

170 FERC ¶ 61,010  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;  
Richard Glick and Bernard L. McNamee.

ONEOK Arbuckle II Pipeline, L.L.C.

Docket No. OR20-1-000

ORDER ON PETITION FOR DECLARATORY ORDER

(Issued January 13, 2020)

1. On October 15, 2019, ONEOK Arbuckle II Pipeline, L.L.C. (ONEOK Arbuckle) filed a petition for declaratory order (Petition) requesting various rulings related to transportation on the Arbuckle II pipeline system (Pipeline or Project) that will transport volumes of Demethanized Mix<sup>1</sup> from Oklahoma to the Mont Belvieu, Texas area. We grant the Petition as discussed below.

**I. Background**

2. ONEOK Arbuckle states that the Pipeline will be approximately 530 miles in length and will have the capacity to transport up to 440,000 barrels per day (bpd) with the capability to be expanded in the future if shipper interest warrants. ONEOK Arbuckle asserts that the additional takeaway capacity to be offered by the Pipeline is critical to meeting the growing need of producers.<sup>2</sup>

3. According to the Petition, the Pipeline will transport Demethanized Mix, a byproduct of natural gas production, received at the tailgate of a processing plant in Oklahoma to fractionators in the Mont Belvieu, Texas area. The Petition includes a description of the production, processing, and market for Demethanized Mix, which after fractionation is converted into natural gas liquids (NGLs) that can be marketed.

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<sup>1</sup> ONEOK Arbuckle states that Demethanized Mix is the mixture of liquid hydrocarbons and non-hydrocarbon components that are condensed, adsorbed and/or absorbed from the separation out of natural gas and transported on the Pipeline. Petition at 1.

<sup>2</sup> *Id.* at 1-3.

ONEOK Arbuckle explains that the Pipeline is likely to be used by only one or a very small number of shippers, not because of the terms of service or open season, but as a result of the nature of the market for Demethanized Mix in which the Pipeline operates.<sup>3</sup>

4. As explained in the Petition, ONEOK Arbuckle first publicly announced plans for the Pipeline on February 21, 2018 and regularly provided updates via its website. The open season ran from September 16, 2019 to October 7, 2019, with notice provided on the company website, in S&P Global Platts Daily, and in the Oil Price Information Service Newsletter. ONEOK Arbuckle represents that any interested party that timely signed the confidentiality agreement was provided with a *pro forma* Transportation Service Agreement (TSA), open season rate guidance, *pro forma* tariff, and map of the Pipeline.<sup>4</sup> ONEOK Arbuckle asserts that the length of the open season was sufficient for potential shippers to review the materials and to make an informed decision whether to obtain priority service, particularly because market participants active in the region were aware of the Project before the open season. ONEOK Arbuckle further asserts that it had the option of extending the open season had potential shipper interest suggested a need for more time, and potential shippers were not precluded from raising any concerns regarding the open season with the Commission. ONEOK Arbuckle states that only one party signed a confidentiality agreement and executed a TSA.<sup>5</sup>

5. ONEOK Arbuckle requests Commission action on the Petition by January 13, 2020, to provide regulatory assurance to the committed shipper to arrange for supply of Demethanized Mix and meet its contract obligations, including extensive investment upstream of the pipeline. ONEOK Arbuckle expects to begin service on the Pipeline in the first quarter of 2020.<sup>6</sup>

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<sup>3</sup> *Id.* at 4-6. As explained in the Petition, the Pipeline functions in practical effect like a piece of equipment in a factory production line, as a connector that transports the Demethanized Mix from the “NGL factory” in Oklahoma to the fractionators and storage facilities in Mont Belvieu. According to the Petition, as there is no market for Demethanized Mix in its unfractionated state, only after fractionation do the owners of the NGLs have the ability to buy and sell the resulting purity products using posted commodity prices.

<sup>4</sup> *Id.* at Exs. A, B, C, D, E, G, and H.

<sup>5</sup> *Id.* at 3, 7-8, 15-17.

<sup>6</sup> ONEOK Arbuckle expects to add an origin point in Medford, Oklahoma later in 2020. *Id.* at 4, 25.

