natural gas for electric generation.
6 In April of this year for the first time the amount of
7 electricity produced from gas as compared to coal really
8 represented a change. Because 32 percent of the
9 electricity came from gas; 30 percent from coal. So
10 this was a historical development since the EIA began
11 tracking this information. For people who thought that
12 was an anomaly, a one-off situation, in fact this
13 happened twice since then. And so I think that an
14 inflection point has occurred where we are likely to see
15 an increasing amount of electricity produced from gas.
16 Gas becoming a more important fuel than coal. I
17 checked the price of the futures contract for electric
18 gas this morning, it's \$1.80 going into the winter
19 months. That happened for the January contract. So
20 these are prices that really represent historically what
21 is -- so gas is going to be an increasingly important
22 fuel for electric generation, so it's important we get
23 gas-electric coordination issues right. So I really
24 appreciate the work that the gas and electric industries
25 in addressing this issue, and I think that good progress

1 has been made but that additional efficiencies might
2 still be possible to achieve. And it's that continuing
3 work that I look forward to seeing in the future. But
4 thank you team.

5 Cheryl?

6 COMMISSIONER LaFLEUR: Thank you very much,
7 Norman. And I'd also like to thank the teams for all
8 their work on these cases really for the last four
9 years. As Michael noted, our orders today really
10 represent the culmination of some of our work on
11 gas-electric since 2011 and our recognition of the need
12 to better coordinate the wholesale electric and gas
13 markets. Following the technical conferences in August
14 2012, one of the first things we recognized was that
15 there were a couple of cut-across issues, communications
16 and scheduling, and today's orders relate to the second
17 cut-across issue market scheduling. As has been noted,
18 when we voted in April to revive the scheduling
19 processes of the gas industry, at that time each RTO and
20 ISO was also directed to make corresponding changes to
21 make sure that their market timing and market operations
22 responded to the changes in the gas nomination cycle.
23 And today we issue the final three orders addressing
24 these regional filings. Obviously we'll continue to
25 monitor the gas-electric markets to make sure they

1 continue to work to enhance their market timing, as well
2 as following the work that has been made. Although
3 we're largely done with our work on these two cut-across
4 issues, a lot of the important work is still going on on
5 a region-by-region basis to adapt the competitive
6 markets, capacity, energy and ancillary services to the
7 increasing gas generation. Some of the efforts that I
8 think we've seen are the capacity performance proposals,
9 both in ISO New England and PGM, and the order earlier
10 this year of PGM to allow hourly rebids to reflect fuel
11 costs.

12 We all know that our nation and really the
13 world are going through a very substantial change and
14 the resource mix used to produce electricity, not just
15 natural gas like the Chairman referenced, but by the
16 growth of renewable technologies and by new
17 environmental regulations and new environmental
18 aspirations across the world. And one of the most
19 important jobs of this Commission is to make sure that
20 the wholesale markets we regulate, both electric and
21 gas, make the adaptations that are needed to continue to
22 sustain reliability and produce just and reasonable
23 rates when all these transitions are going on. Today is
24 one step on that path. And I thank you all very much.

25 CHAIRMAN BAY: Thank you, Cheryl.

1 Tony?

2 COMMISSIONER CLARK: Thanks to the team for
3 all the work. I do have one question for team, which is
4 as we look back at the six orders that the Commission
5 has taken action on, in most cases we have approved what
6 was filed with the Commission. There are some
7 exceptions to the rule, probably the most notable in
8 this one is the compliance with ISO and some ongoing
9 compliance with SPP and CAISO in terms of the
10 Commission. Can you talk a little bit about your
11 thinking the rational on those sort of exceptions for
12 the rule for reaching perfect compliance going forward?

