

MAY 8 1992

Decision 92-05-018 May 8, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SFPP, L.P. for authority)
to increase transportation rates for)
refined petroleum products pursuant to)
the provisions of Section 454 of the)
Public Utilities Code of the State of)
California.)

Application 91-12-034
(Filed December 19, 1991)

O P I N I O N

This decision grants the application of SFPP, L.P. pursuant to Section 454 of the California Public Utilities Code for authority to increase its intrastate local pipeline rates for transport of refined petroleum products by 9%.

Background

SFPP is a Master Limited Partnership organized under the laws of the State of California, and is successor to Southern Pacific Pipe Lines, Inc. and San Diego Pipeline Co. The formation of the Master Limited Partnership creating SFPP was approved by Decision (D.) 88-11-059 (29 CPUC 2d 635). SFPP operates as a pipeline common carrier of refined petroleum products in six western states, including California.

On December 19, 1991, SFPP filed this application for a 9% rate increase. SFPP personally contacted all shippers affected by the proposed rate increase, advised them of it, and notified them in writing of SFPP's intent to file this application. No party has filed a protest to this application. Accordingly, this decision is issued on an ex parte basis.

Basis for Rate Increase

SFPP proposes to increase its intrastate local pipeline tariffs by 9% as set forth in Exhibit C of the application. Applicant's computation of recorded and pro forma earnings based on the 9% rate increase is presented as Exhibit B of the application.

The proposed increase would permit SFPP to earn a return on equity of 13.54% on a pro forma basis. Without the increase SFPP's pro forma return on equity falls to 9.04%. The pro forma rate base shown reflects all investments through December 1991. All facilities are in rate base at original cost and do not reflect any adjustments or partial step-up in basis made when the predecessor companies were merged and a Master Limited Partnership formed in 1988.

Neither SFPP nor its predecessors has requested a rate increase since November 1985 when an increase was approved for each of the two predecessor companies. (D.85-12-053 and D.85-11-038 in A.85-02-008 and A.85-08-008, respectively.) SFPP adopted the tariff rates of its predecessors at its formation. Since then, SFPP has increased its intrastate rate base by \$75 million or 78%. While intrastate revenues have increased 24% since 1985, intrastate expenses have increased over 55%. This resulted in a deterioration in the rate of return from 12.5% to 9.8%.

SFPP attributes its increase in rate base principally to pipeline expansions to improve service to shippers (\$44 million), other capacity-related facility improvements (\$12 million), and Supervisory Control and Data Acquisition (SCADA) equipment (\$9 million).

SFPP reports growth of more than 55% in operating expenses for personnel and contract services since its last rate increase. Investment-related expenses have more than doubled. SFPP attributes the increased expenses to an increased level of maintenance, environmental work, safety activities, and inflation.

SFPP's requested rate increase is predicated on an assumed return on common equity of 13.54%. SFPP argues that a 13.54% equity return is necessary to be market competitive and to attract new investment. SFPP notes that its financial risk has increased in the acquisition of \$355 million in long term debt

since 1985. SFPP's pro forma cost of capital, based on a 13.54% return on equity is as follows:

	<u>Cap. Ratio</u>	<u>Cost %</u>	<u>Wtd. Cost %</u>
Debt	54.46%	10.54%	5.74%
Equity	45.53%	13.54%	6.16%
Total	100.00%		11.90%

By letter dated March 16, 1992, the administrative law judge for this proceeding requested of the applicant supplemental information regarding comparable rates of return authorized for other pipeline companies. By letter dated March 27, 1992, the applicant supplied the supplemental information requested. The only other major petroleum pipeline company which we regulate is the Four Corners Pipeline Company (FCP). FCP applied for and received a rate increase in March 1991 (A.91-03-008) which yielded a 13.3% return on 54.9% equity and a 12.1% overall rate of return. The comparable FCP return, imputing SFPP's capital structure, would be a 14.7% return on 45.5% equity and a 12.5% overall return. This adjustment in equity return (i.e., 13.3% vs. 14.7%) results from the leveraging effects of debt. The more equity is reduced relative to debt, the greater the effective equity return.

