

157 FERC ¶ 61,075
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, and Colette D. Honorable.

Medallion Pipeline Company, LLC

Docket No. OR16-25-000

ORDER ON PETITION FOR DECLARATORY ORDER

(Issued October 31, 2016)

1. On September 2, 2016, Medallion Pipeline Company, LLC (Medallion) filed a petition for declaratory order (Petition) regarding its fourth set of expansions of Medallion's crude oil pipeline system (Expansion Projects). In particular, Medallion seeks Commission approval of its proposed open season procedure, capacity allocation, tariff rate structure, and certain provisions of the open season Transportation Service Agreements (TSA) and tariffs regarding annual rate adjustments, contract extension rights, a "ramp-up" election, and destination points. Medallion requests Commission action on its Petition by October 31, 2016, to provide committed shippers assurance that the Expansion Projects will proceed on the basis of the terms and conditions set forth in the TSAs, and to meet the fourth quarter of 2016 anticipated interstate in-service date.

2. The Commission grants the rulings requested by Medallion, as discussed below.

I. Background

3. Medallion states that the Medallion pipeline system was constructed to support the surge in crude oil exploration, development and production activity in the Midland Basin in West Texas. Medallion states that the pipeline initially consisted of the 112-mile and 65,000 barrels per day (bpd) Wolfcamp Connector crude oil pipeline system. Since the commencement of Wolfcamp Connector's initial operations, Medallion states that it entered into a series of expansion projects each of which followed the same open-season procedures approved by the Commission in *Medallion I*, soliciting long-term

transportation commitments to support the commercial development of the expansion projects.¹

4. Medallion states that based on discussion with potential shippers who expressed their need to have more flexibility to transport crude oil production in the region to multiple markets, Medallion engaged in extensive discussions with potential shippers regarding the development of two new crude oil pipelines to interconnect with Medallion's existing crude oil pipeline system, i.e., the Midland Lateral and the Martin Lateral. Medallion states that the Midland Lateral will commence at the new Midland Hub in Midland County, Texas and extend in a southeasterly direction to the existing Garden City Station. The Martin Lateral will aggregate crude oil from multiple points of origin in Martin County, Texas and extend in a southeasterly direction to a point of destination at the Midland Hub.

¹ On August 1, 2014, the Commission issued a declaratory order confirming the validity of Medallion's open season procedures for its Wolfcamp Connector system and approving the lawfulness of the committed firm shipper rates and related tariff provisions. *Medallion Pipeline Co., LLC*, 148 FERC ¶ 61,095 (2014) (*Medallion I*). Medallion explains that after the Wolfcamp Connector's commencement of operations in October 2014, it entered into discussions with various producers regarding a potential westward extension and expansion of its existing system into Upton and Midland Counties (Midkiff Lateral) as well as an extension of the Wolfcamp Connector's mainline from the existing Garden City station to the Colorado City hub (Wolfcamp Expansion). On February 27, 2015, the Commission issued a subsequent declaratory order confirming the validity of the open season procedures, approving the lawfulness of the committed firm shipper rates and related tariff provisions for the initial expansion of the Wolfcamp Connector system, and noting that the rate design, and related tariff provisions were the same as in *Medallion I*. *Medallion Pipeline Co., LLC*, 150 FERC ¶ 61,156 (2015) (*Medallion II*). The Midkiff Lateral and Wolfcamp Expansion were placed into service on June 1, 2015. On December 30, 2015, the Commission issued a declaratory order regarding a second set of proposed expansions of the existing Wolfcamp Connector crude oil pipeline system; specifically its tariff rate structure and terms of service for that expansion project. *Medallion Pipeline Co., LLC*, 153 FERC ¶ 61,361 (2015) (*Medallion III*). On June 14, 2016, the Commission issued a declaratory order regarding a further expansion of the Wolfcamp Connector system, the expansion of the existing Midkiff Lateral and the extension of the Midkiff Lateral to an interconnection with the Longhorn Pipeline. *Medallion Pipeline Co., LLC*, 155 FERC ¶ 61,268 (2016) (*Medallion IV*).

