

170 FERC ¶ 61,192
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. OR20-6-000

ORDER ON PETITION FOR DECLARATORY ORDER

(Issued March 16, 2020)

1. On January 14, 2020, Medallion Pipeline Company, LLC (Medallion) filed a petition for declaratory order (Petition) requesting approval of the open season, rate structure, and terms of service for a proposed expansion of Medallion's pipeline system (Project). The Project consists of: (1) increasing the operational capacity of the Howard Lateral (Howard Expansion); and (2) expanding the capacity on the Midkiff Lateral from the Garden City Station origin point to the Midkiff Station destination point (Midkiff Expansion). We grant the Petition, subject to conditions, as explained below.

I. Background

2. The current Medallion pipeline system consists of approximately 800 miles of crude oil pipeline based in the Permian Basin.¹ Medallion states that since it began service, it has undertaken nine expansions, and the Medallion system now includes eight pipeline segments that provide market access to 10 downstream pipelines and interconnections at three major market hubs.²

3. Medallion states that ongoing dialogue with producers and marketers in the Midland Basin indicates the need for additional capacity on its Howard and Midkiff Laterals. Medallion's Howard Lateral presently consists of a bi-directional mainline and a series of smaller laterals that aggregate crude oil from origin points in Howard County and northeast Martin County for delivery to the Alon Big Spring refinery and the Howard-Wolfcamp Interconnect. The Midkiff Lateral consists of a bi-directional system extending between the Garden City Station and the Midkiff Station, an operational loop of the Midkiff Lateral extending from the Midkiff Station to the Garden City Station, and

¹ Petition at 2.

² *Id.* at 3.

a series of smaller laterals that aggregate crude oil in Glasscock, Midland, and Upton counties.³

4. Medallion states that the Howard Expansion will involve constructing a 10-inch lateral on the Howard Lateral to an interconnection with the Martin Lateral and constructing small-diameter laterals to connect crude oil production. Medallion also states that the Howard Expansion will involve creating a partial loop of the Martin Lateral, expanding the Midland Lateral from the Garden City Station to the Midland Station, and reconfiguring the Garden City Station on the Wolfcamp Connector for bi-directional flow from the Howard Lateral to the Garden City Station. Medallion plans to create a loop of the Howard Lateral by integrating the Howard Lateral, the Martin Lateral, and the Midland Lateral. Medallion states that the Howard Expansion will increase capacity on the Howard Lateral from 85,000 to 140,000 barrels per day (bpd).⁴

5. Medallion states that the Midkiff Expansion will involve an increase in horsepower on the Midkiff Lateral. Medallion asserts that the increased pumping horsepower will expand capacity on the Midkiff Lateral from the Garden City Station to the Midkiff Station from 120,000 to 160,000 bpd.⁵

6. Medallion held an open season for the Project from September 24, 2019 to October 18, 2019, to solicit long-term Transportation Services Agreements (TSAs). Medallion offered up to 49,500 bpd of expanded capacity on the Howard Lateral to committed firm shippers with a minimum of 5,500 bpd reserved for uncommitted shippers. For the Midkiff Expansion, Medallion offered up to 36,000 bpd to committed firm shippers with a minimum of 4,000 bpd reserved for uncommitted shippers. Medallion states that the open season notice was publicized through the issuance of a press release that was widely disseminated.⁶

II. TSA Rates and Terms

7. Prospective shippers participating in the open season were given the option of obtaining committed firm service on either the Howard Expansion, the Midkiff Expansion, or both, in exchange for at least a 10-year commitment to ship a minimum committed volume of 10,000 bpd. Medallion states that committed shippers will be subject to throughput and deficiency payment obligations and will have the option to

³ *Id.* at 4-5.

⁴ *Id.*

⁵ *Id.* at 5.

