
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION AFFIRMS INITIAL DECISION ON TAPS QUALITY BANK, BUT LIMITS SCOPE OF RETROACTIVE REFUNDS FOR RESID

The Federal Energy Regulatory Commission today largely affirmed an administrative law judge's initial decision involving a method for compensating shippers according to the quality of the crude oil they ship through the Trans Alaska Pipeline system, or TAPS, but limited retroactive refunds as required by Congress.

"This is a very complicated case with a long history and a voluminous record. I hope our action today marks the final chapter in the disputes surrounding the TAPS Quality Bank," said Commission Chairman Joseph T. Kelliher.

TAPS is a 48-inch common carrier crude oil pipeline owned and operated by six companies, known as the TAPS Carriers: Amerada Hess Pipeline Corp., BP Pipeline (Alaska) Inc., ExxonMobil Pipeline, ConocoPhillips Transportation Alaska Inc. (formerly known as Phillips Transportation Alaska Inc.), Koch Alaska Pipeline Co. (formerly Williams Alaska Pipeline) and Unocal Pipeline Co.

TAPS is the only means by which Alaska's North Slope crude oil may be shipped to the Port of Valdez in southwest Alaska for transport to other markets. The quality of the crude shipped on TAPS differs depending upon where it is produced. Because the crude is commingled into a common stream, shippers may receive at Valdez a different quality of crude than what the shipper had injected into TAPS.

Today's order involves the TAPS Quality Bank, which was created in the early 1980s to compensate shippers of higher quality crude that is commingled with lower quality crude from another shipper.

The complex case before the Commission has involved numerous hearings and settlements centering on valuation of the crude oil shipped on TAPS. In previous decisions, the Commission adopted a valuation methodology using a distillation method for valuing various components of the crude oil.

With the distillation method, the crude oil is separated into “cuts,” such as butane, propane, naphtha and resid. The market values assigned to each cut and the value of a crude oil stream is determined by the relative weighting of the cuts. The Commission applied the new distillation methodology prospectively, without refunds.

In 1995, the D.C. Circuit U.S. Court of Appeals upheld the Commission’s decision to change the methodology, but remanded the valuation of the light and heavy distillation fuel oil and resid cuts. In 1997, the Commission approved another contested settlement that established new proxies for each of the remanded cuts and ruled that the new proxies should be implemented on a prospective basis.

In 1999, the appeals court affirmed the Commission’s 1997 order, with the exception of the valuation of the resid cut and the Commission’s ruling on the effective date for the new valuations of the remanded cuts. While the court agreed the Commission has some discretion to determine whether the new rate should apply retroactively, it found fault with the factors upon which the Commission relied, and remanded that issue as well as the valuation for resid.

The Commission ordered a hearing on the issues remanded by the court, among other matters. The hearing before Administrative Law Judge Edward Silverstein lasted 103 days, involved 20 witnesses, almost 1,500 exhibits received into evidence, produced a transcript of 13,000 pages, and resulted in the August 31, 2004, initial decision addressed by today’s Commission order.

The Commission accepted the administrative law judge’s calculations of the remanded cuts with a minor modification in the resid evaluation, and affirmed his recommendation that the new resid valuation should be applied retroactively. However, since Congress stipulated in the Motor Carrier Safety Reauthorization Act of 2005 that the Commission “may not order retroactive changes in the TAPS quality bank adjustments for any period before February 2000,” the Commission altered the retroactive refund provisions for resid to that date, rather than December 1993 as the administrative law judge had ordered.

The Commission directed the Quality Bank Administrator, responsible for calculating the adjustments between shippers, to recalculate the adjustment from February 1, 2000, forward.