

**Cottonwood Creek, Inc.**  
**A Hiland Partners Company**

ORIGINAL

**Oil Pipeline Depreciation Rates**

Docket No. DOR-3-000

December 30, 2011

The Honorable Kimberly D. Bose  
 Secretary  
 Federal Energy Regulatory Commission  
 888 First Street, N.E.  
 Washington, DC 20426

FILED  
 SECRETARY OF THE  
 COMMISSION  
 2012 JAN -4 A 11:39  
 FEDERAL ENERGY  
 REGULATORY COMMISSION

Re: Cottonwood Creek, Inc.  
 Request for Approval of Proposed Depreciation Rates

Dear Ms. Bose,

Pursuant to Part 347 of the Commission's regulations, Cottonwood Creek Inc. ("Cottonwood Creek") is requesting approval to use the attached depreciation rates so that depreciation of its pipeline assets is reflective of the projected remaining life of the Cottonwood Creek crude oil pipeline system, located in the Big Horn Basin in Big Horn and Washakie Counties in central Wyoming.

Cottonwood Creek requests to use the same set of property and depreciation records for FERC Form No.6 reporting purposes and for ratemaking purposes. Cottonwood Creek requests approval to use the proposed depreciation rates beginning January 1, 2011, the date Cottonwood Creek became subject to file FERC Form 6 and Form 6Q. The proposed depreciation rates are based on independent reserve studies which projected an eleven year remaining life of the crude oil pipeline system as of December 31, 2010.

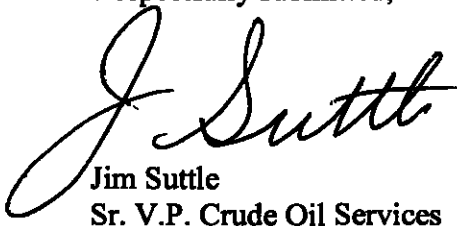
We respectfully request that the confidential version of Cottonwood Creek's "Information Supporting Proposed Oil Pipeline Depreciation Rates" be afforded privileged and confidential treatment, exempt from all public disclosure, including the mandatory public disclosure requirements of the Freedom of Information Act, 4 U.S.C. §522. Certain information in and attached to Cottonwood Creek's Supporting Proposed Oil Pipeline Depreciation Rates contains confidential information subject to Section 15(13) of the Interstate Commerce Act.

**Please return the duplicate transmittal letter in the self-addressed, stamped envelope, showing the date of receipt by the Commission.**

**I hereby certify that I have on or before this date distributed, by First Class Mail, one copy of this transmittal letter to each shipper and subscriber.**

**Should you have any questions, please contact Angie Grothe with Cottonwood Creek, Inc., P.O. Box 5103, Enid, Oklahoma 73702 at 580-616-2051.**

**Respectfully submitted,**



**Jim Suttle**  
**Sr. V.P. Crude Oil Services**

**Attachments**

**cc: Joseph Athey, Federal Energy Regulatory Commission**

**All Subscribers and Shippers**

**PUBLIC VERSION**

**Cottonwood Creek, Inc.**

## **Information Supporting Proposed Oil Pipeline Depreciation Rates**

---

**12/30/2011**

**Cottonwood Creek, Inc.**  
**Information supporting proposed oil pipeline depreciation rates**

**TABLE OF CONTENTS**

<b>Description</b>	<b>CFR Section</b>	<b>Page No.</b>
Summary of General Principles	§347.1 (e) (1)	2
Pipeline Overview	§347.1 (e) (2)	2
Proposed Depreciation Rates	§347.1 (e) (3)	3
Average Remaining Life	§347.1 (e) (4)	4
System Maps	§347.1 (e) (5) (i)	4
Summary of Operations	§347.1 (e) (5) (ii)	5
Current Depreciations Rates	§347.1 (e) (5) (iii)	5
Volume Information	§347.1 (e) (5) (iv) and (vi)	6
Capacity Information	§347.1 (e) (5) (v)	7
Plant and Reserve Balances	§347.1 (e) (5) (vii)	7
Remaining Life Estimate	§347.1 (e) (5) (viii)	7
List of Crude Oil Fields	§347.1 (e) (5) (ix)	8
Service Life Data Form	§347.1 (e) (5) (x)	8
Estimated Salvage Value	§347.1 (e) (5) (xi)	8