5. Medallion states that it conducted widely publicized open seasons for both projects to solicit long-term transportation commitments to support these Expansion Projects.² Medallion anticipates that the Expansion Projects will be placed into service for interstate transportation by the fourth quarter of 2016, although it acknowledges that certain segments of the Expansion Projects may commence service on an interim basis before the Expansion Projects commence full commercial operations.³ Medallion pledges to file related tariffs with the Commission prior to the commencement of interstate transportation service and it requests action on this Petition no later than October 31, 2016.

The Midland Lateral

6. Medallion states that the Midland Lateral would consist of approximately 42 miles of 16-inch diameter bi-directional pipeline capable of transporting approximately 90,000 bpd from the Garden City Station to the Midland Hub and 25,000 bpd from the Midland Hub to the Garden City Station.⁴ Medallion states that at the Midland Hub, shippers will have numerous options to transport or store their crude oil. It states that, initially, the Midland Hub will include interconnections with Enterprise Products Partners L.P.'s Midland terminal and the proposed Martin Lateral. In the future, Medallion states that Medallion Crude Oil Logistics, an affiliate of Medallion, plans to construct truck unloading and storage facilities at the Midland Hub. In addition, Medallion states that it plans to pursue additional interconnections at the Midland Hub with third-party tank facilities, terminals, and downstream carriers, which may be subject to an additional handling, pumping, and transfer fee for deliveries to and from third-party facilities.

7. Because of the bi-directional capability of the Midland Lateral, Medallion states that the open season notice offered committed firm shippers on the Midland Lateral the flexibility to elect the Midland Hub and/or the Garden City Station as either points of origin and/or points of destination. Therefore, Medallion explains, deliveries to the Garden City Station may access Medallion's Wolfcamp Connector mainline, the Midkiff Lateral, and the Crane Extension. In addition, the Garden City Station may access crude oil from the Midkiff Lateral and the Reagan Gathering Extension, for

² Petition at 6 & n.13. Medallion states that the open season for the Expansion Projects began on April 18, 2016 and ended on May 11, 2016. *Id.* at 6 n.11.

³ *Id.* 3.

⁴ *Id.* at 8.

delivery to the Midland Hub.⁵ Medallion contends that this will allow committed firm shippers on the Midland Lateral to have significant flexibility to move crude oil from numerous supply sources in the region to various downstream markets.

The Martin Lateral

8. Medallion states that the Martin Lateral would consist of approximately 34 miles of 6-inch and 8-inch diameter pipeline capable of transporting approximately 25,000 bpd.⁶ The Martin Lateral will aggregate crude oil from multiple points of origin in Martin County, Texas, and extend in a southeasterly direction to a point of destination at the Midland Hub. Last, Medallion notes that the open season provided that Medallion may construct additional gathering lines, at separately-negotiated rates to recover the costs of such lines, extending from the origin (or aggregation) points on the Martin Lateral.

II. Terms of the TSA

9. Medallion states that the open season notices set forth minimum eligibility requirements for the Expansion Projects and provided a minimum 10-year term and volume commitment of at least 5,000 bpd.⁷

10. Medallion explains the TSA provides committed shippers with firm transportation for committed volumes with rates that vary depending on the level of committed volumes and origin and destination points but, in all instances, would be at least \$0.01 per barrel above the rates applicable to uncommitted service for the same origin and destination points.⁸

11. Medallion states that the TSA provides that the level of annual adjustment for committed firm service rates is limited by a negotiated floor and ceiling. Additionally, Medallion explains that committed firm shippers may elect to “ramp-up” during the first two years of service, such that the ship-or-pay obligation for the first year is 33 1/3 percent of the otherwise applicable committed volume, and the second year obligation is 66 2/3 percent. Medallion states that the TSA also provides committed firm

⁵ *Id.*

⁶ *Id.* at 9.

