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DEPARTMENT OF ENERGY
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Parts 342, 343, and 357

[Docket No. RM17-1-000; Docket No. RM15-19-000]

Petition for a Rulemaking of the Liquids Shippers Group, Airlines for America, and the National Propane Gas Association; Revisions to Indexing Policies and Page 700 of FERC Form No. 6

AGENCY: Federal Energy Regulatory Commission

ACTION: Withdrawal of Advance Notice of Proposed Rulemaking; Denial of Petition for Rulemaking

SUMMARY: The Federal Energy Regulatory Commission (Commission) is withdrawing its advance notice of proposed rulemaking (ANOPR) considering potential modifications to the Commission's policies for evaluating oil pipeline indexed rate changes and certain additions to the annual reporting requirements in FERC Form No. 6, page 700. Additionally, the Commission denies the petition for rulemaking filed by certain shippers seeking changes to page 700 reporting requirements.

DATES: The ANOPR published on November 2, 2016, at 81 FR 76315 (2016) is withdrawn as of [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

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SUPPLEMENTARY INFORMATION

1. On October 20, 2016, the Commission issued an advance notice of proposed rulemaking (ANOPR) in Docket No. RM17-1 seeking comment regarding potential modifications to the Commission's policies for evaluating oil pipeline indexed rate changes and certain additions to the FERC Form No. 6, page 700 (page 700) annual reporting requirements.¹ Prior to the ANOPR, on April 20, 2015, certain shippers filed a petition for rulemaking in Docket No. RM15-19 requesting that the Commission require oil pipelines to provide additional information on page 700.

2. For the reasons set forth below, we exercise our discretion to withdraw the

ANOPR and to terminate the proceeding in Docket No. RM17-1. We also deny the

shippers' petition for rulemaking.

I. Background

3. In 2015, the Liquids Shippers Group,² Airlines for America,³ and the National Propane Gas Association⁴ (collectively, the Joint Shippers) filed a petition for rulemaking

¹ *Revisions to Indexing Policies and Page 700 of FERC Form No. 6*, 81 FR 76315 (Nov. 2, 2016), 157 FERC ¶ 61,047 (2016) (ANOPR).

² Liquids Shippers Group consists of the following crude oil or natural gas liquids producers: Anadarko Energy Services Company, Apache Corporation, Cenovus Energy Marketing Services Ltd., ConocoPhillips Company, Devon Gas Services, L.P., Encana Marketing (USA) Inc., Marathon Oil Company, Murphy Exploration and Production Company-USA, Noble Energy Inc., Pioneer Natural Resources USA, Inc., and Statoil

in Docket No. RM15-19 seeking to expand certain annual filing requirements related to the summary cost of service contained on page 700. Specifically, the Joint Shippers requested that the Commission require oil pipelines to disaggregate the total company data currently reported on page 700 and to file supplemental page 700s containing summary cost of service for (a) crude and product systems and (b) each “rate design” segment. The Joint Shippers’ proposal also requested that all interested parties be given access to the workpapers used to prepare page 700. Staff held a technical conference on July 30, 2015, to discuss the Joint Shippers’ petition with the petitioners, pipelines, and interested parties. The Commission received subsequent comments in September 2015 and October 2015.⁵

Marketing & Trading (US) Inc.

³ Airlines for America is a trade association representing cargo and passenger airlines, including Alaska Airlines, Inc., American Airlines Group (American Airlines and US Airways), Atlas Air, Inc., Delta Air Lines, Inc., Federal Express Corporation, Hawaiian Airlines, JetBlue Airways Corp., Southwest Airlines Co., United Continental Holdings, Inc., and United Parcel Service Co.

⁴ The National Propane Gas Association is a national trade association of the propane industry with a membership of approximately 3,000 companies, including 38 affiliated state and regional associations representing members in all 50 states.