Attachment A--Calculation of Depreciation Rates .....(page 9)

Attachment B--System Map .....(page 10)

Attachment C--Volume Information (Removed for Confidential Treatment, Due to Commercial Sensitivity Concerns) .....(page 11)

**Cottonwood Creek, Inc.**  
**Information supporting proposed oil pipeline depreciation rates**

**SUMMARY OF GENERAL PRINCIPLES**

**§347.1(e)(1)**

*A brief summary relating to the general principles on which the proposed depreciation rates are based.*

Cottonwood Creek Inc. (“Cottonwood Creek”) is requesting approval to use the attached depreciation rates as its book and ratemaking depreciation rates so that depreciation of its pipeline assets is reflective of the remaining life of the pipeline system. Cottonwood Creek is requesting approval to use the proposed depreciation rates as of January 1, 2011, the date that Cottonwood Creek became subject to file FERC Form 6 and Form 6Q.

These proposed depreciation rates give consideration to both physical and economic factors. For long-lived assets, remaining lives were determined based on economic factors. For short-to-medium-lived assets such as vehicles, determinations of physical lives of assets are based upon analyses of the types of assets and the physical lives generally accepted by FERC for assets of similar oil pipelines. A detailed explanation of the remaining lives of Cottonwood Creek’s crude oil pipeline assets is discussed in response to §347.1(e)(4).

**PIPELINE OVERVIEW**

**§347.1(e)(2)**

*An explanation of the organization, ownership, and operation of the pipeline.*

Cottonwood Creek is a wholly-owned subsidiary of Independent Trading and Transportation Company I, L.L.C. (“ITT”), which is 100% owned by of Hiland Partners, LP (“Hiland”), an Oklahoma midstream energy limited partnership.

On May 7, 2010, effective April 1, 2010, Hiland entered into a contribution agreement with the owners (the “Sellers”) of ITT - the sole owner of Cottonwood Creek - whereby the Sellers contributed all of their equity interests of ITT in exchange for Hiland limited partner common units.

At the time of the contribution agreement, Cottonwood Creek’s principal asset was a crude oil gathering and storage system located in the Big Horn Basin in Big Horn and Washakie Counties in central Wyoming. The Cottonwood crude oil gathering system consists of 77 miles of crude oil gathering pipelines and 50,000 Bbls of crude oil storage. Crude oil gathered in Wyoming is delivered to Red Butte Pipeline Company, River Dome Station in Washakie County, Wyoming for further interstate transportation and delivery to either Silver Tip, Montana or to Platte Pipe Line Company for delivery points in Nebraska, Missouri and Illinois. As of December 31, 2010, 104 receipt points were connected to the Cottonwood Creek gathering system. The wells behind the receipt points primarily produce Wyoming asphaltic sour crude oil.

**Cottonwood Creek, Inc.**  
**Information supporting proposed oil pipeline depreciation rates**

**PROPOSED DEPRECIATION RATES**

**§347.1(e)(3)**

***A table of the proposed depreciation rates by account.***

In 2002, Cottonwood Creek purchased a crude oil gathering pipeline system in the amount of \$300,000.00, which had been originally constructed in the 1940's. The \$300,000.00 cost recorded by Cottonwood Creek was fully depreciated as of December 31, 2010. The historical costs to construct this crude oil pipeline system are not available. For the purpose of this depreciation study, Cottonwood Creek requests that the \$300,000.00 be recorded in FERC Account 103 (Line Pipe), which will not affect the net book value of any FERC account as the asset has been fully depreciated.

Beginning in 2002, Cottonwood Creek has added various assets to its crude oil pipeline system. For assets constructed subsequent to 2002, Cottonwood Creek requests to use the same set of property and depreciation records for FERC Form No.6 reporting purposes and for ratemaking purposes. Cottonwood Creek requests to use these rates effective January 1, 2011. The proposed depreciation rates are listed in the following table.