13 MR. YALLABANDI: Good morning. I think it's
14 first important to note that out of the six ISO's and
15 RTO's that have made filings at the current time PGM,
16 New England and MISO have their day-ahead market results
17 posting time prior to the time of the nomination cycle;
18 those three orders we issued last month. The current
19 orders before you today, CAISO, SPP, MISO, those three
20 ISO's and RTO's did not propose to move their day-ahead
21 market results posting time prior to the timing of the
22 nomination cycle. CAISO did not propose any tariff
23 changes at all like New England and New York; SPP did
24 propose tariff changes, but again it did not set its
25 day-ahead results posting time prior to the nomination

1 cycle. MISO also proposed tariff changes and, again, it
2 did not move the day-ahead market prior to the timing
3 nomination cycle. However, the Commission here today
4 will find that CAISO and SPP has shown cause while
5 making such a change at this time is not necessary, but
6 the Commission finds that MISO has not shown cause and
7 thus rejects MISO's compliance filings.

8 Just to highlight the distinction between
9 the three RTO's: Each particular, CAISO and SPP, as
10 compared to MISO, we noted in the CAISO order and
11 similar to SPP's view that there's significant renewable
12 resources such as humanity resources and SPP and CAISO,
13 there's also hydro-electric resources. And we found at
14 this time that to require CAISO, SPP to move their
15 day-ahead market prior to the time of the nomination
16 cycle could create a stale data that would return demand
17 scheduling; would impact electric scheduling; and in a
18 way would create uncertainties, that certain natural gas
19 uncertainties, which would undercut the driving force of
20 the 206 order and the 809 proceeding.

21 In addition, we note that CAISO in
22 particular schedules on Pacific time, so in a sense it
23 has three full hours to align day-ahead scheduling with
24 the pipeline scheduling, as compared to the eastern
25 RTO's, PGM, ISO New England, and for part of the year

1 MISO.

2 SPP does not schedule on Eastern time, it is
3 scheduled on Central time so it has essentially one
4 fewer hour to align the day-ahead schedules with the
5 intrastate pipeline schedules. Also, to note for SPP,
6 because it has significant renewable resources and it
7 currently has a four and a half market comp time, to
8 require it to move its day-ahead market in the timely
9 nomination cycle would require it to make its schedule
10 quite early in the morning, and thus that would create
11 the risk of stale data, which in turn might discourage
12 the use of renewable resources, and in turn put more
13 burden on the gas infrastructure.

14 And another probably one final point
15 regarding MISO: In MISO's filing MISO actually presents
16 a summary of a study that it performed. And for MISO it
17 actually acknowledges that moving the day-ahead market
18 results on the timing nomination cycle would have
19 actually a minimal impact on its load and generation
20 forecasting. For MISO, the Commission today will direct
21 it to move its proposed time of 1:00 p.m. The
22 Commission will require MISO to move its proposed 1 p.m.
23 day-ahead market posting time to 12:30, which is
24 relatively an incremental change. And based on MISO's
25 own conclusions that such a change would not have a

1 significant impact on its load in new generation, the
2 Commission found that such a change should not be made.

3 MR. OXHORN: And finally the team found that
4 CAISO and SPP should submit informational filings for
5 the next three years in order to encourage them to make
6 further progress.

7 COMMISSIONER CLARK: Thanks so much for the
8 context into the details of the order. Because these
9 are very much region-by-region decisions. I think the
10 Commission and the staff has tried to take a look at
11 each of these regions individually, the individual
12 characteristics of them, and make a reasonable decision.
13 So thanks for that.

14 CHAIRMAN BAY: Thank you, Tony.

15 Colette?

16 COMMISSIONER HONORABLE: Thank you,
17 Mr. Chairman. I'd like to thank the team and Michael
18 and Anna and Adam, you get gold stars for your
19 attendance to our technical conference and meetings. I
20 think this is an excellent example of how the different
21 offices within FERC are working together to support
22 what's happening regionally.