⁶ *Id.* at 5-6, Exhibit A.

ramp-up their committed volumes over a two-year period.⁷ Medallion states that committed firm service will always be \$0.01 cent per barrel above the rates applicable to uncommitted service for the same origin and destination points.⁸ Medallion states that the single committed shipper, an affiliate of Medallion, executed the TSA during the open season.⁹

8. Medallion explains that after the expiration of the primary 10-year term of the TSA, the TSA will automatically extend for up to two additional two-year terms, unless the committed shipper provides prior notice of termination. Medallion also states that the TSA allows the committed shipper to assign its rights to an affiliate without restriction, other than requiring the consent of Medallion. Medallion states that it may not unreasonably refuse consent.¹⁰

9. Medallion states that the open season offered rates for committed firm service on the proposed Howard Expansion that are lower than the existing rates for committed firm service on the Howard Lateral. Medallion allowed any existing committed firm shipper (Existing Committed Shippers) on the Howard Lateral the opportunity to participate in the open season and receive the new Howard Expansion firm service rate under their current TSAs (the Existing Committed Shipper Rate Option). However, Medallion explains that any Existing Committed Shipper will be required to extend the term of their contracts for an additional 10 years to receive the new committed shipper rate. Medallion states that the rate for uncommitted service on the Howard Lateral also received a commensurate reduction. Medallion also states that both committed and uncommitted shippers on the Howard Lateral will have access to the Garden City Station destination point. Medallion contends that to the extent any new interconnections are added, Medallion has discretion to allow committed shippers to amend their TSAs to access such points, subject to a potential surcharge.¹¹

⁷ Medallion states that the ship-or-pay obligation for the first year will be 33 1/3% of the otherwise applicable committed volume, and 66 2/3% for the second year. *Id.* at 19.

⁸ *Id.* at 12, 18, Ex. C at 5-6.

⁹ *Id.* at 8. Medallion contends that the Commission has previously issued declaratory orders when the only committed shipper is an affiliate of the pipeline. *Id.* at 8 n.9 (citing *Stakeholder Midstream Crude Oil Pipeline LLC*, 160 FERC ¶ 61,010, at P 4 (2017); *EnLink Crude Pipeline, LLC*, 157 FERC ¶ 61,120, at P 4 (2016)).

¹⁰ Petition at 19-20.

¹¹ *Id.* at 7-8.

III. Requested Rulings

10. Medallion requests an order confirming the following are just and reasonable under the Interstate Commerce Act (ICA),¹² fully consistent with Commission policy, and will be upheld during the term of the TSA:

- a. The open season for the Project followed Commission guidelines, was appropriately conducted, and provides the appropriate basis for Commission approval of the committed firm service offered;
- b. The TSA and TSA amendments will be honored, upheld and will govern the transportation services provided to a committed firm shipper during the term of the TSAs;
- c. The allocation of up to 90% of the Project capacity to committed shippers executing a TSA for committed firm service while reserving at least 10% of the Project capacity for uncommitted service available to shippers that have made no contractual commitment;
- d. The provision of committed 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 firm service or uncommitted service;¹³
- e. The filing of the Project committed rates as settlement rates and the waiver of the verified statement requirement of section 342.4(c) of the Commission's regulations;
- f. The rate adjustment mechanism set forth in the TSA;
- g. The ability of Existing Committed Shippers on the Howard Lateral to participate in the open season to receive the lower Howard Expansion rates for committed firm service;

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

¹³ The Commission makes no determination in this order as to any particular uncommitted rate, which must be justified pursuant to its regulations governing same. This order reaches only the general rate structure and coexistence of both committed and uncommitted rates on the expanded facilities.

- h. The ability of Existing Committed Shippers on the Howard Lateral to participate in the open season to add the Garden City Station destination point to their existing TSAs;
- i. The open season TSA provision that provides that to the extent that new interconnects are added to the Howard Lateral and the Midkiff Lateral, Medallion, in its sole discretion, may allow the committed firm shipper to amend its TSA to allow access to such point;
- j. The automatic extension of the term of the TSA in accordance with the provisions set forth in the TSA;
- k. The “ramp-up” election offered in the TSA for a committed shipper;
- l. The TSA provision that permits committed firm shippers to assign their respective rights under the TSAs to an affiliate without restriction and with Medallion’s consent, provided that Medallion may not unreasonably refuse such consent; and
- m. The open season provision that permits Medallion to enter into TSAs after the open season, under the same terms set forth in the Open Season Notice, are consistent with the ICA and Commission policy.

