144 FERC ¶ 61,085
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony Clark.

Enbridge Pipelines (Illinois) LLC Docket No. OR13-19-000

ORDER ON PETITION FOR DECLARATORY ORDER

(Issued July 31, 2013)

1. On May 2, 2013, Enbridge Pipelines (Illinois) LLC (Enbridge Illinois) filed a Petition for Declaratory Order (Petition). Enbridge states that approval of the Petition will support its proposed Southern Access Extension Project (Project), which will provide new pipeline capacity to transport crude petroleum from Flanagan, Illinois, to the pipeline hub at Patoka, Illinois. Enbridge Illinois explains that the Project involves construction of a new 165-mile pipeline at an estimated cost of $720 million. Enbridge Illinois seeks Commission action on the Petition by July 31, 2013, to permit timely completion of the Project.

2. As discussed below, the Commission grants the Petition.

Background

3. Enbridge Illinois states that the Project is expected to commence service in the second quarter of 2015. According to Enbridge Illinois, the Project currently is sized as a 24-inch pipeline that will provide up to 300,000 barrels per day (bpd) of capacity for crude oil transportation. Emphasizing that the Project involves a substantial capital investment, Enbridge Illinois explains that it conducted a widely-publicized open season from December 12, 2012, to January 18, 2013, seeking term and volume commitments from shippers in return for priority service at a premium rate. Enbridge Illinois also states that it intends to conduct an additional open season,[1] and depending on the results of the additional open season, Enbridge Illinois states that it may increase the size of the pipeline to 30 or 36 inches. Enbridge Illinois adds that up to 90 percent of the capacity will be available for committed volumes, while at least 10 percent will be reserved for uncommitted volumes.

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[1] Enbridge Illinois conducted the additional open season from June 5 to July 19, 2013. *See* http://www.enbridge.com/MediaCentre/News.aspx?yearTab=en2013&id=1728157.

4. Enbridge Illinois states that the tariff structure for the Project provides separate rates for committed and uncommitted shippers, and various commitment levels. Enbridge Illinois further states that at each volume level, committed shippers will pay a premium rate that is at least $0.01 more than the rate applicable to comparable uncommitted volumes moving from the same receipt point to the same destination point as the committed volumes.

5. Enbridge Illinois asks the Commission to confirm that:

a. for the terms of their Transportation Service Agreements (TSA), the committed shippers will pay the rates calculated under the TSAs applicable to the open season in which they participated;

b. Enbridge Illinois can provide up to 90 percent of the capacity created by the Project as priority committed capacity at a premium rate for the committed shippers that signed TSAs during one of the open seasons;

c. Enbridge Illinois can implement a tariff rate structure for both committed and uncommitted shippers that includes a base rate and a separate power charge that will be trued up to actual power costs at the end of each calendar year; and

d. Enbridge Illinois can implement a lottery provision for allocation of uncommitted space to prevent any uncommitted shipper's allocation from falling below the minimum batch size during periods of prorationing.

Description of the Filing[2]

6. Enbridge Illinois states that the Project will provide additional market access for crude oil transported from both Canada and the Bakken Region of the U.S. on the Enbridge Energy Partners, L.P. Mainline System (Enbridge Mainline), thereby affording shippers access to refineries seeking light crude oil that are served by pipelines originating at Patoka. Enbridge Illinois explains that North Dakota Bakken oil production rose from approximately 100,000 bpd in 2006 to approximately 770,000 bpd annualized in 2012. Enbridge Illinois adds that North Dakota officials forecast that production may reach 850,000 bpd by early 2014. Enbridge Illinois emphasizes that the Project is intended to address in part the rapidly growing production in the Bakken region and the critical need for new infrastructure to link that region to refinery markets. Enbridge Illinois maintains that the expanded capacity linking production in the north to

[2] Throughout the Petition, Enbridge Illinois relies on additional details contained in the Affidavit of Sheldon Bueckert attached to the Petition.

refineries served through Patoka will provide a long-term, stable, and reliable source of energy, which will enhance our nation's energy security and independence.

7. Enbridge Illinois states that notice of the first open season was provided to all approved shippers on the Enbridge Mainline, with additional notice provided by press releases and published in at least 10 trade and general circulation print and online publications. According to Enbridge Illinois, 14 interested parties participated in the first open season, signed confidentiality agreements, and received copies of the TSA.

