

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

In Reply Refer To:  
Office of Enforcement  
Docket No. FA18-1-000  
January 9, 2020

ONEOK NGL Pipeline, L.L.C.  
Attention: Lisa Nishimuta  
Legal Counsel and Chief Compliance Officer  
333 Clay Street, Suite 1600  
Houston, TX 77002

Dear Ms. Nishimuta:

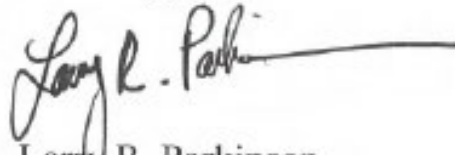
1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of ONEOK NGL Pipeline, L.L.C. (ONEOK NGL). The audit covered the period January 1, 2015 to December 31, 2018.
2. The audit evaluated ONEOK NGL's compliance with Commission regulations for oil pipeline companies in 18 C.F.R. Parts 340-357, including: (1) Uniform System of Accounts in 18 C.F.R. Part 352; (2) Preservation of Records requirements in 18 C.F.R. Part 356; (3) FERC Form No. 6 financial reporting requirements in 18 C.F.R. Part 357; and (4) select portions of ONEOK NGL's FERC transportation tariffs. The enclosed audit report contains 6 findings of noncompliance and 19 recommendations that require ONEOK NGL to take corrective action.
3. On December 13, 2019, you notified DAA that ONEOK NGL does not intend to contest the 6 findings of noncompliance and corresponding recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.
4. ONEOK NGL should submit its implementation plan to comply with the recommendations within 30 days of this letter order. ONEOK NGL should make quarterly submissions to DAA describing the progress made to comply with the recommendations, including the completion date for each corrective action. As directed by the audit report, these submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the corrective actions are completed.

5. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311. This letter order constitutes final agency action. ONEOK NGL may file a request for rehearing of this letter order with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713.

6. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Steven D. Hunt, Director and Chief Accountant, Division of Audits and Accounting at (202) 502-6084.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry R. Parkinson", with a long horizontal line extending to the right.

Larry R. Parkinson  
Director  
Office of Enforcement

Enclosure



**Federal Energy Regulatory Commission**  
Office of Enforcement  
Division of Audits and Accounting

**AUDIT REPORT**

Audit of Compliance with  
FERC Oil Pipeline Regulations at  
ONEOK NGL Pipeline, L.L.C.

Docket No. FA18-1-000  
January 9, 2020

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## **I. Executive Summary**

### **A. Overview**

The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) at the Federal Energy Regulatory Commission (Commission) has completed an audit of ONEOK NGL Pipeline, L.L.C. (ONEOK NGL or the Company). The audit evaluated ONEOK NGL's compliance with Commission regulations for oil pipeline companies in 18 C.F.R. Parts 340-357, including: (1) Uniform System of Accounts (USofA) in 18 C.F.R. Part 352; (2) Preservation of Records requirements in 18 C.F.R. Part 356; (3) FERC Form No. 6 financial reporting requirements in 18 C.F.R. Part 357; and (4) select portions of ONEOK NGL's FERC transportation tariffs. The audit covered the period from January 1, 2015 to December 31, 2018.

### **B. ONEOK NGL Pipeline, L.L.C.**

ONEOK NGL provides fee-based services and operates approximately 2,681 miles of FERC-regulated interstate natural gas liquid (NGL) pipelines with a peak capacity of 393,000 barrels per day (BPD). ONEOK NGL's pipelines deliver raw NGLs originated in Oklahoma, Kansas, and the Texas panhandle to its Mid-Continent and Mont Belvieu fractionation facilities. Following the fractionation process, ONEOK NGL's pipelines deliver purity NGL products to the NGL market hubs in Conway, Kansas and Mont Belvieu, Texas. ONEOK NGL does not directly employ any of the persons responsible for managing, operating, or providing services related to its day-to-day business operations. ONEOK NGL maintains a service agreement with ONEOK, Inc., ONEOK Partners GP, L.L.C., and NBP Services, L.L.C., to share common services.

ONEOK NGL provides interstate transportation service pursuant to five FERC tariffs with all its recent rate adjustments based on the Commission's indexed rate methodology. ONEOK NGL did not directly control any corporations, partnerships, or similar organizations, nor did it maintain a joint interest in any other entity during the audit period. ONEOK NGL has nine affiliated NGL interstate pipeline companies: 1) Chisholm Pipeline Company; 2) Heartland Pipeline Company; 3) ONEOK Arbuckle North Pipeline, L.L.C.; 4) ONEOK Bakken Pipeline, L.L.C.; 5) ONEOK Elk Creek Pipeline, L.L.C.; 6) ONEOK North System, L.L.C.; 7) Overland Pass Pipeline Company, L.L.C.; 8) ONEOK Southeast Texas NGL Pipeline, L.L.C.; and 9) West Texas LPG Pipeline Limited Partnership.

### C. Summary of Compliance Findings

Audit staff's six compliance findings are summarized below. Section IV of this report further discusses the findings made as a result of this audit.

1. *Page 700 Reporting* – ONEOK NGL improperly reported depreciation expense, AFUDC depreciation, and related rate base balances on its Page 700, Annual Cost-of-Service Based Analysis Schedule. Also, ONEOK NGL improperly included Account 187, Construction Work in Progress (CWIP), balances in the calculation of Rate Base – Original Cost on line 5a.
2. *Accounting for Carrier Property* – ONEOK NGL improperly accounted for certain inactive and abandoned pipeline assets as carrier property in Account 30, Carrier Property.
3. *Scheduling of Nominations* – ONEOK NGL improperly transported product on its FERC gathering lines under FERC Tariff No. 9 without nominations, which are required under Item No. 45 - Notice of Tenders.
4. *Incorrect Tariff Rate Charge* – ONEOK NGL improperly accounted for interstate transportation revenues on its North Line pipeline when ONEOK NGL incorrectly charged an interstate rate, instead of an intrastate rate, from January 2016 to April 2017. As the interstate rate was higher than the intrastate rate, ONEOK NGL overcharged for these deliveries and overstated interstate transportation revenues.
5. *Accounting for Pipeline Leases* – ONEOK NGL improperly recorded revenue for the lease of a pipeline asset owned by its affiliate as rental revenue in Account 250, Rental Revenue. The error resulted in overstatements in Account 250 of \$3.1 million, \$4.2 million, and \$4.3 million in 2015, 2016, and 2017, respectively.
6. *Use of Incorrect Depreciation Rates* – ONEOK NGL improperly applied depreciation rates for carrier property assets that were not approved by and on file with the Commission. As a result, ONEOK NGL overstated depreciation expense and misreported amounts on its Page 700 from 2015-2017.

## **D. Summary of Recommendations**

Audit staff's recommendations are summarized below and detailed in Section IV of this report.

### *Page 700 Reporting*

1. Strengthen processes, procedures, and controls surrounding the preparation and review of its FERC Form No. 6. The policies and procedures should ensure complete and accurate reporting of Page 700 data.
2. Develop and implement review procedures to ensure that personnel are performing thorough reviews of FERC Form No. 6 information, including Page 700, prior to submittal to the Commission.
3. Provide training on updated processes, procedures, and controls surrounding the preparation and review of its FERC Form No. 6.
4. Provide DAA with an analysis assessing the impact of these reporting errors to the FERC Form No. 6 for 2005-2018.
5. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, 2017, and 2018 that reflects the results of this analysis, including notes that explain the corrections being made.

### *Accounting for Carrier Property*

6. Revise accounting policies and procedures to ensure all components of carrier property, such as abandoned and inactive assets, are properly accounted for in accordance with Commission requirements. The procedures should include established communications protocols among the accounting staff that are responsible for asset retirements and implementation of a secondary review of all changes to carrier property.
7. Reclassify all inactive carrier property recorded in Account 30 that will not be used in ONEOK NGL's future pipeline operations to Account 34.
8. Reclassify all abandoned pipeline assets recorded in Account 30 to Account 31.
9. Perform an analysis to determine the full scale of Page 700 impacts, including impacts to Line 1, Operating and Maintenance Expense; Line 2, Depreciation Expense; Lines 5a-5d, Rate Base; and other Lines on Page 700, and provide this analysis to DAA staff for further review.

10. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, and 2017 that reflects the results of this analysis, including notes that explain the corrections being made.

#### *Scheduling of Nominations*

11. Revise and implement procedures and controls to ensure that transportation service is supported by a properly executed nomination in accordance with ONEOK NGL's tariffs on file with the Commission.
12. Train employees on how to determine whether each shipper's product movement is supported by a nomination.

#### *Incorrect Tariff Rate Charge*

13. Develop and implement processes and procedures to ensure that ONEOK NGL charges shippers the correct tariff rate.

#### *Accounting for Pipeline Leases*

14. Strengthen accounting policies, procedures, and controls to ensure that only ONEOK NGL's carrier property activities are recognized on its books.
15. Make the appropriate accounting adjustments to accurately reflect the Kansas Pipeline lease revenues and incorporate these adjustments in updated FERC Form No. 6 filings for 2015, 2016, 2017, and 2018.

#### *Use of Incorrect Depreciation Rates*

16. Develop and implement procedures and controls to ensure that ONEOK NGL uses Commission-approved depreciation rates for all carrier property assets (or accounts).
17. Use Commission-approved depreciation rates to calculate the depreciation expense included in the annual cost-of-service determinations, or timely file a request pursuant to 18 C.F.R. Part 347, Oil Pipeline Depreciation Studies, of the Commission's regulations, requesting new or changed property account depreciation rate(s).
18. Provide DAA with an analysis assessing the impact of these improper depreciation rates to the FERC Form No. 6 from 2008-2018.



19. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, 2017, and 2018 that reflects the results of this analysis, including notes that explain the corrections being made.

## **E. Compliance and Implementation of Recommendations**

Audit staff further recommends that ONEOK NGL submit for review:

- Plans for implementing audit staff's recommendations within 30 days after this report is issued.
- Quarterly reports describing the Company's progress in completing each corrective action. ONEOK NGL should make these nonpublic quarterly filings no later than 30 days after the end of each calendar quarter, beginning with the first quarter after the Commission issues this report, and continuing until it completes all recommended corrective actions.
- Correcting accounting entries within 30 days after this report is issued, including all supporting documents.
- Copies of any written policies and procedures developed in response to this report's recommendations. These documents should be submitted in the first nonpublic quarterly filing after ONEOK NGL completes them.

## II. Background

### A. ONEOK NGL's FERC Tariffs

ONEOK NGL provides interstate transportation service for a variety of origin and destination points on its system pursuant to FERC Tariff Nos. 9-13 and the terms and interstate transportation rates on file with the Commission.<sup>1</sup> ONEOK NGL also provides non-jurisdictional intrastate transportation service within Oklahoma and Kansas.

ONEOK NGL's interstate activities consist of the jurisdictional transportation of raw feed and purity NGL products, including ethane-propane mix, propane, isobutane, normal butane, natural gasoline, Refinery Grade Propylene (RGP), and Refinery Grade Butane (RGB). NGL pipelines take purity NGL product from fractionation facilities to primary market hubs in Kansas and Texas. ONEOK NGL's intrastate activities consist of non-jurisdictional transportation of NGLs between points within state lines. ONEOK NGL's tariffs govern the transportation of raw feed from gas processing plants to NGL fractionators and NGL storage facilities and transportation of raw feed and purity NGL products between NGL fractionators and associated storage facilities. While ONEOK NGL transports NGLs on behalf of shippers, it neither owns the NGLs nor any fractionators or storage facilities. An affiliate of ONEOK NGL is the owner of fractionation facilities and the lessee of storage facilities in Medford, OK; Bushton, KS; Conway, KS; Hutchinson, KS; and Mont Belvieu, TX, and the part-owner of two fractionators co-owned with third-party joint-venture partners. ONEOK NGL's revenues are a combination of jurisdictional charges for interstate transportation service and non-jurisdictional charges for intrastate transportation service.

ONEOK NGL's rates on file with the Commission initially were either grandfathered or set by agreement and have been changed over time based on the Commission's indexed rate methodology. The indexed rate methodology was prescribed for oil and NGL pipeline companies as a means of adjusting their rates over time through an index system that sets annual transportation rate ceiling levels. The Commission bases the index system on the annual change in the Producer Price Index for Finished Goods plus a further annual adjustment.<sup>2</sup> All of ONEOK NGL's FERC-jurisdictional pipeline transportation rates during the audit period were established through adjustments using the Commission's indexed rate methodology. ONEOK NGL did not have cost-of-service or market-based rates in effect during the audit period. If ONEOK NGL decides to establish new rates based on the indexed rate methodology, it must decide whether to take the full index rate amounts, set rates higher than its present rates but below the

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<sup>1</sup> ONEOK NGL Pipeline, L.L.C. FERC Tariffs effective during the audit period were: F.E.R.C. Nos. 9.17.0 – 9.19.0, 10.18.0 – 10.23.0, 11.17.0 – 11.19.0, 12.10.0 – 12.11.0, and 13.6.0.

<sup>2</sup> *Williams Pipe Line Company*, Opinion No. 154-B, 31 FERC ¶ 61,377 (1985).

ceiling level, leave rates unchanged, or set lower rates than its present ones. During the audit period, ONEOK NGL indexed its rates up or down annually to the full indexed rates permitted by the methodology.

ONEOK NGL's total transportation revenues were approximately \$110 million, with barrel-miles totaling approximately 43 billion in 2015; \$289 million, with barrel-miles totaling 53 billion in 2016; \$257 million, with barrel-miles totaling 64 billion in 2017; and \$253 million, with barrel-miles totaling 74 billion in 2018. Intrastate activities represented approximately 1.3 percent of ONEOK NGL's total transportation service revenues in 2015, 2.4 percent in 2016, 2.7 percent in 2017, and 3.9 percent in 2018.

## **B. FERC Form No. 6 Reporting**

FERC Form No. 6 is designed to collect both financial and operational information from oil pipeline companies subject to the Commission's jurisdiction. FERC Form No. 6 collects data on all financial activity of the pipeline entity in question and all expenses for carrier operations, which can include both interstate and intrastate activity.

In Order No. 571, the Commission adopted a new FERC Form No. 6 schedule – Page 700, entitled Annual Cost of Service Based Analysis Schedule, starting with the reporting year 1995.<sup>3</sup> This schedule requires each pipeline to report its cost of service, operating revenues, and throughput in barrels and barrel-miles. While the amounts reported in the FERC Form No. 6 include both interstate and intrastate amounts, Page 700 pertains only to interstate (i.e., Commission-jurisdictional) amounts. Page 700 is designed to be a preliminary screening tool that allows shippers to evaluate a pipeline's index rate filings. Page 700 also provides the Commission, shippers, and other stakeholders a gauge for determining the reasonableness of the companies' regulated rates. However, Page 700 cannot be used to perform a full and complete cost-of-service review because it does not provide sufficient accounting details to evaluate whether a company's total cost-of-service is just and reasonable.<sup>4</sup>

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<sup>3</sup> *Cost of Service Reporting and Filing Requirements for Oil Pipelines*, Order No. 571, 69 FERC ¶ 61,102, FERC Stats. & Regs. ¶ 31,006, at 31,175, *order on reh'g and clarification*, Order No. 571-A, 69 FERC ¶ 61,411 (1994).

<sup>4</sup> Page 700 of the FERC Form No. 6 provides a simplified presentation of an oil pipeline's jurisdictional cost-of-service and revenues. While Page 700 serves as a preliminary screening aid to evaluate pipeline rates, the information alone on this page is not intended to be used to perform a full and complete cost-of-service review. However, the information reported on Page 700 should be consistent with the ratemaking principles embodied in Opinion No. 154-B, which requires the reporting of interstate amounts. See *Williams Pipe Line Company*, Opinion No. 154-B, 31 FERC ¶ 61,377 (1985).

The Commission uses Page 700 data in its Five-Year Reviews of the Oil Pipeline Index. In its most recent review, Docket No. RM15-20-000, the Commission used Page 700 to determine the index adjustment for oil pipeline index level for the five-year period commencing July 1, 2016.<sup>5</sup>

### **C. Lease Agreements**

ONEOK NGL engaged in transactions with various affiliates, including transportation and leasing arrangements, during the audit period. In total, ONEOK NGL maintained 13 active capacity leases, four of which named ONEOK NGL as the lessor, leasing capacity from receipt to delivery points on its system in Oklahoma, Texas, and Kansas. These leases were an important part of ONEOK NGL's business and supported the movement of NGL products on its system.