## II. TSA Terms, Rates, and Priority Service

6. According to the Petition, up to 90 percent of Pipeline capacity will be available to a committed shipper who will pay a premium rate of exactly one cent per barrel higher than the uncommitted rate in exchange for priority service rights each month equal to the shipper's committed volume. In the event that a committed shipper is unable to transport its committed volume by reason other than *force majeure*, ONEOK Arbuckle states that the committed shipper will pay for the barrels that were not transported up to its committed volume as if the barrels were transported.<sup>7</sup> ONEOK Arbuckle explains that the committed rate will be initially based on a cost-of-service calculation as estimated in the Open Season Rate Guidance attached as Exhibit H, and subject to changes directly linked to changes in the uncommitted rate to preserve the one cent differential, including when the uncommitted rate is indexed or challenged on a cost-of-service basis. ONEOK Arbuckle further explains that nothing in the TSA precludes any entity with standing from challenging the uncommitted rate, including a committed shipper.<sup>8</sup>

7. Under ONEOK Arbuckle's proposed prorationing policy, when nominations received exceed the Pipeline's total capacity in any given month, 10 percent of the Pipeline's total aggregate capacity will always be available for uncommitted shippers. The uncommitted capacity will be allocated between regular shippers and new shippers, with 50 percent of the uncommitted capacity (five percent of the Pipeline's total aggregate capacity) reserved for new shippers.<sup>9</sup> The uncommitted capacity not allocated to new shippers, will be allocated to regular shippers based on historical transportation movements.

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<sup>7</sup> ONEOK Arbuckle states that the committed volume may be lower than the TSA minimum volume commitment during the first 24 months of the term, and any shortfall could be settled by making a shortfall payment at the end of the term. ONEOK Arbuckle claims that any potential committed shipper that does not have sufficient volumes of processing plant output committed by the expected Pipeline in-service date would still have the ability to acquire the necessary minimum over a two-year period. ONEOK Arbuckle asserts that the minimum volume commitment is a small percentage of the initial capacity of the Pipeline and roughly corresponds to the average output of a typical natural gas processing plant in Oklahoma. *Id.* at 8-9, 18, 23.

<sup>8</sup> *Id.* at 3-4, 8-10, 18, 23.

<sup>9</sup> A new shipper's allocation will equal the lesser of five percent of total Pipeline capacity divided by the number of new shippers who nominated volumes that month, or 1.25 percent of total Pipeline capacity for the month. *Id.* at 11, Ex. C.

8. ONEOK Arbuckle states that if the Pipeline is expanded and the expansion capacity is offered, the TSA provides a committed shipper with first rights to increase its priority committed volumes for up to 90 percent of expansion capacity, while 10 percent of expansion capacity will be reserved as uncommitted capacity and half of such uncommitted capacity will be for new shippers. ONEOK Arbuckle explains that the TSA has an initial term of 10 years and will automatically renew on a year-to-year basis thereafter unless cancelled by either party.<sup>10</sup>

### **III. Requested Rulings**

9. ONEOK Arbuckle requests that the Commission approve the following rate structure and terms of service for the Pipeline as consistent with the Interstate Commerce Act (ICA)<sup>11</sup> and Commission precedent:

- A. The open season process was appropriately conducted and was not unduly discriminatory or unduly preferential.
- B. The TSA will be honored by the Commission and, in conjunction with applicable tariffs consistent with the TSA terms, will govern the transportation for the committed shipper during the term of the TSA.
- C. The proposed committed rate structure and committed payment obligations are consistent with Commission precedent and not unduly discriminatory.
- D. The proposed priority rights for the committed shipper are lawful and not unduly discriminatory.
- E. The proposed proration policy is reasonable and not unduly discriminatory.
- F. The proposed process for offering expansion capacity first to the committed shipper is lawful and consistent with Commission policy.
- G. The term of the TSA may be extended in accordance with the provisions of the TSA.

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<sup>10</sup> *Id.* at 12-13, 20-21, 24.

<sup>11</sup> 49 U.S.C. app. § 1 *et seq.* (1988).

#### IV. Public Notice, Intervention, Protests and Comments

10. Notice of the Petition was issued on October 17, 2019, providing for motions to intervene, comments, and protests to be filed on or before November 14, 2019. Pursuant to Rule 214 of the Commission's regulations, 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.<sup>12</sup> No motions to intervene, comments, or protests have been filed; the Petition is thus unopposed.

#### V. Discussion

11. We grant the rulings requested by ONEOK Arbuckle as set forth below.

12. We find ONEOK Arbuckle has demonstrated that its open season process was appropriately conducted consistent with Commission policy and was not unduly discriminatory or unduly preferential.<sup>13</sup> ONEOK Arbuckle offered the committed capacity pursuant to a widely-publicized open season and afforded any interested shippers an opportunity to participate and obtain the committed service.<sup>14</sup> In addition, ONEOK Arbuckle publicized the Project well in advance of the formal open season and was willing to extend the open season if shipper interest warranted. Finally, no potential shippers were precluded from raising concerns regarding the open season process with the Commission.<sup>15</sup> We affirm that the TSA will be honored and upheld by the Commission and will govern the transportation for the committed shipper during the term of the TSA, consistent with prior Commission orders.<sup>16</sup>

13. We find that the proposed priority service, committed rate structure and committed payment obligations are consistent with Commission precedent and not unduly discriminatory. The Commission has held that priority service is permissible under the ICA provided that the committed shippers pay a premium rate of at least one cent per barrel more than uncommitted shippers and that the committed rates and priority service

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<sup>12</sup> 18 C.F.R. § 385.214 (2019).

