

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

February 27, 2004

In Reply Refer To:
Shell Pipeline Company LP
Docket No. IS04-171-000

Shell Pipeline Company LP
P.O. Box 2648
Houston, Texas 77252-2648

Attention: Joan Weessies, Director
Economic Regulation and Tariff Services

Reference: Establishment of Security Cost Recovery Mechanism

Dear Ms. Weessies:

1. On January 30, 2004, Shell Pipeline Company LP (Shell) filed oil pipeline tariff supplements in Docket No. IS04-171-000,¹ with a proposed effective date of March 1, 2004. In all cases, the tariff supplements include a new provision to the rules and regulations that set out the methodology to calculate a security surcharge for all movements (crude oil and petroleum products) on Shell's system during the period April 1, 2004 through and including June 30, 2007. One shipper, Valero Marketing and Supply Company (Valero) protested the filing. Based on a review of the filing and our policy regarding security cost recovery surcharges, the Commission will permit the tariff supplements to become effective March 1, 2004, subject to conditions, as more fully discussed below. Acceptance of this filing benefits the public because it helps Shell to

¹ Supplement No. 1 to FERC No. S-2, Supplement No. 1 to FERC No. S-3, Supplement No. 4 to FERC No. S-22, Supplement No. 3 to FERC No. S-32, Supplement No. 4 to FERC No. S-44, Supplement No. 4 to FERC No. S-53, Supplement No. 2 to FERC No. S-54, Supplement No. 5 to FERC No. S-71, Supplement No. 4 to FERC No. S-72, Supplement No. 4 to FERC No. S-73, Supplement No. 4 to FERC No. S-74, Supplement No. 4 to FERC No. S-75, Supplement No. 6 to FERC No. S-76, Supplement No. 6 to FERC No. S-77, Supplement No. 3 to FERC No. S-81, and Supplement No. 1 to FERC No. S-85.

better ensure reliability and security of its operational facilities and the crude oil and petroleum products transported through its pipeline system.

Instant Filing

2. Shell filed the instant filings in accordance with the Commission's Statement of Policy in Docket No. PL01-6-000 issued September 14, 2001 (Policy Statement).² Because of the events of September 11, 2001, Shell states it developed a surcharge to recover prudently incurred security-related costs necessary to further safeguard the reliability and security of its pipeline system. The instant tariff supplements add a new provision to Shell's rules and regulations by proposing a security cost recovery mechanism that includes a table specifying the Expenditure and Recovery Periods:

Expenditure Period	Recovery Period
September 11, 2001 to January 1, 2004	April 1, 2004 to March 31, 2005
January 1, 2004 to January 1, 2005	April 1, 2005 to March 31, 2006
January 1, 2005 to July 1, 2006	April 1, 2006 to July 1, 2007

3. Between September 11, 2001 and through January 1, 2004, Shell maintains it spent money on security-related projects, including the installation of office security systems, additional security fencing around tank farm facilities, supervisory control system upgrades, and additional security support and security consultants. Shell states that due to the confidential nature of these security features, it did not include a detailed report, but will provide the report to the Commission under separate confidential cover upon request.

4. Shell states that all security-related expenses have been collected and identified for the first Expenditure Period (September 11, 2001 to January 1, 2004). The initial security surcharge, Shell continues, was calculated by determining the percentage of its total annual revenues as reported in its FERC Form No. 6 attributable to interstate movements and applying this percentage factor to the security costs incurred during the first Expenditure Period. According to Shell, this amount was then allocated to interstate barrels by dividing its total interstate throughput into this amount, which identified the appropriate security surcharge for the first Recovery Period.

5. On an ongoing basis, Shell states it will continue to identify and track security expenses incurred during each Expenditure Period and then calculate the applicable security surcharge rate for each Recovery Period based on the most recent FERC Form No. 6 information.

² Extraordinary Expenditures Necessary to Safeguard National Energy Supplies, Docket No. PL01-6-000, 96 FERC ¶ 61,299 (2001).

6. Shell's tariff supplement shows that all interest costs incurred as of February 1, 2004 will be included in the security surcharge rate using the published FERC interest rate accumulating from April 1, 2004, the proposed effective date of this tariff filing, as posted on the FERC website: <http://ferc.gov/legal/ferc-regs/acct-matts/interest-rates.asp>.