ONEOK NGL reported \$3.7 million in rental revenue in 2015, \$4.3 million in rental revenue in 2016, and \$4.4 million in rental revenue in 2017, approximately 3.4, 1.5, and 1.7 percent of ONEOK NGL's total transportation revenue, respectively. The rental revenue was generated from three different capacity lease arrangements within the state of Kansas. ONEOK NGL's rental expenses were approximately 72.2, 71.8, and 70.9 percent in 2015, 2016, and 2017, respectively, of ONEOK NGL's total expenses in those years. Most of the expenses originated from leases pursuant to which ONEOK NGL leased capacity on an affiliate's assets to transport NGLs. ONEOK NGL accounted for the revenues it received associated with these leasing arrangements in Account 250, Rental Revenue, and the expenses it incurred in Account 350, Rentals (relating to the operations and maintenance of carrier transportation service), and Account 530, Rentals (relating to the administration and general operations of carrier transportation service).

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<sup>5</sup> *Five-Year Review of the Oil Pipeline Index*, 153 FERC ¶ 61,312 (2015).

### **III. Introduction**

#### **A. Objectives**

The audit evaluated ONEOK NGL's compliance with Commission regulations for oil pipeline companies in 18 C.F.R. Parts 340-357, including: (1) Uniform System of Accounts in 18 C.F.R. Part 352; (2) Preservation of Records requirements in 18 C.F.R. Part 356; (3) FERC Form No. 6 financial reporting requirements in 18 C.F.R. Part 357; and (4) select portions of ONEOK NGL's FERC transportation tariffs. The audit covered the period from January 1, 2015 to December 31, 2018.

#### **B. Scope and Methodology**

To conduct this audit, audit staff identified standards and criteria, including Commission rules, regulations, and other requirements, necessary to evaluate ONEOK NGL's compliance with audit objectives. Audit staff used publicly available information to understand ONEOK NGL's corporate structure, pipeline operations, shipper activity, and regulatory history. Audit staff also conducted substantive testing to determine whether ONEOK NGL complied with Commission regulations for oil pipeline companies in 18 C.F.R. Parts 340-357. To facilitate its testing and evaluation, audit staff performed these actions:

- *Review of Public Information* – Reviewed publicly available materials to understand ONEOK NGL's corporate structure and subsidiaries, regulatory actions, history, tariff operations, procedures, services, and the overall business and regulatory environment. Materials reviewed included ONEOK NGL's website, FERC Form No. 6 filings, FERC transportation tariffs, and other Commission filings. Audit staff also reviewed data maintained by the Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA), news media, and other sources for information on the Company's background and overall risks.
- *Collaboration with Commission Staff* – Conferred with Commission staff in the Office of Energy Market Regulation (OEMR) about audit developments and potential compliance issues, to ensure that audit report findings were consistent with Commission precedent and policy. OEMR staff provided background and guidance to facilitate the understanding of pipeline operations and ratemaking, and the audit team included one staff member from OEMR's Division of Pipeline Regulation for the audit.
- *Regulatory Standards and Criteria* – Identified regulatory requirements and criteria to evaluate ONEOK NGL's compliance with each audit objective.

These requirements and criteria included Order Nos. 561, 767, 780, and 783,<sup>6</sup> Opinion No. 154-B, other relevant orders and regulations such as 18 C.F.R. Parts 352 and 357, and the FERC Form No. 6 instructions. The evaluation also included a review of ONEOK NGL's FERC tariffs and related filings to understand pipeline procedures and jurisdictional transportation services and rates.

- *FERC Data Requests* – Issued data requests and follow-up requests to obtain supporting information. Also requested follow-up materials subsequent to each site visit. The information included ONEOK NGL's internal financial accounting and reporting procedures, cash management program details, lease agreements and related revenue and expenses, affiliate transactions, shared services, rate schedules and tariffs, pipeline operations and procedures, internal audit reports, service agreements and contracts, transactional and shipper information, Page 700 cost-of-service working papers, and other documentation not publicly available.
- *Teleconferences* – Conducted regular teleconferences with ONEOK NGL to discuss administrative and technical matters, such as site visit agendas, data requests, operations, and accounting, relevant to the audit's scope.
- *ONEOK NGL Meeting at FERC Headquarters* – Hosted an introductory meeting with ONEOK NGL management and senior officials. This meeting afforded audit staff the opportunity to discuss the audit process, to meet formally with key company officials, and to obtain an overview of ONEOK NGL's history, operations, corporate structure, rates and tariffs, and financial accounting and reporting.
- *Site Visits to ONEOK NGL's Headquarters* – Conducted two site visits during the audit to discuss, observe, and evaluate underlying procedures, practices, and controls supporting compliance with Commission oil pipeline regulations. The visits enabled audit staff to:
  - Discuss ONEOK NGL's corporate structure, departmental functions, and employee responsibilities and meet with key company officials;

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<sup>6</sup> *Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act of 1992*, Order No. 561, 65 FERC ¶ 61,109 (1993), *order on reh'g and clarification*, Order No. 561-A, 68 FERC ¶ 61,138 (1994), *aff'd Ass'n of Oil Pipelines v. FERC*, 83 F.3d 1424 (D.C. Cir. 1996); *Revision to Form No. 6*, Order No. 767, 140 FERC ¶ 61,218 (2012); *Filing, Indexing and Service Requirements for Oil Pipelines*, Order No. 780, 143 FERC ¶ 61,137 (2013); *Revisions to Page 700 of FERC Form No. 6*, Order No. 783, 144 FERC ¶ 61,049 (2013), *order on reh'g*, Order No. 783-A, 148 FERC ¶ 61,235 (2014).

- Learn about ONEOK NGL’s pipeline system and daily operations – in particular, product movement from origin to destination, as well as marketing, contracting, nominating, scheduling, delivery, and invoicing;
- Tour ONEOK NGL’s onsite control room to discuss segments of ONEOK NGL’s operations and transportation of products;
- Interview executives, managers, and operational employees about internal policies and procedures, and their daily application;
- Discuss and observe management and operation of ONEOK NGL’s corporate regulatory compliance program;
- Discuss and observe internal accounting and reporting procedures, processes, and controls;
- Discuss treatment of specific accounting matters, including accounting for carrier property, lease agreements, inter/intrastate items, various revenues and expenses, depreciation, interest during construction, abandonments and retirements, asset purchases, cost allocations, affiliate transactions, cash management and recapitalization, and time and expense reporting; and
- Examine ONEOK NGL’s working papers supporting the cost-of-service reported on Page 700 of the FERC Form No. 6 and meet with ONEOK NGL employees involved in the preparation of the working papers.

To evaluate ONEOK NGL’s compliance with relevant requirements within the scope of this audit, audit staff performed these actions:

- *Indexed Rates* – Reviewed ONEOK NGL’s indexed rates, including the application and billing of transportation rates to shippers, development and support for initial rates that were deemed just and reasonable pursuant to the Energy Policy Act of 1992 (grandfathered), and the relationship between costs incurred and revenues derived through indexed rates.<sup>7</sup> Reviewed invoices to ensure ONEOK NGL charged customers consistent with indexed rates filed with the Commission. Reconciled invoices for transportation services back to ONEOK NGL’s FERC Form No. 6 to ensure accuracy and transparency.

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<sup>7</sup> See Energy Policy Act of 1992, Pub. L. 102-486, 106 Stat. 2776, at § 1803(b) (1992) (codified as 42 U.S.C. § 7172 (2012)).

