

169 FERC ¶ 61,202
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Medallion Pipeline Company, LLC

Docket No. OR19-35-000

ORDER ON PETITION FOR DECLARATORY ORDER

(Issued December 17, 2019)

1. On September 9, 2019, Medallion Pipeline Company, LLC (Medallion) filed a petition for declaratory order (Petition) requesting approval of its open season procedures, transportation service agreement (TSA) provisions, overall rate structure, and terms of service for committed firm service on a proposed expansion of the Medallion pipeline system (Project). We grant the Petition, subject to conditions, as discussed below.

Background

2. Medallion's pipeline system consists of approximately 800 miles of 6-inch diameter and larger crude oil pipelines based in the Permian Basin. Medallion states that since its first year of operation in 2015, it has undertaken eight expansions¹ that provide a diversified market for shippers to access multiple downstream pipelines that interconnect with three major market hubs at the Crane Hub, Colorado City Hub, and Midland Hub, as well as a Midland Basin refinery.² Medallion consists of eight systems all located in Texas, as follows: Wolfcamp Connector mainline, Reagan Gathering extension, bi-directional Midkiff Lateral, bi-directional Santa Rita Lateral, bi-directional Howard

¹ *Medallion Pipeline Co.*, 148 FERC ¶ 61,095 (2014); *Medallion Pipeline Co.*, 150 FERC ¶ 61,156 (2015); *Medallion Pipeline Co.*, 153 FERC ¶ 61,361 (2015); *Medallion Pipeline Co.*, 155 FERC ¶ 61,268 (2016); *Medallion Pipeline Co.*, 157 FERC ¶ 61,075 (2016); *Medallion Pipeline Co.*, 160 FERC ¶ 61,055 (2017); *Medallion Pipeline Co.*, 160 FERC ¶ 61,139 (2017); *Medallion Delaware Express, LLC*, 163 FERC ¶ 61,170 (2018); *Medallion Pipeline Co.*, 167 FERC ¶ 61,265 (2019).

² Petition at 2-4.

Lateral, bi-directional Crane extension, Martin Lateral, and bi-directional Midland lateral.³

3. Medallion and EPIC Crude Pipeline, LP (EPIC) entered into discussions to explore opportunities to minimize the construction and operation of duplicative pipeline facilities, improve the transportation efficiencies of both systems, provide EPIC's shippers with access to crude oil originating on Medallion's system, and provide Medallion's shippers with access to EPIC's destination markets. Medallion states that as a result of these discussions, Medallion and EPIC have entered into agreements including a reciprocal capacity lease agreement to provide connectivity to their systems. The agreement includes construction of interconnecting facilities between Medallion's pipeline system and EPIC's pipeline system.

4. Medallion states that the Project will lease 27,778 barrels per day (bpd) of committed and uncommitted capacity from EPIC pipeline.⁴ The Project will be from specified origin points on the EPIC pipeline system including a new interconnection with Medallion at the Crane Hub where nominations will be made.⁵ The lease also provides for the construction of two additional interconnections between Medallion and EPIC systems at the Santa Rita Lateral and the Midkiff Lateral.⁶ Medallion states that the Project would extend the geographic reach of the existing Medallion pipeline system by providing new destination points to Corpus Christi, Texas and Ingleside, Texas, including destination points to access crude oil export facilities.

5. The Project is expected to begin commercial operations on January 1, 2020.⁷ Medallion requests that the Commission act on the Petition no later than December 15, 2019, to support additional crude oil pipeline capacity in the region and to provide Medallion and its committed shipper with the assurance to go into service.

³ *Id.* at 3-4.

⁴ *Id.* at 5.

⁵ *Id.* Medallion states that the barrels nominated under the lease agreement from Medallion's system to EPIC's pipeline will be nominated to the Crane Hub.

⁶ *Id.* at 5 n.8.

⁷ *Id.* at 5.

Open Season Procedures

6. According to the Petition, Medallion conducted an open season from July 19, 2019 to August 16, 2019 to solicit long-term commitments to support the Project. Medallion states it publicized the open season announcement through press releases that were circulated to energy trade journals and to news outlets.⁸ Medallion states the open season provided all shippers an equal opportunity to participate in the open season and to make a commitment to the Project in the form of a binding volume commitment TSA.

