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**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

HollyFrontier Refining & Marketing LLC)
)
v.)
)
Osage Pipe Line Company, LLC)

Docket No. OR12-21-000

**ANSWER OF OSAGE PIPE LINE COMPANY, LLC
TO COMPLAINT OF
HOLLYFRONTIER REFINING & MARKETING LLC**

Pursuant to Rule 343.4(a) of the Procedural Rules Applicable to Oil Pipeline proceedings, 18 C.F.R. § 343.4(a), Rules 206 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.206, 385.213, and the Notice of Complaint issued on June 26, 2012, Osage Pipe Line Company (“Osage”) hereby answers the complaint filed by HollyFrontier Refining & Marketing LLC (“HollyFrontier”) on June 25, 2012 (“Complaint”). As explained in greater detail below, HollyFrontier’s Complaint is deficient as a matter of fact and law and should be dismissed by the Commission without further proceedings.

First, HollyFrontier’s Complaint is barred by a throughput and deficiency agreement entered into with Osage under which HollyFrontier’s predecessor not only agreed to pay the rates that are the subject of its Complaint but also agreed to support the rates as “fair and equitable” in any proceeding before the Commission. That agreement was entered into in direct response to the request of HollyFrontier’s predecessor that Osage upgrade its system to transport higher viscosity and greater volumes of crude oil, at substantial additional cost to Osage. Second, the rates at issue in the Complaint are entitled to grandfathered protection under the Energy Policy Act of 1992 (“EPAAct”), 42 U.S.C. § 13201, *et seq.* (2011), and HollyFrontier fails to satisfy the

threshold test established by the Commission for challenging grandfathered rates. Most significantly, its analysis ignores relevant and publicly available data regarding the economic basis for the rates and uses unreliable information regarding the economic circumstances when the EPCRA was enacted. When the analysis is properly performed and changes in the return on owners equity examined, it is clear that there has been no substantial change in economic circumstances that would justify an investigation of the rates. In addition, HollyFrontier has failed to show that there has been a substantial change in the nature of the services provided by Osage. Osage has always transported crude oil and it continues to do so today. Third, HollyFrontier does not even attempt to make the proper showing that Osage is not entitled to the indexed-based rate increases it challenges. It makes no showing that the cumulative index increases above the grandfathered rate substantially diverge from the actual cost increases experienced by Osage or that indexing has substantially increased Osage's return. When the proper analysis is performed, it is clear that Osage's cost increases have exceeded its indexed rate increases during the relevant period and its return on equity has actually declined under indexing. Thus, its indexed rate increases are justified.

BACKGROUND AND INTRODUCTION

Osage is a common carrier interstate oil pipeline that delivers crude oil from Cushing, Oklahoma to El Dorado, Kansas. It is owned 50 percent by Magellan OLP, L.P. and 50 percent by National Cooperative Refinery Association. Osage is operated by Magellan Pipeline Company, L.P., an affiliate of Magellan OLP, L.P. All interstate transportation on Osage is pursuant to F.E.R.C. No. 16.2.0. F.E.R.C. No. 16.2.0 contains four rates, provided for in Items 200, 201, 202, and 203. Each item corresponds to crude oil of a different viscosity, with the

relative viscosity and the transportation rate increasing from Item 200 to Item 203 to reflect the higher incremental costs of transporting higher viscosity crude oil.

At the time of EPAct enactment, and for 365 days preceding enactment, the Osage rate in effect was set forth in F.E.R.C. No. 10, which was made effective in 1981. F.E.R.C. No. 10 was filed by Osage's predecessor, Osage Pipe Line Company ("OPLC"). That tariff provided for transportation from Cushing, Oklahoma to Augusta and El Dorado, Kansas at a rate of 17.8 cents per barrel. The specifications under F.E.R.C. No. 10 required that the crude oil tendered have a viscosity of "not more than 325 seconds Saybolt Universal at 60 degrees (60°) Fahrenheit." The OPLC and Osage FERC tariffs contained this same crude oil specification as set forth in F.E.R.C. No. 10 until 2007, when Osage filed F.E.R.C. No. 7.

As Mr. Shawn Barker, Director of Transportation Marketing & Development for Magellan Midstream Partners, L.P., explains, Osage filed F.E.R.C. No. 7 in 2007 directly in response to a request by Frontier Oil and Refining Company ("Frontier"), a predecessor of HollyFrontier.² See Affidavit of Shawn Barker attached hereto as Exhibit 2 at P 9 ("Barker Aff."). In conjunction with a planned refinery expansion, Frontier wanted to move higher viscosity and greater volumes of crude oil on Osage. *Id.* at P 4. It asked Osage to upgrade its system to add pumping capacity and make other system modifications in order to move the heavier crude oil and increased volumes. *Id.* at P 7, Attachments A & D. It thus requested Osage to transport crude oil of higher viscosity than 325 seconds Saybolt Universal at 60 degrees Fahrenheit. Osage agreed to Frontier's request provided Frontier agreed to compensate Osage for the costs it incurred in upgrading its system and moving the heavier oil and increased volumes. *Id.* at PP 9, 11, Attachments A-D.

² Frontier Oil Corporation, the parent of Frontier, merged with Holly Corporation in 2011, creating HollyFrontier. See Complaint at P 20 & Exhibit C; see also Exhibit No. 1 attached hereto.

To accommodate Frontier's request, Osage revised the crude oil specifications under which it would offer transportation service and implemented what was, in effect, a viscosity surcharge for moving heavier crude oil. This was reflected in F.E.R.C. No. 7, in which Osage established Items 200 through 203. Under Item 200, Osage would continue to move the lower viscosity crude oil it had been moving all along at the unchanged rate of 21.26 cents per barrel but with an upward viscosity limit of 20 centistokes at 60° F. All crude oil that could move under Item 200 also could have moved under F.E.R.C. No. 10 and its predecessor Osage and OPLC tariffs given this specification.³ Item 201 offered transportation of crude oil with a viscosity of between 20 and 100 centistokes at 60° F at a rate of 23.39 cents per barrel. Most volumes transported under Item 201 also could have moved under F.E.R.C. No. 10 or its predecessor tariffs given this specification.⁴ Item 202 offered transportation of crude oil with a viscosity of between 100 and 250 centistokes at 60° F at a rate of 26.47 cents per barrel. Item 203 offered transportation of crude oil with a viscosity of between 250 and 350 centistokes at 60° F at a rate of 27.64 cents per barrel. These crude oil specifications have remained unchanged since F.E.R.C. No. 7 became effective in 2007. The Osage rates in F.E.R.C. No. 7 have been adjusted pursuant to the Commission's oil pipeline index.

Osage filed F.E.R.C. No. 7 with the support of Frontier as an unaffiliated shipper who agreed to the rates. Barker Aff. at P 11, Attachment B. Frontier expressly agreed that "the increased tariff by grade is reasonable compensation for the added expense that Osage will incur including but not limited to increased electricity, flow improver, and maintenance." *See id.* at

³ The "325 seconds Saybolt Universal at 60 degrees Fahrenheit" specification contained in prior Osage and OPLC tariffs is equivalent to 70 centistokes at 60° F. *See* Complaint at PP 12-13 & n.19. Thus, all crude oil that could move under the Item 200 specification of up to 20 centistokes at 60° F also could have moved under the prior Osage and OPLC tariff viscosity specification.

⁴ *See* n.2 *supra*.

Attachment B. In fact, the rates in F.E.R.C. No. 7 were directly based on information provided by Frontier to Osage as to the volumes and crude oil slate that Frontier planned to ship on Osage, as well as on the costs Osage would incur. *Id.* at P 9. Moreover, to support the increased capital investment and expenses, and as a condition of the project, Frontier entered into a Throughput and Deficiency Agreement (“TDA”) with Osage. *Id.* at P 11, Attachment C. The TDA made clear that the changes to Osage’s tariff were being made to accommodate Frontier. It states: “Whereas Frontier desires to ship additional volumes of Crude Petroleum on the Osage system including some types heavier than the current rules and regulations allow which would require certain actions on Osage’s part to accommodate such additional volumes . . . Osage is willing to reactivate the Hardy Pump Station located on the Osage System . . . and to add equipment at that station to inject flow improver into the pipeline.” *Id.* at Attachment C at p. 1. Frontier agreed to a specified volume commitment (*Id.*) and expressly agreed to pay the Osage tariff rates “to correspond with the various weights of the Crude Petroleum being shipped” (*Id.* at Attachment C at P 4) to be set forth in F.E.R.C. No. 7 as “amended, supplemented, and reissued from time to time” (*Id.* at Attachment C at P 3 and Exhibit B thereto).⁵ Further, Frontier agreed that it would support the rates when filed at FERC, signing Exhibit B to the TDA “stating support for the gravity based structure as a non-affiliated shipper.” *Id.* at Attachment C at P 3. Moreover, Frontier expressly agreed that “[d]uring the term of [the] Agreement, if the aforementioned rates are challenged by another party, Frontier will support the Osage tariff as a fair and equitable rate.” *Id.* The term of the TDA began on July 1, 2008 and continues for five years, until July 1, 2013. *Id.* at Attachment C at PP 1, 2.2. Thus, the TDA remains in effect today.

⁵ The Osage tariff in effect at the time the TDA was entered into was F.E.R.C. No. 5. The tariff modifications agreed to in the TDA to accommodate the higher viscosity crude oil were initially filed in F.E.R.C. No. 6, on May 9, 2007 with an effective date of June 1, 2007. However, F.E.R.C. No. 6 was withdrawn on May 24, 2007 to clarify the prorationing policy. F.E.R.C. No. 7 was filed simultaneously with the withdrawal of F.E.R.C. No. 6, on May 24, 2007 with an effective date of June 1, 2007.

Nevertheless, HollyFrontier has now filed its Complaint with the Commission challenging the very rates which it agreed to support as “fair and equitable” and which Osage established to accommodate Frontier and to facilitate Frontier’s business plans. In its Complaint, HollyFrontier challenges the rates contained in Osage’s tariff F.E.R.C. No. 16.2.0 “and all predecessor tariffs, supplements and reissuances.” Complaint at P 1. It alleges that the rates set forth in Items 200, 201, 202, and 203 of F.E.R.C. No. 16.2.0 are unjust and unreasonable on the ground that Osage’s Form No. 6s for 2009, 2010 and 2011 show “over-recovery” and that HollyFrontier has been “overcharged” under Osage’s rates. Complaint at PP 2, 35, 41. HollyFrontier also claims that the rates contained in F.E.R.C. No. 16.2.0 are not entitled to grandfathering protection under the EPAct. Complaint at PP 3, 21-24, 37. With respect to Item 200 in particular, HollyFrontier alleges that if it is entitled to grandfathering protection, it should be de-grandfathered on the ground that there has been a substantial change in the nature of the services provided and in the economic circumstances which were the basis for the rate. Complaint at PP 4, 25-34. Alternately, if Item 200 is found to be grandfathered, HollyFrontier claims that it is only “partially grandfathered” and that indexed-based increases to Item 200 above the grandfathered level are “unjust and unreasonable.” Complaint at P 38. It also claims that Items 201, 202, and 203 were never grandfathered and challenges the indexed-based increases to those rates. Complaint at PP 5, 37-38. HollyFrontier requests that the Commission find that Osage’s rates are unjust and unreasonable, establish just and reasonable rates, and award it reparations under §§ 8, 9, and 16 of the Interstate Commerce Act (“ICA”) “for all amounts in excess of the rates and charges determined to be just and reasonable, commencing two years prior” to the Complaint. Complaint at PP 5, 49, 50.

ARGUMENT

I. The Complaint Is Barred By The TDA Between HollyFrontier and Osage.

HollyFrontier's predecessor, Frontier, agreed in the TDA to support as "fair and reasonable" the rates that it is now challenging in its Complaint. TDA at P 3. HollyFrontier's agreement to support the rates was made in consideration for the considerable costs that Osage has incurred to transport higher viscosity and additional volumes of crude oil at Frontier's request. To allow HollyFrontier to induce such action on Osage's part and to allow HollyFrontier's Complaint to proceed would be inequitable, a violation of its contractual obligations under the TDA, and against the public interest. In addition, HollyFrontier has no entitlement to reparations, which are an equitable remedy, in light of its breach of the express terms of the TDA. Thus, the Commission should enforce HollyFrontier's agreement to support the rates and preclude HollyFrontier's Complaint.

The type of throughput and deficiency agreement entered into by HollyFrontier and Osage is common in the oil pipeline industry. The Commission has an interest in enforcing such agreements between pipelines and shippers. Agreements as to rates and agreements not to challenge those rates for a period of time are common not only in throughput and deficiency agreements but also in agreements to settle litigation that are approved by the Commission. *See, e.g., Enterprise TE Products Pipeline Co.*, 137 FERC ¶ 61,009 (2011); *see also MarkWest Michigan Pipeline Co., L.L.C.*, 126 FERC ¶ 61,300 (2009), *reh'g denied*, 130 FERC ¶ 61,084 (2010), *aff'd sub nom, MarkWest Michigan Pipeline Co., LLC v. FERC*, 646 F.3d 30 (D.C. Cir. 2011). Lack of enforcement would discourage pipelines from entering into such agreements with shippers, whether to settle cases before the Commission or, as is the case here, to accommodate shipper requests for enhanced services or facilities. In *MarkWest Michigan*

Pipeline Co., L.L.C., the Commission compared such rate agreements to settlement rates filed under 18 C.F.R. § 342.4(c) and enforced the rates agreed to by the pipeline and two of its shippers, refusing to allow a tariff filing that was inconsistent with the agreement. 126 FERC ¶ 61,300 at PP 5-9. In so holding, the Commission emphasized that “Opinion No. 561 clearly encourages the setting of rates by agreement.”⁶

Osage made the tariff changes in F.E.R.C. No. 7 upon which HollyFrontier bases its claims specifically in response to a request by Frontier that Osage ship higher viscosity and increased volumes of crude oil. In order to accommodate Frontier’s request, Osage was required to modify its system, which included reactivating an idled pump station and incurring significant incremental costs. Barker Aff. at P 7, Attachments A & D. Before incurring those costs, Osage required the agreement of Frontier to the rates set forth in F.E.R.C. No. 7, as “amended, supplemented, and reissued from time to time,” as well as Frontier’s agreement in Paragraph 3 of the TDA to support those rates during the five-year term of the TDA. *Id.* at P 11, Attachment C. Frontier’s Complaint is a clear violation of Paragraph 3 of the TDA, which should preclude the Complaint.

HollyFrontier’s Complaint also is against sound public policy and the public interest, which should encourage pipelines to respond positively to shipper requests for enhanced service and cooperation between shippers and pipelines generally. If HollyFrontier’s Complaint proceeds and Osage’s rates are de-grandfathered and its index-based increases denied despite HollyFrontier’s agreement to support those very rates, other oil pipelines would be discouraged from enhancing the transportation service they provide to shippers for fear that their rates could

⁶ *Id.* at P 5, citing *Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act of 1992*, FERC Stats. & Regs. ¶ 30,985 at 30,941, 30,947, 30,959 (1993). Here, F.E.R.C. No. 7 was filed under 18 C.F.C. § 342.2(b) with the agreement of a non-affiliated shipper, Frontier. However, it could also have been filed under 18 C.F.R. § 342.4(c) as a settlement rate agreed to by all shippers as Frontier was the only non-owner shipper on Osage.

be unintentionally de-grandfathered based on tariff changes to reflect that enhanced service. Osage never would have agreed to Frontier's request for enhanced service and made the tariff modifications reflected in F.E.R.C. No. 7 if it had any concern that its rate would be de-grandfathered and its index-based rate increases would be denied as a result. Barker Aff. at P 11.

Given HollyFrontier's agreement in Paragraph 3 of the TDA to support as "fair and equitable" the very rates about which it now complains, HollyFrontier comes to this case with unclean hands. The Commission has held that "[r]eparations have traditionally been considered an equitable remedy, and whether they are granted is a matter of [the] Commission's discretion." *See, e.g., SFPP, L.P.*, 86 FERC ¶ 61,022 at 61,112 (1999). Given the facts that the changes in Osage's tariff relied on in the Complaint were made by Osage only at Frontier's request, and that HollyFrontier is by its Complaint reneging on its agreement whereby Osage would recover the costs it incurred in connection with those changes, HollyFrontier is not entitled to the equitable remedy of damages and its Complaint, to the extent it seeks reparations, should be dismissed for this reason, as well.

II. Osage's Rates Are Entitled to Grandfathered Status Under the EPAct.

A. The Underlying Rates Are Grandfathered Under the EPAct.

There is no doubt, and in fact HollyFrontier admits, that the Osage rate set forth in F.E.R.C. No. 10 was grandfathered because it was the rate in effect for 365 days, and not subject to protest or complaint, prior to enactment of EPAct.⁷ Thus, movements under F.E.R.C. No. 7, Item 200, all of which could have moved under F.E.R.C. No. 10, are grandfathered. Items 201 through 203, to the extent they differ from F.E.R.C. No. 10 and Item 200, effectively incorporate surcharges for higher viscosity crude oil. Indeed, in lieu of establishing Items 200 through 203,

⁷ Complaint at P 11.

Osage could have left the indexed grandfathered rate in F.E.R.C. No. 10 in place and simply established surcharges for movements of higher viscosity crude oil, with the exact same practical effect. The Commission has held that a surcharge does not effect the grandfathered status of a rate. *See Santee Distribution Co. v. Dixie Pipeline Co.*, 71 FERC ¶ 61,205 at 61,753-54 (1995), *aff'd on reh'g*, 75 FERC ¶ 61,254 at 61,820 (1996) (“allowing a grandfathered rate to become the subject of a complaint outside the limitations of section 1803(b) merely because a surcharge is added to the rate would defeat the intent of the EAct”). Thus, the rates set forth in Items 201 through 203 are properly viewed as each incorporating the underlying grandfathered rate and a viscosity surcharge on that grandfathered rate and not as new, un-grandfathered rates, as HollyFrontier contends.

B. There Is No Basis For De-Grandfathering the Rates.

Shippers challenging grandfathered rates in a complaint face a heightened requirement compared to shippers challenging non-grandfathered oil pipeline rates. To challenge a grandfathered rate, a shipper must show, under the EAct, either that there has been a “substantial change” after enactment of the EAct “in the nature of the services which were the basis for the rate” or the “economic circumstances of the pipeline that are the basis for the rate.” 42 U.S.C. §§ 1803(b)(1)(a) and (b). HollyFrontier’s Complaint fails to meet this standard.

1. There is No Substantial Change in the Nature of the Service.

Contrary to Holly Frontier’s allegations, there is no substantial change in the nature of the service provided by Osage. Osage is continuing to provide the same service as it has always provided – transportation of crude oil from Cushing to El Dorado. Barker Aff. at P 10. No change to this service has been made except to redefine the specifications for the crude oil

transported by Osage. The tariff changes made in 2007 and reflected in F.E.R.C. No. 7 only adjusted the crude oil specifications; they did not provide for transportation of a new commodity. *Id.* After 2007, Osage continued to provide for transportation of crude oil, including crude oil of higher viscosity. *Id.*

Viscosity describes a fluid's internal resistance to flow and may be thought of as a measure of fluid friction. The higher the viscosity of crude oil, the more difficult and expensive it is to pump and the higher the incremental costs of transporting it. *Id.* at P 5. Crude oils of varying viscosity are reasonable substitutes for each other. For example, shippers routinely blend various grades of crude oil together at Cushing prior to shipping on Osage in order to transport the crude at lower rates. *Id.* at P 10.

A change in viscosity specifications is not a substantial change to the nature of the service provided by Osage. No one would assert that a mere change in product specifications to reflect a change in sulfur content, aromatics or RVP pressure should be sufficient to remove the EPAct grandfathering protections. In *Santee Distribution Co. v. Dixie Pipeline Co.*, the Commission held that the addition of an odorization surcharge did not de-grandfather the rate. *See* 71 FERC ¶ 61,205 at 61,753-54. Similarly, neither should a specification change that merely adjusts the viscosity of crude oil and imposes a surcharge commensurate with the incremental costs of transporting the higher viscosity crude oil de-grandfather the pipeline's underlying rate.

