

155 FERC ¶ 61,268
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Medallion Pipeline Company, LLC

Docket No. OR16-14-000

ORDER ON PETITION FOR DECLARATORY ORDER

(Issued June 14, 2016)

1. On March 31, 2016, Medallion Pipeline Company, LLC (Medallion) filed a petition for declaratory order (Petition) regarding its third set of expansions of Medallion's crude oil pipeline system (Expansion Projects). In particular, Medallion seeks Commission approval of its proposed open season procedure, capacity allocation, tariff rate structure, and certain provisions of the open season Transportation Service Agreements (TSA) and tariffs regarding annual rate adjustments, contract extension rights, a "ramp-up" election, and destination points. Medallion requests Commission action on its Petition by June 15, 2016, to provide committed shippers assurance that the Expansion Projects will proceed on the basis of the terms and conditions set forth in the TSAs, and to meet the second quarter of 2016 anticipated interstate in-service date.

2. The Commission grants the rulings requested by Medallion, as discussed below.

I. Background

3. Medallion states that the Medallion pipeline system was constructed to support the surge in crude oil exploration, development and production activity in the Midland Basin in West Texas. Medallion states that the pipeline initially consisted of the 112-mile and 65,000 barrels per day (bpd) Wolfcamp Connector crude oil pipeline system. Since the commencement of Wolfcamp Connector's initial operations, Medallion states that it entered into a series of expansion projects that each follow the same open season procedures approved by the Commission in *Medallion I*, soliciting long-term

transportation commitments to support the commercial development of the expansion projects.¹

4. Medallion states that in late 2015, it entered into discussions with producers about potential expansions of the Medallion system to provide additional options to shippers to connect crude oil production in the Midland Basin to downstream pipelines. Based on these discussions, Medallion focused on the development of two expansion projects detailed below.

5. According to Medallion, the first project is a further expansion of the Wolfcamp Connector mainline facilities (the Wolfcamp Expansion) and the construction of a new crude oil pipeline lateral (the Howard Lateral) extending from the Wolfcamp Connector system into northwest Howard County, Texas (the Howard Lateral and Wolfcamp Expansion, collectively the Howard-Wolfcamp Expansion). The second project Medallion proposes is the expansion of the existing Midkiff Lateral (Midkiff Expansion) and the extension of the Midkiff Lateral to an interconnection with the Longhorn Pipeline in East Crane County, Texas (the Crane Extension) (the Crane Extension and the Midkiff Expansion, collectively the Crane-Midkiff Expansion).

¹ On August 1, 2014, the Commission issued a declaratory order confirming the validity of Medallion's open season procedures for its Wolfcamp Connector system and approving the lawfulness of the committed firm shipper rates and related tariff provisions. *Medallion Pipeline Co., LLC*, 148 FERC ¶ 61,095 (2014) (*Medallion I*). Medallion explains that after the Wolfcamp Connector's commencement of operations in October 2014, it entered into discussions with various producers regarding a potential westward extension and expansion of its existing system into Upton and Midland Counties (Midkiff Lateral) as well as an extension of the Wolfcamp Connector's mainline from the existing Garden City station to the Colorado City hub (Wolfcamp Expansion). On February 27, 2015, the Commission issued a subsequent declaratory order confirming the validity of the open season procedures, approving the lawfulness of the committed firm shipper rates and related tariff provisions for the initial expansion of the Wolfcamp Connector system, and noting that the rate design, and related tariff provisions were the same as in *Medallion Pipeline I. Medallion Pipeline Co., LLC*, 150 FERC ¶ 61,156 (2015) (*Medallion II*). The Midkiff Lateral and Wolfcamp Expansion were placed into service on June 1, 2015. On December 30, 2015, the Commission issued a declaratory order regarding a second set of proposed expansions of its existing Wolfcamp Connector crude oil pipeline system; specifically its tariff rate structure and terms of service for that expansion project. *Medallion Pipeline Co., LLC*, 153 FERC ¶ 61,361 (2015) (*Medallion III*).

6. Medallion states that it conducted widely publicized open seasons for both projects to solicit long-term transportation commitments to support these Expansion Projects.² Medallion anticipates that the Expansion Projects will be placed into service for interstate transportation by the second quarter of 2016, although it notes that certain segments of the Expansion Projects may commence intrastate service before the Expansion Projects commence full operations.³ Medallion pledges to file related tariffs with the Commission prior to the commencement of interstate transportation service and it requests action on this Petition no later than June 15, 2016.

