

ENERGY/RHG

Decision 00-05-036 May 18, 2000

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC PIPELINE SYSTEM LLC)
for Authorization pursuant to Public Utilities Code)
Section 816, et seq. to incur Evidences of Indebted-)
ness that are payable more than 12 months after the)
date incurred.)
_____)

Application 00-02-029
(Filed February 15, 2000)

OPINION

Summary of Decision

This decision grants Pacific Pipeline System LLC's (PPS LLC) the authority requested in Application (A.) 00-02-029 (Application).

Pursuant to Section 816 et seq. of the Public Utilities (PU) Code and Rules 33 and 34 of the Commission's Rules of Practice and Procedure, PPS LLC requests authorization for a \$63,600,000 debt.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of February 25, 2000. No protests have been received.

Background

PPS LLC owns and operates two crude oil pipelines, the Pacific system and the Line 63 System, that extend from Kern County in the San Joaquin Valley to various oil refineries and delivery points in the Los Angeles Basin. The Pacific System is a crude oil pipeline that was approved by the Commission in Decision (D.) 96-04-056 and went into operation in 1999. The total original cost of the Pacific System is approximately \$265 million. PPS LLC is authorized to transport an annual average of 130,000 barrels of crude oil per day on the Pacific System. The Pacific System operates pursuant to a market based tariff which was authorized by the Commission in D.96-04-056 and approved by Resolution O-0028.

The Line 63 System consists of a main pipeline that is capable of shipping approximately 105,000 barrels per day of crude oil from the San Joaquin Valley to delivery points in the Los Angeles Basin. In addition to the main pipeline, the Line 63 System also includes various gathering lines in the San Joaquin Valley and crude oil distribution lines in the Los Angeles Basin. The Line 63 System operates as a common carrier pipeline under tariffs on file with the Commission and approved by the Commission in D.97-05-031 and adopted by PPS LLC in Advice Letter No. 3, which was authorized by the Commission, effective June 7, 1999. The total cost of the Line 63 System contributed to PPS LLC is approximately \$101 million.

In September 1998, PPS LLC's predecessor, Pacific Pipeline System Inc. (PPSI), PPS Holding Company (PPS Holding) and ARCO Pipe Line Company (APL) entered into a contribution agreement that resulted in a joint venture that combined APL's Line 63 pipeline system (Line 63 System) with the pipeline facilities that were then being constructed by PPSI (Pacific System). The combined system, which would be composed of the Line 63 System and the Pacific System, would be owned by PPS LLC. Under the terms that were agreed upon by the parties, APL contributed the Line 63 System to PPS LLC in exchange for a 26.5% membership interest in PPS LLC. PPS Holding retained the remaining 73.5% membership in PPS LLC¹. The Commission approved the joint venture between PPS Holding and APL in Decision (D.) 99-02-022.

At the time the contribution agreement was negotiated and the respective membership percentages of APL and PPS Holding in PPS LLC were agreed upon, the Pacific System was still under construction and a final decision had not been made whether the debt associated with that construction would be carried by PPS LLC's parent, PPS Holding, or reflected on the books of PPS LLC. Construction of the Pacific System was completed and the final cost of the pipeline determined in 1999. The decision was made that \$176.4 million of the construction debt associated with the construction of the Pacific System would be reflected

¹ Prior to APL's contribution of its Line 63 System, PPSI merged into PPS LLC. The Commission approved this merger in D.98-12-043, dated December 17, 1998. PPS Holding, which was the sole owner of PPSI, initially was the sole owner of PPS LLC. After the joint venture with APL was formed, PPS Holding and APL held membership interests in PPS LLC in the percentages set forth above.

on the books of the PPS LLC². The parties agreed that PPS LLC would also assume \$63,600,000 of APL debt that was associated with the Line 63 facilities in order to maintain APL's and PPS Holding's respective membership interests in PPS LLC at the agreed upon levels. The Line 63 debt assumed by PPS LLC as part of the formation of the joint venture was to be repayable at a time that was less than 12 months after it was incurred by PPS LLC. It was PPS LLC's intention to enter into a permanent fixed rate financing for both the debt associated with the construction of the Pacific System and the debt assumed as part of the joint venture with APL within a one year period.

PPS LLC has now determined that it will not permanently finance this debt until sometime later. As a result, the Line 63 debt that it assumed as part of its joint venture with APL will now be payable at periods in excess of 12 months from the original date. As such Commission authorization is now required pursuant to Section 815 et seq. PPS LLC requests authorization to continue to maintain the debt on a longer term basis.

² The cost of constructing the Pacific System was approximately \$265 million. As part of the joint venture arrangement, the existing construction debt was paid down to \$176.4 million. The Commission authorized the financing for the Pacific System in D.96-04-056, Ordering Paragraph 3.

For the twelve months ended December 31, 1999, PPS LLC reported it generated total operating revenues of \$43,255,000 and net loss of \$953,000, as shown in Attachment 4 to the Application.