23 I wanted to add to Commissioner LaFleur's
24 recitation, an excellent one, the overlay of what is
25 happening in states across the country as they are

1 making policy decisions regarding generation and their
2 resources and how that supports capacity markets,
3 etcetera, the policies that are evolving add to how
4 dynamic this work is becoming. I'm appreciative of your
5 work, the stakeholders, and also want to mention Ray and
6 her team at NAESB for their support of this effort. I'm
7 looking forward to, and thank you Evan for mentioning
8 the informational report, that we will see from CAISO
9 and SPP for three years.

10 So we've observed through this journey some
11 ways in which we can make improvements, and I think as
12 much as Commissioner Clark has mentioned, preserving the
13 uniqueness of the regions, the informational files of
14 the opportunity to glean any other changes that may be
15 necessary. So I want to thank the SPP and CAISO regions
16 in advance for their work and I'll look forward to the
17 journey as well.

18 CHAIRMAN BAY: Thank you, Colette.

19 Mr. Secretary?

20 SECRETARY DAVIS: The vote begins with
21 Commissioner Honorable?

22 COMMISSIONER HONORABLE: I vote aye.

23 SECRETARY DAVIS: Commissioner Clark?

24 COMMISSIONER CLARK: Aye.

25 SECRETARY DAVIS: Commissioner LaFleur?

1 COMMISSIONER LaFLEUR: I vote aye.

2 SECRETARY DAVIS: Chairman Bay?

3 CHAIRMAN BAY: Aye.

4 MS. SHELTON: The last presentation for
5 discussion for this morning is G1 concerning the
6 five-year review of the old pipeline number RN15-20-000.
7 There will be a presentation by Andrew Knudsen from the
8 Office of the General Counsel and Monil Patel from the
9 Office of Energy Market Regulation. They are
10 accompanied by James Sarikas and Adrienne Cook from the
11 Office of Energy Market Regulation.

12 MR. KNUDSEN: Mr. Chairman and
13 Commissioners, thank you. The draft order before you
14 established the new oil pipeline index level for the
15 next five years. By way of background, the Commission
16 developed its indexing methodology in response to the
17 energy policy act of 1992's directive to implement a
18 simplified and generally applicable rate making
19 methodology for oil pipelines. Under the indexing
20 methodology, oil pipelines may adjust their rates to
21 applicable ceiling levels as opposed to making cost of
22 service filings. Every July 1st the rate of ceilings
23 level are modified by multiplying the existing ceilings
24 by the index for that year. The Commission reviews the
25 index level every five years to ensure that the index

1 continues to correspond to industry-wide oil pipeline
2 cost changes.

3 In June 2015 the Commission issued a notice
4 of inquiry to initiate this latest five-year review of
5 the index level. In performing this review, as in prior
6 reviews, we examined the difference between oil pipeline
7 cost changes and the changes to the producer price index
8 for finished goods, OPI-FG, over the prior five-year
9 period. The index level set at PPI-FG plus or minus
10 these difference.

11 Following the issuance of the June notice
12 inquiry, Commission staff held a technical conference
13 and the Commission reviewed comment and reply comments
14 from industry participants.

15 Now my colleague, Monil Patel, from the
16 office of Energy Market Regulation will provide a
17 summary of our analyses.

18 MR. PATEL: Our analysis of the record of
19 the proceeding supports an index of OPI-G plus 1.23 to
20 the effective of the July 2016 to June 2021 period.
21 This represents a reduction from the existing index
22 level, and from the preliminary range from PPIF-2.0 to
23 2.4 proposed in the notice of inquiry. This reduction
24 from the range mentioned in the notice of inquiry
25 results, in part, from updated form No. 6 made by oil

1 pipelines and other corrections to the data set used in
2 calculating the index.

