

Decision 99-10-015 October 7, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of KN Energy, Inc. for Authority to
Acquire Control of SFPP, L.P.

Application 99-07-033
(Filed July 21, 1999)

OPINION

1. Summary

KN Energy, Inc. seeks authority pursuant to Pub. Util. Code § 854 to acquire control of SFPP, L.P., a public utility that owns and operates a pipeline system for the transportation of refined petroleum products. The application is unopposed. The application is granted.

2. Nature of Transaction

KN Energy, a Kansas corporation with headquarters in Lakewood, Colorado, is an integrated energy services provider that gathers, processes, transports and stores natural gas; markets natural gas and natural gas liquids; and conducts electric power generation and sales. The company operates 25,000 miles of interstate and intrastate pipelines in the western and mid-continental United States. It owns or has an interest in 31 natural gas processing plants and 25 storage facilities. Its regulated retail natural gas business serves 210,000 customers in Colorado, Nebraska and Wyoming. The company operates intrastate transmission systems in Texas, Colorado, Wyoming and Oklahoma.

SFPP transports gasoline, diesel fuel and commercial and military jet fuel via pipeline to petroleum companies, independent refiners, the United States military, and marketers and distributors of these products. The company

operates 13 truck loading terminals and provides pipeline service to 44 customer-owned terminals, three commercial airports and 12 military bases. SFPP's pipeline consists of (1) the South Line, which transports products from Los Angeles to the San Bernardino and Riverside areas and other locations; (2) the North Line, which transports products from the San Francisco Bay Area to 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.

KN Energy states that it will acquire control of SFPP in a series of transactions in which KN Energy will acquire Kinder Morgan, Inc. Kinder Morgan is the parent company of Kinder Morgan G.P., Inc., the general partner of Kinder Morgan Energy Partners, L.P. (KMEP). Among other things, KMEP and its affiliates own a general partnership interest and exercise control of SFPP, as authorized by this Commission in Decision (D.) 98-01-047 (January 21, 1998).

The acquisition of Kinder Morgan will be accomplished through the conversion of common stock of Rockies Merger Corp., a wholly owned subsidiary of KN Energy, into shares of Kinder Morgan common stock. At the same time, Kinder Morgan common stock will be converted into shares of KN Energy stock. The net result will be that Kinder Morgan will become a wholly owned subsidiary of KN Energy, and SFPP will become an indirect subsidiary of KN Energy. KN Energy states that it will issue 41.5 million share of its common stock (valued at \$508 million at the time the acquisition was announced) to the shareholders of Kinder Morgan and will assume \$148 million of Kinder Morgan debt.

3. Reasons for the Proposed Acquisition

KN Energy states that its acquisition of Kinder Morgan will serve to deleverage its balance sheet, improve cash flow to fund future growth, enhance the stability of KN Energy's earnings, and strengthen the company's midstream asset base.

The company states the proposed transfer of control will not adversely affect SFPP's ability to maintain and operate its common carrier pipeline services in California, and that it in no way will affect the terms and conditions under which any California intrastate shipper currently receives service from SFPP.

KN Energy states that it will be able to add some of its own technical and environmental expertise to the operation of SFPP.

4. Discussion

This application is filed pursuant to Pub. Util. Code § 854, which requires Commission approval of a transfer of control and transfer of assets of a public utility. Since the application involves only a change in the underlying corporate structure, there is no possibility that the transaction will have a significant impact on the environment. Applicants have shown through their accompanying exhibits that KN Energy has the financial, technical and managerial abilities to operate successfully.

Upon inquiry, counsel for KN Energy confirms that neither SFPP nor any other utility party to these transactions has gross annual California revenues exceeding \$500 million, and thus the additional requirements triggered by that amount in Pub. Util. Code § 854(b) are not before us.

The proposed transfer of control here promises improved pipeline service for California intrastate shippers. No changes in the existing services or direct management of SFPP are proposed. KN Energy has the financial and technical qualifications necessary to support the SFPP operations.

There have been no protests to this application, and the contemplated transfer of control appears to be noncontroversial. KN Energy requests expedited approval of the application. The application is granted, subject to the terms and conditions set forth below.

In Resolution ALJ 176-3021, dated August 5, 1999, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. Based on the record, we conclude that a public hearing is not necessary, nor is it necessary to alter the preliminary determinations in ALJ 176-3021.

5. Section 311(g)(2) - Uncontested/decision grants relief requested

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

Findings of Fact

1. Notice of the filing of this application appeared in the Commission's Daily Calendar on July 26, 1999.
2. KN Energy seek authority to acquire control of SFPP, which provides common carrier pipeline services in California.
3. Since the application involves only a change in corporate structure, it can be seen with certainty that granting the application will not have a significant effect on the environment.
4. The proposed transfer of control will not affect the terms and conditions under which any California intrastate shipper currently receives service from SFPP.
5. KN Energy is qualified technically and financially to support the pipeline services of SFPP.

6. There is no known opposition to the proposed transfer of control.

Conclusions of Law

1. KN Energy's request for authority under Pub. Util. Code § 854 for authority to assume control of SFPP should be granted.
2. A public hearing is not necessary.
3. This is a ratesetting proceeding, as defined by Rule 6.1(c) of the Rules of Practice and Procedure.
4. Since there has been no protest filed, the following order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, the transfer of control of SFPP, L.P., a public utility, to KN Energy, Inc., pursuant to Pub. Util. Code § 854, in accordance with the terms and conditions set forth in Application (A.) 99-07-033, is approved.
2. KN Energy, Inc. shall notify the Director of the Commission's Energy Division in writing of the actual transfer date as authorized herein, within 10 days thereafter.

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3. The authority granted in this order shall expire if not exercised within 12 months after the effective date of this order.

4. Application 99-07-033 is closed.

This order is effective today.

Dated October 7, 1999, at Los Angeles, California.

RICHARD A. BILAS

President

HENRY M. DUQUE

JOSIAH L. NEEPER

JOEL Z. HYATT

CARL W. WOOD

Commissioners