7. Shell states that at the end of each surcharge Recovery Period, any under/over-collected amount will carry forward to the next Recovery Period. Within 60 days of the end of the of the final surcharge Recovery Period, Shell states it will perform a reconciliation and apply a true-up of the surcharge revenue collected and actual expenditures. Shell states it will refund or invoice its shippers on a pro-rata basis of barrels shipped during the Recovery Period. If this true-up amount is within 1% of the costs incurred, Shell states it will not make any additional collections or refunds.

Interventions and Protests

8. Interventions and protests were due February 17, 2004. On February 13, 2004, Valero filed a protest of Shell's security surcharges and calculations proposed in Supplement No. 4 to FERC No. S-73, Supplement No. 4 to FERC No. S-75, Supplement No. 3 to FERC No. S-81 and Supplement No. 1 to FERC No. S-85. Valero states that Shell did not submit any detailed information supporting or explaining the basis for its security-related expenditures or demonstrate they were extraordinary and/or prudently incurred. Valero also protests that although Shell claims to allocate its security-related costs between FERC jurisdictional/non-jurisdictional facilities, it only includes FERC jurisdictional amounts and applicable interest in the proposed security surcharge calculations. Valero states Shell did not propose an amount for the actual surcharge affecting pipeline routes, nor describe whether Shell would assess the surcharge on a route by route basis or by aggregating the costs and then billing proportionally to all of its routes. Finally, because Shell failed to provide any supporting information for Valero to determine the prudence of the calculations of the proposed security surcharge, Valero requests the Commission further investigate the instant filing and suspend it for the maximum statutory period.

Shell's Answer

9. On February 19, 2004, Shell filed a motion for leave to file a response and answer to Valero one day out of time. Shell asserts that Valero transmitted its protest to a fax number different from the fax number of the appropriate persons at Shell, and thus delayed its receipt, which together with the circumstances of a National holiday on February 16, 2004 contributed to the one-day delay in filing its response and answer. The motion of Shell for permission to file one day late is granted. A late filing prior to action by the Commission on this matter will not delay the proceeding and movant has a substantial interest in the outcome of the proceeding.

10. Shell states that the Commission should deny the relief requested by Valero and reject Valero's protest. Shell replies that it filed the instant tariff supplements as a result of the Commission's Policy Statement and that the supplements are fully compliant with applicable Commission regulations and precedents. Shell also claims that Valero, which protested four of the sixteen proposed tariff supplements, was not a shipper of record on two of them (Supplement No. 3 to FERC No. S-81 and Supplement No. 1 to FERC No. S-85). Shell further states the proposed tariff supplements do not propose a rate or charge, either in the form of a surcharge applied to currently existing rates or any other increase in rates, and Valero's protest is therefore premature. Finally Shell notes that of the 158 subscribers to its tariffs, only Valero protested, and that Valero's uninformed speculations regarding its security surcharge calculations are contrary to the objectives of the Policy Statement which assures rate recovery of prudently incurred costs necessary to further safeguard the reliability and security of oil pipeline systems.

Discussion

11. On September 14, 2001, the Commission issued its Policy Statement regarding extraordinary expenditures necessary to further safeguard the reliability and security of national energy supplies. In the wake of the tragic events of September 11, 2001, the Commission provided that pipelines may file applications to recover prudently incurred costs necessary to further safeguard the reliability and security of our energy supply infrastructure in response to the heightened state of alert.

12. The Commission finds that Shell's security surcharge filing is consistent with the Commission's Policy Statement as it proposes an appropriate mechanism to recover its prudently incurred security-related costs. Shell, however, has not filed to recover any costs here. Thus, Valero's protest claiming that Shell has not provided any showing that its alleged security costs were extraordinary and prudently incurred is premature. When Shell actually files to recover costs, it must file a detailed report with supporting documents and justifications demonstrating the prudence of all claimed costs for the expenses claimed by the proposal. Valero will have an opportunity at that time to renew the objections it raises here.

13. As a condition to acceptance of this filing, Shell must file to eliminate the apparent overlaps in its Expenditure Periods so as to clarify that each succeeding period does not begin on the same day as the preceding period ends. Additionally, Shell must revise the final Expenditure Period to clarify that the period ends on June 30, 2006. Finally, Shell must revise the final Recovery Period to clarify that the period ends on June 30, 2007, so as to avoid possible conflict with the index year, which begins on July 1. Shell must file its correction supplements within 15 days of the date this order issues.

14. The Commission accepts the instant filing's tariff supplements listed in footnote number one herein, effective March 1, 2004, subject to Shell filing to revise its tariff as described above .

By direction of the Commission.

Linda Mitry,
Acting Secretary.

cc: All Parties