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Decision No. 91253 JAN 15 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of FOUR CORNERS PIPE LINE COMPANY, a Delaware corporation, for authority to increase transportation rates for crude petroleum and petroleum products pursuant to the provisions of Sections 454 and 491 of the Public Utilities Code of the State of California.	Application No. 58738 (Filed March 13, 1979; amended September 4, 1979)

Jeffrey R. Pendergraft and H. Newell Williams, Attorneys at Law, for applicant.
Robert Cagen, Attorney at Law, and Joseph C. Matson, for the Commission staff.

O P I N I O N

Applicant, Four Corners Pipe Line Company (Four Corners), is engaged in the transportation of crude oil and petroleum products. Its articles of incorporation are attached to the application as Exhibit A. Four Corners' California intrastate pipelines were dedicated to public utility[1/] service on May 1, 1978 as evidenced by the filing with this Commission of a tariff of rates and rules.

Four Corners proposes to increase its present California intrastate transportation rates by about 6.8 percent on a weighted average basis. It is anticipated that such a rate increase would generate gross revenues of approximately $13.4 million per year on

1/ The term "public utility" includes, among other things, every pipeline corporation owning, controlling, operating, or managing any pipeline for compensation within this State in connection with or to facilitate the transmission, storage, distribution, or delivery of crude oil or other fluid substances, except water (from Public Utilities Code Sections 216(a), 227, and 228).

projected increased volumes of traffic. This represents a before-tax income of approximately $5.6 million and an after-tax income of about $2.8 million on an investment of over $24 million. The resulting rate of return of approximately 11.7 percent would be less than the rate of return of 13.8 percent on the original investment contemplated when the initial tariff was filed in May 1978.

Public hearing was held before Administrative Law Judge Norman B. Haley at Los Angeles on November 20, 1979, and the matter was submitted.

Presentation of Four Corners

Evidence on behalf of Four Corners was presented in the form of prepared testimony through its president, J. W. Vaughn (Exhibit 1), and through its chief financial officer, Delores M. Ziesenhenne (Exhibit 2).

According to Exhibit 1, Four Corners had been an interstate carrier, prior to May 1978, not having any intrastate tariffs in California. At that time, certain private pipelines in California belonging to Atlantic Richfield were acquired by Four Corners. Those assets were dedicated to public service and rates were published for California intrastate movements.

The intrastate pipelines in California consist of approximately 750 miles of crude and product lines. The majority of the lines are crude lines, and a majority of the 750 miles is within the Los Angeles area. There are a large number of short pipelines in terms of mileage, with numerous delivery points and points of origin resulting in numerous intrastate rates.

At the time Four Corners acquired the private pipeline facilities, there was no operating experience available to indicate what future public business might be available. Estimates of volumes which could reasonably be expected to move in the intrastate system, and an estimate of expenses based upon annualizing the historical costs on the private system, were used as the basis for the initial rates.

The net book value of the assets acquired by Four Corners was $12.1 million, plus $1 million in working capital. Estimated annualized expenses were $6.4 million. It was determined from the estimate of traffic volume that revenues generated from the new assets would need to be $9.9 million. Rates were set to generate that amount of revenue. This allowed a profit of $1.8 million or an approximate 14 percent rate of return on net book value.

The primary objective of the sought general rate increase is to permit Four Corners to maintain an adequate rate of return. Assertedly, there have been two changes which require a rate increase. First, the asset base has nearly doubled since the initial tariff filing from $13.1 million to almost $24 million. In addition, there have been significant increases in operating expenses.

After conversion of the system to public service, the company experienced a substantial increase in traffic. The increased investment resulted from a general upgrading and modernization of the intrastate pipeline system necessitated by the additional volume of business. Among other things, meters have been added to the system to permit better custody transfer and volume accounting. The supervisory control system was upgraded to provide better volume accounting and improved safety, including the addition of fire suppression systems. During the winter of 1977, certain pipelines in the Angeles National Forest were washed out by mud slides and capital replacements were required to continue normal operations. In addition, certain pump station facilities have been installed in Carson and North Long Beach to better handle the public utility operation in California.

