

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Mid-America Pipeline Company, LLC

Docket No. IS06-348-000

ORDER ACCEPTING TARIFF SUPPLEMENT

(Issued June 29, 2006)

1. On May 30, 2006, Mid-America Pipeline Company, LLC (MAPL) filed Supplement No. 1 to FERC Tariff No. 2 proposing to establish a security cost recovery mechanism and to implement a new surcharge effective July 1, 2006. In new *Item No. 190 – Security Surcharge*, MAPL proposes an initial security surcharge of 1.5 cents per barrel from July 1, 2006, through and including June 30, 2008. As discussed below, the Commission accepts Supplement No. 1 to be effective July 1, 2006.

Description of the Filing

2. MAPL states that it makes this filing in accordance with the Commission's Statement of Policy in Docket No. PL01-6-000 issued September 14, 2001.¹ MAPL states that, because of the extraordinary events of September 11, 2001, it developed a surcharge to recover prudently-incurred security-related costs necessary to enhance the reliability and security of its pipeline system. Specifically, in new Item No. 190, MAPL establishes the methodology to calculate an annual security surcharge recovery rate that it will apply to all interstate natural gas liquids movements.

3. MAPL states that, during the Expenditure Period of July 1, 2003, through May 10, 2006, it spent \$5.3 million on security-related projects, including the installation of additional security fences and barriers, surveillance equipment, improvements to gates, and additional lighting. MAPL states that, due to the confidential nature of these security features, it did not provide these security details in its public filing. However, MAPL filed a separate non-public report to the Commission.

4. Supplement No. 1 indicates that MAPL will include carrying costs in the security surcharge estimated from July 1, 2006, through June 30, 2008, using the current interest rate posted on the Commission's website: <http://ferc.gov/legal/ferc-regs/acct->

¹ *Extraordinary Expenditures Necessary to Safeguard National Energy Supplies*, 96 FERC ¶ 61,299 (2001) (*Policy Statement*).

[matts/interest-rates.asp](#). Therefore, MAPL seeks to recover a total cost of approximately \$5.8 million during the Recovery Period from July 1, 2006, through and including June 30, 2008. MAPL explains that, because of the two-year Recovery Period, it calculated the new security surcharge by dividing its total security costs (\$5,800,000) by its most recent 12-month volumes times two (196,880,242 barrels x 2) to derive the 1.5 cents per barrel security surcharge rate.

5. MAPL's tariff supplement states that, within 60 days of the end of the security surcharge Recovery Period, the pipeline will perform a reconciliation and true-up of the surcharge revenue collected and actual expenditures. MAPL states it will refund or invoice its shippers on a pro-rata basis for barrels shipped during the Recovery Period. If this true-up amount is within one percent of the costs incurred, MAPL will not make any additional collections or refunds.

Motion to Intervene and Protest

6. The National Propane Gas Association; AmeriGas Propane, L.P.; CHS Inc.; ConocoPhillips Company; Targa Liquids Marketing and Trade, and Ferrellgas, L.P. (collectively, Propane Group) filed a motion to intervene and protest. The Propane Group members are shippers on MAPL's system and the trade association representing such shippers. Thus, they have a substantial economic interest in this proceeding.

7. The Propane Group points out that this proposed security surcharge follows on the heels of two rate increases filed by MAPL in Docket Nos. IS05-216-000 and IS06-238-000, which are pending before the Commission. According to the Propane Group, the filing in Docket No. IS05-216-000 employs a 2004 base period adjusted for known and measurable changes that will become effective within nine months of the end of the base period. Additionally, Propane Group states that the filing in Docket No. IS06-238-000 employs a base period from February 2005 to January 2006, with a test period adjusted for known and measurable changes that will become effective within nine months of the end of the base period.

8. While it supports the need for adequate security for the nation's energy infrastructure, the Propane Group emphasizes that the ability to establish a security surcharge is premised on the existence of prudently-incurred costs and the need to avoid double collection of such costs. In that regard, the Propane Group states that MAPL's public filing provides no information that would allow shippers to make this determination, and further states that it cannot determine whether MAPL is already recovering the security costs or whether they are included in the two rate filings cited above. However, the Propane Group asserts that MAPL's 2005 tariff filing base year (2004) Operating and Maintenance (O&M) expenses are similar to its 2004 FERC Form 6 O&M expenses, suggesting that these expenses are in the base year for the 2005 rate increase filing. According to the Propane Group, it does not appear that MAPL made any

test period adjustments to remove these expenses from its base period in the tariff filing. Thus, the Propane Group maintains that the Commission should require MAPL to account for and indicate whether MAPL proposed to recover these security costs in the 2005 and 2006 tariff filings. If they are, the Propane Group urges the Commission to dismiss this surcharge proceeding or modify it to apply only to MAPL's Rocky Mountain system tariff, rates that are not covered by any current tariff filings. On the other hand, continues the Propane Group, if the security surcharge expenses are not included in the 2005 and 2006 rate increase filings, then the Commission should require MAPL to explain why it is not appropriate to address these costs in the context of the ongoing consolidated rate proceedings.

