

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, and Nora Mead Brownell.

Trans Alaska Pipeline System, et al.

Docket No. OR89-2-000, et al.

ORDER ACCEPTING REPLACEMENT PRODUCT PRICE AND
CONSOLIDATING ISSUES WITH HEARING PROCEEDINGS

(Issued August 13, 2003)

1. On June 18, 2003, the Trans Alaska Pipeline System (TAPS) Quality Bank Administrator (QBA) filed a Notice of TAPS QBA stating that there has been a radical alteration in the basis for reporting one of the product prices used to calculate the TAPS Quality Bank adjustments. Pursuant to the Quality Bank Tariff, the QBA proposed a replacement product price. The Commission accepts the QBA's proposed replacement product price, effective August 17, 2003, and consolidates the issues raised by the QBA's notice with the ongoing proceedings in Docket No. OR89-2-000, et al.

Background

2. The TAPS Quality Bank is a system for making monetary adjustments among shippers on TAPS for the differing qualities of petroleum they ship in TAPS. Under the current TAPS Quality Bank distillation methodology, the different distilled cuts are assigned specific pricing based on published, publicly available figures. The methodology provides for the QBA to give notice of any proposed or needed modification to the pricing scheme. Where changes are proposed, parties may file comments within 30 days of the filing, and the proposed change will become effective on the 60th day after the filing if the Commission takes no action as of that date.

3. On March 28, 2003, the Commission accepted and suspended tariff filings by the TAPS Carriers to implement a decision by the QBA in February 2003 to use the Gulf Coast Waterborne assessment for Heavy Naphtha newly reported in Platts Oilgram Price Report (Platts), rather than continuing to use Platts reported Gulf Coast Naphtha price assessment, to value the 175-350 degrees Fahrenheit component of both the Gulf Coast

and the West Coast.¹ The filing had been protested by a number of parties. Because the issues raised by the TAPS Carriers' filings are related to issues regarding valuation of the naphtha component of each of the streams transported in TAPS pending in the ongoing proceedings in Docket No. OR89-2-000, et al., the Commission consolidated the filings with the ongoing proceedings.

The QBA's Notice

4. The QBA states that beginning May 1, 2003, Platts began publishing two Gulf Coast waterborne assessments for Heavy Naphtha, labeled "Heavy Naphtha" and "Heavy Naphtha Barge," without any explanation of how the two assessments differ from each other or from the prior "Heavy Naphtha" assessment. The QBA also reports that according to Platts, the "Heavy Naphtha" assessment is for transactions involving a ship's cargo (volumes up to 250,000 barrels), and the "Heavy Naphtha Barge" assessment is for transactions involving the contents of a barge (typically 50,000 barrels). The QBA points out that when the QBA in February 2003 chose Platts Waterborne Heavy Naphtha price assessment to value the Naphtha component, the Heavy Naphtha assessment included both barge and cargo transactions. The QBA continues that since Platts has elected to report the barge and cargo transactions separately, its price assessment for "Heavy Naphtha" now covers only transactions in cargos. The QBA states that if the specifications or other basis for the Heavy Naphtha quotation has been radically altered, the QBA may propose a replacement product price. The QBA concludes that because there are different quotes, the QBA is required to propose an appropriate replacement product price.²

5. The QBA states that he has been advised by Platts that there are numerous transactions for the sale of Heavy Naphtha on the Gulf Coast in both barge and cargo lots, although barge transactions may slightly predominate. The QBA states further that, to the best of the QBA's knowledge, there are no data available that would allow calculation of either a volume weighted or a transaction weighted average of the assessments. Accordingly, the QBA concludes that both markets are representative of the

¹ BP Pipelines (Alaska) Inc., et al., 102 FERC ¶ 61,345 (2003).

²The QBA relies on Section III.G.5.b. of the TAPS Carriers' Quality Bank Methodology Tariffs:

If both of the product prices listed in Attachment 2 for a component are no longer quoted or if the specifications or other basis for the remaining quotation(s) is radically altered, the Quality Bank Administrator shall notify the FERC, the RCA [Regulatory Commission of Alaska] and all shippers of this fact and propose an appropriate replacement product price with explanation and justification.

market for Heavy Naphtha on the Gulf Coast, with neither more representative than the other. The QBA thus proposes that the replacement price for the Naphtha component on both the Gulf Coast and the West Coast be the arithmetic average of the average monthly price for Gulf Coast Waterborne "Heavy Naphtha" and Gulf Coast Waterborne "Heavy Naphtha Barge" as reported to Platts.

Comments

6. Williams Alaska Petroleum Inc., Exxon Mobil Corporation, ConocoPhillips Alaska, Inc., and BP Exploration (Alaska) Inc. and BP America Production Company filed timely comments. Union Oil Company of California (Unocal) filed comments and a motion to file out of time which the Commission grants for good cause as Unocal is an active party to the proceedings in Docket No. OR89-2-000, et al. as are the other commenters. Exxon Mobil filed reply comments and an answer to Unocal's motion. ConocoPhillips filed an answer to the comments.

7. All commenters adhere to the varying positions they have advanced on the record at hearing in the proceedings in Docket No. OR89-2-000, et al., regarding the ultimate valuation of the Gulf Coast and West Coast Naphtha components of the TAPS streams. They also have varying views as to how and to what extent the QBA's notice should be considered. All seem to agree, however, that the issues presented by the QBA's notice cannot be resolved on the pleadings here alone, though they differ somewhat on the appropriate procedures to be applied to determine the issue.

Discussion

8. The issues presented by the QBA's notice are related to the issues regarding valuation of the naphtha cut pending in the proceedings in Docket No. OR89-2-000, et al. Accordingly, the Commission will consolidate the issues in the QBA's notice for consideration with issues in those proceedings. The hearing in the Docket No. OR89-2-000, et al. proceedings, however, concluded on June 14, 2003, and initial briefs are due September 12, 2003. The Commission, therefore, will leave it to the discretion of the presiding judge to determine how the issue should be addressed.

9. In the interim, until a determination is reached regarding the valuation of the naphtha cut, the Commission will accept the replacement product price proposed by the QBA, to be effective August 17, 2003. The acceptance is subject to refund.

The Commission orders:

(A) The replacement product price proposed by the QBA is accepted, effective August 17, 2003, subject to refund and the outcome of the proceedings in Docket No.

OR89-2-000, et al.

(B) The issues raised by the QBA's notice are consolidated with the issues in the ongoing proceedings in Docket No. OR89-2-000, et al.

(C) The Chief Judge may authorize a change to the Track III procedures established in Docket No. OR89-2-000, et al. as necessary.

By the Commission.

(S E A L)

Linda Mitry,
Acting Secretary.