HollyFrontier cites *SFPP, L.P.*, 86 FERC ¶ 61,022 at 61,063 (2000), in support of its argument that the establishment of Items 200 through 203 in F.E.R.C. No. 7 resulted in a substantial change in the nature of the services provided by Osage. However, Osage's agreement to transport higher viscosity crude oil at Frontier's request is highly distinguishable from the facts of *SFPP*. In *SFPP*, the pipeline was moving motor gasoline for one set of end-users and

subsequently started moving jet fuel for another set of end-users. Thus, the pipeline did not simply modify the specifications with respect to a commodity it already was transporting in order to accommodate an existing shipper's request. Instead, it began transporting a completely new commodity for a new set of end-users. The jet fuel moved by *SFPP* served a new market (airports) not previously served by motor gasoline. It is beyond dispute that motor gasoline and jet fuel are not substitutes. Here, both before and after the establishment of Items 200 through 203, Osage served the same exact end-user market (refineries). As noted above, crude oils of varying viscosity are reasonable substitutes for each other and various grades of crude oil are routinely blended together by shippers and shipped as a blend. Barker Aff. at P 10. This is in striking contrast to gasoline and jet fuel, which are never blended. Thus, *SFPP* provides no basis for de-grandfathering Osage's rates.

2. There is No Substantial Change in the Economic Circumstances That Were the Basis For the Rate.

The Commission's formula for determining whether there has been a substantial change in economic circumstances is set forth in *Tesoro Refining and Marketing Co. v. Calnev Pipe Line LLC*, 134 FERC ¶ 61,214 (2011) ("*Calnev*"). Under that formula, the Commission first determines the return embedded in the grandfathered portion of the rate at the time the rate was established, which is the base rate for the base period, referred to as the A period. It then determines the return generated by the challenged rate at the time EPAct became effective, or a reasonably approximate time frame, generally the return for the calendar year 1992, which is the B period. The third determination is the return as of the date of the complaint, or some reasonable approximation of that time frame. This is known as the return for the C period. *Id.* at P 17. Once the return for each period is determined, the formula for calculating the change is the

return for the C period, minus the return for the B period, divided by the A period, or (C-B)/A. *Id.* at P 18. Under this (C-B)/A formula, in order to find substantially changed circumstances, “there must be a positive change in return after the date of EPAct. In other words, if the C-B calculation is negative; there is no need for further analysis because there is no increase in return after the effective date of EPAct.” *Id.*

The Commission in *Calnev* also held that a complainant challenging a grandfathered rate must, as a threshold matter, show a positive change in return of at least 25 percent. *Id.* at P 61. If that threshold is met, the Commission then will consider whether the change is “substantial.” *Id.* at PP 61-62. Thus, a change of return of 25 percent or greater is not conclusive evidence of a substantial change in economic circumstances. In such a case, the Commission then considers whether the change in return represents “a consistent and sustainable increase.” *Id.* at P 61. In so doing, it also considers “whether the test year reflects an unrepresentative short term or anomalous change in return.” *Id.* For example, the Commission found, “[a]n unrepresentative change could occur because of minor changes in the balance sheet or capital structure, a spike in expenses or revenues, non-recurring revenue from payments for an accidental loss, or a one time sale or other gain or loss.” *Id.*

In *Calnev*, the Commission further clarified that the return to be measured in the substantial change formula is the rate of return on equity. *Id.* at P 37. In doing so, the Commission relied on the following discussion from the D.C Circuit Court of Appeals’ decision in *ExxonMobil Oil Corp. v. FERC*, 487 F.3d 945 at 959-60 (D.C. Cir. 2007), which states:

The grandfathering provision of § 1803 is intended to insulate pre-existing rates from attack by ordaining them to be necessarily “just and reasonable.” The most natural understanding of § 1803 is that Congress believed that the then-existing rates of return were not so large as to justify the added litigation costs of subjecting the rates to agency evaluation and

judicial review. This inference comports with the streamlining goals of § 1801 and § 1802. It makes good sense, then, to de-grandfather rates only when the rate of return itself has changed. It is unclear why Congress would care if the underlying composition of a pipeline's costs has changed so long as the pipeline's rate of return has remained constant or decreased.

The Commission rejected broader measures of change that had been proposed, including comparing a change in ratio of total revenues to total expenses, which it found deficient because it only indicates the direction of a change in return and “does not measure with any precision a change in subsequent returns against the return embedded in the grandfathered rate.” *Calnev*, 134 FERC ¶ 61,214 at P 51. Thus, the Commission held, the change in equity return must be examined to determine if a substantial change in economic circumstances has occurred. *Id.* at PP 48, 53 (“the appropriate method to determine whether there are substantially changed circumstances is to measure the change in the rate of return on equity from that embedded in the grandfathered rate”); *see also* Affidavit of Robert G. Van Hoecke at P 12 (“Van Hoeke Aff.”). Thus, HollyFrontier must demonstrate that the return on equity associated with Osage’s current rates exceeds the greater of (i) the return on equity associated with the rate at the time EPAct was enacted and (ii) the return on equity embedded in the grandfathered rate, by at least a 25 percent threshold.⁸

In support of its argument that Osage experienced a substantial change in economic circumstances after passage of EPAct, HollyFrontier relies on the Affidavit of Dr. Daniel Arthur (“Arthur Aff.”).⁹ However, Dr. Arthur admits that in his analysis he does not consider any data relating to the economic circumstances of Osage’s F.E.R.C. No. 10, which established the

⁸ See Van Hoecke Aff. at P 14 & n.24.

⁹ See Complaint at Exhibit D.

grandfathered rate (period A).¹⁰ Thus, he fails to consider the economic circumstances that were the basis for the rate. *See Van Hoecke Aff.* at PP 8, 19. In addition, he fails to develop any reliable information for the economic basis associated with the period commensurate with EAct enactment (period B). Instead, to create the period B economic circumstances on which he relies, Dr. Arthur combines elements of cost data from four separate periods (1991, 1993, 2000 and 2011) to develop a purported cost-of-service for 1991.¹¹ Further, he fails to explain why he is examining purported costs from 1991. EAct was enacted on October 24, 1992. The closest Form 6 information relative to the equity return achieved on the date of enactment would be for the 1992 calendar year.¹² As HollyFrontier recognizes in its Complaint, the Commission in *Calnev* found that “the return generated by the challenged rate at the time EAct became effective.... is the return for the calendar year 1992, which is called the B period.”¹³ Osage retained Mr. Robert G. Van Hoecke of REG, LLC to review Dr. Arthur’s analysis and independently evaluate whether there has been a change in the economic circumstances underlying Osage’s rates.¹⁴ As Mr. Van Hoecke shows, had Dr. Arthur considered information readily available in Osage’s Form 6 reports, he would have concluded that Osage’s return on equity has remained fairly consistent with the actual equity return observed during the EAct

¹⁰ Arthur Aff. at P 21.

¹¹ *See Van Hoecke Aff.* at P 19; Arthur Aff. at PP 27-30 and Table 5.

¹² *See Van Hoecke Aff.* at P 19. The 1992 calendar year covers ten months prior to and two month past the EAct enactment. The 1991 calendar year includes cost data ranging as far as 22 months ahead of the EAct enactment and contains no cost data concurrent with the date of enactment. *Id.* The EAct grandfathered rates that had been in effect for 365 days prior to its October 24, 1992 enactment absent a complaint or protest. However, it requires the economic change must be measured from the date of enactment, not 22 months preceding the date of enactment as Dr. Arthur has proposed. *Id.* at n.33.

¹³ Complaint at P 29, *citing Calnev* at P 17 (emphasis added).

¹⁴ Mr. Van Hoecke also has analyzed and responded to Dr. Arthur’s and HollyFrontier’s challenge to Osage’s indexed-based rate increases, as discussed in Section III below.

period and, thus, that there has been no substantial change in economic circumstances. Van Hoecke Aff. at P 8.

The most accurate method to quantify any change in the equity return is to examine Osage's balance sheet and income statements for the relevant periods, as filed with the Commission in Osage's Form 6 Annual Reports. *Id.* at PP 11, 15-8. As Mr. Van Hoecke explains, reliance on the balance sheet and income statements eliminates, or at least greatly reduces, the debate regarding proposed shipper adjustments to the carrier's cost-of-service. It also eliminates the problem of shippers combining cost data for four separate periods, as Dr. Arthur does, to develop a cost-of-service. It is a direct means to evaluate the equity return embedded in a rate. *Id.* at P 16. As noted above, the goal of the substantial change analysis is not to set just and reasonable rates but to measure the change in return associated with the equity investors' capital relative to historic returns achieved under the grandfathered rates. *Id.*¹⁵ Based on this analysis, when all the relevant periods are considered, Mr. Van Hoecke shows that Osage's return on equity has not substantially changed relative to its EPAct period economic circumstances (*i.e.*, period B). *Id.* at P 11. In fact, it has decreased. *Id.* at Tables 1 & 2.

Table 1 in Mr. Van Hoecke's affidavit presents the equity return for the A, B and C periods based on the after-tax basis using the stockholders' equity in the 2011 Form 6 balance sheet. In Table 1, Mr. Van Hoecke computes the relative change in economic circumstances using the (C-B)/B formula presented by Dr. Arthur and the (C-B)/A formula endorsed by the

¹⁵ In addition, many carriers, like Osage, have grandfathered rates that were set prior to June 1985 when the Commission first issued its Trended Original Cost methodology for oil pipelines, Opinion No. 154-B. Van Hoecke Aff. at P 16. The balance sheet approach avoids the dilemma regarding which cost-of-service methodology applies to the various periods, including those that predate Opinion No. 154-B. *Id.*

Commission in *Calnev*.¹⁷ Under the (C-B)/B formula, the change was -37%. Under the (C-B)/A formula, the change was -63%. Thus, Table 1 shows that Osage has not experienced a substantial change in economic circumstances. Indeed, in *Calnev*, the Commission stated that regarding the (C-B)/A calculation: “[T]here must be a positive change in return after the date of EPAct. In other words, if the C-B calculation is negative; there is no need for further analysis because there is no increase in return after the effective date of EPAct.” 134 FERC ¶ 61,214 at P 18. Thus, under *Calnev*, the negative returns shown in Table 1 are conclusive evidence that there has been no substantial change in economic circumstances on Osage.

In Table 2, Mr. Van Hoecke addresses Dr. Arthur’s argument that the parent company capital structure should be imputed to Osage when determining if a substantial change in economic circumstances has occurred.¹⁸ As Mr. Van Hoecke explains, this argument improperly confuses the Commission’s cost-based ratemaking methodology with the evaluation of the change in the pipeline’s equity return when analyzing if a substantial change in economic circumstances has occurred.¹⁹ Nevertheless, Mr. Van Hoecke adjusts the prior analysis shown in Table 1 to reflect a parent company capital structure in 2011. Van Hoecke Aff. at P 26. The results of that analysis are set forth in Table 2. Under the (C-B)/B formula, the change in

¹⁷ Dr. Arthur incorrectly assumes that no data is available for the A period. When considering the return on equity embedded in (or generated by) the grandfathered rate, it is reasonable for the Commission to examine the equity return achieved in the period immediately after the rate is placed into effect. OPLC’s tariff F.E.R.C. No. 10 was issued on August 26, 1981, and became effective on October 1, 1981. Therefore, it is reasonable to examine the 1982 Form 6 balance sheet and income statements to determine the level of achieved return on equity embedded in the grandfathered rate. *See* Van Hoecke Aff. at P 22.

¹⁸ Arthur Aff. at P 18.

¹⁹ As Mr. Van Hoecke points out, Dr. Arthur erroneously assumes that a 50% equity book capital structure results in half of the rate base being funded by equity investors. He does not consider the much equity actually funded the original investment, the impact of deferred (equity) return, or many other issues under his cost-of-service approach. However, the adjusted equity capital structure ratio developed in Opinion No. 154-B is not the same as the book capital structure, which represents how the assets were funded. Moreover, this approach becomes increasingly complicated once one considers that many grandfathered rates were set under valuation, not Opinion No. 154-B. None of these issues are addressed by Dr. Arthur. *See* Van Hoecke Aff. at 20.

economic circumstances was 5%. Under the (C-B)/A methodology, the change was 8%. Thus, Table 2 also shows that Osage has not experienced a substantial change in economic circumstances as the results of both the (C-B)/B formula and the (C-B)/A formula are both considerably below 25%, the minimum threshold established in *Calnev* to further investigate allegations of a substantial change in economic circumstances. *See Calnev*, 134 FERC ¶ 61,214 at PP 60.

In Table 3, Mr. Van Hoecke adjusts the data in Table 1 to exclude the incremental revenues associated with the viscosity surcharges from his analysis, which shows the change in return associated with the indexed grandfathered portion of the rate only. Although the data to perform this analysis was equally available to Dr. Arthur, he included these revenues in his calculations, which ultimately increased the return on equity for the current period and thus appeared to show a larger economic change. Table 3 presents the achieved equity return based on the reported stockholder's equity in the 2011 Form 6 balance sheet, as in Table 1, adjusted to exclude the incremental revenues associated with the viscosity surcharges. As shown, excluding the viscosity surcharges lowers the return on equity for 2011 to 33%, from 39% in Table 1. Van Hoecke Aff. at Tables 1 & 3. Table 4 presents the achieved equity return based on an adjusted 2011 stockholder's equity imputed under the weighted parent company capital structure, as in Table 2, and further adjusted to exclude the incremental revenues associated with the viscosity surcharges as in Table 3. As shown in Table 4, this reduces the 2001 return on equity from 66% in Table 2 to 56% in Table 4. *Id.* at Tables 2 & 4.

Accordingly, when all of the relevant periods are properly considered, Osage's return on equity has not substantially changed relative to its EPAAct economic circumstances. Thus,

HollyFrontier has failed to make the requisite threshold showing that Osage's rates are not entitled to grandfathered protection.

III. HollyFrontier Has Not Satisfied The Commission's Standards for Challenging Osage's Indexed-Based Rate Increases.

The Commission's regulations set forth the standard for a complaint challenging index-based rate increases. Under 18 C.F.R. § 343.2(c)(1), a protest or complaint filed against a rate established pursuant to the Commission's indexing regulations "must allege reasonable grounds for asserting ... that the rate increase is so substantially in excess of the actual cost increases incurred by the carrier that the resulting rate is unjust and unreasonable" *See also BP West Coast Products, LLC v. SFPP, L.P.*, 121 FERC ¶ 61,141 (2007). Dr. Arthur does not perform any analysis regarding the cumulative index change associated with the grandfathered rate, and completely fails to analyze the extent to which Osage's costs have increased relative to its indexed rate increases. Instead, Dr. Arthur merely declares that Osage's revenues exceed its costs and therefore its rates are unjust and unreasonable.²⁰ However, comparing only costs and revenues is not the appropriate test when challenging cumulative index-based increases to a grandfathered rate as it implicates the grandfathered rate, which is inconsistent with the EPAct. *See Van Hoecke Aff.* at P 10. Dr. Arthur makes no showing that the cumulative index increases above the grandfathered rate substantially diverge from the actual cost increases experienced by Osage during the same period, as required. *Id.*

As Mr. Van Hoecke's analysis demonstrates, the cumulative changes in Osage's costs are consistent with the increase in Osage's grandfathered rates associated with indexing and have

²⁰ The Commission has previously dismissed similar challenges to index-based rates that were based only on the claim that the pipeline's revenues exceeded its cost of service. *See, e.g., Tesoro Refining and Marketing Co. v. FERC*, 552 F.3d 868 at 870-71 (D.C. Cir. 2008).

generally mirrored one another. Osage's rate in 1992 was \$0.1780/bbl. The current Item 200 rate is \$0.2647/bbl, which reflects approximately a 48.7% increase in twenty years since EPA Act was enacted.²¹ In contrast, Osage's 1993 cost-of-service was \$5.05 million and its 2011 cost-of-service was \$7.46 million.²² This represents a 47.7% increase in costs in only eighteen years. Further, as the Commission noted in *Calnev*, it "intends its indexing methodology to stabilize returns without the need for frequent and expensive general rate case proceedings." *Calnev*, 134 FERC ¶ 61,214 at P 47. Mr. Van Hoecke's analysis demonstrates that Osage's return on equity has actually decreased since 1992 despite its index-based rate adjustments. *Van Hoecke Aff.* at Tables 1. Thus, the steady level of return and the lack of substantial divergence between the change in Osage's cost and its indexed rates indicate that there is no evidence to support setting the indexed increment above the grandfathered rate for hearing.

DISPUTED FACTUAL ALLEGATIONS

In accordance with Rule 213(c)(2)(i) of the Commission's Rules of Practice and Procedure, 18 C.F.R. S 213(c)(2)(i), Osage responds to the material allegations in, and sets forth its defenses to, the complaint as follows. To the extent the Complaint contains allegations not otherwise addressed below, those allegations are denied.

I. Admissions or Denials

1. Osage has no basis for admitting or denying HollyFrontier's stated reason in Paragraph 1 why its Complaint was filed or the statutes and regulations upon which it bases its Complaint.

²¹ Because the \$0.178/bbl rate was established in 1981, it actually represents a 48.7% increase in the rate in approximately thirty years (1981-2011). This is well below any accepted measure of inflation. *See Van Hoecke Aff.* at P 31 & n.51.

²² *Arthur Aff.* at PP 26, 28.

2. Osage denies the first sentence of Paragraph 2 and HollyFrontier's allegation that Osage's rates are unjust and unreasonable. Osage admits that its Form No. 6, page 700, for 2011, 2010, and 2009 contain the Total Interstate Operating Revenues and Cost-of-Service amounts alleged by HollyFrontier but denies the over-recovery alleged by HollyFrontier.
3. Osage admits that F.E.R.C. No. 16.2.0 offers transportation service for crude oil at varying rates. Osage denies that Item 200 is not entitled to grandfathering protection and denies the remaining allegations in Paragraph 3.
4. The allegations contained in Paragraphs 4 and 5 pertain to the legal theories invoked and relief sought by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
5. Osage has no basis for admitting or denying HollyFrontier's statement in Paragraph 6.
6. Osage admits the first sentence of Paragraph 7, but denies the second sentence of Paragraph 7.
7. Osage admits the allegations in Paragraph 8.
8. Osage admits the allegations in Paragraph 9.
9. Osage admits the allegations in Paragraph 10.
10. The tariffs referred to in Paragraph 11 speak for themselves.
11. Osage admits that on May 24, 2007, it issued F.E.R.C. No. 7, effective June 1, 2007 but denies that F.E.R.C. No. 7 "represented a substantial expansion in the types of crude oil" it would ship, implemented new services, or "redefined and restricted" the service it offered. With respect to the remaining allegations in Paragraph 12, the tariffs referred to speak for themselves.
12. The tariffs referred to in Paragraphs 13 and 14 speak for themselves.

13. Osage admits that “the numerical rate in effect upon enactment of the EPAct 1992 remains in effect,” but denies that Item 200 is not entitled to grandfathering protection and denies the remaining allegations in Paragraph 15.
14. The tariff referred to in Paragraph 16 speaks for itself. Osage denies that Item 201 is not entitled to grandfathering protection. The remainder of Paragraph 16 pertains to legal theories invoked by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
15. The tariff referred to in Paragraph 17 speaks for itself. Osage denies that Item 202 is not entitled to grandfathering protection. The remainder of Paragraph 17 pertains to legal theories invoked by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
16. The tariff referred to in Paragraph 18 speaks for itself. Osage denies that Item 203 is not entitled to grandfathering protection. The remainder of Paragraph 18 pertains to legal theories invoked by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
17. Paragraph 19 pertains to legal theories invoked by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
18. Osage admits the allegations in Paragraphs 20 and 21.
19. The tariffs referred to in Paragraph 22 speak for themselves. Osage denies the allegation in Paragraph 22 that “it created a new rate for a new product.”
20. Osage denies the allegations in Paragraph 23.
21. Paragraphs 24-27 pertain to legal theories invoked by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.