- *Nominations* – Reviewed ONEOK NGL’s nomination processes and procedures and internal controls pursuant to FERC Tariff Nos. 9, 10, 11, 12, 13, and 15 to determine whether a shipper’s product was properly nominated (e.g., product type, barrels/amounts, origin, destination, etc.).<sup>8</sup> Also evaluated the process for changing a nomination, any associated limitations, and whether the shipper identified its intent for interstate or intrastate delivery. Audit staff examined the accuracy of recent nominations and confirmation by a shipper of total capacity requested.
- *Scheduling and Delivery* – Reviewed ONEOK NGL’s scheduling and delivery process, including nomination management, schedule preparation, and pipeline scheduling to determine whether a shipper’s products were scheduled for entry at the proper origin and delivered to the proper destination. Audit staff also discussed processes for contingencies, such as last-minute shipper changes due to constraints or inadequate supply.
- *Compliance with the Commission’s Accounting Regulations* – Reviewed ONEOK NGL’s compliance with the USofA under 18 C.F.R. Part 352. Audit staff examined how ONEOK NGL accounted for certain items, including the purchase of Koch Pipeline Company, L.P.’s (Koch) assets,<sup>9</sup> interest during construction, Asset Retirement Obligations (AROs), PHMSA-related costs, oil spills, depreciation of carrier property, cost allocations, and reconciliation of items from GAAP to USofA. Conducted a variance analysis of balance sheet and income statement accounts and investigated significant variances. Tested select account activity by comparing the nature of a transaction recorded in a specific account to the specific account instructions in the USofA to determine whether ONEOK NGL employed the proper classification. Conducted an analysis of select accounts to determine whether ONEOK NGL charged expenses to the proper accounts consistent with the USofA – for example, analyzed non-operating expenses (e.g., contingencies, donations, charitable contributions, judgments, fines, and penalties) to determine whether these activities were charged to non-operating accounts.
- *Affiliate Transactions* – Reviewed ONEOK NGL’s reported transactions with affiliates, including transportation and leasing transactions, to determine whether ONEOK NGL charged the appropriate transportation rates, properly accounted for these transactions, and did not provide or receive any preferential treatment during these transactions.

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<sup>8</sup> Tariff FERC 15.0.0 was canceled during the audit period (effective November 1, 2016).

<sup>9</sup> ONEOK NGL acquired Koch’s natural gas liquids pipeline systems and associated equipment effective July 1, 2005.



- *Shared Services* – Reviewed the terms and conditions of the service agreement ONEOK NGL maintains with ONEOK, Inc., ONEOK Partners GP, L.L.C., and NBP Services, L.L.C., under which ONEOK’s operations and the operations of ONEOK, Inc. and its affiliates can combine or share certain common services, for any cross-subsidization, mark-up, or cost allocation issues.
- *Lease Agreements* – Reviewed the contract terms in ONEOK NGL’s capacity lease agreements. Reviewed invoices and related tariff rate support for the lease agreements. Reconciled revenue generated from capacity ONEOK NGL leases to affiliates to the FERC Form No. 6 during the audit period to determine accuracy.
- *Cash Management Activities* – Reviewed ONEOK NGL’s participation and activities under its cash management agreement to examine compliance with cash management requirements. Examined journal entries made to record transactions under the program and evaluated all related cash management transactional accounting to determine consistency with the terms and conditions stated in the cash management agreement.
- *FERC Form No. 6 Review* – Reviewed financial reporting processes, procedures, and quality controls to determine compliance with Commission financial reporting regulations in 18 C.F.R. § 357.2. As part of the review, audit staff examined financial statements, supporting schedules, notes to financial statements, and footnote disclosures to identify significant or unusual accounting transactions and changes in accounting practices, and to confirm the accuracy and completeness of the FERC Form No. 6 filings. Audit staff also sampled accounts and compared the reported balances to ONEOK NGL’s general ledger and supporting documentation to determine consistency.
- *Page 700 Data* – Reviewed supporting working papers and reconciled amounts reported on Page 700 of the FERC Form No. 6 to ONEOK NGL’s books and records for 2015 and 2016 to confirm accuracy. As part of this review, audit staff met with ONEOK NGL employees responsible for Page 700 to understand their role in compiling the data. As the work paper support is not publicly available, audit staff requested it from ONEOK NGL to understand the derivation of Page 700 data and to verify the reported amounts.
- *Preservation of Records* – Observed ONEOK NGL’s implementation of its preservation of records program on site to evaluate compliance with 18 C.F.R. Part 356. Interviewed employees responsible for the program to understand processes, procedures, and controls for the administration and maintenance of records. Requested records to determine compliance and whether records were retained and disposed of at the Company’s facility in accordance with Commission preservation of records regulations. Specifically, audit staff tested records retention and disposal practices for invoices, authorizations for

expenditures, income statements, consolidated financial statements, and official file copies of tariffs.

## IV. Findings and Recommendations

### 1. Page 700 Reporting

ONEOK NGL improperly reported depreciation expense, AFUDC depreciation, and related rate base balances on its Page 700, Annual Cost-of-Service Based Analysis Schedule. Also, ONEOK NGL improperly included Account 187, Construction Work in Progress (CWIP), balances in the calculation of Rate Base – Original Cost on line 5a.

#### Pertinent Guidance

- 18 C.F.R. Part 352, Account 187, Construction Work in Progress, states in part:

This account shall include the cost of carrier property under construction and the cost of land acquired for such construction as of the date of the balance sheet. It includes interest and taxes during construction, material and supplies delivered to the construction site, and other expenditures that will eventually be part of the cost of the completed property. When construction work is completed, the cost included in this account shall be transferred to the appropriate primary property accounts.

- FERC Form No. 6 Instructions, Annual Cost of Service Based Analysis, Schedule Page 700, state:<sup>10</sup>
  1. Use footnotes when particulars are required or for any explanations.
  2. Enter on lines 1-9, columns (b) and (c), the value [of] the respondent's Operating & Maintenance Expenses, Depreciation Expense, AFUDC [Allowance for Funds Used During Construction] Depreciation, Amortization of Deferred Earnings, Rate Base, Rate of Return, Return, Income Tax Allowance, and Total Cost of Service, respectively, for the end of the current and previous calendar years. The values shall be computed consistent with the Commission's Opinion No. 154-B et al. methodology. Any item(s) not applicable

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<sup>10</sup> The amounts reported in the FERC Form No. 6 include both interstate and intrastate amounts. Page 700 provides only interstate or Commission-jurisdictional amounts. This page reports specific interstate cost-of-service data, including operating and maintenance expenses, depreciation expenses, rate base, income tax allowance, and total cost of service.

to the filing, the oil pipeline company shall report nothing in columns (b) and (c).

3. Enter on line 10, columns (b) and (c), total interstate operating revenue, as reported on page 301, for the current and previous calendar years.
4. Enter on line 11, columns b and c, the interstate throughput in barrels for the current and previous calendar years.
5. Enter on line 12, columns b and c, the interstate throughput in barrel-miles for the current and previous calendar years.
6. If the company makes major changes to its application of the Opinion No. 154-B et al. methodology, it must describe such changes in a footnote, and calculate the amounts in columns (b) and (c) of lines No. 1-12 using the changed application.
7. A respondent may be requested by the Commission or its staff to provide its workpapers which support the data reported on page 700.

## Background

Audit staff reviewed the FERC Form No. 6 to evaluate compliance with Commission financial reporting regulations in 18 C.F.R. Section 357.2. Section 357.2 requires that the FERC Form No. 6 be filed as indicated in the General Instructions set out in the report form and that it be properly completed and verified. As part of this review, audit staff reviewed ONEOK NGL's Page 700 data to determine whether ONEOK NGL's work papers, supporting documentation, and calculations fully supported the amounts reported on Page 700.<sup>11</sup>

### *Depreciation Expense (Page 700, Line 2)*

In 2005, ONEOK NGL acquired certain pipeline assets from Koch. Following the acquisition, ONEOK NGL began calculating depreciation expense on these pipeline

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<sup>11</sup> Page 700 of the FERC Form No. 6 provides a simplified presentation of an oil pipeline's jurisdictional cost-of-service and revenues. While Page 700 serves as a preliminary screening aid to evaluate pipeline rates, the information alone on this page is not intended to be used to perform a full and complete cost-of-service review. However, the information reported on Page 700 should be consistent with the ratemaking principles embodied in Opinion No. 154-B, which requires the reporting of interstate amounts.

assets. However, ONEOK NGL incorrectly calculated this depreciation expense based on the market value of the assets acquired from Koch rather than the assets' book value, as required by Commission regulations. Calculating depreciation expense based on the assets' market value resulted in excess depreciation expense reported by ONEOK NGL in its FERC Form No. 6 filings. As a result, ONEOK NGL improperly calculated depreciation expense from 2005 to 2017 in the amount of \$4,952,355. Also, audit staff found that ONEOK NGL applied improper depreciation rates for carrier property assets as these rates were not approved by or on file with the Commission (see Finding 6 below). This use of incorrect depreciation rates also affected the depreciation expense reported by ONEOK NGL on line 2 of its Page 700 during the audit period from 2015-2017. In summary, these errors affected amounts recorded in Account 540, Depreciation and Amortization, and amounts reported on various pages of the FERC Form No. 6, including Page 700.