⁵ Comments and reply comments were filed by the Association of Oil Pipe Lines (AOPL); Joint Shippers (National Propane Gas Association, Airlines for America, a consortium of major air carriers, and Valero Energy and Supply); the Liquids Shippers (Anadarko Energy Services Company, Apache Corporation, Cenovus Energy Marketing Services Ltd., ConocoPhillips Company, Devon Gas Services LP, Encana Marketing (USA) Inc., Marathon Oil Company, Murphy Exploration and Production Company USA, Noble Energy Inc., Pioneer Natural Resources USA Inc., and Statoil Marketing and Trading (US) Inc); Explorer Pipeline Company; Magellan Midstream Partners LP; Marathon Pipe Line LLC; Shell Pipeline Company LP; Plains Pipeline LP; SFPP L.P.

4. The October 2016 ANOPR resulted from the Commission's ongoing assessment of its oil pipeline policies, including evaluation of page 700 reporting requirements following the Joint Shippers' petition. In the ANOPR, the Commission sought comment regarding potential modifications to its policies for reviewing protests and complaints against oil pipeline index rate filings. In addition, the Commission sought comment regarding potential modifications to the data reporting requirements reflected on page 700. Initial comments were filed in January 2017⁶ and reply comments were filed in March 2017.⁷

II. Discussion

5. Upon review of the record developed in this proceeding, we are not persuaded to proceed with the changes considered in either the ANOPR or the Joint Shippers' petition.

(SFPP); NuStar Logistics LP; Enterprise Products Partners LP; and Buckeye Pipe Line Company, LP (Buckeye).

⁶ Initial comments were filed by R. Gordon Gooch, Delek Logistics Partners, LP, Kinder Morgan, Inc., Buckeye Partners, L.P., Suncor Energy Marketing Inc., NuStar Logistics, L.P. and NuStar Pipeline Operating Partnership L.P., Shell Pipeline Company, LP, Enterprise Products Partners L.P., Magellan Midstream Partners L.P., The Texas Pipeline Association, Indicated Shippers, Marathon Pipe Line LLC, Plains All American, L.P., Colonial Pipeline Company, Enbridge Inc., Sinclair Oil Corporation, the Liquids Shippers Group, AOPL, APV Shippers (Airlines for America, National Propane Gas Association, and Valero Marketing and Supply Company), and the Canadian Association of Petroleum Producers (CAPP).

⁷ Reply comments were filed by Magellan Midstream Partners L.P., APV Shippers, Indicated Shippers, the Liquid Shippers Group, the Canadian Association of Petroleum Producers, AOPL Enbridge, Inc, Colonial Pipeline Company, and R. Gordon Gooch.

6. Regarding the Joint Shippers' petition, the Commission previously identified concerns with the petition's proposal for (a) requiring supplemental page 700s for different rate design segments⁸ and (b) requiring pipelines to provide page 700 workpapers to shippers.⁹ We continue to believe that this information – which would effectively require every oil pipeline regulated by the Commission to file a detailed cost of service every year – is unnecessary and inconsistent with the purposes of the page 700 preliminary screen¹⁰ in the Commission's simplified and streamlined indexing regime.¹¹

⁸ ANOPR, 157 FERC ¶ 61,047 at PP 31-33.

⁹ *Id.* P 48. In the ANOPR, the Commission also explained: “The current data on page 700 allows a shipper to compare (a) a pipeline's revenues to its total cost of service and (b) changes to a pipeline's total cost of service.” *Id.* This is the data needed to challenge an index rate as well as for a cost-of-service challenge. The Commission also noted that requiring workpapers raised potential confidentiality concerns, including “(a) shipper information protected by section 15(13) of the ICA, which prohibits disclosure of an individual shipper's movements and (b) the pipeline's competitive business information.” *Id.* P 49. Although we decline to require workpapers, we note that page 700 includes additional data on lines 1-8 that provide significant detail regarding the pipeline's cost of service.