22. Osage admits that its 2011 FERC Form No. 6 shows a Total Cost of Service of \$7,464,671 and Throughput of 54,403,611 barrels and that Item 200 is the lowest rate in Osage's tariff as alleged in Paragraph 28. Osage denies the remaining allegations in Paragraph 28.
23. Paragraphs 29-31 pertain to legal theories invoked by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
24. Paragraph 32 pertains to calculations that HollyFrontier asked Dr. Arthur to perform. No admission or denial of such allegations by Osage would be appropriate.
25. Osage admits that the National Cooperative Refinery Association owns a 50 percent interest in Osage. The remainder of Paragraph 33 pertains to calculations that HollyFrontier asked Dr. Arthur to perform and information HollyFrontier intends to seek in discovery. No admission or denial of such allegations by Osage would be appropriate.
26. The allegations contained in Paragraph 34 pertain to the legal theories invoked and relief sought by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
27. Osage admits that its Form No. 6, page 700, for 2011, 2010, and 2009 contain the Total Interstate Operating Revenues and Cost-of-Service amounts alleged in Paragraph 35. Osage denies the remaining allegations in Paragraph 35.
28. Osage admits the allegation in Paragraph 36 that its pipeline facilities have been in operation since at least 1975. Osage denies that its rate of return on equity "has increased to unjust and unreasonable levels." The remainder of Paragraph 36 pertains to legal theories invoked by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.

29. The allegations contained in Paragraph 37 pertain to the legal theories invoked and relief sought by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.

30. Osage admits the allegation contained in Paragraph 38 that the portion of Item 200 exceeding 17.8 cents is attributable to cumulative annual indexing adjustments. Osage denies that Item 200 is “only partially grandfathered.” The remaining allegations contained in Paragraph 38 pertain to the legal theories invoked and relief sought by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.

31. The allegations contained in Paragraphs 39-40 pertain to the legal theories invoked and relief sought by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.

32. Osage admits the allegation contained in Paragraph 41 that HollyFrontier ships the majority of the crude oil shipped on Osage. Osage denies the remaining allegations in Paragraph 41.

33. Osage has no basis for admitting or denying the impacts on HollyFrontier of Osage’s rates alleged in Paragraph 42.

34. Osage has no basis for admitting or denying whether HollyFrontier knows of any related proceedings as alleged in Paragraph 43.

35. Osage has no basis for admitting or denying where HollyFrontier has stated its claims for relief as alleged in Paragraph 44.

36. Osage has no basis for admitting or denying where HollyFrontier has attached documents supporting its complaint as alleged in Paragraph 45.

37. Osage has no basis for admitting or denying whether HollyFrontier has used the Commission's Enforcement Hotline, Dispute Resolution Service, or other informal dispute resolution procedures, or whether HollyFrontier amenable to participating in settlement judge procedures as alleged in Paragraph 46.
38. Osage admits the allegations in Paragraph 47.
39. Osage has no basis for admitting or denying HollyFrontier's list of exhibits as alleged in Paragraph 48.
40. The allegations contained in Paragraph 49 pertain to the relief sought by HollyFrontier. No admission or denial of such allegations by Osage would be appropriate.
41. Osage denies that its rates are not entitled to grandfathering protection and that they exceed just and reasonable levels as alleged in Paragraph 50. Osage also denies that HollyFrontier is entitled to reparations and denies the remaining allegations in Paragraph 50.

II. Affirmative Defenses

1. HollyFrontier's claims are precluded by the TDA.
2. The Complaint is unsupported by substantial evidence.
3. HollyFrontier fails to state a claim upon which relief can be granted.
4. The Complaint fails to establish any reasonable ground to investigate Osage's rates under the ICA.
5. HollyFrontier has not shown that it is entitled to reparations or damages.
6. HollyFrontier has unclean hands.
7. Osage reserves the right to raise any additional legal or factual defenses that arise during the course of any proceedings instituted by the Commission with respect to the Complaint.

CONCLUSION

For the reasons stated above, the Complaint should be dismissed in its entirety.

Respectfully submitted,

Douglas J. May
James P. Niedermeyer
MAGELLAN MIDSTREAM PARTNERS, L.P.
One Williams Center, MD 28-1
Tulsa, OK 74172

/s/ Lorrie M. Marcil
Lorrie M. Marcil
Christopher M. Lyons
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(202) 736-8000
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ewatkins@sidley.com

Counsel for Osage Pipe Line Company, LLC

Dated: July 16, 2012

EXHIBIT 1

June 15, 2011 Letter from Frontier



FRONTIER OIL & REFINING COMPANY
a Subsidiary of Frontier Refining & Marketing Inc.

4810 S. ULSTER STREET, SUITE 200
DENVER, COLORADO 80237-4322
(303) 714-0100

June 15, 2011

Osage Pipeline Company, LLC
c/o Magellan Pipeline Company, L.P.
Attn: Director, Marketing Services
One Williams Center, MD 720-A
Tulsa, OK 74172

Re: Throughput and Deficiency Agreement, dated April 3, 2007, by and among Frontier Oil and Refining Company and Osage Pipeline Company, LLC (the "Agreement")

To Whom It May Concern:

On February 21, 2011, Frontier Oil Corporation ("Frontier"), the parent of Frontier Oil and Refining Company (the "Company"), entered into an Agreement and Plan of Merger ("Merger Agreement") with Holly Corporation ("Holly") and North Acquisition, Inc., a wholly owned subsidiary of Holly ("Merger Sub"). Under the Merger Agreement, Merger Sub will merge ("Merger") with and into Frontier with Frontier surviving the Merger, and at such time Holly will change its corporate name to HollyFrontier Corporation ("HollyFrontier"). Following consummation of the Merger, and upon obtaining approval of the board of directors of HollyFrontier, the combined entity may reorganize its corporate structure, which could include (1) the merger of Frontier into HollyFrontier, with HollyFrontier surviving such merger, (2) the conversion of the Company from a corporation to a limited liability company and (3) the transfer of ownership interests of the Company to HollyFrontier so that the Company becomes a direct wholly owned subsidiary of HollyFrontier.

Please inform all areas within your company that will be impacted by this change. Our tax department will be in contact with you to coordinate necessary updates to tax documentation and our credit department will be in contact with you, if needed, to update any relevant credit support documents. We will also send additional communications to let you know when the merger closes and to provide our updated contact information for the merged company.

We appreciate and value the relationship and business between our companies and look forward to a smooth transition. If you should have any questions regarding this request, please contact Paige Kester at (303) 714-0151. Please acknowledge receipt of this letter by

OSAGE PIPELINE COMPANY, LLC

June 15, 2011

Page 2 of 2

executing a counterpart of this letter below and returning it by either email at aley@frontieroil-den.com or facsimile to (303)714-0163 Attn: Alice Ley.

FRONTIER OIL AND REFINING COMPANY

By: Jon D. Galvin

Name: Jon D. Galvin

Title: Vice President

ACKNOWLEDGED, CONSENTED
AND AGREED:

OSAGE PIPE LINE COMPANY, LLC

By: Magellan Pipeline Company, L.P., its operator

By: Magellan Pipeline GP, LLC, its general partner

By: Scott Devers

Name: Scott Devers

Title: Director, Crude Oil
Transportation and Storage

Date: 6/23/11



EXHIBIT 2

Affidavit of Shawn Barker

HollyFrontier Refining & Marketing LLC)
)
v.)
)
Osage Pipe Line Company, LLC)

AFFIDAVIT OF SHAWN BARKER

Shawn Barker, being duly sworn, states as follows:

1. My name is Shawn Barker. My business address is One Williams Center, Suite 3100, Tulsa, Oklahoma 74172. Since February 2011, I have held the position of Director of Transportation Marketing & Development for Magellan Midstream Partners, L.P. Osage Pipeline Company, LLC (“Osage”) is owned 50 percent by Magellan OLP, L.P., an affiliate of Magellan Midstream Partners, L.P., and 50 percent by National Cooperative Refinery Association (“NCRA”).
2. Beginning in 2003 and ending when I began in my current position, I was the Director of Marketing Services for Magellan Pipeline Company, L.P., the operator of Osage. In that role, I was the primary contact for Osage’s shippers, including Frontier Oil and Refining Company (“Frontier”), one of the predecessor companies of HollyFrontier Refining & Marketing LLC (“HollyFrontier”). Between May 2008 and December 2010, I also served as one of Magellan OLP, L.P.’s three representatives on the six-person Osage board of directors.
3. I am providing this affidavit in support of Osage’s Answer to the Complaint of HollyFrontier.

4. In 2006, Frontier approached Osage regarding Frontier's upcoming need to ship higher viscosity and increased volumes of crude oil on Osage to feed Frontier's planned refinery expansion of its El Dorado, Kansas refinery by 10,000 to 20,000 barrels per day. Frontier wanted to know whether Osage had the capacity available to handle Frontier's desired volumes and viscosities of crude.

5. Viscosity describes a fluid's internal resistance to flow and may be thought of as a measure of fluid friction. The higher the viscosity of crude oil, the more expensive it is to pump and the higher the incremental costs of transporting it. In addition, the higher the viscosity, the more capacity is required to transport the crude oil.

6. In order to determine if Osage could accommodate Frontier, we asked the Osage shippers to provide estimates of the volumes and crude oil slate they planned to ship in the future. We ran hydraulics on the basis of these estimates and determined that the pipeline could not accommodate Frontier's proposed increases in viscosity and volume without added pumping capacity.

7. To accommodate Frontier's need to ship higher viscosity crude oil and increased volumes, we developed a plan to reactivate one of the two pump station units that had previously been taken out of service at Hardy Station on the Osage system. *See* July 25, 2006 Osage Expansion Project Document attached hereto as Attachment A. The plan included other modifications that would be necessary along with the reactivation, the most significant of which was the installation of new equipment to inject flow improver into the pipeline, thereby negating some of the impact on the flow rate and energy consumption that would result from shipping more viscous crude oil.

8. Once the plan was developed, we estimated how much it would cost to implement. We presented those costs to Frontier and the other shipper along with the incremental costs, primarily for power and flow improver, that would be associated with shipping more viscous crude oil. Frontier and the other shipper agreed to the costs as presented.

9. Osage then calculated the incremental volumes and additional cents per barrel that the shippers would have to pay in order to cover the agreed costs. This calculation was based on the estimated volumes and viscosities that the shippers had previously provided, and a different amount was determined for each of four different classes of crude oil – Light, Medium, Heavy and Super Heavy – as determined by weight. The amount assigned to each class increased proportionately with the incremental cost required to ship it. Frontier asked Osage to make the upgrades and incur the additional costs necessary to meet Frontier's shipping requirements. To induce Osage to do so, Frontier agreed to pay these additional amounts, which were added to the existing grandfathered rate, like a surcharge, and became the basis for the rates filed in F.E.R.C. No. 7. When Osage filed F.E.R.C. No. 7, it was filed with the support of Frontier as a non-affiliated shipper who agreed to the rates as “reasonable compensation for the expense that Osage will incur including but not limited to increased electricity, flow improver, and maintenance.” *See* April 3, 2007 Letter from Frontier attached hereto as Attachment B.

10. By filing F.E.R.C. No. 7, Osage did not change the nature of the transportation service it offered. It simply changed the specifications of the crude oil it could accept in response to a shipper's request. The service Osage has always provided, both before and after filing F.E.R.C. No. 7, is the transportation of crude oil from Cushing, Oklahoma to El Dorado, Kansas. In fact, crude oils of varying viscosity are reasonable substitutes for each other. For example, shippers

routinely blend various grades of crude oil together at Cushing prior to shipping on Osage in order to transport the crude at lower rates.

11. As a condition of Osage's commitment to make the upgrades and incur the additional costs necessary to ship higher viscosity and increased volumes of crude oil, Frontier entered into a Throughput and Deficiency Agreement ("TDA"), attached hereto as Exhibit C, with Osage for a five-year term, beginning July 9, 2008 and ending July 1, 2013. In that agreement, Frontier agreed to pay the rates set forth in F.E.R.C. No. 7, "as amended, supplemented, and reissued from time to time" and expressly agreed to their "gravity based" structure. Attachment C at P 3. Moreover, Frontier expressly agreed that "during the term of the agreement . . . if the rates are challenged by another party, Frontier will support the tariff as a fair and equitable rate." *Id.* Osage never would have agreed to Frontier's request to upgrade its system and incur additional incremental costs without this reciprocal agreement from Frontier, or if Osage had any concern that its rate would be de-grandfathered and its index-based rate increases denied as a result. *See* November 17, 2006 Board of Directors Meeting Minutes at 2, attached hereto as Exhibit D, approving the expenditure for the expansion project subject to Frontier executing the TDA and agreeing not to oppose the tariff modifications.

DECLARATION

State of Oklahoma)
) SS
City of Tulsa)

I, Shawn Barker, hereby declare under penalty of perjury of the laws of the United States that the foregoing document is true and correct to the best of my knowledge and belief. *See* 28 U.S.C. § 1746.

Executed on this 16th day of July, 2012.



Shawn Barker

**ATTACHMENT A
TO EXHIBIT 2**

July 28, 2006 Osage Expansion Project Document

Privileged Information Removed

**ATTACHMENT B
TO EXHIBIT 2**

April 3, 2007 Letter from Frontier



FRONTIER REFINING & MARKETING INC.
and Subsidiaries

4610 S. ULSTER STREET, SUITE 200
DENVER, COLORADO 80237-2633
(303) 714-0100

April 3, 2007

Mr. David Long
Manager, Specialty Marketing
Magellan Midstream Partners, L.P.
P.O. Box 22186, MID 720-A
Tulsa, OK 74121-2186

Dear Mr. Long;

Frontier Oil and Refining Company ("Frontier") intends to use the new service offered by OSAGE PIPE LINE COMPANY, LLC ("Osage"). The new service consists of movements of Crude Petroleum from Cushing, Oklahoma to El Dorado, Kansas at the following tariff rates:

Crude Petroleum Class	SUS/bbl	Viscosity
Light	0.2126	≤ 20 centistokes (cSt)
Medium	0.2339	> 20 cSt and ≤ 100 cSt
Heavy	0.2647	> 100 cSt and ≤ 250 cSt
Super Heavy	0.2764	> 250 cSt and ≤ 350 cSt

The increased tariff by grade is reasonable compensation for the added expense that Osage will incur including but not limited to increased electricity, flow improver, and maintenance.

This rate will be published by Osage in a supplement to or revision of Osage FERC No. 5.

Regards,

Joey Purdy
Vice President, Refinery Supply
Frontier Oil and Refining Company

**ATTACHMENT C
TO EXHIBIT 2**

Throughput & Deficiency Agreement

Privileged Information Removed

**ATTACHMENT D
TO EXHIBIT 2**

November 17, 2006
Board of Directors Meeting Minutes

Privileged Information Removed

EXHIBIT 3

Affidavit of Robert G. Van Hoecke

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

HollyFrontier Refining & Marketing LLC)

v.)

Osage Pipe Line Company, LLC)

Docket No. OR12-21-000

AFFIDAVIT OF ROBERT G. VAN HOECKE

Robert G. Van Hoecke, being duly sworn, states as follows:

I. PURPOSE, GENERAL BACKGROUND, AND SUMMARY OF CONCLUSIONS

1. My name is Robert G. Van Hoecke. I am a Principal with Regulatory Economics Group, LLC ("REG"), a firm specializing in economic, financial, and regulatory consulting for the pipeline industry. My office is at 2325 Dulles Corner Blvd., Ste. 470, Herndon, Virginia 20171-4675. I have approximately 28 years of experience working either directly for or as a consultant to major companies in the pipeline industry. I have prepared testimony regarding the regulation of oil and gas pipelines on numerous occasions before the Federal Energy Regulatory Commission ("FERC" or "Commission"), the Surface Transportation Board, various state regulatory agencies, federal and state courts, and domestic and international arbitration tribunals. A detailed statement of my qualifications is attached hereto as Attachment A.
2. Osage Pipe Line Company, LLC ("Osage") is a common carrier oil pipeline that transports crude oil from Cushing, Oklahoma, to El Dorado, Kansas. At the time of EPAct enactment, and for 365 days preceding enactment, the Osage rate in effect was set forth in F.E.R.C. No. 10, which was filed by Osage's predecessor, Osage Pipe Line

Company (“OPLC”). That tariff provided for transportation from Cushing, Oklahoma to El Dorado, Kansas at a rate of 17.8 cents per barrel effective October 1, 1981 (“Grandfathered Rate”).¹ Congress deemed that rate just and reasonable with the enactment of the Energy Policy Act of 1992 (“EPAct”), 42 U.S.C. § 13201, *et seq.* (2011). Following that time, OPLC regularly changed its rate in accordance with the Commission’s indexing methodology. Effective March 2, 2004 Osage adopted the tariff of OPLC, as reflected in its Adoption Notice filed as Tariff F.E.R.C. No. 1. Osage subsequently made two kinds of changes to its Grandfathered Rate: first, Osage adjusted the rate periodically based on the Commission’s index system that establishes ceiling levels for rates (“Index-based Portion”); second, pursuant to a Throughput and Deficiency Agreement (“TDA”) with Frontier, Osage increased its rate to recover incremental cost associated with Frontier’s request to transport higher viscosity² and increased volumes of crude oil on Osage to feed Frontier’s planned refinery expansion of 10,000 to 20,000 barrels per day.³ This incremental cost (i.e., the viscosity surcharge), which varied based on the viscosity of the crude oil, was added to the indexed

¹ OPLC Tariff No. 10 was initially filed with a September 30, 1981 effective date. However, due to other pending rate proceedings, the Oil Pipeline Board, under its delegated authority, accepted the tariff subject to refund, consolidated the investigation with the pending matter, and imposed a one day suspension. Consequently the rates became effective on October 1, 1981. Subsequently the Commission terminated the consolidated proceeding on December 21, 1982. *See Seaway Pipeline Inc.*, 16 FERC ¶ 62,547 (1981); *Petrofina Pipe Line Co.*, 21 FERC ¶ 61,314 (1982).

² Viscosity describes a fluid’s internal resistance to flow and may be thought of as a measure of fluid friction. The higher the viscosity of crude oil, the more difficult and expensive it is to pump and the higher the incremental costs of transporting it. In addition, the higher the viscosity, the more capacity is required to transport the crude oil. Affidavit of Shawn Barker at P 5, Exhibit 2 to Answer of Osage Pipe Line Company, LLC to Complaint of HollyFrontier Refining & Marketing (“Barker Affidavit”).

³ Barker Affidavit at P 4.

grandfathered tariff rate to determine the rates Osage filed in F.E.R.C. Tariff No. 7, Items 201-203.

3. On June 25, 2012, HollyFrontier Refining and Marketing LLC (“HollyFrontier” or “Complainant”) filed a complaint pursuant to Section 13(1) of the Interstate Commerce Act (“ICA”) challenging the lawfulness of the rates charged by Osage for transportation of crude petroleum on its interstate pipeline system.⁴
4. HollyFrontier’s complaint asserts that Osage’s rates are no longer entitled to the grandfathering protection afforded by EPAct. Regarding Osage’s Grandfathered Rate, HollyFrontier asserts it should be de-grandfathered because “there has been a substantial change in the nature of the service provided” and “it is highly likely that there has been a substantial change to the economic circumstances⁵ which were the basis for that rate.”⁶ HollyFrontier also challenges the Index-based Portion of Osage’s rates. In support of its claims, HollyFrontier relies on the Affidavit of Dr. Daniel S. Arthur (“Arthur Affidavit”).⁷

⁴ Complaint of HollyFrontier Refining & Marketing LLC at P 1 (“Complaint”).

⁵ “Substantial change to the economic circumstances” refers to the standard established in Section 1803(b)(1) of EPAct for challenging grandfathered rates.

⁶ Complaint at P 4.

⁷ Exhibit D to Complaint.

5. Counsel for Osage has asked me to review Dr. Arthur's analysis and present my independent analysis regarding the potential economic change in Osage's rates and the index-based increases to the rates under EPAct.
6. Apparently assuming that all of Osage's rates lack grandfathering protection, Dr. Arthur first presents a high-level cost-of-service analysis concluding that Osage's rate are not just and reasonable because revenue substantially exceeds cost of service. *See* Arthur Affidavit at PP 8–20. His analysis relies on an inaccurate assumption that Osage provides a different service under its current rate than it provided when its rate was grandfathered—or deemed by Congress to be just and reasonable. As Mr. Barker of Osage explains, Osage has "not changed the nature of the transportation service it offered" shippers since October 1992.⁸ Since Osage's service has not changed, this portion of Dr. Arthur's affidavit has no merit since it relies on a false premise.
7. Dr. Arthur attempts to analyze whether a substantial change has occurred in the economic basis for the Grandfathered Rate. Dr. Arthur's findings are internally inconsistent. Although he claims that "evidence indicates" that such a change "has occurred," he quickly disclaims this conclusion stating that due to "the [lack] of public data regarding the economic basis of the \$0.178/bbl rate [and] limited data regarding period prior to

⁸ Barker Affidavit at P 10.