IV. Public Notice, Intervention, Protests, and Comments

11. Notice of the Petition was issued on January 14, 2020, providing for motions to intervene, comments and protests to be filed on or before February 11, 2020. 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.¹⁴ No motions to intervene, comments, or protests were filed. The Petition is therefore unopposed.

V. Discussion

12. Based on representations made in the Petition,¹⁵ we grant the rulings requested by Medallion, subject to the conditions set forth below.

¹⁴ 18 C.F.R. § 385.214 (2019).

¹⁵ 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

13. We find that the open season followed Commission guidelines and was appropriately conducted.¹⁶ As described, the open season appears to have been widely advertised and afforded potentially interested shippers an opportunity to participate.¹⁷ We find that the TSA provisions will be honored and upheld for committed shippers during the term.¹⁸

14. We find that Medallion reserved at least 10% of capacity for uncommitted shippers with up to 90% of capacity available for committed service, consistent with Commission precedent.¹⁹ We confirm that Medallion may provide firm service on the Project and may implement the committed rates and rate structure, as provided in the TSA. Consistent with Commission precedent,²⁰ Medallion represents that the committed rates for firm service will always be \$0.01 cent per barrel above the corresponding uncommitted rates.²¹

15. We also address Medallion's requests that the Commission approve the proposal to file the Project's committed rates as settlement rates and a waiver of the verified statement requirement of section 18 C.F.R. § 342.4(c). Medallion contends that the Commission has approved initial committed rates as settlement rates.²² However, the

petition's characterizations of the TSA provisions as set forth in the petition, and not from any independent assessment of the TSA terms.

¹⁶ See, e.g., *EnLink Del. Crude Pipeline, LLC*, 166 FERC ¶ 61,226, at P 17 (2019).

¹⁷ Petition at 5-6.

¹⁸ E.g., *Saddlehorn Pipeline Co., LLC*, 153 FERC ¶ 61,067, at P 33 (2015); *CenterPoint Energy Bakken Crude Servs., LLC*, 144 FERC ¶ 61,130, at P 17 (2013).

¹⁹ E.g., *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).

²⁰ E.g., *MPLX Ozark Pipe Line LLC*, 160 FERC ¶ 61,057, at P 16 (2017); *Oasis Midstream Servs. LLC*, 156 FERC ¶ 61,083, at P 15 (2016).

²¹ Petition at 12.

²² *Id.* at 13 (citing *Tesoro High Plains Pipeline Co., LLC*, 148 FERC ¶ 61,160, at P 26 (2014); *Buckeye Pipe Line Transp., LLC*, 154 FERC ¶ 61,130, at P 21 (2016); *Grand Mesa Pipeline, LLC*, 156 FERC ¶ 61,163, at P 19 (2016); *Oryx S. Del. Oil Gathering & Transp. LLC*, 154 FERC ¶ 61,065, at P 15 (2016); *Rangeland RIO Pipeline, LLC*, 156 FERC ¶ 61,023, at P 24 (2016); *Panola Pipeline Co., LLC*, 151 FERC ¶ 61,140, at P 22 (2015); *EnLink Crude*, 157 FERC ¶ 61,120 at PP 4, 11, and 14)).

decisions cited by Medallion are inconsistent with the Commission's subsequent holding in *Targa*.²³ As the Commission recently reaffirmed in *Targa* and other more recent decisions, pipelines must comply with the Commission's initial rate regulations under section 342.2 in order to establish initial committed rates, and if that is done, subsequent rate changes may be treated as settlement rates under section 342.4(c).²⁴ However, initial committed rates cannot be established under the Commission's regulation for changing a rate by settlement in 18 C.F.R. § 342.4(c). Accordingly, we grant Medallion's requested rulings subject to Medallion's providing, at the time the tariff for the committed rates is filed, (1) a sworn affidavit that the rate is agreed to by at least one non-affiliated shipper who intends to use the service in accordance with 18 C.F.R. § 342.2(b) or (2) cost, revenue, and throughput data supporting the rate as required by part 346 of the Commission's regulations, in accordance with 18 C.F.R. § 342.2(a).²⁵ Any subsequent rate adjustments pursuant to the TSA will be treated as settlement rates under 18 C.F.R. § 342.4(c). For such subsequent rate adjustments, the request for waiver of the verified statement under 18 C.F.R. § 342.4(c) is granted.²⁶