Expenses incurred by Four Corners generally have increased due to increasing business on the intrastate system, increased depreciation due to the increase in investment, and because of the general effects of inflation on the company's business. Assertedly, inflation has hit hardest in the areas of services, electric power costs, and salaries. There also have been increases in manpower budget. Expenses are currently estimated to be about 25 percent above those expenses submitted at the time of the initial tariff filing.

The specific intrastate rate changes Four Corners seeks to publish are set forth in Exhibit B to the amended application. There would be 128 rate increases on particular moves ranging up to as high as 300 percent. There also would be 57 rate reductions, 13 rates would be unchanged, and 12 new rates would be established to new destinations. As stated above, the overall effect would be in increase of about 6.8 percent on a weighted average basis. Objectives in seeking the various rate changes, in addition to achieving an appropriate rate of return, are to: (1) reflect actual operating experience; (2) establish geographic uniformity in rates; (3) reflect a safety change in operation; and (4) publish more through rates as requested by staff.

An example of rate adjustments to reflect actual operating experience was given in connection with Pipeline No. 8. This pipeline handled only 287,000 barrels between the period May 1, 1978 and November 30, 1978, although it is of a diameter that could handle many times that volume. Since volume has been lower than anticipated on that line, unit costs have been higher. Therefore, a relatively higher rate increase on that line is being sought principally to recover the higher unit costs.

An example of adjustments to reflect geographic uniformity in rates was given in connection with two pipelines in the Los Angeles basin which have common delivery points. There are now certain rates to those common points which are different for each line. There also are rates on one of the lines which are the same for several delivery points although the mileages to the delivery points differ. It is proposed to change several of those rates to relate them more closely to length of haul and geographic location.

Rate changes related to safety are proposed in connection with movements of crude oil from San Joaquin Valley points to points in the Los Angeles basin. At first those volumes were small but as time went on traffic increased to the point where the practice of making direct deliveries to refiners in the basin could not be continued. The reason is that the mountain range between Los Angeles and the San Joaquin Valley imposes a high static head, which means there is a high pressure on the pipeline. To remedy this situation, tankage and a distribution station were constructed at Hynes Station in North Long Beach. Crude oil currently goes into this tankage and is then repumped to destinations in the Los Angeles basin. Proposed rates reflect estimated cost increases of five cents per barrel for this new service.

It was explained, in connection with publication of more through rates, that there are numerous pipelines, origin points, and delivery points. Rates are now published for each possible movement. This has made it difficult for potential users of the system who are now required to add up the rates from origins in the San Joaquin Valley to pumping stations and then to points in the Los Angeles basin, for example. Publication of more through rates will make it easier for users to determine rates for various movements in the system.

In addition to California intrastate data, Exhibit 2 contains financial data of Four Corners as a whole (intrastate and interstate pipeline system). Among other things, those data show that total assets as of March 31, 1978 were $27,862,224, and as of March 31, 1979 they were $57,156,992. Shareholders' equity as of March 31, 1978 was $8,814,428, and as of March 31, 1979 it was $33,389,889. Net income for three months ended March 31, 1978 was $605,268. Net income for three months ended March 31, 1979 was $2,307,725. Retained earnings on December 31, 1978 were $1,322,213. Dividends of ~~were a negative~~ $2,000,000 were declared. Retained earnings on March 31, 1979 were $1,629,938. KM

Position of Staff

Staff supports the sought rate adjustments contained in Appendix B of the amended application. Staff had been in contact with representatives of Four Corners since the original application was filed March 13, 1979. Staff reviewed the proposed rates for each pipeline. Initially there had been some areas of controversy, but the differences had been worked out in meetings with company representatives. Staff contends that the larger increases sought in the amended application are justified on a pipeline-by-pipeline basis, in consideration of the subsequent information furnished. Changes in proposed rate structures recommended by staff were adopted by Four Corners and incorporated in the amended application. Among these were staff proposals for more through rates to replace combinations of rates.

