EQUILON
PIPELINE COMPANY LLC

**G. M. Rootes**
**President**

January 28, 2000

Mr. David S. Guzy
Chief, Rules and Publications Staff
Royalty Management Program
Mineral Management Service
U. S. Department of the Interior
Building 85 – Denver Federal Center
P. O. Box 25165 – MS 3101
Denver, CO 80225-0165

Dear Mr. Guzy:

RE: Further Supplementary Proposed Rule – Establishing Oil Value for Royalty Due on Federal Leases (Proposed Rule) – Mineral Management Service (MMS), 64 FR 73820 (December 30, 1999)

These comments are submitted by and on behalf of Equilon Pipeline Company LLC (Equilon), responding to the MMS request for comments on the further supplementary proposed rule. These comments augment the discussions held at the MMS public workshops held January 18 (Denver), January 19 (Houston) and January 20 (Washington, DC). This letter also acts as a formal request by Equilon for an extension of time to February 29, 2000 to file comments for the reasons as stated herein.

Equilon is a pipeline company regulated by the Federal Energy Regulatory Commission (FERC) and state agencies. We have an extensive transportation network of pipelines across the United States and the Gulf of Mexico. In addition to the pipelines that we wholly own, we own interests in over thirty (30) pipeline systems and/or separate legal entities, many of which we operate as well. We transport primarily crude oil and refined petroleum products for our customers, described under FERC regulation as our shippers. For purposes of our relationship with shippers, we are subject to the regulation by the FERC and the application of the Interstate Commerce Act (ICA). In addition, many of our offshore pipelines are subject to the requirements of the Outer Continental Shelf Lands Act (OCSLA). Clearly, we own pipelines that are subject to the jurisdiction of FERC as it pertains to transportation rates or tariffs. In the Proposed Rule, regulated pipelines have a significant interest in this rulemaking as record keepers of the transportation data. Whether its is setting of a new MMS authorized tariff or the determination of an MMS transportation deduction allowance (as described in the MMS

P.O. Box 2648
Houston, TX 77252-2648

workshops, we bear the burden of providing the underlying information to our shipper, a third party, or the MMS, to support that rate.

***The following is a summary of the issues and concerns that we have regarding implementation of the Proposed Rule, as written. These points are discussed further in the remainder of the document.***

We believe that the MMS is asking that we violate federal laws, which govern regulated pipelines. For reasons further explained in Attachment A, the Proposed Rule of the MMS and the established regulations of the FERC are in conflict. To the extent of this conflict, we as a FERC regulated pipeline company will not be able to comply with the two sets of regulations. In addition, we feel that we have a significant interest in the transportation deduction allowance issue, since transportation cost and investment data related to regulated pipelines resides with us.

Our rates are currently regulated by the FERC and state agencies. These rates are filed in conformance with the regulations of these entities. It is inappropriate for one federal agency to ignore the rates established using the regulations of another federal agency.

Requiring regulated pipelines to disclose investment and cost data will likely undermine our core transportation business. It could have a significant commercial impact on us and potentially destroy the pipeline business as it exists today.

It appears that the approach taken by the MMS regarding transportation is that transportation is not a business but merely a development obligation of the lessee to transport production from the lease market to a commingled market place. Therefore, the investment and risk associated with transportation should not be fully compensated. This neither accurate nor fair. Pipeline transportation is a competitive business with significant, capital investment, and risk and therefore is entitled to a return on that investment and compensation for the risk.

We are being expected to add staff and develop accounting systems and processes to respond to the MMS requirement to calculate a transportation deduction allowance for non-arm's length transactions. This process must be in place regardless of the selected election for royalty payment by the affiliate because the option to switch to another election for royalty payment can be made two-years. This creates an unnecessary burden and

could cause the pipeline companies irreparable harm when the tariff filed in accordance with published regulations is appropriate and available for use.

We believe that there is an active market at the lease. We have assisted in its development by providing the staff to assist marketers and resellers in determining their options and providing the rates applicable to their preferred transportation route. We have established a web site for our published tariffs to facilitate easy access to our transportation rates. Other companies, such as PDS and Oil Pipeline Information System (OPIS), have made a business of developing similar web sites for the industry as a whole and previously provided hard copies of all published tariffs for the industry. Some of our largest shippers have been and continue to be marketers and resellers. This is clearly evidence that an active market does exist at the lease and therefore we believe that a qualified tendering program does reflect accurate market value.