EPAct, *it is not possible to definitively demonstrate that a substantial change has occurred.*”⁹ At no point does Dr. Arthur reconcile these two inconsistent positions.

8. Dr. Arthur admits that he did not consider any evidence regarding the economic basis for the Grandfathered Rate and only considered “limited data” regarding the economic basis in the period contemporaneous with the enactment of EPAct,¹⁰ much of which he formulates without sound factual support. Consequently, his assertion that Osage may have experienced a substantial change in the economic circumstances associated with its Grandfathered Rate should be given no weight because it lacks analytical integrity and the required evidentiary support. In short, Dr. Arthur takes current information from Osage’s page 700, fabricates cost data for 1991,¹¹ and ignores relevant data regarding the level of equity return in period A. Dr. Arthur’s analysis is structurally flawed because he arguably has only one reliable point of reference (2011) from which to measure change, a logically impossible task. As I discuss below, had Dr. Arthur considered information readily available in Osage’s Form 6 reports, he would have concluded that Osage’s return on equity has remained fairly consistent with the actual equity return observed during the EPAct period and, thus, that there has been no substantial change in economic circumstances.

⁹ Arthur Affidavit at P 7 (emphasis added).

¹⁰ Arthur Affidavit at P 21.

¹¹ Dr. Arthur explains that “[i]n order to calculate a realized return on equity for the 1991 Pre-EPAct Period, there are multiple cost-of-service elements that have to be estimated based on the limited data contained in Osage’s 1991 public Form 6.” Affidavit at P 27. Dr. Arthur then begins to combine cost data from 1991, 1993, 2000 and 2011 to develop his asserted *1991 cost-of-service*. See *id.* at PP 28-30 and Table 5.

9. Despite HollyFrontier's claim that at least three of Osage's individual tariff items represent new services because Osage differentiates the crude oil based on a viscosity quality specification, Dr. Arthur purports to examine Osage's equity return based on all transportation revenues. For purposes of my analysis, I will be consistent with Dr. Arthur and examine the equity return associated with all crude oil movements. To the extent the Commission finds that the rate increment above the indexed Grandfathered Rate is not appropriately considered as grandfathered, I have prepared an alternative analysis¹² which excludes the viscosity surcharge portion of the revenue stream yet still considers the equity return associated with the underlying indexed Grandfathered Rate for all movements.¹³
10. Finally, Dr. Arthur fails to analyze the extent to which Osage's costs have changed relative to its index-based rate increases. As the Commission noted in its recent March 17, 2011 Order Consolidating Certain Complaint Proceedings and Establishing Hearing Procedures in the Calnev Pipe Line proceeding ("*Calnev*"), it "intends its indexing methodology to stabilize returns without the need for frequent and expensive general rate case proceedings."¹⁴ Dr. Arthur simply assumes that because Osage's revenues exceed its costs its rates are unjust and unreasonable. This position is clearly inconsistent with

¹² I present this alternative analysis in order to provide the Commission with a comprehensive record which will hopefully allow the Commission to make a reasoned decision on the merits of the Complaint, the Complainant's threshold burden and the appropriate use of Commission resources.

¹³ In performing this analysis, I use information that Dr. Arthur had available at the time he prepared his affidavit.

¹⁴ *Tesoro Refining & Mktg., Inc. v. Calnev Pipe Line LLC*, 134 FERC ¶ 61,214 at P 47 (2011).

the Commission's prior acceptance of index increases of EAct grandfathered rates.¹⁵ When challenging the cumulative index change the Commission requires a complainant "show (1) that the pipeline is substantially over-recovering its cost of service and (2) that the indexed based increase so exceeds the actual increase in the pipeline's cost that the resulting rate increase would substantially exacerbate that over-recovery."¹⁶ Dr. Arthur makes no showing that the cumulative index increases have substantially increased Osage's return relative to the return previously generated by the Grandfathered Rates prior to indexing. As I demonstrate below, Osage's cost increases since have generally mirrored its indexed rate increases to its Grandfathered Rate. In addition, Osage's return on equity has actually decreased since 1992 despite its indexed-based rate adjustment.

11. Consequently, I conclude that (i) the appropriate method to quantify any change in the equity return is to examine Osage's balance sheet and income statements¹⁷ for the relevant periods, as filed with the Commission in Osage's Form 6 Annual Reports, (ii) when all the relevant periods are considered, Osage's return on equity has not substantially changed relative to its EAct-period economic circumstances (i.e., period B)¹⁸, and (iii) HollyFrontier does not make the required showing that the indexed-based

¹⁵ Rates grandfathered under EAct were deemed just and reasonable even if the resulting revenues exceeded the carrier's costs. The Commission has allowed carriers to index these grandfathered rates provided there is not a substantial divergence between the change in the carrier's cost and the change in the rate.

¹⁶ *BP West Coast Products, LLC v. SFPP, L.P.*, 121 F.E.R.C. ¶ 61,141 at P 10 (2007),

¹⁷ My reference to "income statements" includes the supporting income statement schedules that carriers file in the FERC Form 6 (e.g., pages 301, 302 and 303).

¹⁸ In fact, it appears to have decreased. See Tables 1 and 2 below.

portion of Osage's rate above the grandfathered level is unjust and unreasonable under the Commission's substantial divergence standard. Consequently, I believe the Commission should find that HollyFrontier has failed to meet its initial threshold burden, and it should dismiss HollyFrontier's complaint.

II. THE COMMISSION'S NEW SUBSTANTIAL CHANGE METHODOLOGY

12. In prior *SFPP* proceedings, the Commission has evaluated substantial change in economic circumstances based on the aggregate change in cost-of-service and volumes.¹⁹

More recently, in *Calnev*, the Commission observed:

The problem with SFPP's broad measure of change ... is that a change in ratio of total revenues to total expenses only indicates the direction of a change in return. However, it does not measure with any precision a change in subsequent returns against the return embedded in the grandfathered rate.²⁰

As a result, the Commission set forth a new methodology which examines the change in equity return to determine if a substantial change in economic circumstances has occurred pursuant to EAct.²¹ Tesoro's complaint against Calnev was ultimately settled, depriving us of a complete record on the implementation of the Commission's new methodology. Consequently, this is the Commission's first opportunity to review a grandfathered rate challenge under EAct since it announced its new methodology in *Calnev*.

¹⁹ See *SFPP, L.P.*, 106 FERC ¶ 61,300 ("March 2004 Order") and *SFPP, L.P.*, 111 FERC ¶ 61,334 (2005) ("June 2005 Order").

²⁰ *Calnev* at P 51.

²¹ *Id.* at P 48.

13. In explaining its rationale for modifying its prior substantial change methodology, the Commission cited the D.C. Circuit Court of Appeals' conclusion in *ExxonMobil*, which states:

The grandfathering provision of § 1803 is intended to insulate pre-existing rates from attack by ordaining them to be necessarily "just and reasonable." The most natural understanding of § 1803 is that Congress believed that the then-existing rates of return were not so large as to justify the added litigation costs of subjecting the rates to agency evaluation and judicial review. This inference comports with the streamlining goals of § 1801 and § 1802. It makes good sense, then, to de-grandfather rates only when the rate of return itself has changed. It is unclear why Congress would care if the underlying composition of a pipeline's costs has changed so long as the pipeline's rate of return has remained constant or decreased.²²

Thus, the Commission held that, "the appropriate method to determine whether there are substantially changed circumstances is to measure the change in the rate of return on equity from that embedded in the grandfathered rate."²³

14. To be successful, a complaint must demonstrate that the return on equity associated with the current rate exceeds by at least 25 percent the greater of (i) the return on equity associated with the rate at the time EPAct was enacted and (ii) the return on equity embedded in the grandfathered rate.²⁴ Moreover, as the Commission explained:

²² *ExxonMobil Oil Corp v. FERC*, 487 F.3d at 959-60 (D.C. Cir. 2007) ("*ExxonMobil*").

²³ *Calnev* at P 53.

²⁴ The Commission has indicated that the general formula used to measure the percentage change in equity return is $(C-B)/A$. Where "C" represents the Complaint period, "B" represents the return at the time of EPAct's enactment, and "A" represents the return on equity embedded in the grandfathered rate when it was initially

[T]his 25 percent threshold is not a bright-line standard such that any change in the rate of return greater than 25 percent is a conclusive determination that substantial change in circumstances exists. Rather, the Commission will carefully examine any evidence submitted in support of a complaint to assure that the change in the rate of return is in fact “substantial.” ... Thus, in a case where the change in the equity rate of return is greater than 25 percent, the Commission would consider whether the test year reflects an unrepresentative short term or anomalous change in return when determining whether the change is actually “substantial.” An unrepresentative change could occur because of minor changes in the balance sheet or capital structure, a spike in expenses or revenues, non-recurring revenue from payments for an accidental loss, or a one[-] time sale or other gain or loss. Therefore in order to sustain a finding of substantially change[d] circumstances, a complainant must show that there has been a consistent and sustainable increase in the pipeline’s rate of return prior to the complaint year.²⁵

15. The Commission’s shift from measuring the change in cost-of-service and volumes to the change in equity return greatly simplifies the analysis shippers are required to perform in the first instance when asserting in a complaint that a substantial change has occurred. Previously shippers lamented that historical cost-of-service information was not readily available for the A and B periods to permit the required analysis to support their initial complaint absent discovery.²⁶ Under the new methodology, shippers can easily

established. Because EPAAct requires the any measure of substantial change in economic circumstances be measured against period “A” economics but only reflect economic change that occurs after period “B,” the Commission has previously found that if the economic circumstances embodied in period “B” are less than those observed in period “A” the formula should be modified to reflect $(C-A)/A$ to avoid erroneous results. *See, March 2004 Order* at PP 19-24.

²⁵ *Calnev* at P 61 (emphasis added).

²⁶ This is due in part to the fact that page 700 did not exist during the 1992 EPAAct period (period B) nor did it exist when the grandfathered rates were initially filed (i.e., the pre-1992, period A).

determine the carrier's achieved return on equity embedded in the rate by reviewing the balance sheet and income statements contained in the FERC Form 6 report the carrier files with the Commission.²⁷

16. Reliance on the balance sheet and income statements eliminates, or at least greatly reduces, the debate regarding proposed shipper adjustments to the carrier's cost-of-service. It also eliminates the problem of shippers combining cost data from four separate periods, as Dr. Arthur does, to develop a cost-of-service. It is a direct means to evaluate the equity return embedded in a rate. The Commission must rely on trustworthy information when assessing whether to initiate a complaint proceeding. The goal of the substantial change analysis is not to set just and reasonable rates but, as suggested by the Commission's recent ruling,²⁸ to measure the change in return associated with the equity investors' capital relative to historic returns achieved under the grandfathered rates. In addition, many carriers, like Osage, have grandfathered rates that were set prior to June 1985 when the Commission first issued its Trended Original Cost methodology for oil pipelines, Opinion No. 154-B. The balance sheet approach avoids the dilemma regarding which cost-of-service methodology applies to the various periods, including periods that predate Opinion No. 154-B. Moreover, it meets the streamlining goals of EPAct.

²⁷ Unlike the page 700, carriers have been required to file balance sheet and income statements in their Form 6 for decades, well before the period when jurisdiction over oil pipelines was transferred from the Interstate Commerce Commission to the Commission.

²⁸ *See Calnev* at P 58.

17. Under the EAct, a complainant must demonstrate that there has been a substantial change in the economic circumstances associated with each individual grandfathered rate.

As the Commission noted:

Section 1803(b) of the EAct provides that evidence shall be submitted that establishes that ... “substantially changed circumstances ha[ve] occurred in the [] economic circumstances of the oil pipeline that were a basis for the rate” to the extent such evidence can be elicited. While this level of detail is not available for a cost-of-service analysis, the Trial Staff included point-to-point flows for each origin and delivery point ... in the record. Thus it is appropriate to look at volumes for individual points ... rather than in the aggregate, to analyze whether there were substantial changes in the economic circumstances that were the basis for the rate at each of those individual points.²⁹

18. From a policy perspective, it is my opinion that it makes sense for the Commission to establish a *screening tool*, similar to the one the Commission uses to evaluate index rate challenges,³⁰ to determine whether there appears to be sufficient cause for the Commission to deploy its scarce resources before initiating a proceeding. This too would be consistent with the streamlining objectives of EAct, noted above. Moreover, a screening tool using aggregate balance sheet and income statement figures (i.e., total carrier) would permit shippers to fulfill their initial threshold burden using publicly

²⁹ *ARCO Products Co. v. SFPP*, 106 FERC ¶ 61,300 at P 55 (2004) (emphasis added).

³⁰ See Order No. 561, *Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act of 1992*, [Regs. Preambles 1991-1996] F.E.R.C. Stats. & Regs. ¶ 30,985 (1993) and *SFPP, L.P.*, 139 FERC ¶ 61,267 at P 9 (2012) (citing Order No. 571, *Cost-of-Service Reporting and Filing Requirements for Oil Pipelines*, [Regs. Preambles 1991-1996] FERC Stats. & Regs. ¶ 31,006, at 31,168 (1994), *order on reh'g*, Order No. 571-A, 69 FERC ¶ 61,411 (1994).

available data. If the Commission determines that a hearing is warranted, additional cost information would be available for the complainant to perform the individual rate level analysis required by EAct.

III. HOLLYFRONTIER FAILS TO EXAMINE THE ECONOMIC BASIS OF THE GRANDFATHERED RATE

19. Dr. Arthur's analysis of changed circumstances suffers from numerous flaws. First, Dr. Arthur admits that he did not consider any data relating to the economic circumstances of Osage's FERC Tariff No. 10, which established the Grandfathered Rate (Period A).³¹ Second, as noted above, he fails to develop any reliable information for the economic basis associated with the period commensurate with EAct enactment (Period B). Instead, to create his Period B economic circumstances, Dr. Arthur combines elements of cost data from four separate periods (1991, 1993, 2000 and 2011) to develop an alleged 1991 cost-of-service.³² Third, he fails to explain why 1991 cost data are the relevant point of reference. EAct was enacted on October 24, 1992. The closest Form 6 information relative to the equity return achieved on the date of enactment would be for the 1992 calendar year, which covers ten months prior to and two months past the EAct enactment. The 1991 calendar year includes cost data ranging as far as 22 months ahead of the EAct enactment and contains no cost data concurrent with the date of

³¹ Arthur Affidavit at P 23.

³² Arthur Affidavit at PP 28–30.

enactment.³³ As HollyFrontier recognized in its Complaint, the Commission in *Calnev* found that “the return generated by the challenged rate at the time EPAct became effective ... is the return for the calendar year 1992, which is called the B period.”³⁴ Dr. Arthur fails to explain his departure from the Commission’s rulings to justify the use of 1991 cost data.

20. Even if one were to accept the shortcomings associated with Dr. Arthur’s limited data, his analysis fails to consider the actual embedded return on equity investors achieved on their investment.³⁵ As I indicated above, I believe a more straight-forward and accurate approach would be to analyze the return associated with the stockholder’s equity reported in the Form 6 balance sheet. However, to the extent the Commission disagrees and elects to pursue an alternate approach, Dr. Arthur’s analysis is inaccurate. Dr. Arthur simply assumes that a 50% equity book capital structure results in half of the rate base being funded by equity investors. He does not consider how much equity actually funded the original investment, the impact of deferred (equity) return, or many other issues under his cost-of-service approach. Dr. Arthur should know, based on his cost-of-service experience, that the adjusted equity capital structure ratio developed in Opinion No. 154-B is not the same as the book capital structure, which represents how the assets were

³³ The EPAct grandfathered rates that had been in effect for 365 days prior to its October 24, 1992 enactment absent a complaint or protest. However, it requires the economic change must be measured from the date of enactment, not 22 months preceding the date of enactment as Dr. Arthur has proposed.

³⁴ Complaint at P 29, *citing Calnev* at P 17 (emphasis added).

³⁵ Even Dr. Arthur agrees that “it is not possible to definitively demonstrate that a substantial change has occurred” when analyzing the data he presents. Arthur Affidavit at P 7.

funded. Moreover, this approach becomes increasingly complicated once one considers that many grandfathered rates were set under Valuation,³⁶ not Opinion No. 154-B. None of these issues is addressed by Dr. Arthur.

21. My approach, on the other hand, looks at the achieved return on equity investment embedded in the transportation revenues. It is not encumbered by cost-of-service or rate-base issues, nor is it dependent on how the rates were originally established, whether by Valuation, Opinion No. 154-B, indexing, or black-box settlement, etc.³⁷
22. Dr. Arthur fails to consider the economic circumstances associated with the Grandfathered Rate (Period A). He incorrectly assumes that no data is available. When considering the return on equity embedded in (or generated by) the grandfathered rate at period A, it is reasonable for the Commission to examine the equity return achieved in the period immediately *after* the rate is placed into effect.³⁸ OPLC's Tariff F.E.R.C. No. 10 was issued on August 26, 1981, and became effective on October 1, 1981. Therefore, it is reasonable to examine the 1982 Form 6 balance sheet and income statements to determine the level of achieved return on equity embedded in the Grandfathered Rate.

³⁶ Under Valuation carriers were allowed to determine the return included in rates based on the Cost of Reconstruction New (i.e., Fair Market Value) instead of original costs or actual investment in plant. As the Court found in *Farmers Union Central Exchange, Inc.*, 734 F.2d 1486 (D.C. Cir. 1984), this led to potentially high returns on investor equity.

³⁷ Of course, the collected transportation revenues will be a function of the regulated rate and therefore subject to regulatory change.

³⁸ Examining the period before the rate became effective would not capture the economic basis of the grandfathered rate, but the pre-grandfathered rate.

23. The table below presents the equity return for the A, B and C periods on an after-tax basis using the stockholders' equity found on the balance sheet. I first develop transportation-related operating income by deducting total pipeline operating expenses from trunk revenues. I then deduct interest expense derived from the income statement to determine net taxable income. I then determine the equity return associated with transportation revenue after deducting a tax expense.³⁹ The resulting after-tax equity return is divided by stockholder's equity to determine the equity rate of return for each period. In order to facilitate a comprehensive record, I have computed the relative change in economic circumstances under the $(C-B)/B$ formula presented by Dr. Arthur and the $(C-B)/A$ methodology adopted by the Commission in *Calnev*. All of the sources that I use in my calculations are publicly available and attached hereto as Attachment C.

³⁹ I compute my tax expense consistent with Dr. Arthur's approach, albeit I adjust my tax rate based on relevant statutory rates in effect in each period, whereas Dr. Arthur does not. See Arthur Affidavit at Table 5 where he applies his 2011 tax rate in his 1991 analysis.