7. In accordance with the procedures stated in the Open Season Notice,⁹ Medallion provided all interested shippers who executed a confidentiality agreement with copies of the open season materials, which included the *pro forma* TSA applicable to the services offered during the open season and Medallion's *pro forma* rules and regulations and rates and charges tariffs applicable to the Project.

8. The Open Season Notice provided that at all times, at least 10 percent of the Project capacity would be reserved for uncommitted service. In the event Medallion received volume commitments in excess of 90 percent of the Project capacity, Medallion would allocate the available capacity among all valid bids on a nondiscriminatory basis by using a net present value methodology to rank the bids.¹⁰ Medallion states the Open Season Notice also stated that the net present value methodology would give weight to the committed volume bid (up to the available capacity) and the economic value of any prepayments of TSA charges.

9. At the end of the open season, Medallion received a binding commitment from a non-affiliated committed shipper.¹¹ The commitment was sufficient to move forward with the Project as proposed. Medallion and the committed shipper have executed a TSA for committed service on the Project.

⁸ *Id.* at 6, Ex. A Open Season Press Release (July 19, 2019); Ex. B, Open Season Trade Press Publications; and Ex. C, Open Season Notice (July 19, 2019).

⁹ *Id.* Ex. C, Open Season Notice (July 19, 2019).

¹⁰ *Id.* at 6 and 12-13.

¹¹ *Id.* at 8.

TSA Terms, Rates, and Priority Service

10. Medallion will lease 27,778 bpd of capacity from EPIC pipeline (Leased Capacity) which will provide Medallion shippers 25,000 bpd of committed firm capacity¹² and 2,778 bpd of uncommitted capacity. According to Medallion, prospective shippers had the opportunity to participate in the open season to acquire firm transportation capacity by making a minimum volume commitment of 10,000 bpd to Medallion pursuant to a volume commitment TSA.¹³ As noted above, Medallion represents it entered into a long-term TSA with a non-affiliated committed shipper. The TSA provides for committed volumes, subject to ship-or-pay obligations, in exchange for firm transportation service of the highest priority in terms of prorationing.¹⁴

11. Medallion states that by utilizing the Leased Capacity, the Project has the operational flexibility on a daily basis to satisfy the delivery obligation for barrels nominated to the Crane Hub interconnection, with EPIC to deliver the equivalent barrels to any of the three interconnections with EPIC.¹⁵ The Leased Capacity consists of unsubscribed committed capacity on the EPIC pipeline, that was previously offered by EPIC in an open season, and its use for the Project will have no effect on the rights of EPIC's existing shippers.¹⁶

12. The rates applicable under the TSA provide that the committed rate for firm service of crude will be a premium rate that is always at least \$0.01 above the uncommitted rate.¹⁷ Medallion states that under the TSA, the committed rate for the Leased Capacity will be adjusted annually by adding \$0.01 to any adjustment to the uncommitted rate. Medallion states the committed shipper has agreed to the terms of the rate adjustment mechanism that was part of the transparent open season.¹⁸ Additionally,

¹² The open season solicited commitments for 25,000 bpd of committed firm capacity.

¹³ Petition at 7 and Ex. A, Open Season Press Release (July 19, 2019).

¹⁴ *Id.* at 13.

¹⁵ *Id.* at 5, n.8, and at 11.

¹⁶ *Id.* at 5.

¹⁷ *Id.* at 7 and 13-14.

¹⁸ *Id.* at 7 and 16.

Medallion asks the Commission to approve the TSA rate adjustment provision, and rule that the resulting annually adjusted rates be treated as settlement rates pursuant to section 342.4(c) of the Commission's regulations.¹⁹ Medallion also requests a waiver of the verified statement requirement under section 342.4(c) of the Commission's regulations.