8. Enbridge Illinois asserts that the Project will require a large capital investment; therefore, the success of the Project depends on the support of committed shippers that make long-term ship-or-pay commitments at premium rates. Enbridge Illinois acknowledges that such shippers need assurance that they will be able to transport their volumes during the terms of their TSAs and that as much as 90 percent of the Project's total capacity will be available to them. Further, states Enbridge Illinois, subject to Commission approval in this proceeding, these shippers' committed volumes will not be subject to prorationing under ordinary operating conditions.

9. Additionally, Enbridge Illinois points out that the base committed rates are subject to adjustment if the actual costs of constructing the Project exceed the estimate. Enbridge Illinois explains that the TSA permits it to adjust the committed shippers' rates annually as of July 1, commencing the year following the in-service date, in accordance with the Commission's annual index determination.[3] Enbridge Illinois also states that, should the Commission's indexing requirement terminate during the term of the TSAs, the adjustment will be based on the annual Producer Price Index published in the immediately preceding May, plus two percent. Enbridge Illinois adds that it will adjust the uncommitted base rate annually using the Commission's oil pipeline index.

10. Enbridge Illinois next states that it will impose a separate power cost charge on both committed and uncommitted volumes, regardless of volume level. Enbridge Illinois explains that this charge will be determined at the beginning of each year on the basis of estimated power costs and throughput volumes, and it will true-up these costs to actual power costs and throughput volumes at the end of the year. According to Enbridge Illinois, any difference from the forecasted costs and throughput volumes will be factored into the following year's power cost charge. Enbridge Illinois states that, in the final year of any committed shipper's contract term, any difference determined by the true-up will be reflected as either an invoice or a refund that will be issued to the committed shipper. Further, states Enbridge Illinois, if at any point during a year, actual power costs vary from the forecasted costs by more than 10 percent, it may make an interim power charge adjustment to mitigate the amount of any over- or under-recovery at the end of the year.

[3] Enbridge Illinois cites 18 C.F.R. § 342.3 (2012).

11. Enbridge Illinois states that it also plans to include a per-barrel heavy crude surcharge of 22 percent of the base tariff rates for committed and uncommitted shippers on all actual shipments of heavy crude. Enbridge Illinois asserts that this is similar to rate structures of other pipelines, including the Enbridge Mainline.[4]

12. Finally, Enbridge Illinois states that another feature of the TSA it offered is a lottery mechanism to allocate capacity in the event that *pro rata* apportionment results in no uncommitted shipper being allocated the minimum volume of 50,000 barrels. According to Enbridge Illinois, in a month in which this occurs, the lottery process will utilize random number generating software to assign each uncommitted shipper a random number. Enbridge Illinois explains that the minimum volume allocation will be assigned to uncommitted shippers sequentially, starting with the shipper that received the lowest number in the random assignment process until the available capacity is fully allocated. Enbridge Illinois adds that this process will ensure that *pro rata* allocations do not become so fractional that each shipper effectively receives zero capacity.

13. Enbridge Illinois emphasizes that the Commission has approved a variety of methods for allocating capacity during times of excess demand, stating that "pipelines should have some latitude in crafting allocation methods to meet circumstances specific to their operations."[5] For example, continues Enbridge Illinois, the Commission has upheld an array of history-based apportionment methods as the basis for allocating capacity.[6] Citing certain features of its proposed rate design (uncommitted rates that are $0.01 lower than committed rates, premium rates for committed shippers in exchange for guaranteed capacity rights), Enbridge Illinois maintains that the Commission has

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[4] Enbridge Illinois cites *Express Pipeline P'ship,* 76 FERC ¶ 61,245 at 62,257 (1996) (accepting the proposed rate differential between light, medium, and heavy grades of crude oil as just and reasonable); *TransCanada Keystone Pipeline, L.P*., 125 FERC ¶ 61,025, at PP 10, 22 (2008) (*TransCanada Keystone)* (approving a request to charge committed shippers a variable rate for transportation of light crude oil set at 70 percent of the rate for higher density heavy crude oil); *Shell Pipeline Co., LP,* 141 FERC ¶ 61,017 (2012) (accepting viscosity surcharge provision, which imposed higher rates for transportation of crude oil that exceeded a certain viscosity level).

[5] Enbridge Illinois cites *Mid-America Pipeline Co., LLC*, 106 ¶ 61,094, at 61,336 (2004) (citing *SFPP, L.P*., 86 FERC ¶ 61,022, at 61,115 (1999) and *Total Petroleum Inc. v. Citgo Products Pipeline, Inc*., 76 FERC ¶ 61,164, at 61,947 (1996)).