Table 1: Osage Change in Economic Circumstances					
(dollars in thousands)					
Line			1982	1992	2011
No.	Description	Source	Period A	Period B	Period C
Calculation of Equity Return					
	<i>Calculation of Achieved Return</i>				
1	Trunk Revenue	Form 6, p. 301, ln. 2	\$ 5,450	\$ 7,643	\$ 15,442
2	Operating Expenses	Form 6, p. 114, ln. 2	\$ 2,383	\$ 2,924	\$ 5,522
3	Transportation Operating Income	Line 1 – Line 2	\$ 3,067	\$ 4,719	\$ 9,920
4	Interest Expense	Form 6, p. 114, ln. 8	\$ 1,229	\$ 618	\$ -
5	Net Taxable Income	Line 3 – Line 4	\$ 1,838	\$ 4,101	\$ 9,920
6	Composite Tax Rate	Exhibit 3, Attachment B	48.8%	38.4%	39.2%
7	Income Tax Expense	Line 5 * Line 6	\$ 897	\$ 1,575	\$ 3,889
8	Achieved Return	Line 5 – Line 7	\$ 941	\$ 2,526	\$ 6,031
9	Stockholders' Equity	Form 6, p. 113, ln. 72 (or 76)	\$ 2,531	\$ 4,017	\$ 15,299
10	Return on Equity	Line 8 / Line 9	37%	63%	39%
Calculation of Change in Economic Circumstances					
11	Using (C – B) / B	Line 10 as inputs			-37%
12	Using (C – B) / A	Line 10 as inputs			-63%

24. Table 1 demonstrates that Osage has not experienced a substantial change in the economic circumstances which were the basis for the Grandfathered Rate. The equity return in period C is below that observed at the time EPAct was enacted. As the Commission observed in *Calnev*, “there must be a positive change in return after the date of EPAct. In other words, if the C–B calculation is negative; there is no need for further analysis because there is no increase in return after the effective date of EPAct.”⁴⁰ This analysis supports the continuation of the grandfathered protection created by EPAct. It

⁴⁰ *Calnev* at P 18.

also demonstrates that indexing of the Grandfathered Rate has not materially increased the shareholder's post-EPAAct returns. As the Commission previously explained, it

intends its indexing methodology to stabilize returns without the need for frequent and expensive general rate case proceedings Thus the Commission recognizes that a complaint may challenge a pipeline's rates because changes to the cost and revenue factors embedded in its cost-of-service or the cumulative increases from indexing unreasonably exceed the pipeline's actual cost increases, or that an unreasonable rate results from a combination of those factors.⁴¹

25. Dr. Arthur notes that Osage has no long-term debt at the end of 2011 according to its balance sheet.⁴² He then asserts that the Commission's Opinion No 154-B requires that the parent company capital structure be imputed on Osage when determining if a substantial change in economic circumstances has occurred.⁴³ Dr. Arthur has confused the Commission's cost-based ratemaking methodology with the evaluation of the change in the pipeline's equity return for determination of substantial change. The issue is not whether Osage can justify rates on the basis of cost-of-service. The issue is whether there has been a substantial change in the economic circumstances underlying Osage's rates.⁴⁴ The Commission has previously found it reasonable to consider external factors, such as the impact regulatory change may have on return, when evaluating economic

⁴¹ *Calnev* at P 47 (emphasis added).

⁴² Arthur Affidavit at P 18.

⁴³ Arthur Affidavit at PP 18-19.

⁴⁴ Osage also is responding to HollyFrontier's unsupported assertions that the indexed rates are excessive by demonstrating that Osage's cumulative cost increases are in-line with its index increases and that the equity return embedded in the indexed grandfathered rates has not diverged from its EPAAct level.

circumstances.⁴⁵ By the same logic it would seem equally reasonable to consider the impact of equity financing when evaluating economic circumstances, especially when the methodology examines equity return.⁴⁶

26. This being said, in order to provide the Commission with a comprehensive record from which to make its decision, I have adjusted the analysis shown in Table 1 to reflect a parent company capital structure in 2011.⁴⁷ Two changes are required to make this adjustment. First, I compute an ownership-weighted capital structure evenly split between the two 50-percent owners of Osage—Magellan’s 40.5% equity and NCRA’s 74.0% equity—resulting in a composite equity capital structure of 57.2% equity.⁴⁸ This figure is roughly on par with the proxy group equity capital structure over time. To determine the implied parent company equity, I multiplied the total stockholder’s equity on the 2011 balance sheet by 57.2%. The second change is to assess a cost of debt with the associated 42.8% implied debt. Again, I evenly blended the reported 2011 cost of

⁴⁵ *March 2004 Order* at P 33.

⁴⁶ Again, Osage is not proposing to establish cost-based rates using balance sheet equity. The Commission’s decision to adjust a cost-of-service capital structure based on whether a carrier maintains long-term debt impacts the economic circumstances by adjusting the level of revenues and hence equity return to reflect a prudent level of costs in the rates. It does not change the amount of equity investment in a carrier or the means by which capital is funded. EPAAct did not establish a prudence test as part of the substantial change analysis. The Commission was directed to consider the actual economic basis reflected in the rate, not to impute a prudent economic basis.

⁴⁷ Dr. Arthur only takes issue with Osage’s 2011 capital structure. As seen on its Form 6 balance sheet, Osage maintained long-term debt in 1992 and 1982.

⁴⁸ NCRA is owned approximately 74% by CHS, Inc., which is a private agriculture cooperative that, coincidentally, has 74% equity capital structure. The remaining 26% of equity is split between Growmark and MFA Oil, both of which are private farm cooperatives similar to CHS, Inc. Growmark and MFA Oil do not publicly disclose their capital structure so I assumed their capital structure would be similar to CHS, Inc. due to the similar nature of their businesses. This 26% only represents 13% of Osage’s total ownership. Furthermore, it is my understanding that CHS, Inc. is in the process of acquiring Growmark’s and MFA Oil’s interest in NCRA.

debt for Magellan, 5.3%, with NCRA, 7.2%, based on CHS Inc., to arrive at an implied 6.25% cost of debt. The resulting interest expense is the product of the balance sheet stockholder's equity times the debt capital structure, 42.8%, times the cost of debt, 6.25%, which yields an imputed 2011 interest expense of \$409 thousand. The results of these adjustments are shown below in Table 2.

Table 2: Osage Change in Economic Circumstances: Using Parent-company Financing					
(dollars in thousands)					
Line			1982	1992	2011
No.	Description	Source	Period A	Period B	Period C
Calculation of Equity Return					
	<i>Calculation of Achieved Return</i>				
1	Trunk Revenue	Form 6, p. 301, ln. 2	\$ 5,450	\$ 7,643	\$ 15,442
2	Operating Expenses	Form 6, p. 114, ln. 2	\$ 2,383	\$ 2,924	\$ 5,522
3	Transportation Operating Income	Line 1 – Line 2	\$ 3,067	\$ 4,719	\$ 9,920
4	Interest Expense	Form 6, p. 114, ln. 8	\$ 1,229	\$ 618	\$ 409
5	Net Taxable Income	Line 3 – Line 4	\$ 1,838	\$ 4,101	\$ 9,511
6	Composite Tax Rate	Exhibit 3, Attachment B	48.8%	38.4%	39.2%
7	Income Tax Expense	Line 5 * Line 6	\$ 897	\$ 1,573	\$ 3,727
8	Achieved Return	Line 5 – Line 7	\$ 941	\$ 2,528	\$ 5,784
9	Stockholders' Equity	Form 6, p. 113, ln. 72 \1	\$ 2,531	\$ 4,017	\$ 8,754
10	Return on Equity	Line 8 / Line 9	37%	63%	66%
Calculation of Change in Economic Circumstances					
11	Using (C – B) / B	Line 10 as inputs			5%
12	Using (C – B) / A	Line 10 as inputs			8%
\1	Stockholders' equity presented for 2011 is from Form 6, p. 113, ln. 76 times the average equity ratio of the owners.				

Consequently, even if the Commission's cost-based ratemaking standard regarding long-term debt financing is applied to Osage, the resulting economic change is still not sufficient to be considered substantial. All results are below the 25% threshold.

27. The prior analyses herein have reflected all of the transportation revenues in the equity return, including those revenues associated with the viscosity surcharge. Had he cared to, Dr. Arthur could have excluded the incremental revenues associated with the viscosity surcharges from his analysis. Instead he left them in his calculations, which ultimately raised the current period (or C period) equity return and thus appeared to show a larger economic change. To the extent the Commission finds it appropriate to exclude the viscosity surcharge revenue from the underlying Indexed Grandfathered Rate, I have prepared another set of tables presenting the achieved equity return using the same two approaches described above. Using information from Osage's tariff F.E.R.C. No. 16.2.0 and its 2011 Form 6, Dr. Arthur could have determined the 2011 indexed grandfathered transportation revenues by multiplying the volumes found on page 700 by the underlying indexed Grandfathered Rate found in Item 200 of Osage F.E.R.C. Tariff No. 16.2.0. This yields an indexed grandfathered revenue stream of \$14.217 million, which, when compared to the overall 2011 transportation revenues of \$15.442 million, indicates that Osage is collecting approximately \$1.225 million in viscosity surcharges. Table 3 presents the achieved equity return based on the reported stockholder's equity in the 2011 Form 6 balance sheet. Table 4 presents the achieved equity return based on an adjusted 2011 stockholder's equity imputed under the same ownership-weighted capital structure used in Table 2. The 2011 equity return figures developed in Tables 3 and 4 are below those previously considered in Tables 1 and 2 above. The 2011 equity return figures in

these tables are lower than the 1992 equity return (i.e., $C-B < 0$, or negative), therefore as the Commission observed in *Calnev*, “there is no need for further analysis because there is no increase in return after the effective date of EPAct.”⁴⁹ Consequently, the Commission should dismiss Holly Frontier’s complaint against the grandfathered portion of Osage’s rate.

Table 3: Osage 2011 Return on Equity: Viscosity Surcharge Removed			
(dollars and barrels in thousands, except rates)			
Line			
No.	Description	Source	2011
<i>Calculation of Equity Return</i>			
	<i>Calculation of Achieved Return</i>		
1	Volume Delivered Out	Form 6, p. 601, ln. 15	54,404
2	Item 200 Rate Through June 30, 2011	F.E.R.C. No. 16.1.0	\$ 0.2477
3	Item 200 Rate After June 30, 2011	F.E.R.C. No. 16.2.0	\$ 0.2647
4	Item 200 Rate 2011 Average	Average Lines 2 and 3	\$ 0.2562
5	Trunk Revenue Excluding Surcharge	Line 1 * Line 4	\$ 13,938
6	Operating Expenses	Form 6, p. 114, ln. 2	\$ 5,522
7	Transportation Operating Income	Line 1 – Line 6	\$ 8,416
8	Interest Expense	Form 6, p. 114, ln. 8	\$ -
9	Net Taxable Income	Line 7 – Line 8	\$ 8,416
10	Composite Tax Rate	Exhibit 3, Attachment B	39.2%
11	Income Tax Expense	Line 9 * Line 10	\$ 3,298
12	Achieved Return	Line 9 – Line 11	\$ 5,118
13	Stockholders' Equity	Form 6, p. 113, ln. 72 (or 76)	\$ 15,299
14	Return on Equity	Line 12 / Line 13	33%

⁴⁹ *Calnev* at P 18.

28. The 2011 return on equity presented in Table 3 is lower than the corresponding figure in Table 1—33% compared to 39%. Therefore, Table 3 demonstrates that removing the revenue attributable to the viscosity surcharge that is implied in Osage's rate for Items 201–203 would not change the conclusion reached in Table 1 that Osage has not experienced a change in economic circumstances.

Table 4: Osage 2011 Return on Equity: Viscosity Surcharge Removed and Using			
Parent-company Financing			
(dollars and barrels in thousands, except rates)			
Line			
No.	Description	Source	2011
<i>Calculation of Equity Return</i>			
	<i>Calculation of Achieved Return</i>		
1	Volume Delivered Out	Form 6, p. 601, ln. 15	54,404
2	Item 200 Rate Through June 30, 2011	F.E.R.C. No. 16.1.0	\$ 0.2477
3	Item 200 Rate After June 30, 2011	F.E.R.C. No. 16.2.0	\$ 0.2647
4	Item 200 Rate 2011 Average	Average Lines 2 and 3	\$ 0.2562
5	Trunk Revenue Excluding Surcharge	Line 1 * Line 4	\$ 13,938
6	Operating Expenses	Form 6, p. 114, ln. 2	\$ 5,522
7	Transportation Operating Income	Line 1 – Line 6	\$ 8,416
8	Interest Expense	Form 6, p. 114, ln. 8	\$ 409
9	Net Taxable Income	Line 7 – Line 8	\$ 8,007
10	Composite Tax Rate	Exhibit 3, Attachment B	39.2%
11	Income Tax Expense	Line 9 * Line 10	\$ 3,138
12	Achieved Return	Line 9 – Line 11	\$ 4,869
13	Stockholders' Equity	Form 6, p. 113, ln. 72 \1	\$ 8,754
14	Return on Equity	Line 12 / Line 13	56%
\1	Stockholders' equity presented for 2011 is from Form 6, p. 113, ln. 76 times the average equity ratio of the owners.		

29. The 2011 return on equity presented in Table 4 is lower than the corresponding figure in Table 2—56% compared to 66%. Therefore, Table 4 demonstrates that removing the revenue attributable to the viscosity surcharge that is implied in Osage's rate for Items

201–203 would not change the conclusion reached in Table 2 that Osage has not experienced a change in economic circumstances.

IV. HOLLYFRONTIER FAILS TO DEMONSTRATE A SUBSTANTIAL DIVERGENCE IN THE INDEXED PORTION OF THE RATES

30. Arthur fails to perform any analysis regarding the cumulative index change associated with the Grandfathered Rate. He simply assumes that if revenue exceeds cost then the rate is not just and reasonable. This alone should be sufficient grounds for the Commission to dismiss any aspect of HollyFrontier’s complaint directed at the cumulative indexed portion of Osage’s rate. As the Commission noted in *Calnev*, it “intends its indexing methodology to stabilize returns without the need for frequent and expensive general rate case proceedings.”⁵⁰ The prior analysis demonstrates that Osage’s return since 1992 has remained stable, or perhaps declined.
31. Moreover, the cumulative changes in Osage’s costs are consistent with the increase in Osage’s Grandfathered Rates associated with indexing. Osage’s rate in 1992 was \$0.1780/bbl. The current Item 200 rate is \$0.2647/bbl, which reflects approximately a 48.7% increase in *twenty years* since EPAct was enacted.⁵¹ In contrast, Osage’s 1993 cost-of-service was \$5.05 million and its 2011 cost-of-service was \$7.46 million.⁵² This

⁵⁰ *Calnev* at P 47.

⁵¹ Because the \$0.178/bbl rate was established in 1981, it actually represents a 48.7% increase in the rate in approximately thirty years (1981-2011). This is well below any accepted measure of inflation.

⁵² Arthur Affidavit at PP 28 and 26, respectively.

represents a 47.7% increase in costs in *only eighteen years*.⁵³ Consequently, the steady level of return and the lack of substantial divergence between the change in Osage's cost and its indexed rates suggest that there is a lack of evidence to support setting the index increment above the Grandfathered Rate for hearing.

V. CONCLUSIONS

32. Based on Commission-approved standards and publicly available facts presented above, I conclude that HollyFrontier's complaint lacks the factual basis that the Commission requires for a complaint against a grandfathered rate that has been increased based on the rate index. As demonstrated above, the grandfathered portion of Osage's rates remains just and reasonable because the economic circumstances that were the basis for Osage's Grandfathered Rate have not changed substantially even when considered from alternative perspectives. The index-based portion of Osage's rates is just and reasonable because Osage's costs have not diverged substantially from the level of its index-based rate increases nor has Osage's return increased substantially under indexing. Osage's rates in Items 201, 202, and 203—are each comprised of indexed Grandfathered Rates and a viscosity surcharge. The indexed grandfathered portion of the rate is reasonable for the reasons discussed above. The viscosity surcharge in each of these rates was initially agreed to by HollyFrontier under the TDA and has only been indexed since it was established. HollyFrontier fails to make any reasonable showing that this portion of the

⁵³ This is based on the cost of service change from 1993, the first year that the Commission required Form 6 page 700, and 2011, the most recent page 700 filing Osage has made.

rate is unreasonable, such as showing a substantial divergence between rate increases and cost increases related to the viscosity surcharge. Therefore, I respectfully submit that the Commission should dismiss HollyFrontier's complaint against Osage.

DECLARATION

State of Virginia

)

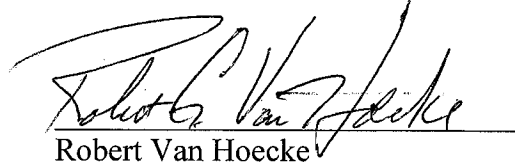
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County of Fairfax

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I, Robert Van Hoecke, hereby declare under penalty of perjury of the laws of the United States that the foregoing document is true and correct to the best of my knowledge and belief.
See 28 U.S.C. § 1746.

Executed on this 16th day of July, 2012.


Robert Van Hoecke

**ATTACHMENT A
TO EXHIBIT 3**

Curriculum Vitae of Robert G. Van Hoecke

ROBERT G. VAN HOECKE

Regulatory Economics Group, LLC.

Principal

Mr. Van Hoecke has over twenty five years of experience in the oil pipeline business. For over twelve years Bob held various positions with Williams Pipe Line Company (WPL), including Operations Supervisor, Health and Safety Supervisor, Strategic Planning and Tariffs Manager, and Tariff and Regulatory Affairs Manager. Since leaving WPL, Bob has provided consulting services to the industry, primarily relating to cost of service, market studies and business planning. Bob has provided expert testimony in numerous matters relating to pipeline tariffs, cost of service and business practices.

Relevant Experience

Pipeline Operation

- ◆ Managed and supervised preparation of monthly, annual and long-range forecasts of volumes, revenues and related variance comments.
- ◆ Established and supervised system-wide health and safety programs for approximately 700 employees in 10 states.
- ◆ Directed and supervised all day-to-day operational activities of pipeline terminals and pump stations for a three terminal complex transporting and delivering refined petroleum, fertilizer, asphalt and LPG.
- ◆ Carried out various aspects of pipeline operations and administration at terminal, pump station and regional field office levels.

Rates and Regulation

- ◆ For WPL, directed company's Phase II defense in a rate case before the FERC in Docket No. IS90-21-000 et al. Responsible for developing the course of defense and selecting appropriate expert witnesses to testify on the company's behalf. Supervised development of various stages of discovery, direct testimony, rebuttal testimony and case preparation. Served as chief company witness and performed short-run marginal cost analysis of integrated pipeline network containing more than 40,000 distinct routes.
- ◆ Presented testimony in a FERC complaint proceeding to determine whether certain bookkeeping services provided by a common carrier pipeline were jurisdictional.
- ◆ Expert testimony regarding the proper method for determining just and reasonable transportation charges for unregulated carbon dioxide pipelines in two separate class action disputes initiated by royalty interest owners in the Federal District Court of New Mexico and Colorado.
- ◆ Expert testimony regarding the proper method for determining just and reasonable cost-based transportation charges for regulated oil pipelines at the FERC.
- ◆ Expert testimony regarding rate reasonableness and revenue adequacy on behalf of an anhydrous ammonia pipeline at the STB.

- ◆ Expert testimony regarding just and reasonable rates for the Trans Alaska Pipeline Settlement (TAPS) under various alternative cost of service methodologies at the Regulatory Commission of Alaska and the FERC.
- ◆ Expert testimony regarding the application of standards set forth in the 1992 Energy Policy Act (EPAAct) for determining whether substantially changed economic circumstances have occurred for rates previously deemed to be just and reasonable under the EPAAct.
- ◆ Prepared market evaluation, laid-in cost data, and testimony for market-based rate applications for several oil pipelines seeking market-based rates at the FERC.
- ◆ Prepared market evaluation and laid-in cost analysis to support oil industry mergers and acquisitions at the Federal Trade Commission.

Economics and Finance

- ◆ Assisted in the financial and regulatory evaluation of potential acquisition opportunities.
- ◆ Participated in the development of a historical cost trend analysis for the oil pipeline industry related to the oil pipeline tariff index.
- ◆ Provided expert testimony regarding the reasonableness of certain decisions made by a majority partner in a joint venture pipeline in a dissolution action initiated by a minority partner before the Federal District Court of Missouri.

Commercial Analysis

- ◆ Market evaluations and determining appropriate competitive tariff structures to maximize a pipeline's profitability. Conducting competitive analysis of potential market encroachments and assisting pipeline clients in developing a series of strategic and tactical responses. Developing the data and testimony required for market-based rate applications at the FERC.
- ◆ Performing economic analysis of proposed business development projects to assist pipeline management in evaluating various business strategies.
- ◆ While with WPL, responsible for performing market evaluations and establishing competitive tariff rates and ancillary fees to maximize profitability. Worked closely with Marketing and Business Development groups to develop and implement market-based, negotiated rates with strategic shippers and joint pipeline carriers.