⁷ *Id.*

⁸ *Id.*

shippers with contract extension rights that are automatically extended for up to two additional two-year terms, unless the shipper provides prior notice of termination pursuant to the TSA.⁹ Moreover, Medallion states that the TSA provides that, to the extent that a new origin/and or destination point would be added to the Expansion Projects' facilities in the future, at Medallion's sole discretion, committed firm shippers with origin points on the Midland Lateral and/or Martin Lateral would have the contractual right to amend their TSAs to access such point, subject to a potential surcharge.¹⁰ Last, Medallion states that to the extent that new gathering lines extending from the origin (or aggregation) points on the Martin Lateral are constructed in the future, at Medallion's sole discretion, the TSA provides Medallion with the right to recover the costs of such lines at separately-negotiated rates. As a result of the open season, Medallion received a binding commitment for firm service from one affiliate, totaling 90 percent of the Expansion Projects' combined capacity.¹¹

III. Requested Rulings

12. Medallion requests Commission confirmation and approval of the following aspects of the Expansion Projects:¹²

- a. The open season for the Expansion Projects followed Commission guidelines;
- b. Medallion properly committed up to 90 percent of the Expansion Projects' capacity to committed firm shippers, while reserving at least 10 percent of the capacity for uncommitted shippers;
- c. The committed rates and rate structure provided in the open season TSA and the *pro forma* rates tariff follow Commission precedent, are just and reasonable under the Interstate Commerce Act (ICA),¹³ and will not be

⁹ *Id.* at 10.

¹⁰ *Id.*

¹¹ According to Medallion, the committed firm service awarded through the open season is as follows: 22,500 bpd on the Martin Lateral; 22,500 bpd from the Midland Hub to the Garden City Station; and 81,000 bpd from the Garden City Station to the Midland Hub on the Midland Lateral. *Id.* at 11.

¹² *Id.* at 11-12.

¹³ 49 U.S.C. app. §§ 1 *et seq.* (1988).

subject to modification or revision except as provided by the open season TSA; and

- d. Each of the following provisions is consistent with Commission precedent and is just and reasonable under the ICA: the TSA provision limiting annual FERC Oil Pipeline Index adjustments for committed firm shippers; the TSA provision granting contract extension rights to committed firm shippers; the TSA provision granting a “ramp-up” election to committed firm shippers; the TSA provision affording existing committed firm shippers the right to elect a new origin and/or destination point on the Expansion Projects’ facilities if, as and when Medallion decides to add such a point on those facilities in the future, subject to a potential surcharge for the use of that destination and/or origin point; the TSA provision providing Medallion the right to recover its costs at separately negotiated rates, if, as, and when, at Medallion’s sole discretion, additional gathering lines are constructed to connect to the Expansion Projects’ facilities in the future; and the TSA provision providing committed firm shippers the right to utilize additional interconnections with third-party facilities, subject to an additional handling, pumping and transfer fee for deliveries to and from such facilities.

IV. Notice, Interventions and Responsive Pleadings

13. Notice of the Petition was issued on September 7, 2016, providing for motions to intervene, comments and protests to be filed on or before September 30, 2016. Pursuant to Rule 214 of the Commission’s regulations,¹⁴ 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. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. The Petition is unopposed.

V. Medallion’s Attestations

14. Medallion argues that the open season for the Expansion Projects followed Commission guidelines for committed firm service provided under the TSA, as well as other contractual rights provided to committed shippers. Medallion states that part of the determination should include a finding that the rate structure and rate provisions of the open season TSAs for committed firm service constitute settlement rates pursuant to

¹⁴ 18 C.F.R. § 385.214 (2016).

section 342.4(c) of the Commission's regulations,¹⁵ and as such, according to Medallion, will govern the rates for transportation service rendered to committed firm shippers for the respective terms of the TSA, without modification or revision, except for the annual adjustments provided pursuant to the TSA's provisions.¹⁶ Moreover, Medallion attests that it followed Commission precedent, reserving up to 90 percent of capacity for committed firm shippers, with at least 10 percent of capacity reserved for uncommitted shippers.¹⁷