***Following is a summary of the actions that we are requesting the MMS to take.***

We would like for the MMS to withdraw the proposed regulations.

If the proposed regulations are not withdrawn, we request the following:

Extend the time period to provide comments until February 29, 2000,

Conduct transportation workshop(s) to discuss, clarify and receive comments regarding protection of data provided, depreciation, transition issues, rate of return, audits, implementation related issues, etc.

We would like the following items clarified in the final rule:

- Adoption of 2 x BBB rate in proposed formula
- Affiliate calculations/determinations
- Disclosure issues related to ICA and OCSLA prohibitions

It is our opinion that tariffs which have been filed in accordance with the FERC's regulatory requirements should be accepted as transportation costs for all shippers, including affiliates, and in all areas, including offshore and onshore locations.

***Having said that, we would like to offer the following comments regarding the Transportation Allowance deduction provisions of the Proposed Rule:***

§206.111 – How do I determine a transportation allowance under a non-arm's length transportation arrangement?

(g) (2) We fully support using the purchase price of a facility as the capital investment in an arm's length change of ownership. At the Washington DC workshop on January 20, 2000, an additional request for comments was made by Debbie Gibbs Tschudy on how to deal with recapture by the seller. Adequate time is not allowed to fully review and address this request, but our initial thoughts are that this issue is dealt with through IRS regulations. We would like an extension of time to fully think through this issue.

(g) (3) - We support the recognition that a system should continue to have some allowance for return after the asset has been depreciated below a value equal to ten percent of the original capital investment.

(g) (4) – We request that this option continue to be included in the regulations. It was stated that this option was seldom used. A possible reason that this has been seldom used in the past is because tariffs were utilized as transportation deductions prior to this Proposed Rule.

(h) – We feel that determining a rate of return utilizing the industrial bond yield index for Standard and Poor's BBB rating is inappropriate and inadequate for setting the pipeline's rate of return. Utilizing only a rate associated with debt would tend to indicate that transportation is financed solely by debt. This is inaccurate.

However, we fully support simplification, where possible. Therefore, we believe that a multiple of Standard and Poor's BBB rating is appropriate. This multiple or rate of return should be developed utilizing a methodology recognizing a return on equity capital as well as debt capital and an element to compensate for risk, such as the methodology offered by Swanson Energy Group, Inc. and included in the API comments. We adopt the comments offered by the Swanson Energy Group, Inc. as included with the API comments. The multiple or the actual rate itself should be calculated annually and published by the MMS using a prescribed methodology in the Federal Register and on its web site. This rate of return would be utilized in transportation deduction allowance calculations for a twelve-month period beginning with a stated beginning date. The publication date of the rate of return or multiple of the S&P BBB's and the time period to which it applies should become part of the final rule.

If the pipeline transportation industry were limited to the Standard and Poor's BBB rating as the rate of return, there is a very good chance that fewer pipelines would exist resulting in fewer market outlets, higher transportation costs, and more significant environment risks. Pipelines continue to be the safest mode of transportation but there are significant risks (i.e. Poseidon Pipeline) and a continuing increase in regulatory requirements. A pipeline is built out to a production facility based on *estimated* reserves. Should something happen to the production facility, the pipeline lays idle and there is no return on investment. Current technology for deepwater pipeline repairs is limited and expensive; therefore, it could be necessary to lay a new pipeline if a problem were to exist on the original pipeline. It is for reasons such as these that risk should be factored in to return.

***We are requesting an extension of the comment period on the Proposed Rule until February 29, 2000 for the following reasons:***

We reiterate that we have only recently become involved in this rulemaking process. We stress that we are not the lessee but the pipeline transportation company that operates the pipeline and transports barrels for our customers and the entity that has the cost and investment data related to transportation. Because much of the data that is at issue in the transportation deduction allowance resides with us, we are struggling to review the rule, evaluate the data, and understand the associated impacts within the comment period. Not being previously familiar with royalty valuation issues, prior to this proposed final rule, makes our learning curve very steep. For example, we found out in the MMS's Houston Workshop, on January 19, 2000, that there is something called a Royalty Payer Handbook. We understand that included in it is information regarding the components that are to be included in the transportation deduction allowance. We have not yet had an opportunity to obtain and review this Handbook.