Testimony

July 9, 2012	Submitted Direct Testimony at the FERC on behalf of Enterprise TE Products Pipeline Company LLC (TEPPCO) in Docket Nos. IS12-203-000 in support of TEPPCO's cost-base rate increases filed under 18 CFR 346.
June 19, 2012	Filed Verified Statement on behalf of Plains Pipeline, L.P. at the FERC in response to a protest filed by Valero Marketing and Supply Company asserting that certain index increases included in Plains' tariffs should be rejected or alternatively suspended and set for investigation in Docket IS12-362-000.
June 13, 2012	Filed Verified Statement on behalf of Black Lake Pipeline Company at the FERC in response to complaint filed by Regency Field Services LLC regarding off-specification penalties in Docket Nos. OR12-15-000.
Apr. 9, 2012	Filed Affidavit on behalf of TEPPCO at the FERC in support of their March 16, 2012 cost-of-service rate filing in Docket No. IS12-203-000.
Aug. 9, 2011	Filed Second Affidavit on behalf of SFPP at the FERC in response to complaint filed by ConocoPhillips Company and Chevron Products Company regarding grandfathered rates and substantial change in Docket Nos. OR11-13-000 and OR11-16-000.
July 5, 2011	Filed Affidavit on behalf of SFPP at the FERC in response to complaint filed by ConocoPhillips Company and Chevron Products Company regarding grandfathered rates and substantial change in Docket Nos. OR11-13-000 and OR11-16-000.
Feb. 25, 2011	Presented Oral Testimony and Cross Examination before an Arbitral Tribunal at the International Chamber of Commerce in relation to forecasted transportation revenues, cost recovery mechanisms, and quantum meruit for historical losses incurred by international crude oil pipeline. (c. 15 898/VRO)
Jan. 17, 2011	Submitted a Third Expert Report in a matter of Arbitration at the International Chamber of Commerce presenting alternative forecasted transportation revenues under various scenarios relating to the operation of an international crude oil pipeline. (c. 15 898/VRO)
Dec. 22, 2011	Submitted a Second Expert Report in a matter of Arbitration at the International Chamber of Commerce presenting forecasted transportation revenues under various scenarios, cost recovery mechanisms, and quantum meruit for historical losses relating to the operation of an international crude oil pipeline. (c. 15 898/VRO)
Dec. 21, 2011	Submitted a Joint Expert Statement in a matter of Arbitration at the International Chamber of Commerce regarding forecasted transportation revenues and quantum meruit for historical losses incurred by international crude oil pipeline. (c. 15 898/VRO)
Nov. 5, 2011	Submitted Expert Report in a matter of Arbitration at the International Chamber of Commerce presenting forecasted transportation revenues under various

scenarios, cost recovery mechanisms and quantum meruit for historical losses relating to the operation of an international crude oil pipeline. (c. 15 898/VRO)

Nov. 2-3, 2010 Presented Oral Testimony and Cross Examination at the FERC on BP Pipelines (Alaska) Inc. in Docket Nos. IS-09-348 et al. in support of BPPA's cost pooling mechanism which properly allocates costs among Trans Alaska Pipeline System Carriers based on usage.

Jun. 18, 2010 Submitted Answering Testimony at the FERC on behalf of BP Pipelines (Alaska) Inc. in Docket Nos. IS-09-348 et al. responding to testimony presented by CPTAI regarding proper cost pooling mechanism.

Apr. 16, 2010 Submitted Direct Testimony at the FERC on behalf of BP Pipelines (Alaska) Inc. in Docket Nos. IS-09-348 et al. in support of BPPA's cost pooling mechanism which properly allocates costs among Trans Alaska Pipeline System Carriers based on usage.

Mar. 22, 2010 Filed Affidavit in Docket No. IS01-160 regarding the jurisdictional nature of terminals.

Feb. 8, 2010 Submitted Rebuttal Testimony at the California Public Utility Commission on behalf of San Pablo Bay Pipeline LLC in support of the company's application for market based rates.

Apr. 1, 2009 Filed Direct Testimony at the California Public Utility Commission on behalf of San Pablo Bay Pipeline LLC in support of the company's application for market based rates.

May 2, 2008 Cross examination in *BP West Coast Products et al. v. SFPP* Docket No. OR03-5-001 at the FERC.

Mar. 3, 2008 Filed supplemental Affidavit on behalf of Calnev Pipe Line LLC at the FERC in response to complaint filed by ExxonMobil Oil Corporation in Docket No. OR07-5-000.

Feb. 27, 2008 Submitted Prepared Answering Testimony on behalf of SFPP, L.P. at the FERC in response to complaint filed by BP West Coast Products, LLC, ExxonMobil Oil Corporation, and ConocoPhillips Co. in Docket No. OR-03-5-001

Nov. 27, 2007 Filed Affidavit on behalf of Calnev Pipe Line LLC at the FERC in response to complaint filed by ExxonMobil Oil Corporation in Docket No. OR07-5-000.

Jul. 20, 2007 Submitted Affidavit on behalf of the Petition for Declaratory Order of Enbridge Pipelines (Southern Lights) LLC at the FERC supporting an innovative rate structure for the new pipeline in Docket No. OR07-15.

Mar. 22, 2007 Submitted Expert Designee Report on behalf of Cortez Pipeline Company under the terms of the Arbitration Agreement established in *CO₂ Committee, Inc v. Shell Oil Company*, Shell CO₂ Company, Ltd., aka Kinder Morgan CO₂ Company, L.P., Shell Western E&P, Inc., Mobil Producing Texas and New Mexico, Inc., and Cortez Pipeline Company.

Nov. 28-30, 2006	Presented Oral Testimony on behalf of Trans Alaska Pipeline System Carriers at the FERC regarding an investigation of interstate transportation rates in Docket Nos. IS05-82 and IS06-01 et al.
Aug. 11, 2006	Filed Prepared Rebuttal Testimony at the FERC on behalf of the Trans Alaska Pipeline System Carriers in an investigation of interstate transportation rates in Docket Nos. IS05-82 and IS06-01 et al.
Jun. 29, 2006	Presented Direct Oral Testimony and Cross Examination on behalf of Cortez Pipeline in Arbitration by Agreement involving <i>CO2 Committee, Inc. v. Shell Oil Company, Shell CO2 Company, Ltd.</i> , aka Kinder Morgan CO2 Company, L.P., Shell Western E & P, Inc., Mobil Producing Texas and New Mexico, INC., and Cortez Pipeline Company.
May 30, 2006	Filed Expert Report on behalf of Cortez in Arbitration by Agreement involving <i>CO2 Committee, Inc. v. Shell Oil Company, Shell CO2 Company, Ltd.</i> , aka Kinder Morgan CO2 Company, L.P., Shell Western E & P, Inc., Mobil Producing Texas and New Mexico, Inc., and Cortez Pipeline Company.
May 26, 2006	Filed Prepared Answering Testimony at the FERC on behalf of the Trans Alaska Pipeline System carriers in an investigation of interstate transportation rates effective January 1, 2006 in Docket Nos. IS05-82 et al. and IS06-01 et al.
Apr. 4, 2006	Filed Prepared Supplemental Direct Testimony at the FERC on behalf of the Trans Alaska Pipeline System Carriers in an investigation of interstate transportation rates effective January 1, 2006 in Docket No. IS06-01 et al.
Mar. 31, 2006	Filed Affidavit at the Surface Transportation Board (STB) on behalf of Valero, L.P. supporting its claim of materially changed circumstances which would permit the STB to vacate its prior rate prescription in Koch and thus restore ratemaking initiatives to Valero in Docket No. 42084.
Dec. 7, 2005	Filed Prepared Direct Testimony at the FERC on behalf of the Trans Alaska Pipeline System Carriers in an investigation of interstate transportation rates effective January 1, 2005 in Docket No. IS05-82 et al.
Jul. 18, 2005	Filed Affidavit in support of Sunoco's answer to ConocoPhillips's protest of Sunoco's application for authority to charge market-based rates in Docket No. OR05-7-000.
Apr. 12, 2005	Filed Prepared Direct Testimony on behalf of Sunoco Pipelines L.P. supporting Sunoco's application for authority to charge market-based rates in Docket No. OR05-7-000.
Feb. 25 – Mar. 2, 2005	Presented Oral Testimony and Cross Examination on behalf of SFPP in response to protest and complaint in Texaco Refining and Marketing et al. SFPP Docket Nos. OR96-2-000 et al. and IS98-1-000.

Jan. 28, 2005	Filed Prepared Rebuttal Testimony on behalf of SFPP in response to protest and complaint in <i>Texaco Refining and marketing et al.</i> SFPP LP Docket Nos. OR96-2-000 et al. and IS98-1-000.
Dec. 10, 2004	Filed Affidavit at the FERC in support of Petition for Declaratory Order filed by Enbridge Energy Company, Inc. regarding initial rates and determination of rate base for a proposed crude oil pipeline system between Chicago, IL and Cushing, OK. Docket No. OR05-1-000.
Dec. 10, 2004	Filed Prepared Answering Testimony on behalf of SFPP in response to protest and complaint in <i>Texaco Refining and Marketing, et al. v. SFPP, LP</i> Docket Nos. OR96-2-000 et al. and IS98-1-000.
Oct. 14, 2004	Filed Affidavit at the STB on behalf of Kaneb Pipe Line Partners, L.P. rebutting certain statements and allegations contained in the verified statement of Complainant witnesses in Docket No. 42084.
Sept. 13, 2004	Filed Affidavit at the STB on behalf of Kaneb Pipe Line Partners, L.P. supporting its claim of materially changed circumstances which would permit the STB to vacate its prior rate prescription in Koch and thus restore ratemaking initiatives to Kaneb in Docket No. 42084.
Apr. 6, 2004	Filed Affidavit at the FERC discussing entitlement of third party shippers to reparations. <i>Big West v. Frontier</i> , Docket No. OR01-3.
Apr. 5, 2004	Filed Affidavit at the FERC supporting the response of Frontier Pipeline Company to the request for rehearing of Big West Oil Company and Chevron Products Company. Docket Nos. OR01-02-000 and OR01-04-000.
Dec. 11, 2003	Presented Oral Testimony and Cross Examination on behalf of the Trans Alaska Pipeline System Carriers in the matter of Tariff Rates To Be Effective January 1, 2003 for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System and the Investigation Into the 2001 and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska. P-03-4.
Oct. 15, 2003	Submitted Rebuttal on behalf of the Trans Alaska Pipeline System Carriers in the matter of Tariff Rates To Be Effective January 1, 2003 for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System and the Investigation Into the 2001 and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska. P-03-4.
Sep. 10, 2003	Filed Affidavit at the FERC in support of Shell Pipeline Company LP's motion to compel discovery in Docket No. OR02-10.
Aug. 29, 2003	Submitted Prepared Direct Testimony at the FERC on behalf of Shell Pipeline Company LP in support for its application for authority to charge market-based rates. Docket No. OR02-10.

Jul. 24, 2003	Filed Affidavit at the FERC in support of Shell Pipeline Company LP's motion to extend the procedural schedule in Docket No. OR02-10.
Jun. 10, 2003	Submitted Prepared Answering and Rebuttal Testimony at the FERC supporting Platte FERC Tariff No. 1474 in Docket Nos. IS02-384-000 et al.
Jun. 3, 2003	Submitted Prepared Direct Testimony on behalf of the Trans Alaska Pipeline System Carriers in the matter of Tariff Rates To Be Effective January 1, 2003 for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System and the Investigation Into the 2001 and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska. P-03-4.
Dec. 20, 2002	Submitted Prepared Direct Testimony at the FERC supporting Platte FERC Tariff No. 1474 in Docket No. IS02-384-0000 et al.
Oct. 28, 2002	Submitted Reply Testimony at the FERC on behalf of Shell Pipeline Company in response to protest by Phillips Petroleum Co., Tosco Corporation, and ToscoPetro Corp. Docket No. OR02-10-000.
Aug. 9, 2002	Submitted Testimony at the FERC in support of reparations calculations proposed by Frontier Pipeline Company in Docket Nos. OR01-2-00 and OR01-4-000.
Jul. 9, 2002	Submitted Testimony at the FERC on behalf of Shell Pipeline Company in support for its application for authority to charge market-based rates. Docket No. OR02-10-000.
Jan. 11-31, 2002	Cross-examination in complaint of <i>ARCO Products Company et al. v. SFPP, LP</i> in Docket Nos. OR96-2-000, et al. before the FERC.
Nov. 2, 2002	Filed Affidavit at the FERC supporting Plantation Pipe Line Company's Petition for Declaratory Order regarding initial rates for proposed new pipeline service from Bremen, Georgia to Chattanooga and Knoxville, Tennessee. Docket No. OR02-1-000.
Jul. 31, 2001	Filed Prepared Reply Testimony on behalf of SFPP at the FERC in response to complaint of ARCO Products Company et al. in Docket Nos. OR96-2-000, et al.
May 15, 2001	Filed Prepared Answering Testimony on behalf of SFPP in response to complaint of ARCO Products Company et al. in Docket Nos. OR96-2-000, et al.
Apr. 23-26, 2001	Presented Oral Testimony on behalf of Trans Alaska Pipeline System Carriers in the matter of the correct calculation and use of acceptable input data to calculate the 1997, 1998, 1999, and 2000 tariff rates for the intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska P97-4 and P97-7.
Apr. 2, 2001	Filed Affidavit with the Superior Court of Arizona, Tax Court discussing Commission regulations regarding the concept of Original Cost in <i>SFPP, L.P. v. Arizona Department of Revenue</i> No. TX 1999-00532.

Mar. 29, 2001	Filed Rebuttal Report on behalf of Cortez Pipeline Company in <i>CO₂ Claims Coalition, et al., v. Shell Oil Company, et al.</i> in the United States District Court for the State of Colorado CIV No. 96-Z-2451.
Mar. 26, 2001	Filed Affidavit at the FERC supporting the response of Anschutz Ranch East Pipeline to the complaint made by Chevron Products Company. Docket No. OR01-05-000.
Mar. 20, 2001	Submitted Testimony at the FERC on behalf of West Shore Pipe Line Company in support for its application for authority to charge market-based rates. Docket No. OR01-06-000.
Mar. 14, 2001	Filed Affidavit at the FERC supporting the response of Frontier Pipeline Company to answer of complaint made by Chevron Products Company. Docket No. OR01-04-000.
Mar. 13, 2001	Filed Affidavit at the FERC supporting the response of Anschutz Ranch East Pipeline Inc. to the amended complaint made by Big West Oil Company. Docket No. OR01-03-000.
Mar. 5, 2001	Filed Affidavit at the FERC supporting the response of Frontier Pipeline Company to answer a complaint made by Big West Oil Company. Docket No. OR01-02-000.
Feb. 26, 2001	Rebuttal Testimony on behalf of Trans Alaska Pipeline System Carriers in the matter of the correct calculation and use of acceptable input data to calculate the 1997, 1998, 1999 and 2000 tariff rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the State of Alaska, Regulatory Commission of Alaska, P-97-4.
Feb. 6, 2001	Filed Affidavit at the FERC supporting the response of Anschutz Ranch East Pipeline Inc. to the complaint made by Big West Oil Company. Docket No. OR01-03-000.
Jan. 29, 2001	Filed Affidavit at the FERC supporting the response of Frontier Pipeline Company to the complaint made by Big West Oil Company. Docket No. OR01-02-000.
Dec. 20, 2000	Prepared Direct Testimony, filed with the FERC, in support of Chase Transportation Company's application for authority to charge market-based rates in Docket No. OR01-1-000.
Nov. 14, 2000	Presented oral testimony on behalf of Kinder Morgan Energy Partners, L.P. before the State of Arizona, Board of Equalization regarding the proper valuation of SFPP's pipeline assets in the State of Arizona.
Jul. 12, 2000	Second Prepared Direct Testimony on behalf of Trans Alaska Pipeline System Carriers in the matter of the correct calculation and use of acceptable input data to calculate the 1997, 1998, 1999 and 2000 tariff rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the State of Alaska, Regulatory Commission of Alaska, P-97-4.

May 9, 2000	Submitted second report to the American Arbitration Association (AAA) regarding oil pipeline tariff regulations rebutting testimony of Marcum Midstream-Farstad, LLC in the arbitration between <i>Marcum Midstream-Farstad, LLC et al. v. Amoco Oil Company</i> . Case No. 70 198 00294-99.
May 5, 2000	Filed Affidavit at the FERC supporting the Response of ExxonMobil Pipeline Company to the Motion to Intervene of BP Exploration & Oil, Inc. in Opposition to ExxonMobil Pipeline Company's Petition for Declaratory Order and Petition for Discovery regarding initial transportation rates on the Hoover Offshore Oil Pipeline System (HOOPS) in Docket No. OR00-2-000.
May 2, 2000	Submitted Testimony at the FERC on behalf of Equilon Pipeline Company, LLC in support of its cost-of-service filing in Docket No. IS00-208-000.
Mar. 20, 2000	Submitted report to the AAA regarding oil pipeline tariff regulations in support of Amoco Oil, Company's position in the arbitration between <i>Marcum Midstream-Farstad, LLC et al. v. Amoco Oil Company</i> . Case No. 70 198 00294-99.
Mar. 9, 2000	Filed Affidavit at the FERC supporting ExxonMobil Pipeline Company's Petition for Declaratory Order regarding initial transportation rates on the HOOPS in Docket No. OR00-2-000.
Feb. 15, 2000	Submitted Testimony at the FERC on behalf of Marathon Ashland Pipe Line LLC in support of its application for the authority to charge Market-Based Rates in Docket No. OR00-1-000.
Jun. 16, 1999	Submitted Testimony at the FERC on behalf of Amoco Pipeline Company in support of its cost-of-service filing in Docket No. IS99-268-000.
Apr. 30, 1999	Supplemental Testimony on behalf of Cortez Pipeline Company in <i>CO₂ Claims Coalition, et al., v. Shell Oil Company, et al.</i> in the United States District Court for the State of Colorado CIV No. 96-Z-2451.
Feb. 19, 1999	Supplemental Testimony on behalf of Explorer Pipeline Company as part of its Motion for Summary Disposition in its Application for Market-Based Rates at the FERC, OR99-1-000.
Jan. 29, 1999	Oral Testimony and cross-examination in <i>Conoco Pipeline Company, Inc. v. Transmontaigne Pipeline, Inc.</i> in the United States District Court for the Western District of Missouri, Southwest Division, Case No. 97-5085-CV-SW-1.
Jan. 13, 1999	Deposition in <i>CO₂ Claims Coalition, et al., v. Shell Oil Company, et al.</i> in the United States District Court for the State of Colorado CIV NO. 96-Z-2451.
Nov. 23, 1998	Prepared Testimony on behalf of Cortez Pipeline in <i>CO₂ Claims Coalition, et al., v. Shell Oil Company, et al.</i> in the United States District Court for the State of Colorado CIV NO. 96-Z-2451.

Oct. 15, 1998	Submitted Testimony on behalf of Explorer Pipeline Company as part of its Application for Market-Based Rates at the FERC in Docket No. OR99-1-000.
Oct. 8, 1998	Prepared Direct Supplemental Testimony on behalf of the Trans Alaska Pipeline System Carriers in the Alaska Public Utilities Commission Docket No. P-97-4, the protest of the 1997 and 1998 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System (revised Oct. 15, 1999).
Sep. 25, 1998	Deposition in <i>Conoco Pipeline Company, Inc. v. Transmontaigne Pipeline, Inc.</i> in the United States District Court for the Western District of Missouri, Southwest Division, Case No. 97-5085-CV-SW-1.
Aug. 14, 1998	Testimony in <i>Conoco Pipeline Company, Inc. v. Transmontaigne Pipeline, Inc.</i> in the United States District Court for the Western District of Missouri, Southwest Division, Case No. 97-5085-CV-SW-1.
Mar. 2, 1998	Rebuttal Testimony in <i>CF Industries, et al., v. Koch Pipeline Company, LP.</i> at the STB, Docket No. 41685.
Dec. 17, 1997	Deposition in <i>Doris Feerer, et al., v. AMOCO Production Company</i> in the United States District Court for the State of New Mexico CIV NO. 95-00012-JC/WWD.
Nov. 10, 1997	Direct Testimony in <i>CF Industries v. Koch Pipeline Company, LP.</i> at the STB in Docket No. 41685.
May 5, 1997	<i>Doris Feerer, et al., v. AMOCO Production Company</i> in the United States District Court for the State of New Mexico CIV NO. 95-00012-JC/WWD.
Dec. 1995	Cross-examination in Phase II of Williams Pipe Line Company, Docket No. IS90-21-000 et al., before the FERC.
Oct. 26, 1995	Rebuttal Testimony in Phase II of Williams Pipe Line Company, Docket No. IS90-21-000 et al., before the FERC.
Jul. 21, 1995	Supplemental Direct Testimony in Phase II of Williams Pipe Line Company, Docket No. IS90-21-000 et al., before the FERC.
Jul. 1995	Deposition in Phase II of Williams Pipe Line Company, Docket No. IS90-21-000 et al., before the FERC.
Jan. 23, 1995	Direct Testimony in Phase II of Williams Pipe Line Company, Docket Nos. IS90-21-000 et al., before the FERC.
Jul. 30, 1993	Verified Statement in <i>Kerr-McGee Refining Corporation and Texaco Refining and Marketing, Inc. v. Williams Pipe Line Company</i> , Docket No. OR91-01-000, before the FERC.