[6] Enbridge Illinois cites, *e.g., Bridger Pipeline, LLC,* 123 FERC ¶ 61,081 (2008); *ConocoPhillips Transp. Alaska, Inc*., 112 FERC ¶ 61,213 (2005).

approved requests for priority service on terms directly comparable to those it proposes in the Petition.[7]

14. Similarly, continues Enbridge Illinois, the Commission has approved other requests to offer priority service to shippers that entered into long-term volume commitments in support of similar projects, while also preserving access for uncommitted shippers.[8] Enbridge Illinois points out that the Commission recognized the importance of committed shippers to the pipeline's capital financing, distinguishing those shippers from uncommitted shippers, which are not required to ship or pay each month.[9]

15. Enbridge Illinois contends that its proposal is consistent with Commission precedent in reserving 90 percent of capacity for committed volumes, while ensuring that uncommitted volumes have access to 10 percent of the capacity. Enbridge Illinois points out that the Commission has not established a minimum percentage of capacity that must be set aside for uncommitted shippers, but asserts that the Commission has indicated that a reservation of 10 percent of capacity for uncommitted shippers is sufficient to provide reasonable access.[10]

16. According to Enbridge Illinois, its proposed power cost charge also is consistent with Commission precedent. Enbridge Illinois explains that the Commission has permitted pipelines to track changes in cost items, provided that they include true-up mechanisms to guarantee that changes are tracked accurately.[11] Finally, Enbridge Illinois asserts that its proposed lottery provision is consistent with Commission precedent.[12]

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[7] Enbridge Illinois cites *Shell Pipeline Co., LP*, 139 FERC ¶ 61,228 (2012); *Kinder Morgan Pony Express Pipeline LLC*, 141 FERC ¶ 61,180, at P 22 (2012); *Enbridge Energy Co.*, 110 FERC ¶ 61,211, at P 36 (2005).

[8] Enbridge Illinois cites *CCPS Transp., LLC*, 121 FERC ¶ 61,253 (2007) (*CCPS Transp*).

[9] Enbridge Illinois cites *CCPS Transp.*, 121 FERC ¶ 61,253, at P 19 (2007). *See also Sunoco Pipeline, LP*, 139 FERC ¶ 61,259, at P 13 (2012) (*Sunoco*).

[10] Enbridge Illinois cites *Sunoco*, 139 FERC ¶ 61,259, at PP 9, 14 (2012).

[11] Enbridge Illinois cites, *e.g., ANR Pipeline Co.*, 110 FERC ¶ 61,069, at P 26 (2005); *Colorado Interstate Gas Co.*, 115 FERC ¶ 61,322 (2006); *Wyoming Interstate Company Ltd.*, 122 FERC ¶ 61,303 (2008); *El Paso Natural Gas Co.*, 114 FERC ¶ 61,305, at PP 207-208 (2006); *TransCanada Keystone*, 125 FERC ¶ 61,025, at 61,075 (2008).

[12] Enbridge Illinois cites, *e.g., Seaway Crude Pipeline Co. LLC*, 143 FERC ¶ 61,036 (2013); *Enbridge Pipeline (North Dakota) LLC*, 140 FERC ¶ 61,193 (2012); *CCPS Transp. LLC*, 139 FERC ¶ 61,125, at P 15 (2012).

Public Notice, Interventions, and Protests

17. Notice of the filing was issued May 7, 2013, with interventions and protests due on June 3, 2013. Pursuant to Rule 214 of the Commission's regulations,[13] all timely-filed motions to intervene and any unopposed motion to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not delay or disrupt the proceeding or place additional burdens on existing parties.

18. Flint Hills Resources Canada, LP (Flint Hills) filed a motion to intervene and a conditional protest. BP Products North America Inc. and BP Canada Energy Group ULC (together, BP) filed a motion to intervene and a limited protest. BP subsequently withdrew its limited protest. Marathon Petroleum Company LP (Marathon) filed a motion to intervene out of time and comments. The Canadian Association of Petroleum Producers also filed a motion to intervene out of time.

19. Marathon states that Enbridge Illinois' Petition does not request any changes to the tariff for the Enbridge Mainline. Marathon adds that the Commission's order in this proceeding should not trigger changes to the Enbridge Mainline tariff.