These rates will be utilized for subsequent additions of property. Cottonwood Creek has not recorded assets in some of the accounts shown below, nor has immediate plans to purchase or add assets that would be recorded in some of these accounts. Cottonwood Creek seeks approval of depreciation rates for these assets categories in the event that assets are subsequently added in these categories.

**Depreciation Rates (based on original costs)**

Please see Attachment A for development of the proposed depreciation rates.

<b>Account #</b>	<b>Account Name</b>	<b>Proposed Depr. Rate</b>
102	Right of Way	9.09%
103	Line Pipe	9.09%
104	Line Pipe Fittings	9.09%
105	Pipeline Construction	9.09%
108	Pumping Equipment	4.90%
111	Oil Tanks	5.06%
112	Delivery Facilities	5.06%

**Cottonwood Creek, Inc.****Information supporting proposed oil pipeline depreciation rates****Depreciation Rates (Cont'd)**

<b>Account #</b>	<b>Account Name</b>	<b>Proposed Depr. Rate</b>
152	Right of Way	5.06%
153	Line Pipe	5.06%
154	Line Pipe Fittings	9.09%
155	Pipeline Construction	5.06%
158	Pumping Equipment	4.90%
161	Oil Tanks	5.06%
162	Delivery Facilities	5.06%
176	Building	9.09%
179	Machine Tools and Machinery	9.62%
184	Office Furniture and Equipment	20.00%
185	Vehicles and Other Work Equipment	8.42%
186	Other Property	4.99%

**AVERAGE REMAINING LIFE****§347.1(e)(4)*****An explanation of the average remaining life on a physical basis and on an economic basis.***

Volumes transported on Cottonwood Creek's crude oil pipeline system are derived from shipper crude oil reserves in the Red River fields of the Big Horn Basin in Wyoming. The economic life of the Cottonwood Creek pipeline system is wholly dependent upon proved crude oil reserves in the Red River fields which, based on a producer's independent study of proved crude oil reserves, is estimated to contain eleven years of crude oil reserves as of December 31, 2010. As of January 1, 2011, we believe Cottonwood Creek will have access to sufficient supplies of crude oil to economically operate this pipeline system for at least eleven years. The remaining life of eleven years is also applicable for all long-lived crude oil pipeline assets in the Cottonwood Creek pipeline system.

For short-to-medium-lived assets, the remaining lives of the assets depend upon their physical lives. The determinations of various physical lives of gathering assets are based upon analyses of the types of assets and the physical lives generally accepted by FERC for similar assets of crude oil pipelines. Cottonwood Creek estimates the physical lives of vehicles and other miscellaneous equipment to be five years.

**SYSTEM MAPS****§347.1(e)(5)(i)**

***Up-to-date engineering maps of the pipeline including the location of all gathering facilities, trunkline facilities, terminals, interconnections with other pipeline systems, and interconnections with refineries/plants. Maps must indicate the direction of flow.***

Please see attachment B.

**Cottonwood Creek, Inc.****Information supporting proposed oil pipeline depreciation rates****SUMMARY OF OPERATIONS****§347.1 (e) (5) (ii)**

*A brief description of the carrier's operations and an estimate of any major near-term additions or retirements including the estimated costs, location, reason, and probable year of transaction.*

For a description of Cottonwood Creek's operations, please refer to information provided in response to §347.1 (e) (2).

No major near-term additions or retirements are currently anticipated by Cottonwood Creek for this crude oil pipeline system.

**CURRENT DEPRECIATIONS RATES****§347.1 (e) (5) (iii)**

*The present depreciation rates being used by account.*

Prior to January 1, 2011, Cottonwood Creek was only required to file the short FERC Forms 6. The depreciation rates presented below are the depreciation rates used by Cottonwood Creek to determine depreciation expense for FERC short Form 6 reporting purposes.