At the very least, a MMS workshop addressing transportation issues is needed to discuss the transportation deduction allowance and several other transportation issues.

We also have a concern that the burden numbers associated with the reporting and record keeping requirements on pages 73840 and 73841 of the Federal Register/ Vol. 64, No. 250/ Thursday, December 30, 1999/ Proposed Rules, are understated, because the organizations with the cost and investment data associated with transportation did not previously provide data. We believe that affiliate companies would not have provided data regarding the transportation element since we were not asked to give them information and they are not familiar with our data, systems or retention policies. We believe that we will have involvement in the following areas and therefore, we feel that burden associated with these sections have been understated.

Section 206.103 (e)(1) and (2)(i)-iv
Section 206.110 (b)(2)
Section 206.110 (c)(1) and (3)
Section 206.111 (g) and (g)(1)
Section 206.111 (i)(2)

Section 206.111 (j)(1) and (3)
Section 206.105
Section 206.109 (c)(2)
Section 206.114 and 115 (a)
Section 206.114 and 115(c)

Within the time constraints for providing comments, it will not be possible to provide burden associated with each section. We do believe that the burden to pipeline could be approximately 4,160 hours per year (or effectively two additions to staff) plus the costs associated with developing, operating and maintaining a computer system, as well as the costs associated with record retention and record copying. We are also concerned about who should bear the costs associated with this burden. Should those costs only be allocated among our offshore/royalty paying customers, or will the MMS require all of Equilon to bear the burden? We are also very unclear what the FERC's position would be on recovery of these costs – which will be significant.

An additional request for comments at the Washington, D. C. Workshop, on January 20. 2000. associated with Section 206.111 (g)(2) was made. We would appreciate time to review this request.

As previously mentioned, we support the recognition that a system should continue to have some allowance for return after the asset has been depreciated below a value equal to ten percent of the original capital investment. We would appreciate additional time to evaluate whether the return on an amount equal to ten percent of the original capital investment is an appropriate management fee.

***We would like to ask for inclusion in the final rule and for clarification, via example in the preamble, of the following items:***

There appears to be no process to transition from an accepted tariff environment to the calculated transportation allowance deduction. For instance, how would you determine the original cost on a pipeline system that has been in service under FERC tariff requirements for a period of time and is fully depreciated? The FERC requires trended original cost (TOC) accounting, the MMS has historically has imposed some for of depreciated original cost accounting. Since TOC is premised on a carry forward of return on investment (to be recovered in future years), how would the MMS propose to permit carriers to recover their legitimate

investment – which has been postponed under FERC policies. We believe that the final rule should address those issues to take the guesswork out of the transition to another methodology and to facilitate compliance with the regulation. We have many pipeline segments that are affected by this ruling and to request a value determination on each pipeline segment, which could number at least forty (40), would require a significant burden on resources for both the MMS and the pipeline company.

We would like to acknowledge the re-definition of affiliate and the associated tests to determine the relationship within the Proposed Rule. With the mergers and joint ventures that have taken place within the industry, it is inappropriate to assume affiliate relationships based on a percentage of ownership. We feel that a percentage of ownership and the associated tests of control are the appropriate means of determining affiliate relationships. However, we request clarification as to how an affiliate is determined as it relates to joint interest companies. For example, let's say a parent company owns 50% of a pipeline company and may be considered an affiliate of the pipeline company. Then, the pipeline company owns 20% of a joint venture pipeline system. Is the parent an affiliate of the joint venture based on percentage ownership or is it presumed to not be an affiliate. A clarification and example would be helpful in calculating the percentage ownership under the definition of "Affiliate." Clarifying this would minimize the determinations of affiliate status that the MMS would be asked to make. It does appear, however, that the strides made with the re-definition of affiliate may have been negated by the definition of an Arm's-length contract which means a contract or agreement between independent persons who are not affiliates and who have opposing economic interests regarding that contract.

***We feel that the rule should not be implemented until July 1, 2001 for the following reason:***

Regulated oil pipelines have established accounting systems that support jurisdictional reporting requirements. A new accounting system will be necessary to capture data in a format conducive to MMS reporting requirements. We are trying to obtain data to facilitate understanding of the reporting requirements, and then evaluate the time and cost required to implement such a system and the cost associated with it. At this point, we are confident that the requirements of the rulemaking will not be understood and the associated system implemented by the effective date of the rule.

