

**Federal Energy Regulatory Commission  
March 16, 2006 Commission Meeting  
Statement of  
Chairman Joseph T. Kelliher**

**G-1: Oil Pipeline Index (RM05-22-000)**

"The Commission was charged by statute with establishing a "simplified and generally applicable" ratemaking methodology for oil pipelines, consistent with the just and reasonable standard of the Interstate Commerce Act.

The Commission issued Order No. 561 to implement that statutory authority. Under Order No. 561, the Commission relies on an index methodology to regulate oil pipeline rate changes, along with other alternative rate changing methodologies.

After extensive analysis, in Order No. 561 the Commission adopted an index methodology developed by Dr. Alfred Kahn that came closest to tracking historic changes in actual oil pipeline costs. The Commission committed to review the index every five years.

The time has come for the Commission to set a new five year index. Under the order we approve today, the new five year index is the Producer Price Index for Finished Goods (PPI) plus 1.3 percent, or PPI + 1.3. This new index is consistent with the statutory standard and is consistent with the court-approved methodology in Order No. 561.

We need to be careful in this area. A few years ago, the Commission set an index in a manner that deviated from court-approved methodology and was reversed.

The Commission began this proceeding last July with a Notice of Inquiry that proposed to use an unadjusted PPI for the next five year period, which begins July 1, 2006. In the record developed under the Notice of Inquiry, shippers acknowledged that some upward adjustment of PPI is required to accurately track oil pipeline cost changes.

Based on the record, the Commission determined that PPI + 1.3 percent is an appropriate index for the next five years.

One of our policy goals of the Energy Policy Act of 2005 was strengthening our energy infrastructure. Experience with recent hurricanes demonstrates the importance of a strong infrastructure.

Today's order establishes an oil pipeline index which will support the maintenance and expansion of the nation's oil pipeline infrastructure.

I support the order."