Presentations

- ◆ **Grandfathered Rates – FERC’s New Outlook (September 2011).** Association of Oil Pipelines, Annual Business Conference, Denver, Colorado.
- ◆ **Jurisdictional Jeopardy (September 2011).** Association of Oil Pipelines, Annual Business Conference, Denver, Colorado.
- ◆ **Jurisdictional Jeopardy (September 2010).** Association of Oil Pipelines, Annual Business Conference, Atlanta, Georgia
- ◆ **Grandfathered Rates and Changed Circumstances (September 2010).** Association of Oil Pipelines, Annual Business Conference, Atlanta, Georgia
- ◆ **Jurisdictional Jeopardy (September 2009).** Association of Oil Pipelines, Annual Business Conference, San Diego, California
- ◆ **EP Act, Grandfathered Rates and Changed Circumstances (September 2009).** Association of Oil Pipelines, Annual Business Conference, San Diego, California
- ◆ **Grandfathered Rates / Changed Circumstances (September 2008).** Association of Oil Pipelines, Annual Business Conference, Austin, Texas.
- ◆ **FERC Jurisdictional or Not? (September 2008).** Association of Oil Pipelines, Annual Business Conference, Austin, Texas.
- ◆ **Changes in North American Logistics and Regulatory Environment (September 2007).** Association of Oil Pipelines, Annual Business Conference, Los Angeles, California.
- ◆ **FERC Jurisdictional or Not? (September 2007).** Association of Oil Pipelines, Annual Business Conference, Los Angeles, California.
- ◆ **Grandfathered Rates, Changed Circumstances (September 2007).** Association of Oil Pipelines, Annual Business Conference, Los Angeles, California.
- ◆ **FERC Jurisdictional and Non-Jurisdictional Services (May 2006).** Association of Oil Pipelines, Annual Business Conference, Minneapolis, Minnesota.
- ◆ **FERC Jurisdictional and Non-Jurisdictional Services (May 2005).** Association of Oil Pipelines, Annual Business Conference, New Orleans, Louisiana.
- ◆ **FERC Form 6 (May 2004).** Association of Oil Pipelines, Annual Business Conference, St. Petersburg, Florida.
- ◆ **FERC Jurisdictional and Non-Jurisdictional Services (May 2004).** Association of Oil Pipelines, Annual Business Conference, St. Petersburg, Florida.
- ◆ **FERC Jurisdictional and Non-Jurisdictional Services (May 2003).** Association of Oil Pipelines, Annual Business Conference, Baltimore, Maryland.
- ◆ **FERC Form 6 – Page 700 (May 2002).** Association of Oil Pipelines, Accounting and Regulatory Workshop, St. Petersburg, Florida.

- ◆ **FERC Jurisdictional and Non-Jurisdictional Services (May 2002).** Association of Oil Pipelines, Accounting and Regulatory Workshop, St. Petersburg, Florida.
- ◆ **Market-based Rates for Oil Pipelines (May 2001).** Association of Oil Pipelines, Accounting and Finance Workshop, New Orleans, Louisiana.
- ◆ **Market-based Rates for Oil Pipelines (May 2000).** Association of Oil Pipelines, Accounting and Finance Workshop, San Antonio, Texas.
- ◆ **Market-based Rates (May 1999).** Association of Oil Pipelines, Accounting and Finance Workshop, San Antonio, Texas.
- ◆ **FERC Form 6 (May 1998).** Association of Oil Pipelines, Accounting and Finance Workshop, Atlanta, Georgia.
- ◆ **FERC's Indexation of Oil Pipeline Rates (April 1998).** American Petroleum Institute, Pipeline Conference, Houston, Texas.
- ◆ **Applying for Market-based Rates (May 1997).** Association of Oil Pipelines, Accounting and Finance Workshop, Atlanta, Georgia.
- ◆ **Oil Pipeline Rate Regulation (March 1997).** Executive Enterprises, Oil Pipeline Regulation, Houston, Texas.
- ◆ **Pipeline Economics (1992-1996).** American Petroleum Institute, School of Pipeline Technology, Harris College, Houston, Texas.
- ◆ **Overview of Current Oil Pipeline Regulations (May 1996).** Association Of Oil Pipelines, Accounting and Finance Workshop, St. Louis, Missouri.
- ◆ **Oil Pipeline Rate Regulation (October 1995).** Executive Enterprises, Alternative Ratemaking and Gas Price Methodologies, Houston, Texas.
- ◆ **Challenges Facing Oil Pipelines (June 1995).** Executive Enterprises, Oil Pipeline Ratemaking Strategies for the 90s, Houston, Texas.
- ◆ **Recent FERC Rulemakings (May 1995).** Association of Oil Pipelines, Accounting and Finance Workshop, St. Louis, Missouri.
- ◆ **Quantifying Competition in the Quest for Market-Based Rates (May 1994).** Association of Oil Pipelines, Accounting and Finance Workshop, Dallas, Texas.
- ◆ **The Future of Oil Pipeline Ratemaking (May 1993).** Association of Oil Pipelines, Accounting and Finance Workshop, San Antonio, Texas.

Prior Experience

Klick, Kent & Allen, Inc. (1997 – 1998)	<i>Senior Consultant</i> Led client engagements regarding oil pipeline regulatory matters; provided financial and economic consulting services to clients regarding strategic planning, market analysis, ratemaking and litigation support.
Williams Pipe Line Company (1993 – 1997)	<i>Manager, Tariffs and Regulatory Affairs</i> Directed company's Phase II defense in rate case before the FERC (IS-90-21-000 et al.).
Williams Pipe Line Company (1990-1993)	<i>Manager, Strategic Planning and Tariffs</i> Supervised the preparation of monthly, annual and long-range forecasts of volumes, revenues and related variance comments.
Williams Pipe Line Company (1987-1990)	<i>Supervisor, Health and Safety</i> Responsible for establishing system-wide health and safety programs for approximately 700 employees in 10 states.
Williams Pipe Line Company (1986-1987)	<i>Operations Supervisor</i> Responsible for supervising all aspects of pipeline terminal and pump station operations for terminal complex handling refined petroleum, fertilizer, asphalt and LPG.
Williams Pipe Line Company (1984-1986)	<i>Various Positions in Field Operations</i> Responsible for various aspects of pipeline operation and administration at the terminal, station and regional field office level.

Education

<i>Northwestern University</i>	Pipeline Economics and Management Program
<i>University of Kansas</i>	B.S. Business Administration

**ATTACHMENT B
TO EXHIBIT 3**

Tax Rate Calculation

Calculation of Composite Corporate Income Tax Rate
Osage Pipe Line Company LLC
For the years 1982, 1992, and 2011

Line No.	Description	Source	1982	1992	2011
1	Tax Rate - Federal	IRS publications	46.0%	34.0%	35.0%
2	Tax Rate - Oklahoma	State administrative code	4.0%	6.0%	6.0%
3	Tax Rate - Kansas	State administrative code	6.75%	7.35%	7.00%
4	Miles of Pipe - Oklahoma	Form 6, p. 602, ln. 1	76	76	75
5	Miles of Pipe - Kansas	Form 6, p. 602, ln. 2	60	60	60
6	Miles of Pipe - Total	Form 6, p. 602, grand total	136	136	135
7	Tax Rate - State Composite	Lines (2 * 4 + 3 * 5) / 6	5.2%	6.6%	6.4%
8	Tax Rate - Overall Composite	Lines 1 * (100% - 7) + 7	48.8%	38.4%	39.2%

**ATTACHMENT C
TO EXHIBIT 3**

FERC Form 6 Excerpts (1982, 1992, 2011)



FERC FORM NO. 6: ANNUAL REPORT OF OIL PIPELINE COMPANIES

(Formerly ICC Form P)

EIA-SURVEY CENTER

APR 6 1983

D.O.E.-WASH., D.C.

This report is mandatory under the Interstate Commerce Act, Section 20, and 18 CFR 357.2. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)	Year of Report
OSAGE PIPE LINE COMPANY	Dec. 31, 1982

FERC FORM NO. 6 (REVISED 12-82)

Name of Respondent Osage Pipe Line Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-83	Year of Report Dec. 31, 1982
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COMPARATIVE BALANCE SHEET STATEMENT—ASSETS

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The

entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

Line No.	Item (a)	Reference Page No. (b)	Balance at End of Year (In dollars) (c)	Balance at Beginning of Year (In dollars) (d)
CURRENT ASSETS				
1	Cash (10)		(755,611)	(93,976)
2	Special Deposits (10-5)			
3	Temporary Investments (11)			
4	Notes Receivable (12)			
5	Receivables from Affiliated Companies (13)	200	736,371	654,082
6	Accounts Receivable (14)		242,123	320,979
7	Interest and Dividends Receivable (15)			
8	Oil Inventory (16)			
9	Material and Supplies (17)		28,573	28,573
10	Prepayments (18)		15,380	9,054
11	Other Current Assets (19)			
12	Deferred Income Tax Charges (19-5)	231		
13	TOTAL Current Assets (Total of lines 1 thru 12)		266,836	918,712
INVESTMENTS AND SPECIAL FUNDS				
Investments in Affiliated Companies (20):				
14	Stocks	202-203		
15	Bonds	202-203		
16	Other Secured Obligations	202-203		
17	Unsecured Notes	202-203		
18	Investment Advances	202-203		
19	Undistributed Earnings from Certain Invest. in Acct 20	204		
Other Investments (21):				
20	Stocks	206-207		
21	Bonds	206-207		
22	Other Secured Obligations	206-207		
23	Unsecured Notes	206-207		
24	Investment Advances	202-203		
25	Sinking and Other Funds (22)			
26	Reductions in Security Values—Credit (23)			
27	Allowance for Net Unrealized Loss on Noncurrent Marketable Equity Securities—Credit			
28	TOTAL Invest and Special Funds (Total lines 14 thru 27)			



Name of Respondent Osage Pipe Line Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-83	Year of Report Dec. 31, 19 82
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COMPARATIVE BALANCE SHEET STATEMENT-ASSETS (Continued)

1. For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in

the supporting schedules on the pages indicated.

2. On line 30, include depreciation applicable to investment in system property.

Line No.	Item (a)	Reference Page No. (b)	Balance at End of Year (In dollars) (c)	Balance at Beginning of Year (In dollars) (d)
	TANGIBLE PROPERTY			
29	Carrier Property (30)		19,594,083	19,593,814
30	Less Accrued Depreciation—Carrier Property (31)	214-215	3,754,513	3,187,119
31	Less Accrued Amortization—Carrier Property (32)	216-217		
32	Net Carrier Property (Line 29 less 30 and 31)		15,839,570	16,406,695
33	Operating Oil Supply (33)		3,769,966	2,867,558
34	Noncarrier Property (34)	219		
35	Less Accrued Depreciation—Noncarrier Property			
36	Net Noncarrier Property (Line 34 less 35)			
37	TOTAL Tangible Property (Total of lines 32, 33 and 34)		19,609,536	19,274,253
	OTHER ASSETS AND DEFERRED CHARGES			
38	Organization Costs and Other Intangibles (40)			
39	Less Accrued Amortization of Intangibles (41)			
40	Unamortized Interest on Long-Term Debt (42)			
41	Miscellaneous Other Assets (43)			
42	Other Deferred Charges (44)	220	100,452	105,833
	Accumulated Deferred Income Tax Charges (45)	231		
..	TOTAL Other Assets and Deferred Charges (38 thru 43)		100,452	105,833
45	TOTAL Assets (Total of lines 13, 28, 37 and 44)		19,976,824	20,298,798

Name of Respondent Osage Pipe Line Company		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 3-31-83	Year of Report Dec. 31, 1982
COMPARATIVE BALANCE SHEET STATEMENT LIABILITIES (Continued)					
For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The			entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.		
Line No.	Item (a)	Reference Page No. (b)	Balance at End of Year (In dollars) (c)	Balance at Beginning of Year (In dollars) (d)	
CURRENT LIABILITIES					
46	Notes Payable (50)		1,100,000	1,900,000	
47	Payables to Affiliated Companies (51)	225	120,754	77,893	
48	Accounts Payable (52)		80,000	60,000	
49	Salaries and Wages Payable (53)				
50	Interest Payable (54)		419,159	436,313	
51	Dividends Payable (55)				
52	Taxes Payable (56)		503,227	339,264	
53	Long-Term Debt-Payable Within One Year (57)	226-227	460,000	460,000	
54	Other Current Liabilities (58)				
55	Deferred Income Tax Credits (59)	231			
56	TOTAL Current Liabilities (Total of lines 46 thru 55)		2,683,140	3,273,470	
NONCURRENT LIABILITIES					
57	Long-Term Debt-Payable After One Year (60)	226-227	10,780,000	11,240,000	
58	Unamortized Premium on Long-Term Debt (61)				
59	Unamortized Discount on Long-Term Debt-Debit (62)				
60	Other Noncurrent Liabilities (63)				
	Accumulated Deferred Income Tax Credits (64)	231	3,982,828	3,436,498	
62	TOTAL Noncurrent Liabilities (Total of lines 57 thru 61)		14,762,828	14,676,498	
63	TOTAL Liabilities (Total of lines 56 and 62)		17,445,968	17,949,968	
STOCKHOLDERS' EQUITY					
64	Capital Stock (70)	250-251	1,700,000	1,700,000	
65	Premiums on Capital Stock (71)				
66	Capital Stock Subscriptions (72)				
67	Additional Paid-In Capital (73)	254			
68	Appropriated Retained Income (74)	113		352,204	
69	Unappropriated Retained Income (75)	119	830,856	296,626	
70	Unrealized Loss on Noncarrier Marketable Equity Securities (75.5)				
71	Less Treasury Stock (76)				
72	TOTAL Stockholders' Equity (Total of lines 64 thru 71)		2,530,856	2,348,830	
73	TOTAL Liabilities and Stockholders' Equity (Total of lines 63 and 72)		19,976,824	20,298,798	

Name of Respondent Osage Pipe Line Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-83	Year of Report Dec. 31, 1982
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INCOME STATEMENT

1. Give the particulars (details) called for from the Income Accounts of the respondent for the year. The entries in this statement should be determined in accordance with the rules prescribed in the U.S. of A. and should be consistent with the details stated on the pages referred to.

2. The dividends on line 5 includes only dividends from investments accounted for under the cost method. The dividends on line

11 includes only dividends accounted for under the equity method. Line 12 includes the undistributed earnings from investments accounted for under the equity method. Line 13 represents the earnings (losses) of investee companies accounted for under the equity method.

Line No.	Item (a)	Reference Page No. (b)	Amount (In dollars) (c)
	ORDINARY ITEMS		
	Carrier Operating Income		
1	Operating Revenues (600)	301	6,348,965
2	Operating Expenses (610)	302-303	2,383,461
3	Net Carrier Operating Income		3,965,504
	Other Income and Deductions		
4	Income (Net) from Noncarrier Property (620)		
5	Interest and Dividend Income (From Investments under Cost Only) (630)	336	
6	Miscellaneous Income (640)	337	
7	Unusual or Infrequent Items — Credit (645)		
8	Interest Expense (650)		1,229,213
9	Miscellaneous Income Charges (660)	337	(7,663)
10	Unusual or Infrequent Items — Debit (665)		
11	Dividend Income (From Investments under Equity Only)		
12	Undistributed Earnings (Losses)		
13	Equity in Earnings (Losses) of Affiliated Companies (Total lines 11 and 12)		
14	TOTAL Other Income and Deductions (Total lines 4 thru 10 and 13)		1,221,550
15	Ordinary Income before Federal Income Taxes (Line 3 +/- 14)		2,743,954
16	Income Taxes on Income from Continuing Operations (670)		706,599
17	Provision for Deferred Taxes (671)	231	546,330
18	Income (Loss) from Continuing Operations (Total lines 15 thru 17)		1,491,025
	Discontinued Operations		
19	Income (Loss) from Operations of Discontinued Segments (675)*		
20	Gain (Loss) on Disposal of Discontinued Segments (676)*		
21	TOTAL Income (Loss) from Discontinued Operations (Lines 19 and 20)		
22	Income (Loss) before Extraordinary Items (Total lines 18 and 21)		1,491,025
	EXTRAORDINARY ITEMS AND ACCOUNTING CHANGES		
23	Extraordinary Items—Net—(Debit) Credit (680)	337	
24	Income Taxes on Extraordinary Items—Debit (Credit) (695)	337	
25	Provision for Deferred Taxes—Extraordinary Items (696)	231	
26	TOTAL Extraordinary Items (Total lines 23 thru 25)		
27	Cumulative Effect of Changes in Accounting Principles (697)*		
28	TOTAL Extraordinary Items and Acctg. Changes—(Debit) Credit (Line 26 + 27)		-
29	Net Income (Loss) (Total lines 22 and 28)		1,491,025

Name of Respondent Osage Pipe Line Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-83	Year of Report Dec. 31, 1982
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OPERATING REVENUE ACCOUNTS (Account 600)

State the pipeline operating revenues of the respondent for the year, classified in accordance with the U.S. of A.

Line No.	Operating Revenue Accounts (a)	Crude Oil (In dollars) (b)	Products (In dollars) (c)	Total (In dollars (b) + (c)) (d)
1	Gathering revenues (200)			
2	Trunk revenues (210)	5,449,811		5,449,811
3	Delivery revenues (220)			
4	Allowance oil revenue (230)	899,154		899,154
5	Storage and demurrage revenue (240)			
6	Rental revenue (250)			
7	Incidental revenue (260)			
8	TOTAL	6,348,965		6,348,965



Name of Respondent Osage Pipe Line Company		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 3-31-83		Year of Report Dec. 31, 1982	
MILES OF PIPELINE OPERATED AT END OF YEAR							
<p>1. Give particulars (details) called for by States and termini, concerning the miles of all pipeline operated, and size of each line at end of year, according to the classifications given.</p> <p>2. Report miles of pipeline operated to the nearest whole mile adjusted to footings, i.e.: count 1/2 mile and over as a whole mile disregarding any fraction less than 1/2 mile. Report fractional size line in the next smaller whole size, e.g.: report 2-1/2" and 6-5/8"</p>				<p>lines as 2" and 6" lines, respectively. Size of line is defined as inside diameter.</p> <p>3. Report under (a), Lines wholly owned and operated by respondent, including wholly owned minor facilities temporarily idle or in standby service.</p> <p>4. Report under (b), Total miles for each system owned in undivided interests and operated by respondent. Name each system</p>			
Line No.	Name of Company and State (a)	TERMINI		OPERATED AT END OF YEAR			
		From— (b)	To— (c)	GATHERING LINES		TRUNK LINES FOR CRUDE OIL	
				Miles (d)	Size of Line (In inches) (e)	Miles (f)	Size of Line (In inches) (g)
(A) OWNED AND OPERATED BY RESPONDENT							
1	Osage Pipe Line Co.						
2	Oklahoma	Cushing, OK	State Line			76	20"
3							
4	Osage Pipe Line Co.						
5	Kansas	State Line	El Dorado, KS			60	20"
6							
7							
8							
9							
10							
11							
12							
13							
14	TOTAL					136	
(B) OWNED IN UNDIVIDED INTERESTS AND OPERATED BY RESPONDENT							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28	TOTAL						
(C) OWNED BY OTHERS BUT OPERATED BY RESPONDENT							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40	TOTAL						
41	GRAND TOTAL					136	

Check appropriate box:

☒ Original signed form

☐ Conformed copy

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93 DEC -5 PM 2:24

ORIGINAL

Form Approved
OMB No. 1902-0022
(Expires 8/31/93)



"Oilpipeline Corr."

FERC FORM NO. 6: ANNUAL REPORT OF OIL PIPELINE COMPANIES

(Formerly ICC Form P)

This report is mandatory under the Interstate Commerce Act, Section 20, and 18 CFR 357.2. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)

Osage Pipe Line Company

Year of Report

Dec. 31, 1992

✓ FERC FORM NO. 6 (ED. 12-92)

9304080213

1753 0000

Name of Respondent	This Report Is:	Date of Report	Year of Report
Osage Pipe Line Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) Mar. 31, 1993	Dec. 31, 1992

COMPARATIVE BALANCE SHEET STATEMENT-ASSETS

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S.