We hope that careful consideration will be given to our comments and the Proposed Rule adjusted accordingly. We want to stress again that asking us to violate federal law is unacceptable. From our perspective, implementing the rulemaking associated with the Transportation Allowance Deduction as it is currently written (aside from the legal aspects) puts a significant burden on the pipeline companies. Any simplification and clarity that can be included in this rulemaking to lessen the burden on the entity trying to comply with the rule would be beneficial.

We appreciate the opportunity to submit comments on this very important Proposed Rule.

Sincerely yours,

Attachment

**ATTACHMENT A**

## Equilon Pipeline Company LLC
## Discussion of Regulatory and Legal Issues

As we mentioned in the letter, Equilon Pipeline Company LLC (Equilon) is a pipeline company regulated by the Federal Energy Regulatory Commission (FERC). We have an extensive transportation network of pipelines across the United States and the Gulf of Mexico. We transport primarily crude oil and refined petroleum products for our customers, or as described under FERC regulation as shippers. For purposes of our relationship with shippers, we are subject to the regulation by the FERC and the application of the Interstate Commerce Act. In addition, for our offshore pipelines, many of the pipelines are subject to the requirements of the Outer Continental Shelf Lands Act. Clearly, we own pipelines that are subject to the jurisdiction of FERC as it pertains to transportation rates or tariffs. If the Proposed Rule goes into effect, then transportation rates will be subject to the jurisdiction of the MMS and the FERC. For reasons further explained in these comments, the Proposed Rule of the MMS and the established regulations of the FERC are in conflict. We as a FERC regulated pipeline company will not be able to comply with the two sets of regulations.

### I. Use of Tariffs as Transportation Deduction

Tariffs, whether offshore or onshore, which have been filed in accordance with the FERC's regulatory requirements, should be accepted as transportation costs for all shippers, including affiliates. For the reasons as contained in these comments, Equilon opposes the Proposed Rule and requests that the Proposed Rule be amended to allow all shippers, including affiliates to use the FERC tariff rates as the transportation deduction. In a similar manner, states regulate oil movements within its state and require pipeline companies to file intrastate tariffs. For similar reasons as will be discussed for FERC tariffs, Equilon requests that the Proposed Rule be amended to allow all shippers, including affiliates to use intrastate tariff rates, when applicable, as the transportation deduction.

#### A. Interstate Commerce Act and FERC's Jurisdiction

Dating back to 1906, interstate oil pipelines have been deemed to be common carriers under the Interstate Commerce Act (ICA). As a result of the Hepburn Act of 1906 and the Lodge Amendment (1906), interstate pipelines were required to file tariffs with the Interstate Commerce Commission (ICC). The Hepburn Act prohibited undue discrimination and preferences. Rates charged by common carriers must be just and reasonable. The ICC and later, FERC, were given the statutory authority to review rates and prescribe maximum rates. To this day, interstate pipelines remain subject to the provisions of the ICA.

The ICA contains numerous provisions detailing the obligations of a common carrier. Among these requirements is the following provision:

> Section 3(1) It shall be unlawful for any common carrier subject to the provisions of this part to make, give, or cause any undue or unreasonable preference or advantage to any particular person, company, firm, corporation, association, locality, port, port district, gateway, transit point, region, district, territory, or any particular description of traffic, in any respect whatsoever; or subject any particular person, company, firm, corporation, association, locality, port, port district, gateway, transit point, region, district, territory, or any particular description of traffic to any undue or unreasonable prejudice or disadvantage in any respect whatsoever ...

**B. MMS's Proposed Rules will cause violations of ICA and OCSLA**

Pipeline companies which are subject to the Proposed Rules for non-arm's length transactions are being put in a potentially impossible situation since the Interstate Commerce Act and the Outer Continental Shelf Lands Act require pipeline companies not to discriminate. Specifically, Section 3(1) of the ICA, as stated above, makes it unlawful for a common carrier to make, give, or cause any undue or unreasonable preference or advantage to any shipper. Section 206.111 of the Proposed Rules requires detailed cost information to be provided to the lessee in order to determine the transportation allowance. The detailed cost information that is requested has not been shared outside of Equilon, even to affiliate companies, due to concerns that this type of disclosure would violate Section 3(1) of the ICA. By providing such information to a third party (lessee) who may or may not be the shipper, and not providing the same information to all shippers may be seen as giving an undue or unreasonable preference.