Discussion

Based upon the above facts, we conclude that SFPP's pro forma 1991 test year summary of earnings reasonably reflects the expected operations of the company both at present rates and at increased rates, as proposed. We adopt the pro forma summary of earnings as a basis for evaluating the merits of the applicant's requested rate increase, as set forth in Appendix A. We also conclude that the applicant has satisfactorily shown that a return on equity of 13.54% is reasonable, when compared with the return we recently authorized FCP. Accordingly, we find SFPP's requested 9% rate increase to be reasonable, and we grant the application.

Findings of Fact

1. SFPP, L.P., a petroleum pipeline common carrier, seeks an increase in intrastate pipeline rates of 9% for refined petroleum products.

2. Customers of the applicant were notified in writing of applicant's intent to file this application.

3. No party has formally protested this application.

4. The recorded and pro forma earnings of SFPP for 1991 at present and proposed 9% increase in rates are set forth in Appendix A.

5. At present rates, applicant computes a pro forma return on equity of 9.04%.

6. A 9% rate increase would yield a pro forma return on equity of 13.54% for SFPP for the calendar year 1991.

7. A 13.54% is comparable to the return recently authorized for Four Corners Pipeline Company, the only other major pipeline company regulated by this Commission.

8. The applicant's predecessor companies last requested and were granted rate increases before this Commission in 1985, based upon an adopted return on equity of 12.56%.

Conclusion of Law

The requested 9% increase in intrastate local pipeline rates as set forth in Exhibit G, pages 3 and 4, is reasonable and shall be granted, as ordered below.

O R D E R

IT IS ORDERED that:

1. SFPP, L.P. is authorized and directed to file with this Commission on or after the effective date of this order, and at least five days prior to their effective date, revised tariff schedules for Local Pipeline Tariffs 11-1, 15-F, and 14-J, as proposed in Exhibit G, pages 3 and 4 of Application 91-12-034.

2. The revised tariffs may take effect five days or more after the effective date of this order on not less than five days' notice to the Commission and to the public pursuant to Public Utilities Code Section 491 and General Order 96-A.

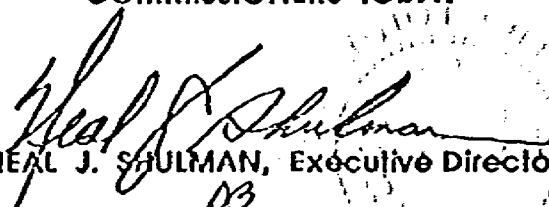
3. The authority granted shall expire unless exercised within 90 days after the effective date of this order.

This order is effective today.

Dated May 8, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY


NEAL J. SHULMAN, Executive Director

APPENDIX A

Source:Exhibit B
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SFPP, L.P.

RATE OF RETURN - CALIFORNIA INTRASTATE ONLY
(Thousands of Dollars)

	<u>Base Period</u>	<u>Adopted Proforma Test Year</u>	
		<u>With Increase</u>	<u>Without Increase</u>
Revenue	\$ 65,790	\$ 71,423	\$ 65,545
Expenses	40,778	43,826	43,826
Income Tax	6,281	7,165	4,806
Net Income After Tax	18,731	20,432	16,913
Rate Base	165,089	171,757	171,757
Return on Rate Base	11.35%	11.90%	9.85%
Interest	9,463	9,846	9,846
Equity Return	9,268	10,586	7,067
Equity Rate Base	75,132	78,167	78,167
Return on Equity	12.34%	13.54%	9.04%

NOTES:

Base Period: Actual data from October 1990 through September, 1991.

Proforma Test Year: Adjusted Base Period data indicating normalized operations.

APPENDIX A

Source:

Exhibit B
Page 2 of 2

SFPP, L.P.

RATE BASE - CALIFORNIA INTRASTATE ONLY
(Thousands of Dollars)

	<u>Base Period</u>	<u>Adopted Proforma Test Year</u>
Gross Plant	\$215,727	\$222,395
Accumulated Depreciation	52,579	52,579
Net Plant	163,149	169,816
Working Capital	1,941	1,941
Rate Base	165,089	171,757
Equity Ratio	45.51%	45.51%
Equity Rate Base	75,132	78.167

(END OF APPENDIX A)