

116 FERC ¶ 61,291
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

BP Pipelines (Alaska) Inc.

ConocoPhillips Transportation Alaska, Inc.

Docket No. OR06-10-000

ExxonMobil Pipeline Company

Koch Alaska Pipeline Company

Unocal Pipeline Company

ORDER ACCEPTING REPLACEMENT PRICE
AND SETTING PROCESSING COST ADJUSTMENT FOR HEARING

(Issued September 26, 2006)

1. On July 28, 2006, the Trans Alaska Pipeline System Carriers¹ (TAPS Carriers) filed a notice of Radical Alteration in Basis for West Coast Heavy Distillate Price Quotation and Recommended Replacement Price (Replacement Notice). The Replacement Notice proposed to change the proxy price used to value the Heavy Distillate cut of the TAPS Quality Bank. This order accepts the proposed replacement price, to be effective June 1, 2006, subject to refund, and sets the processing cost adjustment for hearing.

2. The TAPS Quality Bank, which provides for adjustment between shippers of Alaska North Slope (ANS) crude oil depending on the quality of the crude oil, has been

¹ BP Pipelines (Alaska) Inc. (BPP), ConocoPhillips Transportation Alaska, Inc. (Conoco), Exxon/Mobil Pipeline Company (Exxon/Mobil), Koch Alaska Pipeline Company (Koch), and Unocal Pipeline Company (Unocal).

the subject of extensive litigation culminating in Federal Energy Regulatory Commission (FERC) Opinion Nos. 481, 481-A and 481-B.²

3. The TAPS Quality Bank is administered by the Quality Bank Administrator (QBA). The Quality Bank uses the distillation methodology for valuing the injected ANS crude oil whereby streams are distilled into specified components. Each of those components is then valued.

4. Each TAPS Carriers' tariff has the identical provision of the procedure to be followed by the QBA if the specifications for one of the price quotations used in the Quality Bank is radically altered. That procedure requires the QBA to notify the Commission of the event and to propose an appropriate replacement product price, with explanation and justification. Parties can file comments within thirty days, and if the Commission takes no action within sixty days of the filing, the replacement product price proposed by the QBA will become effective as of the sixtieth day. If comments are filed, the Commission can either determine the new price or set it for hearing.

5. Opinion No. 481 established the reference price used to value the Heavy Distillate component on the West Coast as Platts' West Coast spot quote for Los Angeles Pipeline LS (EPA) Diesel, which had a sulfur content of 500 ppm. An adjustment of 6.4302 cents per gallon is deducted from the reference price to account for the cost of processing ANS petroleum to reduce the sulfur content from 5,000 ppm to 500 ppm to meet the sulfur specification for the referenced product. Effective June 1, 2006, Platts changed the diesel reference price to one for an ultra low sulfur diesel with a sulfur content of 8 ppm.

6. The QBA notice stated that the QBA has determined that this change in the sulfur specification is a radical alteration because more expensive processing is required to meet the lower sulfur specification. The QBA recommended that a new replacement price, LA Pipeline ULS (EPA) Diesel, together with the proposed processing cost adjustment of minus 10.4549 cents per gallon. If the Commission set the new replacement price for hearing, the QBA recommended that the replacement price take effect subject to refund.³

² *Trans Alaska Pipeline System*, Opinion No. 481, 113 FERC ¶ 61,002 (2005), *modified*, Opinion No. 481-A, 114 FERC ¶ 61,323 (2006), *aff'd and clarified*, Opinion No. 481-B, 115 FERC ¶ 61,287 (2006).

³ The QBA recommends the previously effective proxy price for Heavy Distillate be used to value West Coast Heavy Distillate, for the period commencing June 1, 2006 based on Opinion No. 481, until the new valuation being proposed in the Replacement Notice goes into effect. We see no need for this interim valuation.

7. A number of parties filed comments protesting the QBA's proposed change, asserting the proposed replacement value for the Heavy Distillate cut has not been shown to be just and reasonable, and may be unjust, unreasonable, and unduly preferential and discriminatory. They request that the Commission institute a hearing to investigate the matter.⁴ Reply Comments and Answers to the comments were filed after the thirty-day comment period.

8. The comments and reply comments expressed a number of different and contrasting positions, and a number of comments included affidavits supporting their position. Some commenters assert that the proposed new West Coast Heavy Distillate valuation formula grossly overstates the value of ANS Heavy Distillate on the West Coast, and other commenters assert the opposite position. Some commenters accepting the proposed replacement proxy product object to the proposed processing cost adjustment. Other commenters object to the proposed replacement proxy product and suggest that other proxy product prices are available that would not require a modified sulfur processing cost adjustment. There are also differing positions as to what issue should be set for hearing.

9. The issues raised by the comments on that QBA notice include what proxy product to use, and what costs are involved in the more severe processing to meet the new sulfur specifications. There is insufficient information to enable the Commission to resolve the issues raised by the comments. It therefore appears appropriate to establish hearing procedures to examine the issues raised. In light of the past history of Quality Bank proceedings, we will not defer the hearing for settlement procedures.

10. The hearing should be governed, to the extent possible, by the results of prior Quality Bank rulings in Opinion Nos. 481 and 481-A. Thus, only issues as to cost elements that increase or change as a result of the more severe processing required to meet the sulfur specifications associated with the new Ultra Low Sulfur Diesel price used to value Heavy Distillate should be determined in this proceeding.

11. We will also accept the QBA's recommendation as to the valuation of the Heavy Distillate on the West Coast pending the final order. The value of Heavy Distillate on the West Coast will be the Monthly average of Platts quotation for Pipeline, Los Angeles

⁴ Parties filing comments were jointly BP Exploration (Alaska, Inc.) and BP Oil Supply Company, ConocoPhillips Alaska Inc., Petro Star, Inc., jointly Chevron USA Inc. and Union Oil Company of California, Flint Hills Resources Alaska, LLC, and Exxon Mobil Corporation. The State of Alaska filed to intervene. The motion of Tesoro Alaska Company to intervene out of time is granted for good cause.

ULS (EPA) Diesel minus 10.4549 cents per gallon. The processing adjustment of 10.4549 cents per gallon should be adjusted annually each February using Nelson Farrar Refinery Operating Cost indices, as is the current practice. This value will be subject to refund when the Commission issues the final order.

The Commission orders:

(A) Pursuant to the authority of the Interstate Commerce Act, and the Commission's regulations, a hearing is established to address the issues raised in Docket No. OR06-10-000.

(B) Effective June 1, 2006, subject to refund, the value of Heavy Distillate on the West Coast will be the Monthly average of Platts quotation for Pipeline, Los Angeles ULS (EPA) Diesel minus 10.4549 cents per gallon.

(C) Pursuant to section 375.304 of the Commission's regulations, 18 C.F.R. § 375.304 (2002), the Chief ALJ shall designate a Presiding ALJ for the purpose of conducting a hearing. The Presiding ALJ is authorized to conduct further proceedings pursuant to this order and the Commission's Rules of Practice and Procedure.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.