Similar provisions are contained in the Outer Continental Shelf Lands Act (OCSLA) which prohibit discriminatory treatment of shippers. Specifically, the OCSLA, 43 U.S.C. § 1334 (f)(1)(A), requires that pipelines on or across the OCS shall be operated in accordance with the principle that they "provide open and nondiscriminatory access to both owner and nonowner shippers." All offshore pipelines are subject to the OSCLA and any information provided to one party and not to all may be considered a violation of the OCSLA.

As previously stated, many of our pipelines are subject to regulations of various states. In a similar fashion to the previous concerns regarding discrimination, it is possible that a discriminatory claim could be brought under state law.

The Proposed Rule is silent regarding the concerns of potential violation of ICA, OCSLA and state laws. When this issue was discussed in the workshops, the MMS did not offer any comments. The Proposed Rule does not provide guidance as to how a common carrier can

release such information. It is requested that the Proposed Rule address this concern or withdraw portions of the Proposed Rule relating to determining a transportation allowance under non-arm's-length transportation arrangement until this issue can be resolved. At the very least, a MMS workshop addressing transportation issues is needed to discuss this issue and several other transportation issues. For the MMS to take no action regarding this issue will place the affected pipeline companies, like Equilon, in the position of either violating the ICA or MMS regulations.

## II. Fundamental Issue of Regulation of Pipelines

If the Proposed Rule is enacted, then the MMS has exceeded its authority and jurisdiction in its regulation of pipelines that are currently regulated by either FERC or state agencies. As discussed below, many of the pipeline systems owned in whole or in part by Equilon are subject to regulation by FERC. Since the disclosure of information as described above may violate federal and/or state law and FERC's regulations, MMS's comment stating that the Proposed Rule is in accordance with the criteria in Executive Order 12866 and the "proposal would not create inconsistencies with other agencies' actions" is incorrect. 64 FR 73838 (December 30, 1999). A more fundamental question is whether the MMS has the authority to regulate pipelines by dictating the transportation allowance that is acceptable for non-arm's-length transactions.

The MMS has explained its decision to not accept FERC tariff rates for the transportation allowance by stating the following:

> This supplementary proposed rule continues MMS's position that FERC tariffs should not be permitted as a substitute for actual costs in non-arm's-length situations. We continue to believe that FERC tariffs often exceed the transporter's actual costs. Further, we cannot presume FERC's reasoning to be flawed where it has determined that it does not have jurisdiction over offshore pipelines.
>
> ...However, we believe that the principle of permitting only actual costs, including a reasonable rate of return, is consistent with longstanding royalty valuation and allowance principles and fairly and reasonably protects the public interest.
>
> We also note that even if FERC's nonjurisdictional determinations are exclusive to offshore pipelines, those pipelines involve the great majority of transportation allowance deductions for Federal royalty purposes.
>
> 64 FR 73835 (December 30, 1999)

If these comments represent the basis for MMS's position to not allow the use of FERC tariffs as a substitute for actual costs in non-arm's-length situations, then the Proposed Rule is flawed.

## A. Offshore Pipelines

It is acknowledged that industry and MMS disagree as to the jurisdiction of the FERC over offshore pipelines. Equilon incorporates and adopts earlier comments by industry to the MMS that challenges this interpretation and especially the assumption that MMS can treat all offshore pipelines in a similar manner without reviewing the pipelines individually to determine whether the pipeline may be regulated by FERC.

## B. FERC Regulates Pipelines

MMS infers in the preamble to the Proposed Rules that FERC may not regulate any pipelines, whether the pipelines are onshore or offshore. The MMS comment that "even if FERC's nonjurisdictional determinations are exclusive to offshore pipelines" is an indication that there is a question as to whether FERC regulates onshore pipelines. There is no question that onshore interstate pipelines are subject to the ICA and regulation by FERC. It is acknowledged that industry and MMS has disagreed as to whether offshore pipelines are regulated by FERC. However, up to the point of these proposed regulations, there was not any indication that onshore pipelines were in question. Numerous cases decided by administrative judges and federal courts support the jurisdiction of FERC over onshore interstate pipelines. It is requested that MMS clarify in its comments that onshore interstate pipelines are regulated by FERC.