3 In addition, based upon the record and in
4 response to the comments, it became evident that form
5 No. 6, page 700, provides a superior means for measuring
6 oil pipeline cost changes. First, the calculation of
7 index was meant to reflect changes in the recoverable
8 pipeline costs, and thus the calculation of the index
9 should use the data that is consistent with this
10 Commission's cost of service methodology. In contrast
11 to the accounting data historically used by the
12 Commission as a proxy for this information, page 700
13 includes actual total cost-of-service data. Second, by
14 directly measuring total oil pipeline costs, page 700
15 eliminates the need for proxies for capital costs and
16 income tax costs which are necessary when using the
17 accounting data employed by prior five-year reviews.
18 Third, given the index is used to determine interstate
19 rates, it is preferable to use interstate-only data,
20 reflected on page 7, as opposed to commingled interstate
21 and intrastate accounting data used in previous
22 five-year review proceedings.

23 Accordingly, based upon our analysis of the
24 oil pipeline costs as reported on page 700, the draft
25 order concludes the appropriate index level of

1 PP5FG-1.23. This concludes our presentation. We are
2 happy to answer any questions you may have.

3 CHAIRMAN BAY: Thank you Adrian, Monil, and
4 James for your work on this five-year review. It's
5 important this draft order establishing the oil pricing
6 index, priced at 1.23 percent for the next five years,
7 that would be from 2016 through 2021. In particular I'm
8 pleased that the Commission will for the first time
9 utilize a set of data, which as Monil indicated,
10 directly measures changing pipeline costs as opposed to
11 the estimates previously used by the Commission.

12 I'd like to thank staff for their good work
13 on they five-year review, as well as industry, the
14 Association of Oil Pipelines and different shipper
15 groups for their participation in the technical
16 conference as we held this past summer.

17 I do have one question for the team, and
18 that is whether or not you can explain why we did not
19 use page 700 data in the past previous index use?

20 MR. KNUDSEN: Sure. Whether the index was
21 first created, page 700 was not available. And so
22 therefore the Commission was forced to rely upon
23 accounting data that was performed elsewhere on form 6.
24 In 2010, the past five-year review, the Commission
25 considered using page 700 data. However, at that time

1 we were informed that page 700 contained felonious
2 instructions that were causing pipelines to report
3 mismatched data, mainly private lines were primarily
4 reporting interstate-only costs, but interstate plus
5 intrastate. And due to concerns about that mismatched
6 data, we declined to use page 700 at that time.
7 However, subsequently in 2011 we issued a rulemaking to
8 correct those instructions.

9 CHAIRMAN BAY: Thank you, Andrew.

10 Cheryl?

11 COMMISSIONER LaFLEUR: Thank you very much,
12 Mr. Chairman. I'd also like to thank the team for their
13 excellent presentation and for what I really think is a
14 particularly clear and well-written order. This is
15 certainly the most important rate matter that we do
16 under interested commerce act jurisdiction. And as
17 Monil and others have noted, it is significant that this
18 is the first time that we're referring to the -- we're
19 utilizing the data that's submitted to the Commission on
20 form 6 to come up with our measure of pipeline cost
21 changes.

22 I do remember the last five-year index
23 review because I was brand-new at the Commission and it
24 was a particularly steep part of my oil rate learning
25 curve when this index came up.

1 (Laughter)

2 And the disappointment that we couldn't be
3 informed at that time because of the mingling of
4 interstate and intrastate data. And that of course led
5 to the rulemaking that yielded better data on which we
6 can rely. I want to note in that regard that we do have
7 a currently-pending petition for rulemaking to consider
8 still more refinements to page 700. I enjoyed attending
9 the technical conference on that rulemaking last summer,
10 and appreciate all the comments that we've been hearing
11 from both the pipelines and the shippers so we can
12 consider next steps. Thank you very much.

