

150 FERC ¶ 61,156  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;  
Philip D. Moeller, Tony Clark,  
Norman C. Bay, and Colette D. Honorable.

Medallion Pipeline Company, LLC

Docket No. OR15-10-000

DECLARATORY ORDER

(Issued February 27, 2015)

1. On January 14, 2015, Medallion Pipeline Company, LLC (Medallion) filed a petition for a declaratory order (Petition) seeking Commission approval of the open season procedure, capacity allocation, tariff rate structure, and certain provisions regarding annual rate adjustments, contract extension rights, and a “ramp-up” election applicable to certain proposed expansions of Medallion’s existing Wolfcamp Connector pipeline system (Expansion Projects). Medallion requests Commission action on its Petition by February 27, 2015, to provide committed shippers assurance that the Expansion Projects will proceed on the basis of the terms and conditions set forth in the Transportation Service Agreement (TSA), and to meet the first-quarter 2015 anticipated in-service date.

2. As discussed below, the Commission grants the requested rulings.

**Background**

3. Medallion states that the existing Wolfcamp Connector originates in the Midland Basin in West Texas, a producing region that has experienced a substantial surge in crude oil development, production, and exploration activity. Medallion further states that following commencement of the Wolfcamp Connector’s operations in October 2014, it continued discussions with various producers concerning a potential western and southern expansion of the system.

4. Medallion explains that the Expansion Projects include two additions: the Midkiff Lateral and the Wolfcamp Expansion, both of which will extend the existing system’s geographic reach and capacity. According to Medallion, the Midkiff Lateral will have a capacity of 75,000 barrels per day (bpd) and will extend 40 miles west from the Garden City station in Glasscock County, Texas, to the proposed Midkiff Station in Upton County, Texas. Further, states Medallion, the Midkiff Lateral expansion will also include

six-inch and eight-inch pipeline laterals extending to certain aggregation points. In addition, Medallion states that it may also construct and operate smaller diameter gathering lines with separately-negotiated rates, based upon shipper commitments and individual shipper requirements. Additionally, Medallion explains that the Wolfcamp Expansion will be a 30,000 bpd extension from the Wolfcamp Connector's mainline at the Garden City, Texas station to the Colorado City, Texas hub.

5. Medallion states that it conducted a widely-publicized open season from November 6, 2014, to December 1, 2014, soliciting long-term commitments to support development of the Expansion Projects. Medallion emphasizes that the open season materials were available to any party that executed a confidentiality agreement, and that to constitute a valid bid, a prospective shipper was required to submit an executed TSA, select the form of service, (whether committed firm or committed non-firm) and identify the level of committed volumes, origin and destination points, and contract term. Medallion states that the open season notice also included the minimum eligibility requirements for the Expansion Projects. According to Medallion, it received a binding commitment from an affiliate for 80 percent of the Midkiff Lateral's total capacity and 90 percent of the Wolfcamp Expansion capacity; accordingly, it executed a TSA with the affiliate.

6. Medallion explains its two classes of premium service as follows:

A committed firm shipper will receive firm transportation service (*i.e.*, service exempt from the prorationing provisions of the tariff) for its contractually committed volumes in exchange for a long-term commitment to transport (or pay for) those volumes, pursuant to the terms of a TSA executed during the open season process. The rates applicable to committed firm service vary depending on the level of the committed volumes, and the origin and destination points; however, in all instances, the rates will be at least \$0.01 per barrel above the rates applicable to uncommitted service for the same the same origin and destination points.

A committed non-firm shipper<sup>1</sup> will receive non-firm transportation service (*i.e.*, service subject to the tariff prorationing provisions). In exchange for a long-term commitment to transport (or pay for) its contractually committed volumes (again, pursuant to the terms of a TSA), the rates applicable to committed non-

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<sup>1</sup> Because no open season participant elected committed non-firm service, Medallion states that it does not request a Commission finding with respect to this service.

firm service will be below the rates for uncommitted service applicable to the same origin and destination points. The rates for committed non-firm service will also vary depending on contract term, the level of the committed volumes, and origin and destination points.

### **Requested Rulings**

7. Medallion requests Commission confirmation and approval of the following aspects of the Expansion Projects:

- A. The open season for the Expansion Projects followed Commission guidelines;
- B. Medallion properly committed up to 90 percent of the Expansion Projects' capacity to committed shippers, while reserving at least 10 percent of the capacity for uncommitted shippers.
- C. The committed rates and rate structure provided in the open season TSAs and *pro forma* rates tariff are consistent with Commission precedent, are just and reasonable under the Interstate Commerce Act (ICA), and will not be subject to modification or revision except as provided by the open season TSAs; and
- D. Each of the following provisions is consistent with Commission precedent and is just and reasonable under the ICA:
  - (i) the TSA provision limiting annual Commission Oil Pipeline Index adjustments for committed shippers;
  - (ii) the TSA provision granting extension rights to committed shippers; and
  - (iii) the TSA provision granting a "ramp-up" election to committed firm shippers.

8. Medallion asserts each of its requested rulings is consistent with the Commission's original Wolfcamp Connector declaratory order in *Medallion Pipeline Co LLC*,<sup>2</sup> as well as other declaratory orders issued in similar circumstances. Medallion maintains that the Commission has consistently approved the use of its declaratory order procedures to

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<sup>2</sup> 148 FERC ¶ 61,095 (2014).

remove uncertainty concerning the negotiated rate and service provisions established by project sponsors and anchor shippers.

9. Medallion further asserts that the open season was consistent with Commission policy and precedent for committed firm service provided under the TSAs,<sup>3</sup> that the open season was widely publicized, and that the TSAs provide an appropriate basis for committed service. Medallion further explains that the open season notice stated that it reserved at least 10 percent of the capacity of the Expansion Projects for uncommitted shippers. Medallion contends that the Commission has held that the reservation of 10 percent of capacity for uncommitted shippers is sufficient to provide reasonable access, particularly when an open season provides all potential shippers the opportunity to become committed shippers.<sup>4</sup> Additionally, Medallion asserts that the rate structure and rate provisions of the open season TSAs for committed service should be considered “settlement rates”<sup>5</sup> and that those rates should govern the rates for transportation services rendered for the respective terms of the TSAs, without modification or revision, subject to the annual adjustments established in the TSA.

10. Medallion contends that Commission precedent allows firm service to be provided to committed shippers, provided that those shippers pay a premium rate, as compared to the rates to be paid by uncommitted shippers. Medallion adds that the Commission has approved rate structures requiring committed shippers to pay a premium rate of at least \$0.01 per barrel higher than the applicable uncommitted rate, and that premium rate firm shippers are not similarly-situated with respect to other shippers.<sup>6</sup>

11. Medallion further states that the Commission has approved provisions comparable to the TSA and tariff provisions it has submitted in this proceeding. Medallion observes

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<sup>3</sup> Medallion cites *Skelly-Belvieu Pipeline Co., L.L.C.*, 138 FERC ¶ 61,153, at PP 6, 18 (2012). See also *Sunoco Pipeline L.P.*, 137 FERC ¶ 61,107, at P 15 (2011); *Shell Pipeline Co. LP*, 139 FERC ¶ 61,228, at P 21 (2012); *Shell Pipeline Co. LP*, 146 FERC ¶ 61,051, at PP 16, 21 (2014); *White Cliffs Pipeline, L.L.C.*, 148 FERC ¶ 61,037, at P 47 (2014).

<sup>4</sup> Medallion cites *CCPS Transportation, LLC*, 122 FERC ¶ 61,123, at P 14 (2008).

<sup>5</sup> 18 C.F.R. § 342.4 (c) (2014).

<sup>6</sup> Medallion cites, e.g., *Medallion Pipeline Company, LLC*, 148 FERC ¶ 61,095, at P 18 (2014); *Sunoco Pipeline L.P.*, 145 FERC ¶ 61,274, at P 10 (2013); *Explorer Pipeline Co.*, 140 FERC ¶ 61,098, at P 18 (2012); *North Dakota Pipeline Company, LLC*, 147 FERC ¶ 61,121, at P 28 (2014).

that the TSA provides for rates to be adjusted annually by a modified version of the Commission's Oil Pipeline Index that includes both a ceiling and a floor applicable to annual rate adjustment filings, and that such rates help avoid litigation and lessen the regulatory burden.<sup>7</sup> Medallion indicates the Commission has approved treatment of annually-adjusted rates as settlement rates pursuant to section 342.4(c) of the regulations.<sup>8</sup> Medallion also requests a waiver of section 342.4 (c)'s requirement to submit a verified statement.

12. Finally, Medallion asserts that Commission precedent supports the TSA provisions permitting committed firm shippers to elect a "ramp up" option for the initial two years of service and the TSA's contract extension rights for committed firm and committed non-firm shippers. The "ramp up" option is applicable to the initial two years of service, such that the ship-or-pay obligation goes from 33 1/3 percent of the committed volume in year one, then to 66 2/3 percent the second year of the committed volume, reaching the full committed volume in year three. The "ramp up" provision is available in recognition of such shipper's long-term ship-or-pay commitment at premium rates. The TSA contract extension rights option allows the TSAs to be automatically extended for up to two additional two year terms, unless the shipper provides notice of termination pursuant to the TSA.

### **Notice and Interventions**

13. Notice of the Petition was issued January 21, 2015, with interventions and protests due February 6, 2014. Pursuant to Rule 214 of the Commission's regulations,<sup>9</sup> all timely-filed motions to intervene and any unopposed motions 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 disrupt the proceeding or place additional burdens on existing parties. The Petition is unopposed.

### **Commission Analysis**

14. The Commission will grant the approvals requested by Medallion. The Expansion Projects will provide additional transportation capacity from an area with significant current production and additional anticipated activity. The Commission finds that

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<sup>7</sup> Medallion cites *Medallion Pipeline Co*, 148 FERC ¶ 61,095, (2014); *CCPS Transportation, LLC*, 121 FERC ¶ 61,253 at PP 20-22 (2007); *CenterPoint Energy Bakken Crude Services, LLC*, 144 FERC ¶ 61,130, at PP 20-22 (2013).

<sup>8</sup> 18 C.F.R. § 342.4(c) (2014).

<sup>9</sup> 18 C.F.R. § 385.214 (2014).

Medallion conducted its open season in a manner consistent with the ICA's requirements and Commission precedent. The open season was widely advertised and afforded all potentially interested shippers an opportunity to become committed shippers on the Expansion Projects.

15. The terms of Medallion's proposal, including the capacity allocation, tariff rate structure, annual rate adjustments, contract extension rights, "ramp-up" election, and prorationing rights are consistent with Commission precedent and the original Wolfcamp connector declaratory order. Also consistent with precedent, Medallion has reserved 10 percent of the Extension Projects' capacity for uncommitted shippers, and will provide priority firm service to those shippers willing to pay premium rates and willing to guarantee to ship minimum volumes for a minimum term. Given the facts and representations as presented by Medallion, the Commission confirms and approves the rulings requested in Medallion's Petition.

16. Finally, Medallion's proposal to treat the rates provided in the TSA as settlement rates pursuant to section 342.4(c) of the Commission's regulations is consistent with Commission precedent. However, while the Commission allows pipelines to seek waiver of the verified statement obligation of that section, Medallion must do so at the time it files the initial rates applicable to the Project.

The Commission orders:

Medallion's Petition is granted, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.