<b>Account #</b>	<b>Account Name</b>	<b>Current Depreciation Rate</b>
102	Right of Way	N/A
103	Line Pipe	N/A
104	Line Pipe Fittings	N/A
105	Pipeline Construction	N/A
108	Pumping Equipment	15.52%
111	Oil Tanks	15.45%
112	Delivery Facilities	15.45%
152	Right of Way	15.45%
153	Line Pipe	15.45%
154	Line Pipe Fittings	N/A
155	Pipeline Construction	15.45%
158	Pumping Equipment	15.52%
161	Oil Tanks	15.45%
162	Delivery Facilities	15.45%
176	Building	N/A
179	Machine Tools and Machinery	15.78%
184	Office Furniture and Equipment	N/A
185	Vehicles and Other Work Equipment	17.71%
186	Other Property	15.48%



**Cottonwood Creek, Inc.**

**Information supporting proposed oil pipeline depreciation rates**

**VOLUME INFORMATION**

**§347.1 (e) (5) (iv) and (vi)**

*For the most current year available and for the two prior years, a breakdown of the throughput (by type of product, if applicable) received with source (e.g. name of well, pipeline company) at each receipt point and throughput delivered at each delivery point. A list of shipments and their associated receipt points, delivery points, and volumes (in barrels) by type of product (where applicable) for the most current year.*

**This information is confidential in accordance with Section 15 (13) of the Interstate Commerce Act, and is correspondingly not included in the public version of this document.**

**Cottonwood Creek, Inc.****Information supporting proposed oil pipeline depreciation rates****CAPACITY INFORMATION****§347.1 (e) (5) (v)**

*The daily average capacity (in barrels per day) and the actual average capacity (in barrels per day) for the most current year, by line section.*

Cottonwood Creek's crude oil gathering pipeline system consists of 77 miles of crude oil gathering pipelines with 28,000 Bbl/d throughput capacity, 50,000 Bbls of crude oil storage and one truck unloading station. During the year ended December 31, 2010, the Cottonwood Creek crude oil pipeline system gathered approximately 1,721 Bbls/d.

**PLANT AND RESERVE BALANCES****§347.1 (e) (5) (vii)**

*For each primary carrier account, the latest month's book balances for gross plant and for accumulated reserve for depreciation.*

Account #	Account Name	Costs	End A/Depr.	NBV
103	Line Pipe	\$ 300,000.00	\$ 300,000.00	\$ -
108	Pumping Equipment	\$ 24,157.83	\$ 11,124.23	\$ 13,033.60
111	Oil Tanks	\$ 24,067.69	\$ 10,677.86	\$ 13,389.83
112	Delivery Facilities	\$ 8,076.52	\$ 3,583.22	\$ 4,493.29
152	Right of Way	\$ 9,300.00	\$ 4,126.03	\$ 5,173.97
153	Line Pipe	\$ 123,111.87	\$ 54,619.76	\$ 68,492.11
155	Pipeline Construction	\$ 361,109.04	\$ 160,209.49	\$ 200,899.55
158	Pumping Equipment	\$ 8,052.61	\$ 3,708.08	\$ 4,344.53
161	Oil Tanks	\$ 8,022.56	\$ 3,559.29	\$ 4,463.28
162	Delivery Facilities	\$ 2,692.17	\$ 1,194.41	\$ 1,497.76
179	Machine Tools and Machinery	\$ 655.18	\$ 340.17	\$ 315.01
185	Vehicles and Other Work Equipment	\$ 32,797.45	\$ 18,989.88	\$ 13,807.57
186	Other Property	\$ 8,440.40	\$ 3,807.90	\$ 4,632.50
	<b>Total</b>	<b>\$ 910,483.32</b>	<b>\$ 575,940.33</b>	<b>\$ 334,542.99</b>

**REMAINING LIFE ESTIMATE****§347.1 (e) (5) (viii)**

*An estimate of the remaining life of the system (both gathering and trunk lines) including the basis for the estimate.*

For an estimate of remaining life of the system, please refer to information provided in response to §347.1 (e) (4).

**Cottonwood Creek, Inc.**

**Information supporting proposed oil pipeline depreciation rates**

**LIST OF CRUDE OIL FIELDS**

**§347.1 (e) (5) (ix)**

*For crude oil, a list of the fields or areas from which crude oil is obtained.*

The wells behind the receipt points in the Cottonwood Creek crude oil gathering system are located in the Big Horn Basin in Big Horn and Washakie Counties in central Wyoming and primarily produce Wyoming asphaltic sour crude oil.