¹⁰ The Commission has stated that the total company data on page 700 merely serves as a preliminary screening tool to evaluate pipeline rates and that “[p]age 700 information alone is not intended to show what a just and reasonable rate should be.” *Revisions to Page 700 of FERC Form No. 6*, Order No. 783, 144 FERC ¶ 61,049, at P 4 (2013) (internal citations omitted). The level of the just and reasonable rate can be determined upon a subsequent investigation, most likely at hearing before an administrative law judge.

¹¹ Indexing simplifies and streamlines ratemaking procedures by allowing a particular pipeline's rates to deviate from its particular costs and by using a broad industry-wide inflationary measure as opposed to costly individual cost-of-service proceedings. *Revisions to Oil Pipeline Regulations Pursuant to Energy Policy Act of 1992*, Order No. 561, FERC Stats. & Regs. ¶ 30,985, at 30,948 (1993), *order on reh'g and clarification*, Order No. 561-A, FERC Stats. & Regs. ¶ 31,000 (1994), *aff'd sub nom.*

Whereas this proposal would provide some minimal benefit to shippers, under our simplified indexing regime, it would impose considerable industry-wide cost upon pipelines.¹² After carefully weighing these factors, and considering other avenues available to shippers, as discussed below, we reaffirm our earlier rejection of this proposal.

7. We also deny the Joint Shippers' request for supplemental page 700s that separately report crude oil and product pipeline system cost-of-service data. After further consideration of this proposal as part of the ANOPR proceeding, we conclude that imposing such an annual cost-of-service reporting obligation is unnecessary for the purposes of a preliminary screen in the Commission's simplified indexing regime. Segmentation of page 700 by crude and product would apply to a limited number of pipeline filers.¹³ Furthermore, shippers can use the data already on Form No. 6¹⁴ and

Ass'n of Oil Pipe Lines v. FERC, 83 F.3d 1424 (D.C. Cir. 1996) (*AOPL I*). As the United States Court of Appeals for the District of Columbia Circuit has explained, requiring an individualized cost-of-service evaluation for each pipeline would be inconsistent with the simplification mandated by the Energy Policy Act of 1992. *Ass'n of Oil Pipe Lines v. FERC*, 281 F.3d 239, 244 (D.C. Cir. 2002) (*AOPL II*).

¹² Moreover, the burden associated with segmentation is not a one-time burden. In addition to the annual record-keeping requirements, as pipelines add capacity, spin-off assets, and otherwise evolve, the pipelines would need to re-evaluate their rate design segments.

¹³ Our decision to deny the Joint Shippers' request is supported by the fact that there are only a limited number of page 700 filers (6.9 percent or 15 total filers) that transport significant quantities (greater than 10 percent of total pipeline capacity) of both crude oil and petroleum products as reflected on Form No. 6, page 601.

¹⁴ Regarding cost-of-service complaints, Form No. 6 already provides separate

their knowledge of the pipeline system to support any cost-of-service complaints. The record does not support imposing this additional annual reporting requirement on pipelines.

8. We also decline to adopt the proposal contemplated in the ANOPR that pipelines file supplemental page 700s for non-contiguous and major rate design systems.¹⁵ As a general matter, such filings would not provide shippers with the information needed to evaluate each pipeline system on a cost-of-service basis.¹⁶ However, despite providing limited benefits, these filings would involve some of the same complexity as full rate design segmentation, requiring the pipeline to allocate costs to different parts of its system either by direct assignment or via some other allocation method.¹⁷ Given this additional complexity, we conclude that requiring these supplemental page 700s filings

crude and product data for several costs, transportation revenues, and throughput. Pages 302-303 of Form No. 6 include separate crude and product cost data for salary and wages, fuel and power, outside services, rentals, insurance, taxes, and depreciation. Pages 300-301 of Form No. 6 separate revenues associated with crude transportation from revenues associated with product transportation.