15. Medallion states that it has entered into one long-term TSA with a committed firm shipper that provides for committed volumes, subject to ship-or-pay obligations, in exchange for firm transportation service exempt from prorationing.¹⁸ Medallion explains that a critical element of this service is a rate structure that provides that committed firm shippers will pay premium rates compared to all other shippers, i.e., rates that will exceed the rates paid by uncommitted shippers for the same origin and destination points. Specifically, at a minimum, committed firm shippers' rates on the Expansion Projects will always be \$0.01 per barrel above the rates for uncommitted shippers for the same origin and destination points.¹⁹

16. Medallion attests that its premium rate structure for committed firm service squarely follows Commission precedent, including the approvals provided in the prior Medallion orders.²⁰ Further, it states that the Commission has approved rate structures

¹⁵ Petition at 14 (citing 18 C.F.R. § 342.4(c)).

¹⁶ *Id.* (citing *CenterPoint Energy Bakken Crude Serv., LLC*, 144 FERC ¶ 61,130, at PP 18-19 (2013); *Enbridge Pipelines LLC*, 146 FERC ¶ 61,148, at P 31 (2014)).

¹⁷ *Id.*

¹⁸ *Id.* at 15. Medallion states that “[o]n May 11, 2016, Medallion received a binding commitment from a single participant in the open season, an affiliate of Medallion, for Committed Firm Service. In order to backstop its long-term commitment under the TSA, that shipper has entered into marketing agreements with producers controlling acreage and production proximate to the Expansion Projects.” *Id.* at 11. These marketing agreements are not before the Commission as part of the Petition, and the subject order does not address or make any confirmation or authorization related to them.

¹⁹ *Id.*

²⁰ *See supra* note 1.

where committed firm shippers pay a premium rate of at least \$0.01 per barrel over the applicable uncommitted rate,²¹ expressly recognizing that premium rate firm shippers are not similarly situated with other shippers.²² Medallion explains that such committed firm shippers have agreed to ship-or-pay certain volumes under long-term agreements, which provides support for the Expansion Projects' commercial viability, and that all shippers were afforded the same opportunity to contract for such service during the open seasons and therefore were given equal treatment.²³

17. Medallion argues that Commission precedent supports the approval of the requested TSA and tariff provisions. Medallion states that the TSA will adjust rates annually pursuant to a modified version of the FERC Oil Pipeline Index to provide both a floor and a ceiling on the adjustment resulting from an unmodified application of the FERC Index. According to Medallion, the Commission has approved the same provision in the prior Medallion Orders and has approved similar rate indexing provisions in similar cases while noting that these types of negotiated rates help to avoid litigation and lessen the regulatory burden. Therefore, Medallion asks that the Commission approve the use of the TSA's annual adjustment mechanism and treat the resulting annually adjusted rates as settlement rates pursuant to section 342.4(c) of the Commission's regulations,²⁴ as well as requesting waiver of the regulation's requirement to submit a verified statement.²⁵

18. Moreover, Medallion attests that Commission precedent supports the TSA provisions permitting committed firm shippers to elect a "ramp-up" for the initial two years of service, and the contract extension rights for committed firm shippers. Medallion states that the TSA provision that permits committed firm shippers to take advantage of a new origin or destination point on the Midland Lateral or the

²¹ Petition at 16 n.23.

²² *Id.* at 17-18 (citing *CCPS Transp., LLC*, 121 FERC ¶ 61,253, at P 19 (2007)).

²³ *Id.* at 16.

²⁴ 18 C.F.R. § 342.4(c) (2016).

²⁵ Medallion states that the Commission has granted similar waivers of the verified statement requirement. Petition at 18 & n.27 (citing *Medallion I*, 148 FERC ¶ 61,095 at P 19; *Medallion II*, 150 FERC ¶ 61,156 at P 16; *Medallion III*, 153 FERC ¶ 61,361 at P 18; *Medallion IV*, 155 FERC ¶ 61,268 at P 25; *CenterPoint Energy Bakken Crude Servs., LLC.*, 144 FERC ¶ 61,130, at PP 18-19).