*AFUDC Depreciation (Page 700, Line 3)*

In its review of ONEOK NGL's Page 700 work papers and calculation methodologies, audit staff determined that ONEOK NGL improperly calculated amounts used in determining AFUDC Depreciation reported on Page 700, line 3. Specifically, ONEOK NGL's calculation methodology included improper inputs, such as unrelated amortization amounts and other items that duplicated amounts recorded in carrier property upon completion of construction and resulted in calculation errors. This error resulted in an overstatement of AFUDC Depreciation on line 3.

*Rate Base – Original Cost (Page 700, Lines 5a)*

In its review of ONEOK NGL's calculation of rate base items reported on lines 5a-5d of Page 700, audit staff determined that ONEOK NGL incorrectly included amounts from Account 187 in calculating the "Rate Base – Original Cost" reported on line 5a. Account 187 represents, "the cost of carrier property under construction" and does not include carrier property that is in service. Therefore, CWIP should not have been included in calculating rate base on line 5a. Accordingly, ONEOK NGL should have excluded the balances in Account 187 (\$24,532,710 in 2015, \$4,610,319 in 2016, and \$4,296,410 in 2017) from its rate base calculation for line 5a.

Overall, audit staff identified several accounting and financial reporting errors in this finding and subsequent findings in this audit report. Audit staff believes that these errors show a need for ONEOK NGL to develop and implement processes and procedures around its accounting and FERC Form No. 6 reporting functions, including performing reviews, bolstering its training, and strengthening knowledge, skillsets, and technical ability to enhance its compliance with Commission accounting and financial reporting regulations.

## **Recommendations**

We recommend that ONEOK NGL:

1. Strengthen processes, procedures, and controls surrounding the preparation and review of its FERC Form No. 6. The policies and procedures should ensure complete and accurate reporting of Page 700 data.
2. Develop and implement review procedures to ensure that personnel are performing thorough reviews of FERC Form No. 6 information, including Page 700, prior to submittal to the Commission.
3. Provide training on updated processes, procedures, and controls surrounding the preparation and review of its FERC Form No. 6.
4. Provide DAA with an analysis assessing the impact of these reporting errors to the FERC Form No. 6 for 2005-2018.
5. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, 2017, and 2018 that reflects the results of this analysis, including notes that explain the corrections being made.

## 2. Accounting for Carrier Property

ONEOK NGL improperly accounted for certain inactive and abandoned pipeline assets as carrier property in Account 30, Carrier Property.

### Pertinent Guidance

- 18 C.F.R. Part 352, Account 30, Carrier Property, states:

This account shall include the cost of tangible property used in carrier service, or held for such use within a reasonable time under a definite plan for pipeline operations. Separate primary accounts are prescribed for each class of carrier property.

- 18 C.F.R. Part 352, Account 31, Accrued Depreciation – Carrier Property, states:

This account shall be credited with amounts charged to operating expenses or other accounts representing the loss in service value of depreciable carrier property. The service value of depreciable property retired shall be charged to this account. It shall also include other entries as may be authorized by the Commission. Detail of this account shall be maintained by primary property accounts. Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of property recorded in account 31, Accrued depreciation—Carrier property.

- 18 C.F.R. Part 352, Account 34, Noncarrier Property, states in part:

This account shall include the cost of tangible property not used in carrier pipeline operations.

- 18 C.F.R. Part 352, Instructions for Carrier Property Accounts, Instruction 3-7, Retirements, states, in part:

*3-7 Retirements.* When property units are retired from carrier plant, with or without replacement, the cost thereof and the cost of minor items of property retired and not replaced shall be credited to the carrier plant account in which it is included. The retirement of carrier property shall be accounted for as follows:

....

(b) Property. (1) The book cost, as set forth in paragraph c below, of units of property retired and of minor items of property retired and not replaced shall be written out of the property account as of date of retirement, and the service value shall be charged to account 31, Accrued Depreciation—Carrier Property.

(3) Carrier property no longer used nor held for carrier operations but used or intended for use in noncarrier operations shall be transferred, along with the amount of past accrued depreciation, estimated if necessary, to noncarrier property.

## **Background**

Audit staff reviewed ONEOK NGL's accounting processes and procedures to determine whether ONEOK NGL accounted for carrier property in accordance with Commission regulations. As part of this review, audit staff reviewed ONEOK NGL's carrier property records with respect to proper classification of carrier property used in the interstate transportation of NGL products. Audit staff also reviewed ONEOK NGL's processes and procedures for classifying the status of carrier property assets. Based on this review, audit staff identified the following issues related to ONEOK NGL's accounting for carrier property.

### *Inactive Pipeline Assets*

According to ONEOK NGL's pipeline asset records for 2015, 2016, and 2017, ONEOK NGL identified approximately 250 miles of pipeline assets as inactive. However, ONEOK NGL treated these assets as active and recorded these assets in Account 30, Carrier Property, implying they were still in carrier service. According to the USofA, Account 30 is used to record "the cost of tangible property used in carrier service, or held for such use within a reasonable time under a definite plan for pipeline operations." Audit staff determined that the majority of these assets have been inactive since ONEOK NGL acquired the assets in 2005. The 250 miles of pipeline assets are purged, meaning that they cannot currently be used to transport products, and ONEOK NGL does not have a definite plan for using these assets for pipeline operations in the future. The instructions to Account 34, Noncarrier Property, state, "the account shall include the cost of tangible property not used in carrier pipeline operations." Accordingly, ONEOK NGL should have recorded these pipeline assets in Account 34.



*Abandoned Pipeline Assets*

Audit staff also reviewed ONEOK NGL's processes and procedures for retiring carrier property. Retirements of carrier property occur when units of property have been removed, sold, abandoned, destroyed, or for any cause withdrawn from service.<sup>12</sup> In its review of ONEOK NGL's pipeline asset records for 2015, 2016, and 2017, audit staff identified nine pipeline assets that were abandoned or removed from service between 2008 and 2014.

However, ONEOK NGL treated the assets as active and recorded the assets in Account 30. Since the assets were abandoned or removed from service, ONEOK NGL should have recorded their retirement by removing the balance from Account 30 and charging it to Account 31, Accumulated Depreciation. According to the USofA, Account 31 is used to record "the service value of depreciable property retired." Also, Instructions for Carrier Property Accounts, Instruction No. 3-7(b)(1) requires the book cost of units of property retired and of minor items of property retired and not replaced to be written out of the property account as of the date of retirement and the service value charged to Account 31.

**Recommendations**

We recommend that ONEOK NGL:

6. Revise accounting policies and procedures to ensure all components of carrier property, such as abandoned and inactive assets, are properly accounted for in accordance with Commission requirements. The procedures should include established communications protocols among the accounting staff that are responsible for asset retirements and implementation of a secondary review of all changes to carrier property.
7. Reclassify all inactive carrier property recorded in Account 30 that will not be used in ONEOK NGL's future pipeline operations to Account 34.
8. Reclassify all abandoned pipeline assets recorded in Account 30 to Account 31.
9. Perform an analysis to determine the full scale of Page 700 impacts, including impacts to Line 1, Operating and Maintenance Expense; Line 2, Depreciation Expense; Lines 5a-5d, Rate Base; and other Lines on Page 700, and provide this analysis to DAA staff for further review.

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<sup>12</sup> See 18 C.F.R. Part 352, Definitions, 24, Property Retired.

10. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, and 2017 that reflects the results of this analysis, including notes that explain the corrections being made.

### 3. Scheduling of Nominations

ONEOK NGL improperly transported product on its FERC gathering lines under FERC Tariff No. 9 without nominations, which are required under Item No. 45 - Notice of Tenders.