13 CHAIRMAN BAY: Thank you, Cheryl.

14 Tony?

15 COMMISSIONER CLARK: Thank to the team. The
16 Interstate Commerce Act doesn't always get as much
17 visibility in this jurisdiction in those areas in which
18 we're dealing with oil pipeline, as Cheryl indicated the
19 biggest rulemaking we'll have for some period of time in
20 the past five years. Understanding that in this order
21 no one got everything they were asking for: Some
22 industry stakeholders will say it's still too high, some
23 will say it's gone too low. We've spent some time
24 talking about the page 700 actual data that we will be
25 using. There were a number of other refinement reforms

1 to the calculations that were proposed by both sides,
2 both by shipper groups and by pipeline groups, that were
3 rejected for one reason or another. Could you just talk
4 about some of the major reform proposals that were
5 proposed and your thinking as to why those were not
6 adopted as opposed to the one that we did?

7 MR. KNUDSEN: Sure. Some commenters
8 proposed various forms of manual data trimming of the
9 data set. This included removing pipelines that
10 experienced expansions over the last five years, but
11 also included which some commenters believe that the
12 pipelines had filed erroneous data or otherwise
13 anomalous data. We declined to adopt this proposal for
14 several reasons, but I think there are two that can bare
15 emphasis. First, the methodology already applies to
16 physical data trimming to remove the top 25 percent of
17 oil pipelines cost changes and the bottom 25 percent of
18 oil pipeline cost changes. As a result, the statistical
19 data trimming removes those pipelines with cost changes
20 that deviates significantly from those experienced by
21 other pipelines. In addition, ALPL had proposed
22 considering the middle 15 percent, as well as the middle
23 50 percent. We determined that the middle 50 percent
24 more effectively excludes pipelines with anomalous cost
25 changes while avoiding the complexity and distorting

1 effect of subjective manual data methodologies.

2 There was also suggestion that we have
3 separate industries for product and crude pipelines. We
4 concluded that to the extent that the discrepancy
5 existed between product and crude pipelines, this was
6 largely driven by a very small number of pipelines.
7 Ultimately, we determined that the record in this
8 proceeding did not support the establishment.

9 COMMISSIONER CLARK: Thank you very much.

10 CHAIRMAN BAY: Thank you, Tony.

11 Colette?

12 COMMISSIONER HONORABLE: Thank you,
13 Mr. Chairman. I'd like to thank the team. I was given
14 an opportunity to visit with a few of you as I undertook
15 my preparation whether to include this docket. And I
16 appreciate not only the experience but the passion with
17 which you work, and it made me feel better about the
18 process, quite frankly. I, too, call this matter for
19 presentation a highlight that this effort is working,
20 and that I specifically support the use of page 700
21 data. As said in our meeting before, there's an old
22 saying where I'm from: "When we know better, we do
23 better." So now that we have this data, it's robust or
24 not, I'm very hopeful about what we will glean from it
25 going forward in the next five years.

1 I would also like to thank the stakeholders
2 not only for their robust participation by submitting
3 comments, but also in the technical conference effort.
4 Commissioner LaFleur, what's you described when you
5 began is much what I experienced this year.

6 (Laughter)

7 In meeting with people and others who
8 educated me about what we were talking about, was like
9 what is page 6 or form 6 and page 700? And I also look
10 forward to the work that will come. So thank you.

11 CHAIRMAN BAY: Thank you, Colette.

12 Mr. Secretary?

13 SECRETARY DAVIS: Okay, we'll begin the vote
14 with Commissioner Honorable?

15 COMMISSIONER HONORABLE: Aye.

16 SECRETARY DAVIS: Commissioner Clark?

17 COMMISSIONER CLARK: Aye.

18 SECRETARY DAVIS: Commissioner LaFleur?

19 COMMISSIONER LaFLEUR: Aye.

20 SECRETARY DAVIS: Chairman Bay?

21 CHAIRMAN BAY: Aye.

22 Thank you, everybody. Happy holidays. And
23 with that, the meeting is adjourned.

24 (Whereupon at 10:42 a.m. on Thursday, December 17th,
25 2015, the 1,022nd FERC Commission Meeting is adjourned.)