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AOPL APPLAUDS FERC DECISION TO MAINTAIN PIPELINE RATE SYSTEM

WASHINGTON, DC – Today, the Association of Oil Pipe Lines (AOPL) praised the Federal Energy Regulatory Commission’s (FERC) decision to end further examination of whether to overhaul its approach to reviewing oil pipeline rates charged to customers and what information pipeline companies must submit to FERC each year. Pipeline companies charge regulated rates to customers for interstate shipments of crude oil and refined products. FERC oversees these rates to ensure they are just and reasonable.

“FERC deserves credit for maintaining the current rate indexing system that both protects pipeline customers and incentivizes pipeline companies to control their costs,” said Andy Black, President and CEO of AOPL.

“Pipeline companies need a way to operate their businesses efficiently and with certainty, and FERC’s existing approach allows us to do so,” said Mike Mears, Chairman, President and CEO of Magellan Midstream Partners, LLC and chair of the AOPL FERC Policy Committee.

The rate indexing system keeps pipeline shipping rates down over the long term by encouraging pipeline companies to operate more efficiently. Every five years, FERC reviews the rate index to ensure it accurately reflects the change in historic operating costs. This system incentivizes pipelines to reduce costs and operate efficiently, which benefits shippers with lower rates. The next five-year review will be initiated later this year.

The current system also protects pipeline customers in several ways. Customers can file a protest or complaint at FERC if they feel a proposed pipeline rate is too high. FERC continues to carefully consider protests or complaints. Additionally, FERC sets a ceiling on pipeline rate increases based on historic operating costs, and rate ceilings must be lowered when the index decreases.

FERC developed this pipeline rate index system to meet a Congressional mandate for a simplified and generally applicable rate system. Federal courts have confirmed the current system is “just and reasonable” as required by federal law. The vast majority of rates proposed by pipeline companies under the rate index go unchallenged and FERC’s careful consideration of rate protests shows the current process works.

Nevertheless, in October 2016, FERC sought comment on whether to impose new standards on applying the index. AOPL comments to FERC argued that changes to the standards would undermine incentives for pipelines to control their costs and result in higher costs to customers over the long term. FERC also asked whether it should require more extensive annual company data filings. AOPL argued requiring all companies to make large data submissions to FERC, even if their rates were not challenged, would be wasteful and lead to needless litigation. AOPL argued FERC was right to reject similar proposals several times before. Today, FERC agreed.

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