#### Pertinent Guidance

- ONEOK NGL's FERC Tariff No. 9, Oil Tariff, Rates, Charges and Regulations, Item No. 45, Notice of Tenders, states:

Products for shipment through the line of Carrier will be received only on properly executed tenders from the Shipper showing the point at which the Products are to be received, point of delivery, Consignee and amount of Products to be transported.

Any Shipper desiring to tender Product for transportation shall make such tender to Carrier in writing on or before the fifteenth (15th) day of the month preceding the month during which the transportation under the tender is to begin, on forms which will be supplied by the Carrier upon request; except that, if space is available for current movement, a Shipper may tender Product for transportation after the fifteenth (15th) day of the month preceding the month during which the transportation under the tender is to begin.<sup>13</sup>

#### Background

Audit staff reviewed ONEOK NGL's tariff policies and procedures to determine compliance with select tariff provisions, including ONEOK NGL's nomination policies and procedures. ONEOK NGL's tariff requires a nomination for all products transported on behalf of its shippers. Specifically, ONEOK NGL's tariff states, "Products for shipment through the line of Carrier will be received only on properly executed tenders from the Shipper showing the point at which the Products are to be received, point of delivery, Consignee and amount of Products to be transported."<sup>14</sup> Tariff procedures require nominations to be in writing on or before the fifteenth (15<sup>th</sup>) day of the month preceding the month during which the transportation is to begin. Further, ONEOK NGL will consider nominations beyond the 15<sup>th</sup> day of the month if space is available for current movement.

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<sup>13</sup> *ONEOK NGL Pipeline, L.L.C.*, Tariff Filing, Docket No. IS18-00471-000 (filed May 30, 2018), at Item No. 45.

<sup>14</sup> ONEOK NGL's FERC Tariff No. 9, Oil Tariff, Rates, Charges and Regulations, Item No. 45, Notice of Tenders.

The nomination process governs how shippers formally request capacity and transport product on a carrier's pipeline. ONEOK NGL's pipeline scheduling department manages the nomination process. Under ONEOK NGL's process, nominations are received by the 15th day of the previous month by email from a shipper to ONEOK NGL's manager of scheduling and the pipeline scheduler. ONEOK NGL's pipeline scheduling department also serves as the liaison with its accounting department to address any reconciliation issues and operations. Based on its review of ONEOK NGL's nomination policies and procedures, audit staff determined that ONEOK NGL improperly transported 39,400 BPD of NGL product on its FERC gathering lines since 2005 under FERC Tariff No. 9 without nominations, which are required under Item No. 45 – Notice of Tenders.

ONEOK NGL stated that this error was an administrative oversight, which began during the time when the FERC gathering lines were acquired in 2005. Audit staff confirmed that ONEOK NGL did not have any new shippers or shipper requests during the audit period that would have been affected by this error. However, transporting product absent a properly executed nomination could have resulted in shippers being denied transportation service due to oversubscribed capacity on the pipeline. Audit staff concluded that ONEOK NGL did not deny transportation service to any shipper as a result of this error, and ONEOK NGL's noncompliance with this tariff provision did not impact the transportation services for any shipper during the audit period. In March 2018, ONEOK NGL began requiring a monthly nomination for transportation service under FERC Tariff No. 9.

## **Recommendations**

We recommend that ONEOK NGL:

11. Revise and implement procedures and controls to ensure that transportation service is supported by a properly executed nomination in accordance with ONEOK NGL's tariffs on file with the Commission.
12. Train employees on how to determine whether each shipper's product movement is supported by a nomination.

#### 4. Incorrect Tariff Rate Charge

ONEOK NGL improperly accounted for interstate transportation revenues on its North Line pipeline by incorrectly charging an interstate rate, instead of an intrastate rate, from January 2016 to April 2017. As the interstate rate was higher than the intrastate rate, ONEOK NGL overcharged for these deliveries and overstated interstate transportation revenues.

#### Pertinent Guidance

- ONEOK NGL's FERC No. 11.13.0, Oil Tariff, Rates, Charges and Regulations, Item No. 110, Rates Applicable to Transportation of Product, states in part:<sup>15</sup>

From	To	Rate
Medford, OK	Conway, KS	75.46
Conway, KS	Medford, OK	

#### Background

Audit staff tested a sample of transportation invoices for 2016 and 2017 to determine whether ONEOK NGL charged transportation rates consistent with its FERC tariff rates. As part of its review, audit staff reviewed invoices and supporting documentation and determined that ONEOK NGL charged an incorrect transportation tariff on the North Line pipeline during the audit period.

ONEOK NGL incorrectly charged for intrastate deliveries on its North Line pipeline at an interstate rate of 75.46 cents per barrel under FERC Tariff No. 11.13.0, as shown in the table above. As this was an intrastate movement, ONEOK NGL should have charged 51.83 cents per barrel under KCC Tariff No. 9.2.0. This error occurred for the period of January 10, 2016 through April 30, 2017. ONEOK NGL stated that the interstate rates under FERC Tariff No. 11.13.0 and the intrastate rates under KCC Tariff No. 9.2.0 used to be identical. However, ONEOK NGL's invoice process was not updated when the interstate rates increased in January 2016 and, due to an oversight, the incorrect tariff rate was applied. As a result, ONEOK NGL overstated interstate transportation revenues related to those deliveries that were charged at the interstate rate.

Also, ONEOK NGL identified two other issues through an internal review prior to the audit. First, ONEOK NGL charged an incorrect rate on its FERC gathering pipeline system from March 2014 to November 2016. Second, ONEOK NGL incorrectly charged a rate under the Volume Incentive Program even though a shipper had not provided

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<sup>15</sup> ONEOK NGL's FERC Tariff No. 11.13.0, Item No. 110, Rates Applicable to Transportation of Product.

written notification of its intent to continue participation in the program, as required. Under this program, the shipper contracts to transport a minimum guaranteed number of barrels in return for a discounted rate. ONEOK NGL issued refunds and credits to address the incorrect charge for intrastate deliveries on its North Line pipeline, as well as these additional incorrect charges.

### **Recommendation**

We recommend that ONEOK NGL:

13. Develop and implement processes and procedures to ensure that ONEOK NGL charges shippers the correct tariff rate.

## 5. Accounting for Pipeline Leases

ONEOK NGL improperly recorded revenue for the lease of a pipeline asset owned by its affiliate as rental revenue in Account 250, Rental Revenue. The error resulted in overstatements in Account 250 of \$3.1 million, \$4.2 million, and \$4.3 million in 2015, 2016, and 2017, respectively.

### Pertinent Guidance

- 18 C.F.R. Part 352, Account 250, Rental Revenue, states:

This account shall include the revenues from renting or sub-renting property, the cost of which is included in the accounts for investment in carrier property.

### Background

Audit staff reviewed the terms, conditions, and rates of ONEOK NGL's lease agreements to understand the nature of ONEOK NGL's pipeline lease operations. In this review, audit staff reconciled the rental revenue related to ONEOK NGL's leases, as reported in ONEOK NGL's FERC Form No. 6, to its general ledger for the audit period and noted a discrepancy for one particular pipeline lease arrangement.

In 2015, ONEOK NGL's affiliate intended to sell a pipeline asset in Kansas (Kansas Pipeline) to ONEOK NGL. However, the companies did not complete the sale and, therefore, ONEOK NGL did not record the Kansas Pipeline on its books in Account 30, Carrier Property. Even though the sale was not recorded, ONEOK NGL proceeded to enter into a lease arrangement whereby ONEOK NGL leased capacity on the Kansas Pipeline to a third party, collected revenue, and recorded this revenue in Account 250, Rental Revenue.

Account 250 is used to record revenues from renting or sub-renting property, the cost of which is included in the accounts for investment in carrier property. Since ONEOK NGL did not own the Kansas Pipeline and did not record the Kansas Pipeline as carrier property in Account 30, ONEOK NGL improperly recorded the lease revenues in Account 250.