Martin Lateral provides committed firm shippers with greater flexibility to tailor service to their particular transportation requirements.²⁶

VI. Commission Determination

19. Based on the representations in the Petition,²⁷ the Commission will grant all the rulings requested by Medallion as consistent with precedent. These confirmations and rulings are briefly summarized below.

20. The Commission confirms that Medallion's open season followed Commission guidelines, and is consistent with prior precedent.²⁸ The open season was widely advertised and afforded all potentially interested shippers an opportunity to become committed firm shippers on the Expansion Projects. Furthermore, Medallion's reservation of up to 90 percent of the Expansion Projects' capacity allows at least 10 percent of capacity to remain available for walk-up shippers, which provides reasonable access on the Expansion Projects for shippers that did not enter into committed firm agreements, consistent with Commission precedent.²⁹

21. Moreover, the Commission finds the committed rates and rate structure provided in the open season TSA and *pro forma* rates tariff and the request to treat the committed rates as settlement rates are consistent with Commission precedent. The TSA rates will not be subject to modification or revision except as provided in the TSA. Medallion also seeks waiver of the verified statement obligation of section 342.4(c) of the Commission's regulations, which is reasonable in the circumstances with respect to the agreed-upon contract rates under the TSA for committed shippers. Medallion should reference this declaratory order and its waiver of the verified statement obligation at the time it files the initial committed rates applicable to the Expansion Projects.

²⁶ Petition at 19.

²⁷ In cases where the TSA offered in the open season is not included with the petition, the declarations granted by the Commission are necessarily based on the Petition's characterizations of the TSA provisions as set forth in the Petition, and not from any independent assessment of the TSA terms.

²⁸ See, e.g., *Shell Pipeline Co. LP*, 146 FERC ¶ 61,051, at P 21 (2014).

²⁹ *Sunoco Pipeline L.P.*, 139 FERC ¶ 61,259, at P 14 (2012); *CCPS Transp., LLC*, 121 FERC ¶ 61,253 at P 17 n.33.

22. The Commission approves the provisions of the TSA for committed firm shippers, which include limiting annual index adjustments,³⁰ offering contract extension rights,³¹ ramp-up elections,³² and the opportunity to elect new origin or destination points.³³

23. In conclusion, the Commission finds the declarations and authorizations sought in the Petition consistent with precedent and unopposed. Accordingly, based upon the facts and representations made in the Petition by Medallion, the Commission confirms and approves the rulings concerning the Expansion Projects, as requested in the Petition.

The Commission orders:

Medallion's Petition is granted, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

³⁰ *Medallion I*, 148 FERC ¶ 61,095 at P 18; *Medallion II*, 150 FERC ¶ 61,156 at P 15; *Medallion III* 153 FERC ¶ 61,361 at P 5; *Medallion IV*, 155 FERC ¶ 61,268 at P 5.

³¹ *Belle Fourche Pipeline Co. and Bridger Pipeline LLC*, 151 FERC ¶ 61,139, at P 25 (2015); *Kinder Morgan Pony Express Pipeline LLC and Hiland Crude, LLC*, 141 FERC ¶ 61,249, at P 39 (2012).

³² *Tallgrass Pony Express Pipeline LLC*, 147 FERC ¶ 61,266, at P 20 (2014); *Medallion I*, 148 FERC ¶ 61,095, at P 18; *Medallion II*, 150 FERC ¶ 61,156, at P 15 (2015); *Medallion III*, 153 FERC ¶ 61,361 at P 19; *Medallion IV*, 155 FERC ¶ 61,268 at P 19.

³³ *Medallion III*, 153 FERC ¶ 61,361 at P 19; *Medallion IV*, 155 FERC ¶ 61,268 at P 5.

Document Content(s)

OR16-25-000.DOCX.....1-10