¹⁵ ANOPR, 157 FERC ¶ 61,047 at P 28 (defining major pipeline systems as “large pipeline systems (at least over 250 miles) that serve markets (either origin or destination) different from the remainder of the pipeline’s system” and “separate pipeline systems (even those below the 250-mile threshold) established by a final Commission order in a litigated rate case”).

¹⁶ Much like the total company data, the partial segmentation proposals may commingle costs from multiple rate design systems or from parts of the system using different rate methodologies (such as indexed, market-based, and settlement rates).

¹⁷ *See id.* PP 35-42 (explaining how these proposals would require additional data on page 700 to address allocation issues); AOPL Initial Comments, Docket No. RM17-1, Van Hoecke Decl. at 25 (Jan. 18, 2017) (explaining allocation of costs).

would not be appropriate for the purposes of a preliminary screen in the Commission's simplified indexing ratemaking regime that relies upon industry-wide costs and not the pipeline's individual cost of service.

9. Finally, regarding the ANOPR's proposal to disaggregate revenue and throughput data between cost and non-cost based-rates,¹⁸ we find that this proposal would be overly complex, and therefore, not consistent with the Commission's simplified and streamlined indexing regime. Furthermore, the ANOPR's proposal to disaggregate revenue and throughput data between cost and non-cost based rates could lead to misleading comparisons of the pipeline's indexed rates on one portion of the pipeline system to the costs of the entire pipeline.¹⁹ Although the ANOPR sought to propose ways in which the data could nonetheless be useful,²⁰ we conclude that the potential distortion caused by such an "apples to oranges" comparison supports not imposing this disaggregation of revenue and throughput data as an annual, industry-wide reporting requirement. These issues are better addressed in individual cost-of-service complaint proceedings.

10. In declining to adopt these additional reporting obligations on page 700, we seek

¹⁸ ANOPR, 157 FERC ¶ 61,047 at PP 43-46.

¹⁹ For example, a contractual committed rate could apply to the newer part of the pipeline system for which the rate base has not depreciated. In contrast, the cost-based rates may apply to older, legacy parts of the system in which the rate base has depreciated. *Id.* at n.65. In acknowledging this mismatch, the Commission specifically stated that it did not intend to use the disaggregated revenues under the Commission's indexing regime, which is the primary regime for setting pipeline rates. *Id.* P 46.

²⁰ *Id.*

to preserve the intent of the Energy Policy Act of 1992 to ensure a simplified ratemaking regime. While these changes to page 700 would require pipelines to provide more cost-of-service information in their annual filings, the Commission's primary oil pipeline ratemaking regime is indexing, not cost of service.²¹ Since the Energy Policy Act of 1992, the Commission has periodically expanded the information that pipelines must report on page 700,²² and we are concerned about further expanding this reporting requirement in circumstances where, as here, we believe that it would provide minimal benefits to shippers while expanding the burden and complexity under our indexing regime. Rather than imposing another additional annual industry-wide reporting requirement, we prefer less burdensome and less complex options that are consistent with the Energy Policy Act of 1992's mandate for simplified rate regulation. For example, as an alternative to establishing an industry-wide reporting requirement, under the Commission's current policies, shippers are able to file cost-of-service complaints and,

²¹ *AOPL II*, 281 F.3d at 244.

²² As promulgated in 1994, page 700 included only *four* lines: (1) total costs, (2) revenues, (3) barrels, and (4) barrel-miles. *Cost-of-Service Reporting and Filing Requirements for Oil Pipelines*, Order No. 571, FERC Stats. & Regs. ¶ 31,006, at 31,168-69 (1994), *aff'd*, *AOPL I*, 83 F.3d 1424 (D.C. Cir. 1996). Page 700 subsequently expanded to include depreciation expense, amortization of deferred earnings, rate base, rate of return, return on rate base, income tax allowance, and total cost of service. *Revisions to and Electronic Filing of the FERC Form No. 6 and Related Uniform Systems of Account*, Order No. 620, FERC Stats. & Regs. ¶ 31,115 (2000), *reh'g denied*, Order No. 620-A, 94 FERC ¶ 61,130 (2001). The third iteration of page 700 added additional information regarding rate base, rate of return, return on trended original cost rate base, and income tax allowance. *Revisions to Page 700 of FERC Form No. 6*, Order No. 783, 144 FERC ¶ 61,049, at PP 29-40 (2013), *reh'g denied*, Order No. 783-A, 148 FERC ¶ 61,235 (2014).

