



Federal Energy Regulatory Commission
May 15, 2014
Open Commission Meeting
Staff Presentation
Item G-1

"G-1 is an order granting a petition for declaratory order for North Dakota Pipeline's Sandpiper Project. The Sandpiper Project is an expansion and extension of North Dakota Pipeline's existing system and will provide Bakken crude producers access to downstream markets at a new interconnection point at Superior, Wisconsin. The order approves committed priority and non-priority rates based on the transportation service agreements signed by the shippers. The uncommitted rates will be recovered through cost-based charges for the upstream expansion and the downstream extension.

"An earlier petition for declaratory order for the Sandpiper Project was denied by the Commission without prejudice because the Commission found that the pipeline had not filed a proposal seeking approval of rate structures or terms of service that was appropriate for consideration in a petition for declaratory order.

"The rates and tariff structure proposed here are consistent with Commission policy and precedent including the following elements: (1) a widely publicized, transparent open season, (2) committed shippers signed transportation service agreements during open season, (3) 10% of the capacity is reserved for uncommitted volumes, (4) committed shippers who wish to receive priority service in pro rationing situations pay at least one cent more than uncommitted shippers, (5) committed shippers who do not pay a premium rate will not receive priority in pro rationing situations, and may pay a discounted rate, (6) Non-priority committed shippers will build a shipping history based on the greater of committed volumes or average shipments.

"As stated in the order, because the Commission does not regulate entry or exit into the oil pipeline business, determining whether the pipeline is needed is not within its authority or part of declaratory order determinations.

"Since the 1996 orders in Express Pipeline, the Commission has allowed oil pipelines to use the declaratory order process to seek approval of contract rates as a way of obtaining the financial commitments necessary to increase transportation infrastructure. The Commission has approved committed rates for new pipelines, pipeline expansions, and reversals or reconfigurations of existing pipelines in order to serve new markets or respond to changing market conditions.

"According to the Energy Information Administration, U.S. production of crude from shale has increased dramatically in the past few years, from less than 1 million barrels per day (MMbbl/d) in 2010 to more than 3 MMbbl/d in 2013. Current estimates by the Energy Information Administration, expect U.S. total crude production to increase from 7.4 MMbbl/d in 2013 to 9.2 MMbbl/d by 2015. As a consequence, direct capital investment in U.S. crude oil, natural gas liquids and natural gas infrastructure has increased over the past four years by 60 percent, from \$56.3 billion dollars in 2010 to \$89.6 billion dollars in 2013.

"Since 1996, the Commission has granted petitions for declaratory order to facilitate the goal of encouraging energy infrastructure. The Commission has received and acted upon more than 30 petitions for declaratory order in the past three years, representing approximately 15,000 miles of pipeline infrastructure. Companies requesting petitions for declaratory orders prior to construction have increased five-fold from 2011 to 2013. This

indicates that the U.S. is experiencing its most significant build-out of oil pipeline infrastructure since the 1960's, stemming from shale play development in areas of the country traditionally not known for significantly crude oil, natural gas liquids and natural gas production. Commission staff has worked with industry and interested parties to facilitate transportation of these commodities in the most efficient manner under the Interstate Commerce Act. However, not all crude oil pipelines proposals are built, primarily because pipelines compete for shippers with other pipelines as well as other modes of transportation such as barges, trucks, and railroads."