9. The Propane Group raises the following additional issues, whether: (1) the security costs were extraordinary and/or prudently incurred; (2) it is appropriate to apply the proposed surcharge to all barrels; (3) MAPL should capitalize the claimed costs instead of recovering them through the surcharge; and, (4) the security costs are for routine safety and security expenditures. Finally, the Propane Group asks the Commission to direct MAPL to indicate whether these costs are reflected in the applicable FERC Form 6 filings for the years 2003 to 2005. The Propane Group requests the Commission suspend the filing for the maximum statutory period.

MAPL's Response

10. MAPL urges the Commission to reject the protest. MAPL maintains that the filing is fully consistent with the Commission's requirements and in fact provides more detailed cost information than past applications previously approved by the Commission. MAPL explains that it recorded the costs associated with the proposed security surcharge on its FERC Form 6 as construction work in progress (CWIP) and they are not reflected in its current rates or pending cost-of-service filings.

11. MAPL asserts that rolling the security surcharge docket into the ongoing consolidated rate proceedings in Docket No. IS05-216-000, *et al.*, would be counter to the Commission's goals regarding the security of energy infrastructure. MAPL cites the *Policy Statement*, in which the Commission stated that it would give the highest priority to processing filings to recover extraordinary expenditures incurred to safeguard the reliability of energy transportation systems and energy supply infrastructure.² MAPL contends that consolidating the instant filing with the ongoing rate cases would delay the approval of these important costs.

² MAPL cites *Extraordinary Expenditures Necessary to Safeguard National Energy Supplies*, 96 FERC ¶ 61,299 at 62,129 (2001).

12. MAPL emphasizes that the costs for which recovery is sought are not routine security costs, but rather are extraordinary security-related expenditures necessitated by the heightened level of protection required since the events of September 11, 2001. MAPL further states that the costs at issue here have not been capitalized or included in its rate base. MAPL proposes to allocate the costs among all barrels, a method it contends the Commission approved in prior cases.³ However, MAPL also asserts that the Commission has not limited recovery of security costs to those incurred in direct response to September 11, 2001.⁴ MAPL maintains that allocating the costs as it proposes is fair to all shippers and less complex than other possible allocation methodologies. MAPL concludes that further accounting is unnecessary because it has provided the Commission with a detailed report of all costs associated with the proposed surcharge.

Discussion

13. The Commission accepts MAPL's filing to become effective July 1, 2006, as proposed. The Commission finds that the filing is consistent with the Commission's *Policy Statement* as it proposes an appropriate mechanism to recover MAPL's prudently incurred security related costs.

14. The Commission's review of the supporting non-public information provided by MAPL indicates that MAPL has not included these costs in its rate base. The Commission further finds that it is reasonable to allocate this surcharge equally to all barrels shipped on MAPL's system in view of the importance of these security measures to all shippers on MAPL's system.

15. The Propane Group, which includes shippers on MAPL's system, has raised a reasonable concern that MAPL not receive authority to double recover these security costs. The Propane Group, however, is a party to the ongoing consolidated rate proceedings in Docket No. IS05-216-000, *et al.*, where the elements of MAPL's rate base are under review. The Propane Group, therefore, can raise the issue in that proceeding as to whether MAPL has included these extraordinary expenditures in its rate base and thus may be seeking to double recover. Accordingly, the Commission considers unnecessary consolidating this filing with the ongoing proceeding.

³ MAPL cites, *e.g.*, *Colonial Pipeline Co.*, 100 FERC ¶ 61,035 at 61,120 (2002).

⁴ MAPL cites *Marathon Ashland Pipe Line LLC*, 107 FERC ¶ 61,212 (2004); *Shell Pipeline Company LP*, 106 FERC ¶ 61,187 (2004).

16. Consistent with the *Policy Statement* and previous Commission orders applying the *Policy Statement*,⁵ the Commission accepts MAPL's Supplement No. 1 to its FERC Tariff No. 2 to become effective July 1, 2006.

The Commission orders:

Supplement No. 1 to MAPL's FERC Tariff No. 2 is accepted, effective July 1, 2006.

By the Commission.

Magalie R. Salas,
Secretary.

⁵ *Platte Pipe Line Company*, 108 FERC ¶ 61,326 (2004); *Marathon Ashland Pipe Line LLC*, 107 FERC ¶ 61,212 (2004); *Dixie Pipeline Company* (unpublished letter order issued December 29, 2004); *Kaneb Pipe Line Operating Partnership, L.P.* (unpublished letter order issued April 8, 2005).