20. Flint Hills states that it does not oppose construction of the Project or the proposed tariff reserving 90 percent of the capacity to be sold at premium rates to committed shippers. Flint Hills states that its non-opposition to such proposals is subject to the understanding and condition that the implementation of the proposed tariff structure and the underlying shipper commitments will not adversely affect service on the Enbridge Mainline as the result of a mismatch of capacity and resulting prorationing on the Enbridge Mainline. Flint Hills maintains that such impacts could be exacerbated by providing preferential access to Enbridge Mainline shippers with downstream delivery points. Absent review of the precedent agreements executed with committed shippers, Flint Hills contends that it is impossible to determine at this stage whether Enbridge Illinois has promised such shippers preferential access to Enbridge Mainline capacity. Flint Hills adds that its concern stems from an existing mismatch of Enbridge Mainline capacity with downstream expansion projects and Enbridge Energy Limited Partnership's related proposal in Docket No. IS13-17-000 to eliminate the historical-based cap on nominations, a proposal that Flint Hills believes to be driven by Enbridge Illinois' incentive to free up mainline capacity for long-haul movements by committed shippers with delivery points on downstream expansion projects.[14]

21. Enbridge Illinois filed reply comments, contending that Flint Hills has not raised any issues related to the limited relief that Enbridge Illinois seeks in the Petition, instead

[13] 18 C.F.R. § 385.214 (2012)

[14] *See Enbridge Energy, Limited P'ship*, 144 FERC ¶ 61,035 (2013).

presenting unsupported concerns regarding service and rates on the Enbridge Mainline. In addition to the fact that Flint Hills' concerns are unrelated to the Petition at issue here, Enbridge Illinois argues that such concerns are speculative and premature at this time. Enbridge Illinois emphasizes that Marathon noted in its comments that the Petition does not request any changes to the tariff of the Enbridge Mainline, and thus, aside from clarifying that the Enbridge Mainline tariff is not at issue here, any further discussion with respect to the Enbridge Mainline is not properly at issue here.

22. Enbridge Illinois states that Flint Hills' protest focuses on the question of whether Enbridge Illinois promised committed shippers on the Project that they would have preferential access to service on the Enbridge Mainline as the result of signing a TSA. Enbridge Illinois denies that this is the case, maintaining that the TSAs offered in the open seasons for this Project do not provide any priority or preferential access to capacity on the Enbridge Mainline.

Commission Analysis

23. The Commission will grant the Petition. The proposed terms of service and rate structure for committed and uncommitted shippers are permissible under the ICA and are consistent with applicable Commission policy and precedent regarding priority service terms and rates that can be offered to shippers that commit volumes through an open season to support a new infrastructure project. Since its decision in *Express Pipeline P'ship*,[15] the Commission has recognized that shippers making longer-term commitments incur costs and liabilities and undertake risks that make them not similarly situated with shippers that are unwilling or unable to do so.

24. To minimize the risk that the Project will not move forward, and to provide financial assurance to Enbridge Illinois, the TSAs require shippers to commit to ship-or-pay contracts at premium rates for initial 10 or 15-year terms. In exchange for these commitments, Enbridge Illinois will reserve 90 percent of the capacity for those shippers and will assure such shippers that it will not prorate their committed volumes. Additionally, Enbridge Illinois will provide an appropriate amount of capacity (10 percent) for uncommitted shippers that do not provide the financial assurances that the committed shippers provide. Enbridge Illinois plans to implement a lottery provision for allocation of uncommitted capacity, which is similar to lottery mechanisms previously approved, to prevent any uncommitted shipper's allocation from falling below the minimum batch size during the period of prorationing. In addition, Enbridge Illinois' first open season appropriately gave all potential shippers the opportunity to become committed shippers by entering into TSAs. With its second open season, Enbridge Illinois again offered an opportunity for shippers to become committed shippers.

[15] 75 FERC ¶ 61,303 (1996).

25. The Commission also finds that Enbridge Illinois has sufficiently addressed the concerns raised by Flint Hills. Accordingly, based on the facts stated in the Petition, the Commission finds that Enbridge Illinois' proposed rate structure and terms and conditions of service are just and reasonable and not unduly discriminatory, and the Commission grants the requested approvals sought in the Petition. However, Enbridge Illinois must file tariffs pursuant to the applicable provisions of Part 342 and other relevant sections of the Commission's Rules and Regulations when it proposes the actual rates to implement the general methodological framework described in the Petition and approved by this order.

The Commission orders:

The Petition is granted, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.