The Howard-Wolfcamp Expansion

7. Medallion states that the Howard Lateral would consist of approximately 49 miles of 10 and 8-inch diameter pipe capable of transporting approximately 45,000 bpd. It states that the Howard Lateral will aggregate crude oil from multiple points of origin in northwest Howard County, Texas and extend in a southeasterly direction to a new point of interconnection with Medallion's existing Wolfcamp Connector mainline in Glasscock County, Texas (the Howard-Wolfcamp Interconnect). Medallion anticipates that primary use of the Howard Lateral will be to move crude oil production to the Wolfcamp Connector mainline; however, the bi-directional capability of the Howard Lateral will also allow committed firm shippers the flexibility to use their capacity to move crude oil from the Howard-Wolfcamp Interconnect, or the origin points along the Howard Lateral, to Alon USA's Big Spring Refinery near the Howard Lateral's northern terminus.

8. Medallion states that the Howard-Wolfcamp Expansion provides for a proposed expansion of the existing 95,000 bpd capacity of the Wolfcamp Connector mainline by approximately 30,000 bpd. Also, the contract for capacity on the Wolfcamp Expansion offered committed firm shippers the option to elect origin points at the Garden City Station or the Howard-Wolfcamp Interconnect, or both.

² Petition at 6 & n.13. Medallion states that the open season for the Howard-Wolfcamp Expansion began on February 9, 2016 and ended on February 26, 2016 and the open season for the Crane-Midkiff Expansion began on February 24, 2016 and ended on March 16, 2016. *Id.* at 6 nn.11-12.

³ Petition at 3. Medallion further notes that the Commission has granted a declaratory order where a pipeline began providing intrastate transportation service on a segment while the overall pipeline project was still under construction. *Id.* 3 n.6 (citing *Enterprise TE Products Pipeline Co. LLC*, 153 FERC ¶ 61,197, at PP 1-2 (2015)).

The Crane-Midkiff Expansion

9. Medallion states that the Crane Extension would consist of approximately 25 miles of 12-inch diameter pipe capable of transporting approximately 100,000 barrels of crude oil per day on a bi-directional basis.⁴ The Crane Extension will originate from a point of interconnection with the existing Midkiff Lateral and will use approximately nine miles of existing pipeline on the Midkiff Lateral, which will be reconfigured to permit bi-directional operations as a part of the project.⁵ From the Dusek point in Upton County, Texas, a new approximately 16-mile pipeline segment will be constructed to the Crane Station. Due to the bi-directional operations of the Crane Extension, Medallion offered committed firm shippers the flexibility to transport crude oil from the Crane Station to the Midkiff Station or vice versa and, in addition, committed firm shippers were offered the ability to use either the Crane Station and/or the Midkiff Station as either points of origin or points of destination.⁶

10. As an integrated part of the Crane Extension, Medallion proposes to expand the 75,000 bpd capacity of the existing Midkiff Lateral by approximately 25,000 bpd.⁷ In addition, as a part of the Midkiff Expansion, Medallion proposes to reconfigure the existing Midkiff Lateral for bi-directional operations to provide committed firm shippers with the flexibility to use the Garden City Station or the Midkiff Station as either points of origin and/or destination. Medallion contends that together, the bi-directional capability of the Crane Extension and Midkiff Expansion will allow committed firm shippers with capacity on both facilities the flexibility to use the Crane Station and/or the Garden City Station as either points of origin or points of destination.⁸

II. Terms of the TSA

11. Medallion states that the open season notices set forth minimum eligibility requirements for both Expansion Projects and provided a minimum 10-year term and volume commitment of at least 5,000 bpd.⁹

⁴ Petition at 9.

⁵ *Id.* at 9-10.

⁶ *Id.* at 10.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at 7.

12. Medallion explains the TSA provides committed shippers with firm transportation for committed volumes with rates that vary depending on the level of committed volumes and origin and destination points but, in all instances, would be at least \$0.01 per barrel above the rates applicable to uncommitted service for the same origin and destination volumes.¹⁰

13. The TSA provides that the level of annual adjustment for committed firm service rates is limited by a negotiated floor and ceiling. Additionally, Medallion explains that committed firm shippers may elect to “ramp-up” during the first two years of service, such that the ship-or-pay obligation for the first year is 33 1/3 percent of the otherwise applicable committed volume, and the second year obligation is 66 2/3 percent. The TSA also provides committed firm shippers with contract extension rights that are automatically extended for up to two additional two-year terms, unless the shipper provides prior notice of termination pursuant to the TSA.¹¹ Moreover, the TSA permits existing committed shippers to add origin or destination points on the Midkiff Lateral or the Howard-Wolfcamp Interconnect.¹²

14. As a result of the open season, Medallion received committed firm service by one affiliate, totaling 90 percent of the Expansion Projects’ capacity.¹³

III. Requested Rulings

15. Medallion requests Commission confirmation and approval of the following aspects of the Expansion Projects:¹⁴

- a. The open season for the Expansion Projects followed Commission guidelines;

¹⁰ *Id.* at 11.