As a result of this error, ONEOK NGL overstated rental revenue recorded in Account 250 by \$3.1 million, \$4.2 million, and \$4.3 million for 2015, 2016, and 2017, respectively. Audit staff did not identify an impact to Page 700 as interstate revenue on Line 10 of Page 700 does not include revenue recorded in Account 250, and ONEOK NGL did not record any operating and maintenance (O&M) expenses or volumes associated with the Kansas Pipeline. In 2018, the companies formally documented the

sale of the Kansas Pipeline to ONEOK NGL, and ONEOK NGL recorded the Kansas Pipeline in Account 30.

## **Recommendations**

We recommend that ONEOK NGL:

14. Strengthen accounting policies, procedures, and controls to ensure that only ONEOK NGL's carrier property activities are recognized on its books.
15. Make the appropriate accounting adjustments to accurately reflect the Kansas Pipeline lease revenues and incorporate these adjustments in updated FERC Form No. 6 filings for 2015, 2016, 2017, and 2018.



## 6. Use of Incorrect Depreciation Rates

ONEOK NGL improperly applied depreciation rates for carrier property assets that were not approved by and on file with the Commission. As a result, ONEOK NGL overstated depreciation expense and misreported amounts on its Page 700 from 2015-2017.

### Pertinent Guidance

- 18 C.F.R. Part 352, General Instruction No. 1-8, Depreciation Accounting – Carrier Property, states in part:

(b)(2) Carriers shall be prepared at any time upon the direction of the Commission to compute and submit revised percentage rate studies. When a carrier believes that any rate prescribed by the Commission is no longer applicable, it shall submit the rate which it believes should be established supported by full particulars for consideration by the Commission.

### Background

Audit staff reviewed ONEOK NGL's depreciation rates to ensure that ONEOK NGL applied the appropriate rates that were approved and on file with the Commission. In its testing, audit staff reviewed ONEOK NGL's request for approval of initial depreciation rates and the accompanying depreciation study for ONEOK NGL's North Line No. 5 project.<sup>16</sup> The North Line No. 5 is a 135-mile pipeline from Bushton, Kansas to Medford, Oklahoma that transports natural gas liquids from the Bushton Fractionator and storage fields around an intermediate point at Hutchinson, Kansas, for delivery to Medford, Oklahoma. The Commission approved the depreciation rates for the North Line No. 5 project in April 2008.<sup>17</sup>

In its review of the North Line No. 5 depreciation rates, audit staff determined that ONEOK NGL has used incorrect depreciation rates since 2008. Specifically, audit staff learned that ONEOK NGL applied its preliminary depreciation rates prior to formally submitting the depreciation rates to the Commission for approval. These preliminary depreciation rates differed from the rates that were filed and approved by the Commission for North Line No. 5. ONEOK NGL acknowledged that the error occurred because the personnel responsible for applying the depreciation rates were not notified of the change occurring between the preliminary depreciation rates and the approved

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<sup>16</sup> *ONEOK NGL, Pipeline L.L.C.*, Request for Approval of Proposed Depreciation Rates, Docket No. DO08-3-000 (filed Mar. 6, 2008).

<sup>17</sup> *ONEOK NGL Pipeline, L.L.C.*, Docket No. DO08-3-000 (Apr. 3, 2008) (delegated order).

depreciation rates. Accordingly, ONEOK NGL did not apply the Commission-approved depreciation rates for North Line No. 5 from 2008-2017.

Overall, most of the preliminary depreciation rates listed below were higher than the Commission-approved depreciation rates:

ACCOUNT NO.	ACCOUNT NAME	APPROVED DEPRECIATION RATE	PRELIMINARY DEPRECIATION RATE
152	Right of way	2.15%	2.56%
153	Line pipe	2.50%	2.65%
154	Line pipe fittings	2.50%	2.80%
155	Pipeline construction	2.50%	2.80%
156	Buildings	3.00%	2.85%
158	Pumping equipment	2.50%	3.16%
159	Machine tools and machinery	2.50%	3.42%
160	Other station equipment	2.50%	3.16%
161	Oil tanks	2.50%	2.75%
162	Delivery facilities	2.50%	2.80%
163	Communication systems	2.50%	5.15%
164	Office furniture and equipment	9.00%	6.90%
165V	Vehicles	18.75%	18.75%
165E	Other work equipment	7.41%	7.41%
166	Other property	2.50%	3.39%

As a result of ONEOK NGL's use of incorrect depreciation rates for North Line No. 5, ONEOK NGL overstated depreciation expense reported in its FERC Form No. 6 by \$152,691 in 2015, \$137,109 in 2016, and \$140,999 in 2017. This error also affected amounts reported by ONEOK NGL on its Page 700 from 2015-2017.

## Recommendations

We recommend that ONEOK NGL:

16. Develop and implement procedures and controls to ensure that ONEOK NGL uses Commission-approved depreciation rates for all carrier property assets (or accounts).
17. Use Commission-approved depreciation rates to calculate the depreciation expense included in the annual cost-of-service determinations, or timely file a request pursuant to 18 C.F.R. Part 347, Oil Pipeline Depreciation Studies, of the Commission's regulations, requesting new or changed property account depreciation rate(s).

18. Provide DAA with an analysis assessing the impact of these improper depreciation rates to the FERC Form No. 6 from 2008-2018.
19. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, 2017, and 2018 that reflects the results of this analysis, including notes that explain the corrections being made.

## V. ONEOK NGL Response to Audit Report



Sent Via Email and Overnight Mail

December 12, 2019

Steven D. Hunt  
Director and Chief Accountant  
Division of Audits and Accounting  
Office of Enforcement  
Federal Energy Regulatory Commission  
888 First Street, N.E., Room 5K-13  
Washington D.C. 20426

Re: ONEOK NGL Pipeline, L.L.C.  
Response to FERC Audit Findings and Recommendations  
FERC Docket No. FA18-1-000

Dear Mr. Hunt:

ONEOK NGL Pipeline, L.L.C. ("ONEOK NGL") appreciates the opportunity to comment on the findings and recommendations outlined in the draft audit report issued by the Division of Audits and Accounting on November 25, 2019 (the "Draft Report").

The Draft Report identifies six (6) findings of noncompliance and nineteen (19) associated recommendations. ONEOK NGL does not contest the findings. As detailed in its attached response, ONEOK NGL in many instances has already implemented actions to address the findings and is diligently working to finalize remaining items.

ONEOK NGL appreciates the time and effort that your staff has dedicated to this audit. I would like to thank the FERC Audit staff for their professionalism, thoroughness and responsiveness throughout this process. ONEOK NGL values its strong working relationship with the Federal Energy Regulatory Commission, and we look forward to working with you to conclude this matter.

Sincerely,

A handwritten signature in blue ink that reads "Lisa Nishimuta".

Lisa Nishimuta  
Legal Counsel  
ONEOK, Inc.

Copy (via email only): Jennifer Ray, FERC  
Nicholas Coughlin, FERC

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ONEOK NGL Pipeline, L.L.C.  
Response to FERC Audit Findings and Recommendations  
FERC Docket No. FA18-1-000

**Findings and Recommendations**

**Finding 1 – Page 700 Reporting:**

ONEOK NGL improperly reported depreciation expense, AFUDC depreciation, and related rate base balances on its Page 700, Annual Cost-of-Service Based Analysis Schedule. Also, ONEOK NGL improperly included Account 187, Construction Work in Progress (CWIP), balances in the calculation of Rate Base – Original Cost on line 5a.

We recommend that ONEOK NGL:

1. Strengthen processes, procedures, and controls surrounding the preparation and review of its FERC Form No. 6. The policies and procedures should ensure complete and accurate reporting of Page 700 data.
2. Develop and implement review procedures to ensure that personnel are performing thorough reviews of FERC Form No. 6 information, including Page 700, prior to submittal to the Commission.
3. Provide training on updated processes, procedures, and controls surrounding the preparation and review of its FERC Form No. 6.
4. Provide DAA with an analysis assessing the impact of these reporting errors to the FERC Form No. 6 for 2005-2018.
5. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, 2017, and 2018 that reflects the results of this analysis, including notes that explain the corrections being made.

**ONEOK NGL's Response:**

ONEOK NGL does not contest the finding. ONEOK NGL will work to formalize process documentation, including pipeline specific procedures covering all steps from source data accumulation through review, to ensure that the final Page 700 data is complete and accurate. ONEOK NGL has instituted annual training requirements on the Page 700 and Form 6 for personnel directly involved in drafting and review of the Page 700 information. Beginning in 2018, personnel directly involved in preparation of the Page 700 attended AOPL Form 6, Page 700, Audits & Compliance Conference in February. In addition to external training, the personnel directly involved in drafting the Page 700 will provide internal training for those employees providing source data for completion of the Page 700.