## C. MMS Formula v. FERC Methodology

The real focus of the MMS's comments is that the MMS disagrees with FERC as to a formula to compute the transportation allowance. This is not a fairness issue because an arm's-length transaction is able to deduct the full tariff amount. Therefore, if tariffs are allowed for non-arm's-length transactions, the transportation allowance for royalties would be the same for non-arm's length and arm's length transactions. The real issue is the potential to receive additional money and MMS's view that the FERC tariff is not an acceptable measure of costs and a rate of return for a regulated pipeline company. In the preamble to the Proposed Rule, the MMS states, "We continue to believe that FERC tariffs often exceed the transporter's actual costs." 64 FR 73835 (December 30, 1999). Actual costs is a term of art as used in the Proposed Rule. In fact, the Proposed Rule uses a formula to determine actual costs taking into account among other items such as depreciation, costs, and a rate of return. The end result of the MMS's Proposed Rule is that a transportation rate will be established for federal royalty barrels shipped on onshore FERC regulated pipelines. However, this regulatory function of establishing a formula to determine a transportation rate is mandated by the Interstate Commerce Act to be performed by FERC (previously ICC).

As previously stated, FERC has been mandated by federal law to regulate pipelines in interstate commerce. In response, FERC has determined, through its regulations, what are considered acceptable costs, depreciation rates, deductions, inclusions and a rate of return. Specifically, Section 1(5) of the ICA requires that all charges made for any services be "just and reasonable." A FERC tariff must satisfy the ICA and regulations of FERC. By the Proposed Rule, the MMS is taking jurisdiction over these regulated onshore pipelines and requiring a different formula with different acceptable costs, depreciation and rate of return. However, the one difference is that the MMS has not been mandated to regulate the onshore pipelines under the Interstate Commerce Act.

Another problem with the MMS proposal is that it relies upon the transportation entity being a wholly owned entity in order for its arguments to make sense. However, this presumption does not reflect the industry and especially does not reflect Equilon. For example, Equilon's parent, Equilon Enterprises LLC is a joint venture of Shell Oil Company and Texaco Inc. It is likely that transactions involving either Shell or Texaco will be considered non-arm's-length. If FERC tariffs were permitted, Shell or Texaco still may not receive the benefit of the difference between the FERC tariff and the MMS formula. Any pipeline joint venture that may have non-arm's-length transactions will be adversely impacted. This area must be analyzed further before implementation of the Proposed Rule. In summary, MMS's Proposed Rule does not take into consideration the business world as it exists today.

In addition, Equilon is a separate pipeline entity that has no legal contract with MMS regarding federal leases. Regulating the conduct of a non-lessee, non-royalty payor like Equilon is not only unnecessary to accomplish MMS's statutorily stated delegated goals, but is also beyond its authority. The acceptable fix and the only fix which will not create a conflict between the jurisdiction of the FERC and MMS is for the MMS to accept the tariff as a substitute for actual costs in non-arm's length situations.

A final comment in this area is in response to the statement in the Preamble that says "the principle of permitting only actual costs, including a reasonable rate of return, is consistent with longstanding royalty valuation and allowance principles and fairly and reasonably protects the public interest." 64 FR 73835 (December 30, 1999). We do not disagree with this statement. This statement captures the very actions that the FERC does for regulated pipelines. To not accept the tariff rate would be the ultimate "second-guessing" of the ability and jurisdiction of FERC.

## D. Advantages to Using FERC Tariffs

The advantages for the MMS to accept the FERC tariff as a substitute for actual costs in non-arm's length situations are many. In addition, the impact on us as described by MMS will be minimal. As stated in the Preamble, "even if FERC's

nonjurisdictional determinations are exclusive to offshore pipelines, those pipelines involve the great majority of transportation deductions for Federal royalty purposes." 64 FR 73835 (December 30, 1999). Since the great majority is offshore, then the confusion that is created, as well as the potential conflict between MMS and FERC would be resolved. Another advantage is that it would resolve issues regarding potential violation of the Interstate Commerce Act for a regulated pipeline company to disclose the information that is required under the Proposed Rule. Another advantage is the administrative burden that would be resolved in that onshore systems would need valuation determinations with respect to the affiliate test and transportation costs. The advantage to the pipeline company is a reduction in costs that would be necessary to design, implement and manage another system, which differs significantly from the FERC requirements.