¹¹ *Id.* at 12.

¹² *Id.* at 8, 10.

¹³ According to Medallion, the committed firm service awarded through the open season is as follows: 40,500 bpd on the Howard Lateral; 9,000 bpd capacity of the Wolfcamp Expansion; 90,000 bpd on the Crane Extension; and 9,000 bpd capacity of the Midkiff Expansion. Petition at 13.

¹⁴ Petition at 13-14.

- b. Medallion properly committed up to 90 percent of the Expansion Projects' capacity to committed firm 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 the *pro forma* rates tariff follow Commission precedent, are just and reasonable under the Interstate Commerce Act (ICA),¹⁵ 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: the TSA provision limiting annual FERC Oil Pipeline Index adjustments for committed firm shippers; the TSA provision granting contract extension rights to committed firm shippers; the TSA provision granting a "ramp-up" election to committed firm shippers; and the TSA provision affording existing committed firm shippers the ability to participate in the open season process for the purpose of adding specified origin and destination points.

IV. Notice, Interventions and Responsive Pleadings

16. Notice of the Petition was issued on April 8, 2016, providing for motions to intervene, comments and protests to be filed on or before April 29, 2016. Pursuant to Rule 214 of the Commission's regulations,¹⁶ 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.

V. Medallion's Attestations

17. Medallion argues that the open season for the Expansion Projects followed Commission guidelines for committed firm service and other contractual rights provided to committed shippers. Medallion states that part of the determination should include a finding that the rate structure and rate provisions of the open TSAs for committed firm service constitute settlement rates, pursuant to section 342.4(c) of the Commission's regulations. Moreover, Medallion attests that it followed Commission precedent,

¹⁵ 49 U.S.C. app. §§ 1 *et seq.* (1988).

¹⁶ 18 C.F.R. § 385.214 (2015).

reserving up to 90 percent of capacity for committed firm shippers, with at least 10 percent of capacity reserved for uncommitted shippers.¹⁷

18. Medallion states that it has entered into long-term TSAs with a committed firm shipper that provide for committed volumes, subject to ship-or-pay obligations, in exchange for firm transportation service exempt from prorationing.¹⁸ Medallion explains that a critical element of this service is a rate structure that provides committed firm shippers will pay premium rates compared to all other shippers, i.e., rates that will exceed the rates paid by uncommitted shippers for the same origin and destination points. Specifically, at a minimum, committed firm shippers' rates on the Expansion Projects will always be \$0.01 per barrel above the rates for uncommitted shippers for the same origin and destination points.¹⁹

19. Medallion attests that Commission precedent permits firm service for committed firm shippers that pay premium rates compared to uncommitted shippers for the same origin and destination points. Medallion states that such committed firm shippers have agreed to ship-or-pay certain volumes under long-term agreements, which provides support for the Expansion Projects' commercial viability, and that all shippers were afforded the same opportunity to contract for such service during the open seasons and therefore were given equal treatment.²⁰

20. Medallion contends that its premium rate structure for committed firm service squarely follows Commission precedent, including the approvals provided in the prior Medallion Orders.²¹ Further, it states that the Commission has approved rate structures where committed firm shippers pay a premium rate of at least \$0.01 per barrel over the applicable uncommitted rate,²² expressly recognizing that premium rate firm shippers are not similarly situated with other shippers.²³

¹⁷ Petition at 16.

¹⁸ *Id.* at 17.

¹⁹ *Id.*

²⁰ *Id.* at 18.

²¹ *See supra* note 1.

²² Petition at 17 n.24.

²³ *Id.* at 17-18 (citing *CCPS Transp., LLC*, 121 FERC ¶ 61,253, at P 19 (2007)).

