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Decision 98-01-047 January 21, 1998

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Kinder Morgan Energy Partners, L.P.
For Authority To Acquire Control Of SFPP, L.P.

Application 97-10-071
(Filed October 29, 1997)

O P I N I O N

Kinder Morgan Energy Partners, L.P. (Applicant or KMEP), a Delaware master limited partnership, requests approval, pursuant to Public Utilities (PU) Code Section 854, to acquire control of SFPP, L.P. (SFPP).

Notice of filing of the application appeared in the Commission's Daily Calendar of November 3, 1997. No protests have been received. A public hearing is not required.

Character of Business and Territory To Be Served

Applicant owns and operates three liquids pipeline systems and two modern coal terminaling facilities located in Illinois and Kentucky. Applicant also owns an indirect 25% interest in a Y-grade fractionation facility in Mount Belvieu, Texas. Applicant's pipeline systems consist of: (1) the North System - a 1,600 mile interstate common carrier liquids pipeline system that extends from South Central Kansas to the Chicago area; (2) the Cypress Pipeline - a 104 mile interstate common carrier liquids pipeline that extends from Belvieu, Texas to Lake Charles, Louisiana; and (3) the Central Basin Pipeline - a CO₂ system comprised of 143 miles of main pipeline and 157 miles of lateral supply lines located in the Permian Basin between Denver City, Texas and McCamey, Texas.

SFPP transports, via pipeline, products—including gasoline, diesel fuel, and commercial and military jet fuel—primarily for major petroleum companies, independent refiners, the United States military, and marketers and distributors of such products. SFPP operates 14 truck loading terminals and provides pipeline service to 44 customer-owned terminals, three commercial airports, and 12 military bases. SFPP's pipeline system consists of: (1) the South Line, composed of the West Line segment,

which transports products from Los Angeles to the San Bernardino and Riverside areas, Imperial County, and Phoenix and Tucson, Arizona, and the East Line segment, which transports products from El Paso, Texas to Tucson, Phoenix, and various intermediate points; (2) the North Line, which transports products primarily from the San Francisco Bay Area to various cities in northern California and western Nevada; (3) the Oregon Line, which transports products between Portland and Eugene, Oregon; and (4) the San Diego Line, which transports products from Los Angeles to San Diego and various intermediate points.

Upon consummation of the Purchase Agreement, Applicant will own and operate one of the largest common carrier products pipeline systems in terms of volume of deliveries, barrel miles, and pipeline mileage in the United States with in excess of 5,000 miles of trunk pipeline serving 13 states.

Purchase Agreement

The proposed Purchase Agreement among Applicant, Santa Fe Pacific Pipeline Partners, L.P. (Parent Partnership) and affiliates of the Parent Partnership is attached to the application. Approval of the Purchase Agreement will result in (a) the acquisition by KMEP and its affiliates of the Parent Partnership's 99% interest in SFPP and the conversion of such interest to a general partnership interest, (b) the receipt by the Parent Partnership of KMEP Common Units (limited partnership interests), followed by the liquidation of the Parent Partnership and the distribution of such KMEP Common Units to the holders of Common Units in the Parent Partnership, (c) the purchase of the general partnership interest in the Parent Partnership by an affiliate of KMEP for cash, (d) the redemption by SFPP of a portion of the general partnership interest in SFPP, and (e) the conversion of the remaining general partnership interest in SFPP to a special limited partnership interest.

Following completion of the transaction, SFPP will continue to operate its current assets as an indirect subsidiary of KMEP. The partners in SFPP will be (a) Santa Fe Pacific Pipelines, Inc., the current general partner of SFPP, which will own a 0.5% special limited partnership interest, and (b) a new partnership which will own a 99.5%

general partnership interest. The partners in the new partnership will be KMEP, with a 98.899% limited partnership interest, and Kinder Morgan GP, Inc., the general partner of KMEP, with a 1.101% general partnership interest.

Public Interest

Applicant and SFPP believe the Purchase Agreement is in the best interest of both companies and the public for the following reasons: (1) SFPP will become an integral part of an entity that is committed to providing service to the midstream sector of the energy business; (2) significant synergies will be achieved by consolidating the operations and expertise of what will become one of the largest product pipeline systems in the United States; and (3) over the long term, the companies will be in a better position to enhance their services in the growing western pipeline markets.

Financial statements attached to the application show that Applicant has the financial capability to maintain and continue the viability of SFPP's common carrier pipeline operations.

As an owner and operator of interstate common carrier pipelines, Applicant has the technical capabilities and expertise to provide common carrier pipeline services in California in a safe and efficient manner and consistent with the Commission's rules and regulations.

Approval of the instant Application will have no effect on the terms and/or conditions under which any intrastate shipper currently receiving service from SFPP receives such service.

Findings of Fact

1. KMEP, a limited partnership requests approval of a Purchase Agreement whereby it will acquire control of SFPP, a limited partnership.
2. SFPP owns and operates liquids pipeline systems in California and interstate.
3. KMEP owns and operates liquids pipeline systems interstate.
4. Notice of the filing of the application appeared in the Commission's Daily Calendar of November 3, 1997. No protests have been received. A public hearing is not required.

5. It can be seen with certainty that granting the application will not have a significant effect upon the environment.
6. Transfer of control of SFPP to KMEP is in the public interest.
7. As this matter is noncontroversial, this order should be effective immediately.

Conclusion of Law

This application should be granted.

O R D E R

IT IS ORDERED that:

1. On or before June 30, 1998, Kinder Morgan Energy Partners, L.P. (KMEP) may acquire control of SFPP, L.P. pursuant to the terms of the Purchase Agreement attached to the application.
2. Within ten days after transfer of control, KMEP shall inform the Commission in writing of the date of transfer. A copy of the transfer documents shall be attached to this written communication.
3. Application 97-10-071 is closed.

This order is effective today.

Dated January 21, 1998, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners