153 FERC ¶ 61,383
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Zydeco Pipeline Company LLC — Docket No. IS16-103-000

ORDER ACCEPTING TARIFFS

(Issued December 31, 2015)

1. On November 30, 2015, Zydeco Pipeline Company, LLC (Zydeco) filed FERC Tariff Nos. 3.2.0 and 5.2.0 to remove certain discounted through rates. Removal of the through rates still allows Zydeco's shippers to continue to transport crude oil on Zydeco by paying the effective local rates on file with the Commission. As discussed below, Zydeco's tariffs are accepted, effective January 1, 2016.

Background

2. Zydeco, formerly known as Shell Pipeline Company LP's "Ho-Ho" system, is a crude oil pipeline which operates in the East Texas and Louisiana region of the United States. Due to business and operational circumstances, Zydeco filed FERC Tariff Nos. 3.2.0 and 5.2.0 to remove discounted through rates for transportation service, to be effective January 1, 2016.

3. The current FERC Tariff No. 3.1.0 includes a through rate for transportation from Caillou Island to St. James. Zydeco also offers local rates from Caillou Island in Terrebonne Parish, Louisiana to Houma in Terrebonne Parish, Louisiana and from Houma to St. James in St. James Parish, Louisiana.[1] FERC Tariff No. 3.2.0 would remove the through rate between Caillou Island and St. James, but the local rates would remain.

[1] The Houma to St. James rate is listed in FERC No. 4.1.0.

4. The current FERC Tariff No. 5.1.0 includes a through rate for transportation from Caillou Island to Clovely. Zydeco also offers local rates from Caillou Island to Houma[2] and from Houma to Clovelly. FERC Tariff No. 5.2.0 would remove the through rate but the local rates would remain. In removing the discounted through rate, Zydeco also removed the pipeline loss allowance applicable to the movements between Caillou Island and Clovelly. Shippers who wish to transport crude oil between Houma and Clovelly would be subject to the existing pipeline loss allowance rates listed for each of the short-haul movements.

5. The current through rates are offered at a significant discount off the sum of the local transportation rates. Zydeco explains that although it is removing the through rates, shippers will still be able to transport crude oil from Caillou Island to St. James or Clovelly under local rates, at the applicable ceiling levels. Zydeco maintains that cancellation of the discount rates is consistent with Commission precedent.[3]

Interventions and Protests

6. The Commission grants all unopposed motions to intervene filed before the issuance date of this order. Protests were filed by Arena Energy, LP (Arena) and Chevron Products Company and Fieldwood Energy LLC (Chevron/Fieldwood) on December 15, 2015, challenging the removal of the through rates, and the attendant increase in costs of transportation, and the related cost of the local rate loss allowances.

7. Chevron/Fieldwood argues that the rate for each of the short-haul routes is significantly higher than the rate for the long-haul rate and that Zydeco has not shown its proposal to charge shippers the sum of two short-haul rates is reasonable. Arena maintains that as a result of the removal of the discounted through rates, the transportation rates for service from Caillou Island to Clovelly and St. James will be 62.61 cents per barrel compared to the 33.7 cents per barrel offered by the discounted through rate. Arena states that Zydeco has failed to show the change is necessary to recover increased costs or account for the diminished throughput on short-haul movements. Moreover, Arena contends that Zydeco fails to explain the abrupt cancellation of the discounted rates that shippers and producers have relied upon, which is particularly important due to the low crude oil price environment.

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[2] The Caillou Island to Houma rate is listed in FERC No. 3.1.0.

[3] Zydeco Pipeline Company (citing, *Shell Pipeline Company LP*, 100 FERC ¶ 61,139, at P 6 (2002), *order on reh'g*, 100 FERC ¶ 61,330 (2002); *see also Express Pipeline LLC*, 99 FERC ¶ 61,229 (2002)).

8. Chevron/Fieldwood states that long-haul shippers never had any reason to protest or challenge the short-haul rates for volumes that originate or are delivered to Houma, because their volumes do not originate at Houma and are not delivered to Houma. Consequently, Chevron/Fieldwood states that the long-haul shippers had no economic interest in the short-haul rate ceilings.

9. Chevron/Fieldwood maintains that charging shippers twice for each short-haul service is unduly discriminatory. Chevron/Fieldwood explains that Zydeco recently revised its tariff[4] to establish a new service for a committed shipper, whereby the shipper would only be charged once for deliveries to an intermediate point. Chevron/Fieldwood states that the proposed tariff would directly contrast this tariff principle.

10. Moreover, Arena argues that Zydeco's proposed cancellation of discounted through rates will also increase the cost of the pipeline loss allowance for the transportation service from Caillou Island to St. James and Clovelly, which represents a 75 percent increase, with no operational justification.

11. Chevron/Fieldwood contends that Zydeco did not demonstrate that its pipeline losses associated with movements from Caillou Island to Clovelly and St. James increased such that it was necessary to charge a pipeline loss allowance for each local movement, which under the discounted through rate totaled 0.20 percent, but under the local rates would equal 0.35 percent.

Response

12. On December 21, 2015, Zydeco filed an amendment, FERC No. 3.2.1,[5] and a response to the protests. FERC No. 3.2.1 cancels the local rate loss allowance of 0.20 percent, applicable to the movements from Caillou Island to Houma, effective January 1, 2016. As such, shippers from Caillou Island to St. James and Clovelly would pay only a 0.15 percent loss allowance only applicable to the Houma to St. James or the Houma to Clovelly segments. Zydeco explains this cancellation would be an effective reduction from the 0.20 percent loss allowance associated with the discounted through rates to a 0.15 percent loss allowance under the local rates for each segment of transportation. Zydeco seeks special permission, pursuant to 18 C.F.R. § 341.14 and in accordance with section 6 of the Interstate Commerce Act, to file the tariff amendment on short notice.

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[4] *See* Zydeco Pipeline Company, LLC, FERC No. 7.1.0, Docket No. IS15-295-000.

[5] Zydeco Response, Appendix A.

13. Zydeco also reiterated in its response that its tariff cancellation of the discounted through rates is fully consistent with Commission policy and precedent.[6] Zydeco maintains that its tariff complies with the generally-applicable standards for changing rates subject to the Commission's indexing regulations, 18 C.F.R. § 342.3, and that the protests fail to allege why its tariff filing is not lawful. Zydeco also contends the protests fail to address the Commission precedent which clearly indicates this type of cancellation of a discounted through rate is lawful and not properly subject to protest.

Discussion

14. The Commission accepts FERC Tariff Nos. 3.2.0 and 5.2.0, effective January 1, 2016.

15. The Commission's precedent is clear that an oil pipeline can cancel discounted rates at any time,[7] even if removal of the discount may result in increased shipper charges.[8] Zydeco's removal of the discounted through rates would leave the effective local rates intact at applicable ceilings, consistent with established policies.

16. Moreover, since Zydeco has filed tariff amendment FERC No. 3.2.1 to remove the pipeline loss allowance for the route between Caillou Island and Houma, the Commission finds the concerns regarding the costs of the pipeline loss allowance have been addressed, and the issue is rendered moot.

[6] Zydeco Response at 6 – 9.

[7] *Dome Pipeline Corporation*, 117 FERC ¶ 61,364 (2006); *Shell Pipeline Company, LP*, 100 FERC ¶ 61,139 (2002).

[8] *Express Pipeline LLC*, 99 FERC ¶ 61,229 (2002); *Texaco Pipeline Inc.*, 72 FERC ¶ 61,313 (1995).

The Commission Orders

Zydeco's FERC Tariff Nos. 3.2.0 and 5.2.0 are accepted, consistent with the discussion in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.