13. The TSA provides a primary term of five years and will have an automatic extension for up to one five-year period, unless the firm committed shipper elects not to proceed with the extension by giving a one year's notice.²⁰

14. According to the Petition, the TSA also obligates the committed shipper to nominate each month up to the full 2,778 bpd of uncommitted capacity.²¹ Medallion states that if all or a portion of the 2,778 bpd of uncommitted capacity is available, the committed shipper is obligated to ship, or otherwise pay for, that amount at the committed rate.²² Medallion notes that the TSA does not provide the committed shipper with preferential access to the uncommitted capacity. Additionally, Medallion states that it is the committed shipper's right to utilize all or a portion of the uncommitted capacity under the terms and conditions of Medallion's FERC Tariff, including the prorationing provisions.²³

Requested Rulings

15. Medallion requests that the Commission confirm that the following aspects of the open season, rate structure, TSA provisions, and terms of service for the Project follow Commission precedent and are consistent with the Interstate Commerce Act (ICA)²⁴ and Commission policy:

¹⁹ *Id.* at 15-16.

²⁰ *Id.* at 7-8.

²¹ *Id.* at 16.

²² *Id.* at 7.

²³ *Id.* at 7 and 16.

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

- A. The open season for the Project;
- B. The utilization of the Leased Capacity for the provision of the Project service, including the operational flexibility provided under the capacity lease agreement for Medallion to deliver, on a daily basis, all barrels nominated for delivery to EPIC at any of the interconnections between Medallion and EPIC;
- C. The allocation of up to 90 percent of the Project's capacity to committed shippers executing a TSA for committed firm service while reserving at least 10 percent of the Project capacity for uncommitted service available to shippers that have made no contractual commitment.
- D. The provision of firm service on the Project facilities and implementation of the committed rates and rate structure offered during the open season, as provided in the TSA and the *pro forma* rates and charges tariff, whether for committed or uncommitted service;
- E. The filing of the Project committed rates as settlement rates and the waiver of the verified statement requirement in section 342.4(c) of the Commission's regulations;
- F. The rate adjustment mechanism set forth in the TSA;
- G. The TSA provision that obligates committed shippers to utilize 2,778 bpd of uncommitted capacity, and ship or pay for such capacity, if, under Medallion's tariff, such uncommitted capacity is available; and
- H. The automatic extension of the term of the TSA in accordance with the provisions set forth in the TSA.

Public Notice, Intervention, Protests and Comments

16. Notice of the Petition was issued on September 12, 2019, providing for motions to intervene, comments and protests to be filed on or before October 10, 2019. Pursuant to Rule 214 of the Commission's regulations, all timely filed motions to intervene and any unopposed motions to intervene out-of-time filed before the issuance date of this order are granted.²⁵ No motions to intervene, comments, or protests were filed. The Petition is unopposed.

²⁵ 18 C.F.R. § 385.214 (2019).

Discussion

17. Based upon the representations made in the Petition,²⁶ we grant, subject to conditions, the rulings requested by Medallion, as discussed below.

18. We find that the open season was conducted appropriately and is consistent with prior precedent.²⁷ The exhibits accompanying the Petition indicate that the Project was widely advertised and afforded all potentially interested shippers the opportunity to become committed firm shippers on the Project.²⁸

19. We find that Medallion's reservation of up to 90 percent of the Project's capacity allows at least 10 percent of capacity to remain available for walk-up shippers, which provides reasonable access on the Project for shippers that did not enter into committed firm agreements, is consistent with Commission precedent.²⁹

20. We find that the use of leased capacity for the Project is consistent with Commission precedent.³⁰ Medallion represents that the leased capacity from EPIC will not in any way degrade service to or negatively affect EPIC's existing shippers.³¹

21. As described in the Petition, Medallion entered into a long-term TSA with a committed shipper that provides for committed volumes, subject to ship-or-pay obligations, in exchange for firm transportation service of the highest priority in terms of prorationing. The TSA provides that the committed shippers will pay a premium rate for

²⁶ 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.

²⁷ *E.g.*, *Shell Pipeline Co. LP*, 146 FERC ¶ 61,051, at P 21 (2014).

²⁸ *E.g.*, *Medallion Pipeline Co., LLC*, 160 FERC ¶ 61,055, at P 22 (2017); *EnLink Del. Crude Pipeline, LLC*, 166 FERC ¶ 61,226, at P 17 (2019).

²⁹ *E.g.*, *NORCO Pipe Line Co., LLC*, 152 FERC ¶ 61,170, at P 19 (2015); *Sunoco Pipeline L.P.*, 139 FERC ¶ 61,259, at P 14 (2012); *CCPS Transp., LLC*, 121 FERC ¶ 61,253, at P 17 n.33 (2007).