The issues noted in Finding 1, Page 700 Reporting, were addressed in ONEOK NGL's 2018 Form 6, Page 700. ONEOK NGL will provide an analysis assessing the impact of these issues, as requested, prior to the issuance of its 2019 Form 6. Upon receiving DAA staff's review and response, ONEOK NGL will file an updated FERC Form No. 6 for 2015, 2016, 2017, and 2018 that reflects the results of this analysis, including notes that explain the issues being addressed.

ONEOK NGL Pipeline, L.L.C.  
Response to FERC Audit Findings and Recommendations  
FERC Docket No. FA18-1-000

Finding 2 – Accounting for Carrier Property:

ONEOK NGL improperly accounted for certain inactive and abandoned pipeline assets as carrier property in Account 30, Carrier Property.

We recommend that ONEOK NGL:

6. Revise accounting policies and procedures to ensure all components of carrier property, such as abandoned and inactive assets, are properly accounted for in accordance with Commission requirements. The procedures should include established communications protocols among the accounting staff that are responsible for asset retirements and implementation of a secondary review of all changes to carrier property.
7. Reclassify all inactive carrier property recorded in Account 30 that will not be used in ONEOK NGL's future pipeline operations to Account 34.
8. Reclassify all abandoned pipeline assets recorded in Account 30 to Account 31
9. Perform an analysis to determine the full scale of Page 700 impacts, including impacts to Line 1, Operating and Maintenance Expense; Line 2, Depreciation Expense; Lines 5a-5d, Rate Base; and other Lines on Page 700, and provide this analysis to DAA staff for further review.
10. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, and 2017 that reflects the results of this analysis, including notes that explain the corrections being made.

ONEOK NGL's Response:

ONEOK NGL does not contest the finding. ONEOK NGL has developed and implemented procedures to ensure all components of carrier property, such as abandoned and inactive assets, are accurately accounted for in accordance with Commission requirements. In addition to providing notice to Property Accounting of asset classification changes, beginning in 2019 an annual review of classification, and ownership within ONEOK NGL's Geographic Information System with Operations, Commercial and Accounting has been implemented to ensure consistency of accounting records. ONEOK NGL will reclassify any inactive carrier property and abandon any pipeline assets as required above and provide the historical analysis of Page 700 impacts prior to the issuance of its 2019 Form 6. Upon receiving DAA staff's review and response, ONEOK NGL will file an updated FERC Form No. 6 for 2015, 2016, and 2017 that reflects the results of this analysis, including notes that explain the issues being addressed.

ONEOK NGL Pipeline, L.L.C.  
Response to FERC Audit Findings and Recommendations  
FERC Docket No. FA18-1-000

Finding 3 – Scheduling of Nominations:

ONEOK NGL improperly transported product on its FERC gathering lines under FERC Tariff No. 9 without nominations, which are required under Item No. 45 - Notice of Tenders.

We recommend that ONEOK NGL:

11. Revise and implement procedures and controls to ensure that transportation service is supported by a properly executed nomination in accordance with ONEOK NGL's tariffs on file with the Commission.
12. Train employees on how to determine whether each shipper's product movement is supported by a nomination.

ONEOK NGL's Response:

ONEOK NGL does not contest the finding. As noted by FERC Audit Staff in the audit report, ONEOK NGL took action prior to the initiation of the audit. ONEOK NGL has trained its staff to require a written nomination for any shippers' product movements per the applicable FERC tariff provision. This tariff requirement is captured in ONEOK NGL's compliance tariff matrix and is sent annually to the employee(s) responsible requiring them to acknowledge the requirement. No further action is anticipated.

ONEOK NGL Pipeline, L.L.C.  
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Finding 4 – Incorrect Tariff Rate Charge:

ONEOK NGL improperly accounted for interstate transportation revenues on its North Line pipeline by incorrectly charging an interstate rate, instead of an intrastate rate, from January 2016 to April 2017. As the interstate rate was higher than the intrastate rate, ONEOK NGL overcharged for these deliveries and overstated interstate transportation revenues.

We recommend that ONEOK NGL:

13. Develop and implement processes and procedures to ensure that ONEOK NGL charges shippers the correct tariff rate.

ONEOK NGL's Response:

ONEOK NGL does not contest the finding. ONEOK NGL took action prior to the commencement of the audit to address these inadvertent errors. ONEOK NGL has developed and implemented procedures to ensure shippers are charged the correct tariff rate in the future. All changes to system tariff rates are reviewed for accuracy by comparison to approved tariffs by various individuals within the Regulatory, Accounting, and Commercial groups prior to billing customers. No further action is anticipated.



ONEOK NGL Pipeline, L.L.C.  
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Finding 5 – Accounting for Pipeline Leases:

ONEOK NGL improperly recorded revenue for the lease of a pipeline asset owned by its affiliate as rental revenue in Account 250, Rental Revenue. The error resulted in overstatements in Account 250 of \$3.1 million, \$4.2 million, and \$4.3 million in 2015, 2016, and 2017, respectively.

We recommend that ONEOK NGL:

14. Strengthen accounting policies, procedures, and controls to ensure that only ONEOK NGL's carrier property activities are recognized on its books.
15. Make the appropriate accounting adjustments to accurately reflect the Kansas Pipeline lease revenues and incorporate these adjustments in updated FERC Form No. 6 filings for 2015, 2016, 2017, and 2018.

ONEOK NGL's Response:

ONEOK NGL does not contest the finding. The issues noted in Finding 5, were addressed in ONEOK NGL's 2018 Form 6, as of and for the year ended December 31, 2018. ONEOK NGL has revised its accounting procedures to record lease revenues, and account for carrier property activities under the proper account numbers. In addition to providing notice to Property Accounting of asset classification changes, beginning in 2019, an annual review of classification and ownership within ONEOK NGL's Geographic Information System with Operations, Commercial and Accounting has been implemented to ensure consistency of accounting records. ONEOK NGL will make all necessary adjustments and will incorporate them in updated FERC Form No. 6 filings for 2015, 2016, 2017, and 2018 prior to the issuance of its 2019 Form 6.

ONEOK NGL Pipeline, L.L.C.  
Response to FERC Audit Findings and Recommendations  
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Finding 6 – Use of Incorrect Depreciation Rates:

ONEOK NGL improperly applied depreciation rates for carrier property assets that were not approved by and on file with the Commission. As a result, ONEOK NGL overstated depreciation expense and misreported amounts on its Page 700 from 2015-2017.

We recommend that ONEOK NGL:

16. Develop and implement procedures and controls to ensure that ONEOK NGL uses Commission-approved depreciation rates for all carrier property assets (or accounts).
17. Use Commission-approved depreciation rates to calculate the depreciation expense included in the annual cost-of-service determinations, or timely file a request pursuant to 18 C.F.R. Part 347, Oil Pipeline Depreciation Studies, of the Commission's regulations, requesting new or changed property account depreciation rate(s).
18. Provide DAA with an analysis assessing the impact of these improper depreciation rates to the FERC Form No. 6 from 2008-2018.
19. Upon receiving DAA staff's review and response, file an updated FERC Form No. 6 for 2015, 2016, 2017, and 2018 that reflects the results of this analysis, including notes that explain the corrections being made.

ONEOK NGL's Response:

ONEOK NGL does not contest the finding. ONEOK NGL has developed and implemented procedures to ensure Commission-approved depreciation rates are utilized for carrier property assets, including the calculation of depreciation expense included within Page 700. All changes to depreciation rates within the property accounting system will be reviewed for accuracy by comparison to Commission approved depreciation rates by various individuals within the Regulatory, Accounting, and Commercial groups upon approval by the Commission. ONEOK NGL will provide DAA with the analysis of the impact of the adjusted depreciation rates prior to the issuance of its 2019 Form 6. Once ONEOK NGL receives DAA staff's review and response, ONEOK NGL will file updated FERC Form No. 6 for 2015, 2016, 2017 and 2018 including notes that explain the issues being addressed.