PPS LLC's unaudited Balance sheet as of December 31, 1999, shown as part of Attachment 4 to the Application is summarized below:

<u>Assets</u>	<u>Amount</u>
Total Current Assets	\$ 15,892,000
Net Property and Equipment	<u>336,366,000</u>
Total Assets	\$352,258,000
 <u>Liabilities and Member's Capital</u>	
Total Liabilities	\$244,139,000
Total Member's Capital	<u>108,119,000</u>
Total Liabilities and Member's Capital	\$352,258,000

The Line 63 Debt

As described previously, as part of the joint venture with APL, PPS LLC agreed to assume \$63,600,000 of APL debt associated with the Line 63 System (as evidenced by a Promissory Note (APL-ARCO) (Note) between APL and Atlantic Richfield Company on May 1, 1999).

Because the maturity of the Note was for a period that is less than 12 months, Commission approval was not required. As noted above, it was the intention of PPS LLC to enter into a permanent fixed rate financing for both the costs of the construction of the Pacific System and the Line 63 System joint venture within one year.

APL, ARCO and PPS LLC have now agreed to extend the maturity of the Note (dated May 1, 1999) until August 14, 2000. A copy of the First Allonge to Promissory Note (APL-ARCO) (Allonge) which evidences the extension of the maturity date is attached to the Application as Exhibit 2. The Allonge reflects the same terms and conditions of the Note, except that the maturity date has been extended to August 14, 2000.

The PU Code governs the regulation of short-term debt.

Section 823(b) states that a public utility may issue notes, for proper purposes and not in violation of any provision of law, payable at periods of not more than 12 months after the date of issuance of the notes without the consent of the commission.

Section 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.

Essentially, PPS LLC's request for an order authorizing the extension of the maturity date of the Note for the \$63,600,000 Line 63 debt, is a request to authorize debt now to be payable at a period in excess of 12 months from the original date. Thus, this is a request for approval of long-term debt which can be authorized pursuant to Section 818 of the PU Code. We know that the Line 63 debt is associated with the construction of the Line 63 facilities, which is permissible under Section 817 of the PU Code and the Allonge evidences the extension of the maturity date.

Accordingly, we will authorize PPS LLC's Line 63 debt pursuant to Section 818 of the PU Code.

No fee has been paid previously to the Commission in relation to PPS LLC's Line 63 debt. Pursuant to Section 1904(b) of the PU Code, PPS LLC should pay the fee corresponding to this debt authorization.

In Resolution (Res.) ALJ 176-3034 dated March 2, 2000, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3034.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU Code Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Because of the filing date of the Application and the time allowed for responses under Rule 47(f) of the Rules of Practice and Procedure, it was not possible for the Commission to issue an order prior to April 30, 2000, the maturity date for PPS LLC's \$63,600,000 short-term debt. Therefore, our action on this particular matter will be effective as of April 30, 2000, nunc pro tunc.

Findings of Fact

1. PPS LLC, a Delaware limited liability corporation, is a pipeline utility subject to the jurisdiction of this Commission.

2. PPS LLC assumed \$63,600,000 of APL short-term debt associated with the Line 63 System (as evidenced by a Note between APL and Atlantic Richfield Company on May 1, 1999) and with a maturity date of April 30, 2000.

3. The Allonge reflects the same terms and conditions of the Note, except that the maturity date has been extended to August 14, 2000.

4. PPS LLC's request to continue to maintain the Line 63 debt on a longer term basis would be for proper purposes and not adverse to the public interest.

5. Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 7, 2000, and no protests have been received. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order which follows.

3. PPS LLC should pay the fee determined in accordance with PU Code Section 1904(b).

4. Our action on this matter should become effective as of April 30, 2000, nunc pro tunc, once PPS LLC pays the fee described above.

ORDER

IT IS ORDERED that:

1. The \$63,600,000 debt associated with the Line 63 System of Pacific Pipeline System LLC (PPS LLC) with a maturity date of August 14, 2000, as evidenced by the Promissory Note, the Assumption Agreement, and the First Allonge to Promissory Note attached to Application (A.) 00-02-029, is hereby authorized.

2. PPS LLC may execute and deliver any or all related documents required for completion of this transaction.

3. When PPS LLC pays \$37,800, the fee set forth by Public Utilities Code Section 1904(b), the authority granted by this order shall become effective as of April 30, 2000, nunc pro tunc.

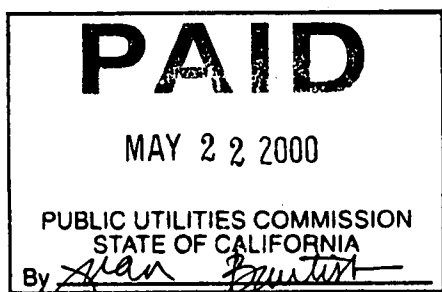
4. The Application is granted as set forth above.

5. A.00-02-029 is closed.

This order is effective today.

Dated May 18, 2000, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
CARL W. WOOD
Commissioners



\$37,800.00

CSR # 41724