**SERVICE LIFE DATA FORM**

**§347.1 (e) (5) (x)**

*If the proposed depreciation rate adjustment is based on the remaining physical life of the properties, a complete, or updated, if applicable, Service Life Data Form (FERC Form No. 73) through the most current year.*

As the proposed depreciation rates are based primarily on economic lives, updated Service Life Data Form (FERC Form No. 73) is not required.

**ESTIMATED SALVAGE VALUE**

**§347.1 (e) (5) (xi)**

*Estimated salvage value of properties by account.*

Given the potential for future removal and/ or remediation costs associated with the retirement of the pipeline system, Cottonwood Creek assumes no salvage value.

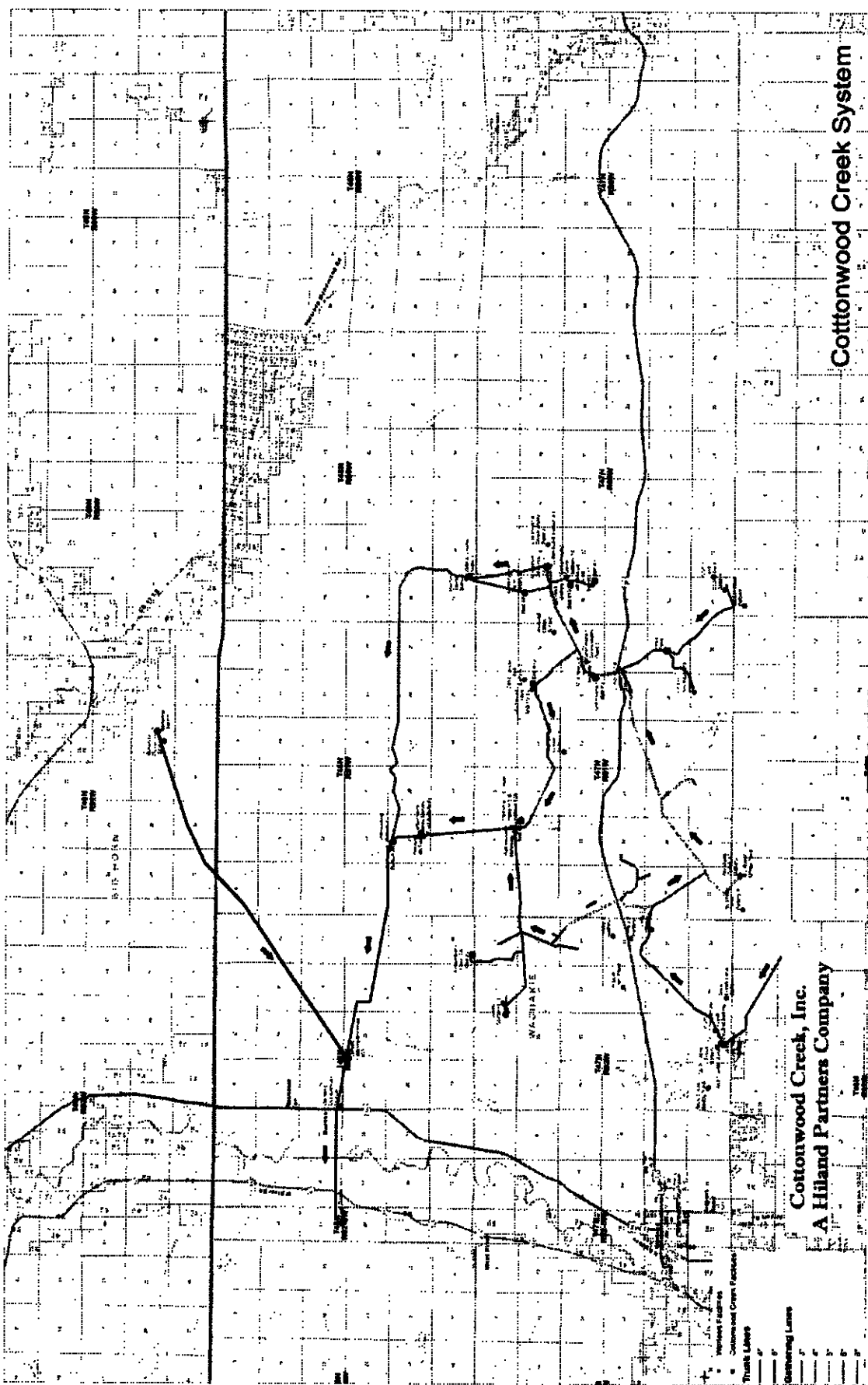
**Cottonwood Creek, Inc.**  
**Information supporting proposed oil pipeline depreciation rates**

