

151 FERC ¶ 61,278  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

18 C.F.R. Part 342

[Docket No. RM15-20-000]

Five-Year Review of the Oil Pipeline Index

(June 30, 2015)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Notice of inquiry.

SUMMARY: The Federal Energy Regulatory Commission (Commission) invites comments on its proposed five-year review of the index level used to determine annual changes to oil pipeline rate ceilings. The Commission proposes an index level between the Producer Price Index for Finished Goods (PPI-FG)+2.0 percent and PPI-FG+2.4 percent for the five-year period commencing July 1, 2016. The Commission invites interested persons to submit comments regarding this proposal and any alternative methodologies for calculating the index level.

DATES: Initial Comments are due [**Insert date 45 days after publication in the Federal Register**], and Reply Comments are due [**Insert date 75 days after publication in the Federal Register**].

ADDRESSES: You may submit comments, identified by docket number by any of the following methods:

- Agency Web Site: <http://www.ferc.gov>. Documents created electronically using word processing software should be filed in native applications or print-to-PDF

format and not in a scanned format. All supporting workpapers must be submitted with formulas and in a spreadsheet format acceptable under the Commission's eFiling rules.

- Mail/Hand Delivery: Commenters unable to file comments electronically must mail or hand deliver an original to: Federal Energy Regulatory Commission, Office of the Secretary, 888 First Street, NE, Washington, DC 20426.

FOR FURTHER INFORMATION CONTACT:

Monil Patel (Technical Information)  
Office of Energy Market Regulation  
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888 First Street, NE  
Washington, DC 20426  
(202) 502-8296

Andrew Knudsen (Legal Information)  
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Federal Energy Regulatory Commission  
888 First Street, NE  
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SUPPLEMENTARY INFORMATION:

151 FERC ¶ 61,278  
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Docket No. RM15-20-000

NOTICE OF INQUIRY

(June 30, 2015)

1. The Commission annually applies an index to existing oil pipeline transportation rate ceilings to establish new rate ceiling levels. The Commission reexamines this index every five years.<sup>1</sup> In this notice of inquiry (NOI), the Commission invites comments on its proposal to use an index level between the Producer Price Index for Finished Goods<sup>2</sup> (PPI-FG)+2.0 percent and PPI-FG+2.4 percent for the next five years beginning July 1, 2016.<sup>3</sup> This proposal is based upon the Kahn Methodology established in Order No. 561

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<sup>1</sup> The five-year review process was established in Order No. 561. *See Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act*, Order No. 561, FERC Stats. & Regs. ¶ 30,985 (1993), *order on reh'g*, Order No. 561-A, FERC Stats. & Regs. ¶ 31,000 (1994), *aff'd*, *Assoc. of Oil Pipelines v. FERC*, 83 F.3d 1424 (D.C. Cir. 1996).

<sup>2</sup> The PPI-FG represents the Producer Price Index for Finished Goods. The PPI-FG is determined and issued by the Bureau of Labor Statistics, U.S. Department of Labor.

<sup>3</sup> As provided by 18 C.F.R. § 342.3(d)(2) (2014), "The index will be calculated by dividing the PPI-FG for the calendar year immediately preceding the index year by the previous calendar year's PPI-FG." Multiplying the rate ceiling on June 30 of the index year by the resulting number gives the rate ceiling for the year beginning the next day, July 1.

and applied in subsequent five-year review proceedings.<sup>4</sup> The Commission proposes a range because not all pipelines have filed Form No. 6 data for 2014. The Commission will select a final index level at the conclusion of this proceeding. Commenters are invited to submit comments on, and justify alternatives to, the proposed index level. In addition to inviting comments, the Commission plans to hold a conference on July 30, 2015, to discuss the issues raised by this notice. A subsequent notice will provide additional details regarding the conference.

## **I. Background**

2. In Order No. 561, the Commission established an indexing methodology that allows oil pipelines to change rates based upon an annual index as opposed to making cost-of-service filings.<sup>5</sup> In Order No. 561, the Commission committed to review the index level every five years to ensure that the index level chosen by the Commission adequately reflects changes to industry costs.<sup>6</sup>

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<sup>4</sup> *Five-Year Review of Oil Pipeline Index*, 133 FERC ¶ 61,228, at PP 5-9, 60-63 (2010), *order on reh'g*, 135 FERC ¶ 61,172 (2011). *See also Five-Year Review of Oil Pipeline Index*, 102 FERC ¶ 61,195 (2003), *aff'd*, *Flying J Inc., et al., v. FERC*, 363 F.3d 495 (D.C. Cir. 2004); *Five-Year Review of Oil Pipeline Index*, 114 FERC ¶ 61,293 (2006).

<sup>5</sup> Order No. 561, FERC Stats. & Regs. ¶ 30,985 at 30,947.