³⁰ *E.g.*, *Buckeye Pipe Line Transp., LLC*, 154 FERC ¶ 61,130, at P 18 (2016); *Palmetto Prod. Pipe Line LLC*, 151 FERC ¶ 61,090, at PP 4, 20 (2015).

³¹ Petition at 14.

firm committed transportation service. The rate structure of the TSA requires that the committed shipper rate on the Project will always be \$0.01 per barrel above the uncommitted shipper rate that is for the same origin and destination points.³² We find that the TSA provisions establishing a rate structure that includes a premium rate for committed volumes are permissible under the ICA and consistent with Commission precedent.³³

22. We also find that the TSA provisions granting contract extension rights to committed shippers are consistent with Commission precedent.³⁴

23. Medallion requests that the Commission approve the committed rates, as well as subsequent adjustments of those rates made under the terms of the TSA, as settlement rates under 18 C.F.R. § 342.4(c).³⁵ Commission regulations require that the committed rates must meet the requirements for initial rates under 18 C.F.R. § 342.2(a), file a cost-of-service rate or 18 C.F.R. § 342.2(b), file a sworn affidavit that the rate is agreed to by at least one non-affiliated shipper who intends to use the service in question, when the tariff is ultimately filed with the Commission.³⁶ Medallion states that it received sufficient binding commitments from a non-affiliated committed shipper to proceed with the Project.³⁷ Therefore, Medallion should be able to file under section 342.2(b) by filing a sworn affidavit that the rate is agreed to by a non-affiliated shipper who intends to use

³² *Id.* at 13.

³³ *E.g.*, *NORCO*, 152 FERC ¶ 61,170 at P 16; *Shell Pipeline Co. LP*, 139 FERC ¶ 61,228, at P 21 (2012).

³⁴ *E.g.*, *Belle Fourche Pipeline Co.*, 151 FERC ¶ 61,139, at P 25 (2015); *Kinder Morgan Pony Express Pipeline LLC, LLC*, 141 FERC ¶ 61,249, at P 39 (2012).

³⁵ Petition at 14-15.

³⁶ 18 C.F.R. § 342.2 (2019).

³⁷ Petition at 8.

the service. We grant Medallion's request to treat the committed rates as settlement rates, conditioned upon Medallion's complying with section 342.2(b) of the Commission's regulations for filing an initial rate.³⁸

24. We will allow the treatment of any subsequent rate adjustments thereto pursuant to the TSA as settlement rates under 18 C.F.R. § 342.4(c).³⁹ For such subsequent rate adjustments, the request for waiver of the verified statement under 18 C.F.R. § 342.4(c) is granted.⁴⁰

25. We approve Medallion's requested ruling of a "TSA provision that obligates committed shippers to utilize 2,778 bpd of uncommitted capacity to ship or pay for such capacity, if, under Medallion's tariff, such uncommitted capacity is available."⁴¹ Medallion states that the TSA does not give the committed shipper "preferential access to the uncommitted capacity and does not preclude uncommitted shippers from utilizing the uncommitted capacity."⁴² Under Medallion's requested ruling, we understand that both the committed and uncommitted shippers will have the opportunity to nominate for the 10 percent uncommitted space on a discretionary basis pursuant to the terms of Medallion's tariff. If after the initial nomination process uncommitted capacity remains available, then the committed shipper will be obligated by the terms of the TSA to nominate for any remaining available uncommitted capacity. Based upon this understanding we grant the requested ruling.

³⁸ *E.g.*, *Targa NGL Pipeline Co. LLC*, 166 FERC ¶ 61,179, at P 20 (2019); *Magellan Pipeline Co., L.P.*, 166 FERC ¶ 61,181, at P 34 (2019); *Sunoco Pipeline L.P.*, 167 FERC ¶ 61,159, at P 14 (2019); *Enterprise TE Prods. Pipeline Co. LLC*, 166 FERC ¶ 61,180, at P 11 (2019).

³⁹ 18 C.F.R. § 342.4(c).

⁴⁰ Medallion requests waiver of the verified statement requirement. *See* Petition at 14-15.

⁴¹ *Id.* at 7 and 16.

⁴² *Id.* at 16.

The Commission orders:

Medallion's petition for declaratory order is granted, subject to conditions, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.