**ATTACHMENT A - CALCULATION OF DEPRECIATION RATES**

**As of January 1, 2011**

Account #	Account Name	Costs	End A/Depr.	NBV	Remaining Life	Required Depr. Expenses	Proposed Depr. Rate
		(a)	(b)	(c) = (a) - (b)	(d)	(e) = (c) / (d)	(f) = (e) / (a) If NBV = 0, (f) = 1/(d)
102	Right of Way	\$ -	\$ -		11	\$ -	9.09%
103	Line Pipe	\$ 300,000.00	\$ 300,000.00	\$ -	11	\$ -	9.09%
104	Line Pipe Fittings	\$ -	\$ -	\$ -	11	\$ -	9.09%
105	Pipeline Construction	\$ -	\$ -		11	\$ -	9.09%
108	Pumping Equipment	\$ 24,157.83	\$ 11,124.23	\$ 13,033.60	11	\$ 1,184.87	4.90%
111	Oil Tanks	\$ 24,067.69	\$ 10,677.86	\$ 13,389.83	11	\$ 1,217.26	5.06%
112	Delivery Facilities	\$ 8,076.52	\$ 3,583.22	\$ 4,493.29	11	\$ 408.48	5.06%
152	Right of Way	\$ 9,300.00	\$ 4,126.03	\$ 5,173.97	11	\$ 470.36	5.06%
153	Line Pipe	\$ 123,111.87	\$ 54,619.76	\$ 68,492.11	11	\$ 6,226.56	5.06%
154	Line Pipe Fittings	\$ -	\$ -	\$ -	11	\$ -	9.09%
155	Pipeline Construction	\$ 361,109.04	\$ 160,209.49	\$ 200,899.55	11	\$ 18,263.60	5.06%
158	Pumping Equipment	\$ 8,052.61	\$ 3,708.08	\$ 4,344.53	11	\$ 394.96	4.90%
161	Oil Tanks	\$ 8,022.56	\$ 3,559.29	\$ 4,463.28	11	\$ 405.75	5.06%
162	Delivery Facilities	\$ 2,692.17	\$ 1,194.41	\$ 1,497.76	11	\$ 136.16	5.06%
176	Building	\$ -	\$ -	\$ -	11	\$ -	9.09%
179	Machine Tools and Machinery	\$ 655.18	\$ 340.17	\$ 315.01	5	\$ 63.00	9.62%
184	Office Furniture and Equipment	\$ -	\$ -	\$ -	5	\$ -	20.00%
185	Vehicles and Other Work Equipment	\$ 32,797.45	\$ 18,989.88	\$ 13,807.57	5	\$ 2,761.51	8.42%
186	Other Property	\$ 8,440.40	\$ 3,807.90	\$ 4,632.50	11	\$ 421.14	4.99%
	<b>Total</b>	<b>\$ 910,483.32</b>	<b>\$ 575,940.33</b>	<b>\$ 334,542.99</b>			

# ATTACHMENT B - SYSTEM MAP



**Cottonwood Creek, Inc.**

**Information supporting proposed oil pipeline depreciation rates**

**ATTACHMENT C - VOLUME INFORMATION**

**This information is confidential in accordance with Section 15 (13) of the Interstate Commerce Act, and is correspondingly not included in the public version of this document.**

## LARGE-FORMAT IMAGES

One or more large-format images (over 8 ½" x 11") go here.  
These images are available in e-Library at:

Accession Number(s) 2012 0104-0209

<b>PUBLIC</b>	<b>CEI</b>	<b>PRIVILEGED</b>
---------------	------------	-------------------

File Date 1-4-12

Docket No. D012-3-000

Parent Accession No.

2012 0104-0208

Number of page (s) in set: 3

Document Content(s)

12858776.tif.....1-15