<sup>6</sup> *Id.*

3. In Order No. 561 and each successive index review, the Commission calculated the index level based upon a methodology developed by Dr. Alfred E. Kahn.<sup>7</sup> The Kahn Methodology measures changes in operating costs and capital costs on a per barrel-mile basis using FERC Form No. 6 (Form No. 6) data from the prior five-year period (for example, between 2009 and 2014 in this proceeding).<sup>8</sup> The Kahn Methodology uses net carrier property per barrel-mile as a proxy for capital cost data. The Kahn Methodology assigns a weight to the Form No. 6 operating expenses relative to the net carrier property using an “operating ratio.”<sup>9</sup> The weighted operating expense and the weighted net carrier property are then added together to establish the cumulative cost change for each pipeline.<sup>10</sup>

4. Once these cumulative cost changes have been calculated for each pipeline with sufficient Form No. 6 data, the Kahn Methodology culls a data set consisting of pipelines

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<sup>7</sup> The Commission’s use of the Kahn Methodology has been affirmed by the United States Court of Appeals for the District of Columbia Circuit. *Assoc. of Oil Pipelines v. FERC*, 83 F.3d 1424 (D.C. Cir. 1996) and *Flying J Inc., et al., v. FERC*, 363 F.3d 495 (D.C. Cir. 2004).

<sup>8</sup> Specifically, this data is drawn from the Form No. 6: Carrier Property, page 110; Accrued Depreciation, page 111; Operating Revenues and Operating Expenses, page 114; Crude and Products Barrel-Miles, page 600. To the extent this information is incomplete, alternate data reported in the Form No. 6 has been substituted.

<sup>9</sup> The “operating ratio” = ((Operating Expense at Year 1 / Operating Revenue at Year 1) + (Operating Expense at Year 5 / Operating Revenue at Year 5))/2. If the operating ratio is greater than one, then it is assigned the value of 1 in the Kahn Methodology calculations.

<sup>10</sup> Cumulative Cost Change = (1-operating ratio) \* net plant + operating ratio \* operating expenses.

with cumulative per-barrel-mile cost changes in the middle 50 percent of all pipelines. This trimming removes statistical outliers or spurious data points that could bias the sample in either direction. For the middle 50 percent data set, the Kahn Methodology considers three different measures of central tendency. One measure is the median of each data set. Another measure, the weighted mean, calculates an average barrel-mile cost change in which each pipeline's cost change is weighted by its barrel-miles. A third measure, the un-weighted average, calculates the simple average of the percentage cost change per barrel-mile for each pipeline. A composite is calculated by taking the simple average of the median, the weighted mean, and the un-weighted mean. This composite is compared to the value of the PPI-FG index data over the same period. The index level is then set at PPI-FG plus (or minus) this differential.

## **II. Commission Proposal**

5. The Commission proposes to use an index level between PPI-FG+2.0 percent and PPI-FG+2.4 percent as the index level for the five-year period commencing July 1, 2016. This proposal is based upon the Kahn Methodology as applied to Form No. 6 data from the 2009 through 2014 period. The Commission's calculations are included in Attachment A to this order.

## **III. Conference and Comment Procedures**

6. The Commission invites interested persons to submit comments regarding this proposal and any alternative methodologies for calculating the index level for the five-year period commencing July 1, 2016.

7. Initial Comments are due **[Insert date 45 days after publication in the Federal Register]** and Reply Comments are due **[Insert date 75 days after publication in the Federal Register]**. Comments must refer to Docket No. RM15-20-000, and must include the name of the commenter, and if applicable, the organization represented and their address. On July 30, 2015, the Commission plans to hold a conference to discuss the issues raised by this notice. A subsequent notice will provide additional details regarding the conference.
8. The Commission encourages comments to be filed electronically via the eFiling link on the Commission's web site at <http://www.ferc.gov>. The Commission accepts most standard word processing formats. Documents created electronically using word processing software should be filed in native applications or print-to-PDF format and not in a scanned format. All supporting workpapers must be submitted with formulas and in a spreadsheet format acceptable under the Commission's eFiling rules. Commenters filing electronically do not need to make a paper filing.
9. Commenters that are not able to file comments electronically must send an original of their comments to: Federal Energy Regulatory Commission, Secretary of the Commission, 888 First Street NE, Washington, DC 20426.
10. All comments will be placed in the Commission's public files and may be viewed, printed, or downloaded remotely as described in the Document Availability section below. Commenters are not required to serve copies of their comments on other commenters.

**IV. Document Availability**

11. In addition to publishing the full text of this document in the Federal Register, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through the Commission's Home Page (<http://www.ferc.gov>) and in the Commission's Public Reference Room during normal business hours (8:30 a.m. to 5:00 p.m. Eastern time) at 888 First Street, NE, Room 2A, Washington DC 20426.

12. From the Commission's Home Page on the Internet, this information is available in the Commission's document management system, eLibrary. The full text of this document is available on eLibrary in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in eLibrary, type the docket number (excluding the last three digits) in the docket number field.

13. User assistance is available for eLibrary and the Commission's website during normal business hours. For assistance, please contact the Commission's Online Support at 1-866-208-3676 (toll free) or 202-502-6652 (e-mail at [FERCOnlineSupport@ferc.gov](mailto:FERCOnlineSupport@ferc.gov)) or the Public Reference Room at 202-502-8371, TTY 202-502-8659 (e-mail at [public.referenceroom@ferc.gov](mailto:public.referenceroom@ferc.gov)).

By direction of the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.