-of A- The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

Line No.	Item	Reference Page No.	Balance at End of Year (In dollars)	Balance at Beginning of Year (in dollars)
(a)	(b)	(c)	(d)	
CURRENT ASSETS				
1	Cash (10)			
2	Special Deposits (10-5)			
3	Temporary Investments (11)		589,880	332,180
4	Notes Receivable (12)			
5	Receivables from Affiliated Companies (13)	200	649,483	705,743
6	Accounts Receivable (14)		60,419	53,606
7	Interest and Dividends Receivable (15)		1,525	325
8	Oil Inventory (16)		107,359	240,458
9	Material and Supplies (17)		22,989	44,926
10	Prepayments (18)		7,559	8,014
11	Other Current Assets (19)			
12	Deferred Income Tax Charges (19-5)	230-231		
13	TOTAL Current Assets (Total of lines 1 thru 12)		1,439,214	1,385,252
INVESTMENTS AND SPECIAL FUNDS				
Investments in Affiliated Companies (20):				
14	Stocks	202-203	0	
15	Bonds	202-203		
16	Other Secured Obligations	202-203		
17	Unsecured Notes	202-203		
18	Investment Advances	202-203	0	
19	Undistributed Earnings from Certain Invest. in Acct 20	204-205		
Other Investment (21):				
20	Stocks	206-207		
21	Bonds	206-207		
22	Other Secured Obligations	206-207		
23	Unsecured Notes	206-207		
24	Investment Advances	206-207		
25	Sinking and Other Funds (22)			
26	(Less) Reductions in Security Values-Credit (23)			
27	(Less) Allowance for Net Unrealized Loss on Noncurrent Marketable Equity Securities--Credit			
28	TOTAL Investment and Special Funds (Total lines 14 thru 27)		0	0

Name of Respondent	This Report Is:	Date of Report	Year of Report
Osage Pipe Line Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) Mar. 31, 1993	Dec. 31, 1992

COMPARATIVE BALANCE SHEET STATEMENT-ASSETS (Continued)

1. For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent

with those in the supporting schedules on the pages indicated.
2. On line 30, include depreciation applicable to investment in system property.

Line No.	Item	Reference Page No.	Balance at End of Year (In dollars)	Balance at Beginning of Year (in dollars)
	(a)	(b)	(c)	(d)
TANGIBLE PROPERTY				
29	Carrier Property (30)	212-213	19,287,465	19,791,761
30	(Less) Accrued Depreciation--Carrier Property (31)	214-217	9,140,017	8,848,055
31	(Less) Accrued Amortization--Carrier Property (32)	218		
32	Net Carrier Property (Line 29 less 30 and 31)		10,147,448	10,943,706
33	Operating Oil Supply (33)		5,764,450	5,784,373
34	Noncarrier Property (34)	220		
35	(Less) Accrued Depreciation--Noncarrier Property			
36	Net Noncarrier Property (Line 34 less 35)		0	0
37	TOTAL Tangible Property (Total of lines 32, 33 and 36)		15,911,898	16,728,079
OTHER ASSETS AND DEFERRED CHARGES				
38	Organization Costs and Other Intangibles (40)			
39	(Less) Accrued Amortization of Intangibles (41)			
40	Reserved			
41	Miscellaneous Other Assets (43)			
42	Other Deferred Charges (44)	221	46,639	52,020
43	Accumulated Deferred Income Tax Charges (45)	230-231		
44	TOTAL Other Assets and Deferred Charges (38 thru 43)		46,639	52,020
45	TOTAL Assets (Total of lines 13, 28, 37 and 44)		17,397,751	18,165,351

Name of Respondent		This Report Is:		Date of Report	Year of Report
Osage Pipe Line Company		(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		(Mo, Da, Yr) Mar. 31, 1993	Dec. 31, 1992

COMPARATIVE BALANCE SHEET STATEMENT-LIABILITIES (Continued)

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S.

A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

Line No.	Item	Reference Page No.	Balance at End of Year (In dollars)	Balance at Beginning of Year (in dollars)
	(a)	(b)	(c)	(d)
CURRENT LIABILITIES				
46	Notes Payable (50)			
47	Payables to Affiliated Companies (51)	225	878,692	687,813
48	Accounts Payable (52)		86,114	106,397
49	Salaries and Wages Payable (53)			
50	Interest Payable (54)		247,617	264,771
51	Dividends Payable (55)			
52	Taxes Payable (56)		987,033	442,696
53	Long-Term Debt Payable Within One Year (57)	226-227	460,000	460,000
54	Other Current Liabilities (58)			
55	Deferred Income Tax Credits (59)	230-231		
56	TOTAL Current Liabilities (Total of lines 46 thru 55)		2,659,456	1,961,677
NONCURRENT LIABILITIES				
57	Long-Term Debt Payable After One Year (60)	226-227	6,180,000	6,640,000
58	Unamortized Premium on Long-Term Debt (61)			
59	(Less) Unamortized Discount on Long-Term Debt-Dr. (62)			
60	Other Noncurrent Liabilities (63)			3,751
61	Accumulated Deferred Income Tax Credits (64)	230-231	4,541,120	5,272,727
62	TOTAL Noncurrent Liabilities (Total of lines 57 thru 61)		10,721,120	11,916,478
63	TOTAL Liabilities (Total of lines 56 and 62)		13,380,576	13,878,155
STOCKHOLDERS' EQUITY				
64	Capital Stock (70)	250-251	1,700,000	1,700,000
65	Premiums on Capital Stock (71)			
66	Capital Stock Subscriptions (72)			
67	Additional Paid-In Capital (73)	254		
68	Appropriated Retained Income (74)	118		
69	Unappropriated Retained Income (75)	119	2,317,175	2,587,196
70	(Less) Unrealized Loss on Noncarrier Marketable Equity Sec (75.5)			
71	(Less) Treasury Stock (76)			
72	TOTAL Stockholders' Equity (Total of lines 64 thru 71)		4,017,175	4,287,196
73	TOTAL Liabilities and Stockholders' Equity (Total of lines 63 and 72)		17,397,751	18,165,351

Name of Respondent Osage Pipe Line Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) Mar. 31, 1993	Year of Report Dec. 31, 1992
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INCOME STATEMENT

1. Give the particulars (details) called for from the Income Accounts of the respondent for the year. The entries in this statement should be determined in accordance with the rules prescribed in the U.S. of A., and should be consistent with the details stated on the pages referred to.

2. The dividends on line 5 include only dividends from investments accounted for under the cost method. The dividends on line 11 includes only dividends accounted for under the equity method. Line 12 includes the undistributed earnings from investments accounted for under the equity method. Line 13 represents the earnings (losses) of investee companies accounted for under the equity method.

Line No.	Item	Reference Page No.	Amount (in dollars)
	(a)	(b)	(c)
	ORDINARY ITEMS		
	Carrier Operating Income		
1	Operating Revenues (600)	301	8,419,143
2	(Less) Operating Expenses (610)	302-303	2,924,222
3	Net Carrier Operating Income		5,494,921
	Other Income and Deductions		
4	Income (Net) from Noncarrier Property (620)	335	
5	Interest and Dividend Income (From Investments under Cost Only) (630)	336	26,427
6	Miscellaneous Income (640)	337	
7	Unusual or Infrequent Items--Credit (645)		
8	(Less) Interest Expense (650)		618,289
9	(Less) Miscellaneous Income Charges (660)	337	
10	(Less) Unusual or Infrequent Items--Debit (665)		
11	Dividend Income (From Investments under Equity Only)		
12	Undistributed Earnings (Losses)		
13	Equity in Earnings (Losses) of Affiliated Companies (Total lines 11 and 12)		0
14	TOTAL Other Income and Deductions (Total lines 4 thru 10 and 13)		(591,862)
15	Ordinary Income before Federal Income Taxes (Line 3 +/- 14)		4,903,059
16	(Less) Income Taxes on Income from Continuing Operations (670)		2,580,700
17	(Less) Provision for Deferred Taxes (671)	230-231	(731,605)
18	Income (Loss) from Continuing Operations (Total lines 15 thru 17)		3,053,964
	Discontinued Operations		
19	Income (Loss) from Operations of Discontinued Segments (675)*		
20	Gain (Loss) on Disposal of Discontinued Segments (676)*		
21	TOTAL Income (Loss) from Discontinued Operation (Lines 19 and 20)		0
22	Income (Loss) before Extraordinary Items (Total lines 18 and 21)		3,053,964
	EXTRAORDINARY ITEMS AND ACCOUNTING CHANGES		
23	Extraordinary Items-Net-(Debit) Credit (680)	337	
24	Income Taxes on Extraordinary Items-Debit (Credit) (695)	337	
25	Provision for Deferred Taxes-Extraordinary Items (696)	230-231	
26	TOTAL Extraordinary Items (Total lines 23 thru 25)		0
27	Cumulative Effect of Changes in Accounting Principles (697)*		
28	TOTAL Extraordinary Items and Acctg Changes-(Debit) Credit (Line 26 + 27)		0
29	Net Income (Loss) (Total lines 22 and 28)		3,053,964

* Less applicable income taxes as reported on page 122.

Name of Respondent	This Report Is:	Date of Report	Year of Report
Osage Pipe Line Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) Mar. 31, 1993	Dec. 31, 1992

OPERATING REVENUE ACCOUNTS (Account 600)

1. State the pipeline operating revenues of the respondent for the year, classified in accordance with the U.S. of A.
2. Also indicate by footnote: (1) the revenues in Account Nos. 200, 210 and 220 which are derived from the interstate transportation of oil, and (2) the revenues in Account Nos. 200, 210 and 220 which are derived from the intrastate transportation of oil. The sum of the two revenue figures should equal the total revenues in Account Nos. 200, 210 and 220.

Line No.	Operating Revenue Accounts (a)	Crude Oil (in dollars) (b)	Products (in dollars) (c)	Total (in dollars (b) + (c)) (d)
1	Gathering revenues (200)			0
2	Trunk revenues (210)	7,643,263		7,643,263
3	Delivery revenues (220)			0
4	Allowance oil revenue (230)	775,880		775,880
5	Storage and demurrage revenue (240)			0
6	Rental revenue (250)			0
7	Incidental revenue (260)			0
8	TOTAL	8,419,143	0	8,419,143

Operating Revenue Accounts (a)	Intrastate (in dollars) (b)	Interstate (in dollars) (c)	Total (in dollars (b) + (c)) (d)
Gathering revenues (200)			0
Trunk revenues (210)		7,643,263	7,643,263
Delivery revenues (220)			0
TOTAL	0	7,643,263	7,643,263

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
Osage Pipe Line Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Mar. 31, 1993	Dec. 31, 1992

MILES OF PIPELINE OPERATED AT END OF YEAR

1. Give particulars (details) called for by State and termini, concerning the miles of all pipeline operated, and size of each line at end of year, according to the classifications given.

2. Report miles of pipeline operated to the nearest whole mile adjusted to footings, i.e.: Count 1/2 mile and over as a whole mile disregarding any fraction less than 1/2 mile. Report fractional size line in the next smaller whole size, e.g.: report

2-1/2" and 6-5/8" lines as 2" and 6" lines, respectively. Size of line is defined as inside diameter.

3. Report under (a). Lines wholly owned and operated by respondent, including wholly owned minor facilities temporarily idle or in standby service.

4. Report under (b). Total miles for each system owned in undivided interests and operated by respondent. Name each

Line No.	Name of Company and State	Termini		OPERATED AT END OF YEAR			
		From-	To-	GATHERING LINES		TRUNK LINES FOR CRUDE OIL	
				Miles	Size of Line (in inches) (e)	Miles	Size of Line (in inches) (g)
	(a)	(b)	(c)	(d)		(f)	(g)
(A) OWNED AND OPERATED BY RESPONDENT							
1	Osage Pipe Line Company						
2	Oklahoma	Cushing, OK	OK State Line			76	20"
3							
4	Osage Pipe Line Company						
5	Kansas	KS State Line	El Dorado, KS			60	20"
6							
7							
8							
9							
10							
11							

Check appropriate box:

☐ An Initial (Original) Submission

☐ Resubmission No. _____

Form 6 Approved
OMB No. 1902-0022
(Expires 6/30/2013)
Form 6-Q Approved
OMB No. 1902-0206
(Expires 6/30/2013)



FERC Financial Report
FERC Form No. 6: ANNUAL REPORT
OF OIL PIPELINE COMPANIES and
Supplemental Form 6-Q:
Quarterly Financial Report

(Formerly ICC Form P)

These reports are mandatory under the Interstate Commerce Act, Sections 20 and 18 CFR Parts 357.2 and 357.4. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)

Osage Pipe Line Company, LLC

Year/Period of Report

End of 2011/Q4

Comparative Balance Sheet Statement (continued)

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

1.) For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

2.) On line 30, include depreciation applicable to investment in system property.

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the U.S. of A. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

Line No.	Item (a)	Reference Page No. for Annual (b)	Current Year End of Quarter/Year Balance (in dollars) (c)	Prior Year End Balance 12/31 (in dollars) (d)
46	TOTAL Assets (Total of lines 14, 27, 36 and 45)		16,336,922	12,675,724
	CURRENT LIABILITIES			
47	Notes Payable (50)			
48	Payables to Affiliated Companies (51)	225	9,865	
49	Accounts Payable (52)		27,660	129,160
50	Salaries and Wages Payable (53)			
51	Interest Payable (54)			
52	Dividends Payable (55)			
53	Taxes Payable (56)		651,456	594,940
54	Long-Term Debt - Payable Within One Year (57)	226-227		
55	Other Current Liabilities (58)		348,697	300,839
56	Deferred Income Tax Liabilities (59)	230-231		
57	TOTAL Current Liabilities (Total of lines 47 thru 56)		1,037,678	1,024,939
	NONCURRENT LIABILITIES			
58	Long-Term Debt - Payable After One Year (60)	226-227		
59	Unamortized Premium on Long-Term Debt (61)			
60	(Less) Unamortized Discount on Long-Term Debt-Dr. (62)			
61	Other Noncurrent Liabilities (63)			
62	Accumulated Deferred Income Tax Liabilities (64)	230-231		
63	Derivative Instrument Liabilities (65)			
64	Derivative Instrument Liabilities - Hedges (66)			
65	Asset Retirement Obligations (67)			
66	TOTAL Noncurrent Liabilities (Total of lines 58 thru 65)			
67	TOTAL Liabilities (Total of lines 57 and 66)		1,037,678	1,024,939
	STOCKHOLDERS' EQUITY			
68	Capital Stock (70)	251		
69	Premiums on Capital Stock (71)			
70	Capital Stock Subscriptions (72)			
71	Additional Paid-In Capital (73)	254	6,759,079	6,759,079
72	Appropriated Retained Income (74)	118		
73	Unappropriated Retained Income (75)	119	8,540,165	4,891,706
74	(Less) Treasury Stock (76)			
75	Accumulated Other Comprehensive Income (77)	116		
76	TOTAL Stockholders' Equity (Total of lines 68 thru 75)		15,299,244	11,650,785
77	TOTAL Liabilities and Stockholders' Equity (Total of lines 67 and 76)		16,336,922	12,675,724

Name of Respondent Osage Pipe Line Company, LLC		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) / /		Year/Period of Report End of 2011/Q4	
Income Statement							
1. Enter in column (c) the year to date operations for the period, and enter in column (d) the year to date operations for the same period of the prior year.							
2. Enter in column (e) the operations for the reporting quarter and enter in column (f) the operations for the same three month period for the prior year. Do not report Annual data in columns (e) and (f)							
Line No.	Item (a)	Reference Page No. in Annual Report (b)	Total current year to date Balance for Quarter/Year (c)	Total prior year to date Balance for Quarter/Year (d)	Current 3 months ended Quarterly only no 4th Quarter (e)	Prior 3 months ended Quarterly only no 4th Quarter (f)	
	ORDINARY ITEMS - Carrier Operating Income						
1	Operating Revenues (600)	301	20,527,412	18,828,969			
2	(Less) Operating Expenses (610)	302-303	5,521,772	5,986,604			
3	Net Carrier Operating Income		15,005,640	12,842,365			
	Other Income and Deductions						
4	Income (Net) from Noncarrier Property (620)	335					
5	Interest and Dividend Income (From Investment under Cost Only) (630)	336	4,292	5,683			
6	Miscellaneous Income (640)	337					
7	Unusual or Infrequent Items--Credits (645)						
8	(Less) Interest Expense (650)		74	188			
9	(Less) Miscellaneous Income Charges (660)	337	166,399	12,726			
10	(Less) Unusual or Infrequent Items--Debit (665)						
11	Dividend Income (From Investments under Equity Only)						
12	Undistributed Earnings (Losses)	205					
13	Equity in Earnings (Losses) of Affiliated Companies (Total lines 11 and 12)						
14	TOTAL Other Income and Deductions (Total lines 4 thru 10 and 13)		(162,181)	(7,231)			
15	Ordinary Income before Federal Income Taxes (Line 3 +/- 14)		14,843,459	12,835,134			
16	(Less) Income Taxes on Income from Continuing Operations (670)						
17	(Less) Provision for Deferred Taxes (671)	230-231					
18	Income (Loss) from Continuing Operations (Total lines 15 thru 17)		14,843,459	12,835,134			
	Discontinued Operations						
19	Income (Loss) from Operations of Discontinued Segments (675)*						
20	Gain (Loss) on Disposal of Discontinued Segments (676)*						
21	TOTAL Income (Loss) from Discontinued Operations (Lines 19 and 20)						
22	Income (Loss) before Extraordinary Items (Total lines 18 and 21)		14,843,459	12,835,134			
	EXTRAORDINARY ITEMS AND ACCOUNT CHANGES						
23	Extraordinary Items -- Net -- (Debit) Credit (680)	337					
24	Income Taxes on Extraordinary Items -- Debit (Credit) (695)	337					
25	Provision for Deferred Taxes -- Extraordinary Items (696)	230-231					
26	TOTAL Extraordinary Items (Total lines 23 thru 25)						
27	Cumulative Effect of Changes in Accounting Principles (697)*						
28	TOTAL Extraordinary Items and Accounting Changes -- (Debit) Credit (Line 26 + 27)						
29	Net Income (Loss) (Total lines 22 and 28)		14,843,459	12,835,134			
	* Less applicable income taxes as reported on page 122						

Name of Respondent Osage Pipe Line Company, LLC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of <u>2011/Q4</u>
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Operating Revenue Accounts (Account 600)

1.) Report the respondent's pipeline operating revenues for the year, classified in accordance with the USofA.

2.) For Account Nos. 200, 210, and 220, indicate the revenues derived from the interstate transportation of oil and the revenues derived from the intrastate transportation of oil. The sum of the two revenue figures should equal the total revenues in Account Nos. 200, 210, and 220.

Line No.	Operating Revenue Accounts (a)	Crude Oil Previous Year (in dollars) (b)	Crude Oil Current Year (in dollars) (c)	Products Previous Year (in dollars) (d)	Products Current Year (in dollars) (e)	Total Previous Year (in dollars b + d) (f)	Total Current Year (in dollars c + e) (g)
1	Gathering Revenues (200)						
2	Trunk Revenues (210)	14,913,088	15,442,068			14,913,088	15,442,068
3	Delivery Revenues (220)						
4	Allowance Oil Revenue (230)	3,915,881	5,085,344			3,915,881	5,085,344
5	Storage and Demurrage Revenue						
6	Rental Revenue (250)						
7	Incidental Revenue (260)						
8	TOTAL	18,828,969	20,527,412			18,828,969	20,527,412

Line No.	Account (a)	Interstate Previous Year (b)	Interstate Current Year (c)	Intrastate Previous Year (d)	Intrastate Current Year (e)	Total Previous Year (in dollars b + d) (f)	Total Current Year (in dollars c + e) (g)
1	Gathering Revenues (200)						
2	Trunk Revenues (210)	14,913,088	15,442,068			14,913,088	15,442,068
3	Delivery Revenues (220)						
4	TOTAL	14,913,088	15,442,068			14,913,088	15,442,068

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, DC this 16th day of July, 2012.

/s/ Emily C. Watkins

Emily C. Watkins

SIDLEY AUSTIN LLP

1501 K Street, N.W.

Washington, DC 20005