16. We find that the rate adjustment provision for the committed rates pursuant to a modified version of the Commission's indexing methodology²⁷ is consistent with Commission precedent.²⁸ We also find that the Existing Committed Shipper

²³ *Targa NGL Pipeline Co. LLC*, 166 FERC ¶ 61,179, at P 20 (2019); *see also* *Medallion Midland Gathering, LLC*, 170 FERC ¶ 61,048, at P 31 (2020); *Medallion Del. Express, LLC*, 170 FERC ¶ 61,047, at P 28 (2020).

²⁴ *E.g.*, *Targa*, 166 FERC ¶ 61,179 at P 20; *Magellan Pipeline Co., L.P.*, 166 FERC ¶ 61,181, at P 34 (2019); *Sunoco Pipeline LP*, 167 FERC ¶ 61,159, at P 14 (2019); *Enterprise TE Prod. Pipeline Co., LLC*, 166 FERC ¶ 61,180, at P 11 (2019).

²⁵ In the instant case, Medallion has stated that the only committed shipper is an affiliate. Based on the representations in the Petition, Medallion would be unable to meet the requirements of section 342.2(b) upon filing the initial rates and instead would be required to file the data required under section 342.2(a). *Targa*, 166 FERC ¶ 61,179 at P 21; *Medallion Midland Gathering*, 170 FERC ¶ 61,048 at P 33 n.58; *Medallion Del. Express, LLC*, 170 FERC ¶ 61,047 at P 30 n.57.

²⁶ *E.g.*, *Medallion*, 169 FERC ¶ 61,202, at P 24 (2019).

²⁷ Medallion represents that the committed rate adjustment mechanism is subject to both a floor and a ceiling on the adjustment that would otherwise result from the unmodified application of the Commission's indexing methodology. Petition at 14.

²⁸ *E.g.* *Oryx*, 154 FERC ¶ 61,065 at P 27; *Marathon Pipe Line LLC*, 152 FERC

provisions,²⁹ option to amend the TSA to allow new interconnects,³⁰ extension term rights,³¹ ramp-up election³² and assignment rights,³³ are consistent with Commission precedent.

17. We also affirm that Medallion may enter into contracts for committed service under the same terms offered in the open season after the close of the open season, consistent with Commission precedent.³⁴

¶ 61,237, at P 15 (2015).

²⁹ *E.g.*, *Medallion*, 160 FERC ¶ 61,139, at P 24 (2017); *Medallion*, 167 FERC ¶ 61,265, at P 24 (2019).

³⁰ *E.g.*, *Medallion*, 160 FERC ¶ 61,139 at PP 11, 24; *Sunoco Pipeline LP*, 149 FERC ¶ 61,191, at P 24 (2014).

³¹ *E.g.*, *Medallion*, 160 FERC ¶ 61,055, at P 24 (2017); *Medallion*, 160 FERC ¶ 61,139 at P 24.

³² *E.g.*, *Medallion*, 167 FERC ¶ 61,265 at P 23; *Medallion*, 160 FERC ¶ 61,139 at P 24.

³³ *E.g.*, *Medallion*, 167 FERC ¶ 61,265 at P 26; *BridgeTex Pipeline Co., LLC*, 156 FERC ¶ 61,121, at P 18 (2016).

³⁴ *E.g.*, *Medallion*, 167 FERC ¶ 61,265 at P 28; *Oryx*, 154 FERC ¶ 61,065 at P 21; *Monarch Oil Pipeline, LLC*, 151 FERC ¶ 61,150, at P 31 (2015).

The Commission orders:

The Petition is granted, subject to the conditions discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.