once such a complaint is filed, an oil pipeline may be required to provide more specific data than the contents of page 700 upon a shipper's complaint against the pipeline's rates.²³ Furthermore, in responding to a cost-of-service complaint, the Commission will consider arguments beyond the total company cost-of-service data on page 700, and this more expansive evaluation could include claims by shippers that the pipeline's segments are obscuring over-recoveries. In such circumstances, the Commission will set such issues of material fact for hearing.²⁴ We believe this approach more appropriately balances pipeline and shipper interests under our simplified indexing regime.

11. We also decline to adopt the proposals in the ANOPR for modifying the Commission's policies for addressing protests and complaints against index rate increases. However, the Commission discusses some potential changes to these policies in our concurrent order in *HollyFrontier*.²⁵

²³ See *ConocoPhillips Co. v. SFPP, L.P.*, 137 FERC ¶ 61,005 (2011) (upon a cost-of-service complaint, requiring the pipeline to provide system-specific data prior to further investigation at hearing). Furthermore, if not available prior to the Commission's investigation at hearing, the additional information sought by the Joint Shippers' petition becomes available at an investigatory hearing as part of the discovery process.

²⁴ The Commission applies a flexible standard when deciding whether to set a cost-of-service complaint for hearing. See, e.g., *Epsilon Trading LLC v. Colonial Pipeline Co.*, 164 FERC ¶ 61,202, at PP 5, 50-51 (2018) (setting for hearing a cost-of-service complaint where pipeline's page 700 showed revenues exceeding costs by 2.5 percent, but the complainants alleged reasonable grounds to suggest that the cost components embedded in page 700 were not accurate).

²⁵ See *HollyFrontier Ref. & Mktg. LLC v. SFPP, L.P.*, v 170 FERC ¶ 61,133 (2020). Among other things, that order, explains that the substantially exacerbate test (which was one of the issues discussed in the ANOPR) is arguably inconsistent with the objectives of indexing, and proposes to eliminate the substantially exacerbate test and

12. Accordingly, we exercise our discretion to withdraw the ANOPR and to terminate the proceeding in Docket No. RM17-1. Similarly, we also deny the Joint Shippers' petition for rulemaking. We continue to monitor and evaluate the Commission's oil pipeline policies, and value the comments filed by participants in these proceedings. This input will be considered in our ongoing effort to identify potential enhancements to our regulatory policies and processes.

By direction of the Commission. Commissioner Glick is dissenting with a separate statement attached.

Issued: February 20, 2020

Kimberly D. Bose,
Secretary.

replace it with the percentage comparison test. We also plan to initiate a separate, generic proceeding in which we will be requesting briefing from industry participants on (a) the proposal to process complaints against index rate increases using the percentage comparison test and to eliminate the substantially exacerbate test and (b) the use of the 10 percent threshold level when applying the percentage comparison test to complaints.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Revisions to Indexing Policies and Page 700 of FERC
Form No. 6

Docket No. RM17-1-000

Petition for a Rulemaking of the Liquids Shippers
Group, Airlines for America, and the National Propane
Gas Association

RM15-19-000

GLICK, Commissioner, *dissenting*:

I am dissenting from today's order withdrawing the Advance Notice of Proposed Rulemaking (ANOPR) and denying shippers' petition for rulemaking, because the Commission must do more to ensure shippers and the Commission have the information necessary to protect against unjust and reasonable oil pipeline rates.²⁶ It is especially critical to provide shippers with adequate transparency into pipeline costs, given that the Commission has chosen to rely solely on shippers to ensure that pipeline rates are just and reasonable, as required by the Interstate Commerce Act (ICA).²⁷ The Commission has the statutory authority to initiate its own cost-of-service investigations into pipeline rates but has for decades chosen not to do so.²⁸ Instead of summarily terminating this proceeding, the Commission should have proceeded with a Notice of Proposed Rulemaking aimed at enhancing pipelines' data reporting requirements, so that the information available to shippers and the public is useful both in the evaluation of index filings and for cost-of-service rate challenges.

²⁶ *Revisions to Indexing Policies and Page 700 of FERC Form No. 6*, 170 FERC ¶ 61,134 (2020) (Withdrawal Order).

²⁷ 49 App. U.S.C. 1(5) (1988).

²⁸ As the Commission explained in Order No. 561, the Commission retains the responsibility to ensure rates are just and reasonable under the ICA, and for this reason it "will not promulgate an explicit bar to Commission-initiated rate investigations." *Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act of 1992*, Order No. 561, FERC Stats. & Regs. ¶ 30,985, at 30,967 (1993). Nonetheless, the Commission explained that, while it "believes it is advisable to retain the authority to investigate a rate on its own motion, it should make clear that it does not contemplate invoking such authority except in the most unusual circumstances." *Id.*

The Commission is responsible for ensuring that the rates oil pipelines charge are just and reasonable. Through the ANOPR, the Commission sought to enhance the transparency of information reported on FERC Form No. 6, page 700, to ensure the public can effectively assess the reasonableness of oil pipeline rates and so that the Commission can “better fulfill its statutory obligations under the ICA.”²⁹ As the Commission explained, a pipeline’s costs associated with providing one service may be “fundamentally different” from the costs of providing another service.³⁰ Because the Commission’s regulations only require pipelines to report company-wide data, the information currently available to shippers is at best, a rough approximation of the costs underlying a particular shipper’s rates.

In the ANOPR, the Commission proposed to require pipelines to report more granular data, so that shippers could use the information to compare the rate they are being charged “with costs that are more closely associated with that particular rate.”³¹ The Commission stated that this information “would be useful both in the evaluation of index filings . . . and for cost-of-service rate challenges to oil pipeline rates.”³² However, in today’s order, the Commission does a complete about-face, withdrawing its proposal on grounds that it is “unnecessary and inconsistent” with the purposes of a “preliminary screen.”³³ The Commission fails to explain how the information currently available to shippers is adequate for purposes of monitoring and challenging the justness and reasonableness of oil pipeline rates, except to say that shippers can use “their knowledge of the pipeline system to support any cost-of-service complaints.”³⁴ Moreover, while the Commission notes the potential cost impact this ANOPR proposal may have on oil pipeline companies, it appears to give scant consideration to the benefit this additional information would have for ratepayers and the public. Absent greater transparency into the costs underlying a specific rate, shippers are left with no more than a pitiable choice

²⁹ *Revisions to Indexing Policies and Page 700 of FERC Form No. 6*, 157 FERC ¶ 61,047, at P 5 (2016) (ANOPR Order).

³⁰ *Id.* P 27.

³¹ *Id.*

³² *Id.*

³³ Withdrawal Order, 170 FERC ¶ 61,134 at P 6.

³⁴ *Id.* P 7.

between the rate charged and a costly fishing expedition to obtain the information they need to challenge the rate in the first place.

In light of the Commission's historic practice of relying on shippers to challenge rates rather than initiate its own investigations where the rates charged may no longer be just and reasonable, it is imperative that the Commission ensure shippers have access to the information they need to carry out this essential check. In today's order, the Commission fails to fulfill its last remaining responsibility to ensure oil pipeline rates remain just and reasonable.

For these reasons, I respectfully dissent.

Richard Glick

Commissioner

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