21. Medallion argues that Commission precedent supports the approval of the requested TSA and tariff provisions. Medallion states that the open season TSAs will adjust rates annually by a modified version of the FERC Oil Pipeline Index to provide both a floor and a ceiling on the adjustment resulting from an unmodified application the FERC Index. According to Medallion, the Commission has approved the same provision in the prior Medallion Orders and has approved similar rate indexing provisions in similar cases while noting that these types of negotiated rates help to avoid litigation and lessen the regulatory burden. Therefore, Medallion asks that the Commission approve the use of the TSAs' annual adjustment mechanism and treat the resulting annually adjusted rates as settlement rates pursuant to section 342.4(c) of the Commission's regulations,²⁴ as well as requesting waiver of the regulation's requirement to submit a verified statement.²⁵

22. Moreover, Medallion attests that Commission precedent supports the TSA provisions permitting committed firm shippers to elect a "ramp-up" for the initial years of service, and the contract extension rights for committed firm shippers. Medallion states that the TSA provision that permits committed firm shippers to take advantage of a new origin or destination points on the Midkiff Lateral or the Howard-Wolfcamp Interconnect provides committed firm shippers with greater flexibility to tailor service to particular transportation requirements.²⁶

VI. Commission Determination

23. Based on the representations in the Petition, the Commission will grant all the rulings requested by Medallion as consistent with precedent. These confirmations and rulings are briefly summarized below.

24. The Commission confirms that Medallion's open season followed Commission guidelines, and is consistent with prior precedent.²⁷ The open season was widely advertised and afforded all potentially interested shippers an opportunity to become committed firm shippers on the Expansion Projects. Furthermore, Medallion's

²⁴ 18 C.F.R. § 342.4(c).

²⁵ Petition at 19 & n.28 (citing *Medallion I*, 148 FERC ¶ 61,095 at P 19; *Medallion II*, 150 FERC ¶ 61,156 at P 16; *Medallion III*, 153 FERC ¶ 61,361 at P 18; *CenterPoint Energy Bakken Crude Servs., LLC.*, 144 FERC ¶ 61,130, at P 18-19 (2013)).

²⁶ Petition at 20.

²⁷ See, e.g., *Shell Pipeline Co. LP*, 146 FERC ¶ 61,051, at P 21 (2014).

reservation of up to 90 percent of the Expansion Projects' capacity allows at least 10 percent of capacity to remain available for walk-up shippers, which provides reasonable access on the Expansion Projects for shippers that did not enter into committed firm agreements, consistent with Commission precedent.²⁸

25. Moreover, the Commission finds the committed rates and rate structure provided in the open season TSAs and *pro forma* tariffs and the request to treat the committed rates as settlement rates are consistent with Commission precedent. The TSA rates will not be subject to modification or revision except as provided in the TSA. Medallion also seeks waiver of the verified statement obligation of section 342.4(c) of the Commission's regulations, which is reasonable in the circumstances with respect to the agreed-upon contract rates under the TSAs for committed shippers. Medallion should reference this declaratory order and its waiver of the verified statement obligation at the time it files the initial committed rates applicable to the Expansion Projects.

26. The Commission approves the provisions of the TSA for committed firm shippers, which include limiting annual index adjustments,²⁹ offering contract extension rights,³⁰ ramp-up elections,³¹ and the opportunity to elect new origin or destination points.³²

27. In conclusion, the Commission finds the Petition consistent with precedent and unopposed. Accordingly, based upon the facts and representations made by Medallion, the Commission confirms and approves the rulings concerning the Expansion Projects, as requested in the Petition.

²⁸ *Sunoco Pipeline L.P.*, 139 FERC ¶ 61,259, at P 14 (2012); *CCPS Transp., LLC*, 121 FERC ¶ 61,253 at P 17 n.33.

²⁹ *Medallion I*, 148 FERC ¶ 61,095 at P 18; *Medallion II*, 150 FERC ¶ 61,156 at P 15; *Medallion III*, 153 FERC ¶ 61,361 at P 5.

³⁰ *Belle Fourche Pipeline Co. and Bridger Pipeline LLC*, 151 FERC ¶ 61,139, at P 25 (2015); *Kinder Morgan Pony Express Pipeline LLC and Hiland Crude, LLC*, 141 FERC ¶ 61,249, at P 39 (2012).

³¹ *Tallgrass Pony Express Pipeline LLC*, 147 FERC ¶ 61,266, at 20 (2014); *Medallion I*, 148 FERC ¶ 61,095, at P 18; *Medallion II*, 150 FERC ¶ 61,156 at P 15 (2015); *Medallion III*, 153 FERC ¶ 61,361 at P 19.

³² *Medallion III*, 153 FERC ¶ 61,361 at P 19.

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.