<sup>13</sup> See, e.g., *Medallion Pipeline Co., LLC*, 160 FERC ¶ 61,055, at P 22 (2017); *EnLink Del. Crude Pipeline, LLC*, 166 FERC ¶ 61,226, at P 17 (2019).

<sup>14</sup> See Petition at 3, 16, Exs. A, B and F.

<sup>15</sup> *Id.*

<sup>16</sup> E.g., *Saddlehorn Pipeline Co., LLC*, 153 FERC ¶ 61,067, at P 33 (2015); *CenterPoint Energy Bakken Crude Servs., LLC*, 144 FERC ¶ 61,130, at P 17 (2013).

options were offered during an open season.<sup>17</sup> ONEOK Arbuckle explains that under the TSA offered in the open season, the committed shipper will pay a premium rate of exactly one cent higher than the uncommitted rate for the same movement, and this one cent differential will be preserved over the term of the TSA.<sup>18</sup> ONEOK Arbuckle avers that the uncommitted rate will be adjusted under the Commission's rate methodologies, including indexing, and will be subject to adjustment via protest or complaint.<sup>19</sup> ONEOK Arbuckle states that the committed shipper will pay the committed rate times the committed volume regardless of the volumes actually shipped, except in cases of *force majeure*.<sup>20</sup>

14. We find that the proposed proration policy is consistent with Commission policy. ONEOK Arbuckle states that at least 10 percent of the Project's capacity will be reserved for uncommitted shippers.<sup>21</sup> According to the Petition, the uncommitted capacity will be allocated between regular shippers based on historical transportation movements during a 12-month period and new shippers that have not shipped on a sufficient basis to qualify as regular shippers.<sup>22</sup> The proration policy provides a process whereby new shippers can attain regular shipper status, consistent with Commission policy.<sup>23</sup>

15. We confirm that the proposed process for offering expansion capacity first to the committed shipper is lawful and consistent with Commission policy. The Commission has found that it is appropriate for committed shippers to have the first opportunity to

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<sup>17</sup> *E.g.*, *MPLX Ozark Pipe Line LLC*, 160 FERC ¶ 61,057, at P 16 (2017); *Oasis Midstream Servs. LLC*, 156 FERC ¶ 61,083, at P 15 (2016).

<sup>18</sup> The initial committed rate will be established using a cost-of-service methodology, and the initial uncommitted rate will be exactly one cent per barrel lower than the initial committed rate for the same movement. Petition at 9.

<sup>19</sup> Petition at 9-10. ONEOK Arbuckle confirms that nothing in the TSA precludes any entity with standing, including a committed shipper, from challenging the uncommitted rate. *Id.*

<sup>20</sup> *Id.* at 9; *see also ONEOK Elk Creek Pipeline, L.L.C.*, 169 FERC ¶ 61,105, at P 23 (2019); *Marathon Pipe Line LLC*, 152 FERC ¶ 61,005, at P 20 (2015).

<sup>21</sup> *E.g.*, *Sunoco Pipeline L.P.*, 149 FERC ¶ 61,191, at P 31 (2014) (*Sunoco*).

<sup>22</sup> *See* Petition at 10-12, Ex. C.

<sup>23</sup> *E.g.*, *Caliber Bear Den Interconnect LLC*, 157 FERC ¶ 61,024, at P 17 (2016); *ONEOK Elk Creek*, 169 FERC ¶ 61,105 at P 22.

obtain capacity on any expansion, up to a total of 90 percent of the expansion capacity.<sup>24</sup> We also find that the term of the TSA may be extended in accordance with the provisions of the TSA, consistent with Commission policy.<sup>25</sup>

The Commission orders:

The Petition is granted as discussed in this order.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.

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<sup>24</sup> *E.g.*, *MarkWest Liberty Ethane Pipeline, L.L.C.*, 145 FERC ¶ 61,287, at P 27 (2013); *Sunoco*, 149 FERC ¶ 61,191 at P 31.

<sup>25</sup> *E.g.*, *Sunoco*, 149 FERC ¶ 61,191 at P 31; *Marathon Pipe Line LLC*, 152 FERC ¶ 61,237, at P 13 (2015).