On March 22, 1979 Four Corners publicly notified its 33 intrastate shippers of its intent to change its tariff structures and to increase rates. The original application and the amendment were noticed on the Commission's Daily Calendars of March 15 and September 6, 1979, respectively. There were no protests made at the hearing.2/

2/ On June 4, 1979, the City of Los Angeles filed a pleading in opposition to the request for ex parte disposition of the original application. Notice of hearing was furnished to Counsel for the City of Los Angeles; however, no appearance was made at the hearing on behalf of the City.

Findings of Fact

1. Since May 1, 1978 Four Corners has been engaged, among other things, in intrastate public utility pipeline transportation of crude oil and petroleum products in California pursuant to a tariff filed with this Commission.

2. Four Corners proposes many increases and reductions in rates to reflect operating experience with its numerous individual intrastate pipelines in California since commencement of public service in May 1978. Exhibit B shows that Four Corners proposes to increase 128 rates, reduce 57 rates, leave 13 rates unchanged, and establish 12 rates to new destinations.

3. The proposed California intrastate rate adjustments would produce an increase of about 6.8 percent on a weighted average basis. Pro forma operating results under proposed rates and anticipated expenses show gross revenues of approximately $13.4 million per year on projected increased volumes of traffic; expenses of $7.8 million; net income before income taxes of $5.6 million; and net income after income taxes of about $2.8 million.

4. Four Corners' California system investment in plant as of December 31, 1977 was $12.2 million. As of December 31, 1979 investment had increased to $23 million. Total investment, including working capital on December 31, 1979, was $24 million.

5. The additions to plant identified in Finding 4 were made necessary to a large extent to accommodate a substantial increase in usage caused by new demand from shippers following commencement of public service on May 1, 1978.

6. After-tax income of $2.8 million on California intrastate investment of $24 million would result in an estimated rate of return of approximately 11.7 percent.

7. The estimated rate of return of 11.7 percent is a reasonable estimate of the effect of the proposed rate adjustments for purposes of this proceeding.

8. Since Four Corners inaugurated public service in May 1978, intrastate expenses have increased. Significant expense increases have occurred (1) in connection with depreciation on increased investment; (2) for services; (3) for electric power; (4) for salaries; and (5) because of general effects of inflation.

9. Exhibit I to the amended application is a declaration of Robert J. Cushman which shows that the proposed rate adjustments comply with the Voluntary Wage and Price Standards issued by the Council on Wage and Price Stability (Title 6, Chapter VII, Part 705A-2 of the Code of Federal Regulations).

10. The proposed rate adjustments resulting in both increases and reductions, and producing an overall increase of about 6.8 percent on a weighted average basis, are justified.

Conclusions of Law

1. The proposed rate increases in Exhibit B of the amended application should be authorized.

2. The proposed rate increases and reductions should be authorized to be made effective not earlier than 10 days after the effective date of this order on not less than five days' notice to the Commission and the public.

3. Since there are no protests, and since applicant is in need of additional revenue, the following order should be effective the date of signature.

O R D E R

IT IS ORDERED that:

1. Four Corners Pipe Line Company is authorized to establish the increased rates per barrel proposed in Exhibit B of amended Application No. 58738, and concurrently to establish the rate reductions and rates to new destinations also proposed therein. Tariff publications authorized to be made as a result of this order shall be filed not earlier than ten days after the effective date of this order on not less than five days' notice to the Commission and to the public.

2. The authority shall expire unless exercised within sixty days after the effective date of this order.

3. The authority granted by this order is subject to the express condition that applicant will never urge before this Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that this opinion and order constitute a finding of fact of the reasonableness of any particular rate or charge. The filing of rates and charges pursuant to this order will be construed as a consent to this condition.

The effective date of this order is the date hereof.

Dated JAN 15 1980, at San Francisco, California.

John E. Bryson
President

Commissioners