

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION NO. G-2846
March 8, 1989

RESOLUTION

RESOLUTION G-2846. FOUR CORNERS PIPE LINE COMPANY (FCPL) AUTHORIZED TO INCREASE RATES FOR PIPELINE SERVICE BY 5% FOR SERVICE RENDERED IN CALIFORNIA.

(Advice Letter 15, filed November 10, 1988.)

SUMMARY

1. Four Corners Pipe Line Company (FCPL) requested a rate increase of five per cent (5%) for pipeline service provided within the State of California.
2. This resolution grants the request.

BACKGROUND

1. FCPL obtained its last general rate increase on August 3, 1983 in Decision 83-08-037 in Application 82-04-66. FCPL's authorized rate of return was 14.34% to 14.68% and authorized return on equity was 15.5% to 16.0%.
2. Since that date FCPL has incurred increased costs for labor, taxes and other fees, and for energy used in its pumping stations.
3. FCPL has, in the interim, had only minor rate increases to reflect specific increased costs (franchise fees) for identified pipelines which are subject to Commission jurisdiction.
4. FCPL also has experienced a decline in revenues as customers have cut back the Production of crude petroleum, consequently shipping less through FCPL's pipeline system.
5. FCPL's customers are all businesses which have alternatives to FCPL's service such as railroads, trucking companies, or competing pipelines. This sets pipeline companies apart from other utilities with captive markets of customers lacking reasonable service alternatives to that provided by the utility.
6. General Order 96-A provides that rate increases such as that requested by FCPL not be done by advice letter. However, it also provides that the Commission may grant an exception "upon proper showing by any interested party". Deviations from strict adherence to regulations have been granted in the past upon a showing by the affected utility that it was appropriate and would not result in a detriment to any of the utility's customers.

DISCUSSION

1. Due to inflation, the total expenditures for wages and salaries have increased 7% since the last general rate increase, August 3, 1983.
2. The charges for taxes and business licenses for the pipeline have increased 7% since the last general rate increase.
3. The costs for energy used for pipeline operation, and other materials purchased to operate and maintain the pipeline have increased 14% since the last general rate increase.
4. Some of the petroleum producers which use FCPL's pipeline system have reduced production because of the decline in the price of crude petroleum. This decline in shipments was approximately 24% from the first ten month period of 1987 to the first ten months of 1988. This has resulted in reduced revenues of 17% since the last general rate case.
5. The Commission Advisory and Compliance Division (CACD) staff examined the accounting and financial records and other operating information of the FCPL for the years 1986 and 1987, the eight months ended August 31, 1988, and the projected information for the period from September 1 through December 31, 1988.
6. The CACD determined that FCPL is in compliance with prior Commission decisions dealing with accounting and financial matters, and maintains its accounting and financial records in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The CACD concludes that FCPL's accounting and financial records present fairly the financial position of the company.
7. FCPL forecasts that during 1989 it would earn a rate of return of 8.37% at present rates and 9.71% at its proposed rates, and it would earn 6.86% on equity at current rates and 9.44% at proposed rates. (See Table 1.) Based upon its analysis of FCPL's forecast for 1989 CACD agrees that FCPL's forecast is reasonable.
8. In December of 1988, the Commission authorized rates of return on common equity for energy utilities for 1989 of 13% to 13.15%. The 9.44% return on equity at FCPL's proposed rates is substantially below that level and is not unreasonable.
9. CACD recommends that general rate increases (such as this) should, consistent with General Order 96-A, not be done by advice letter. However this is a unusual case in that the utility has not had a general rate increase since 1983, and is requesting a

return on equity below what has recently been granted to other energy utilities. CACD believes that FCPL has shown that the requested increase is an appropriate amount. In addition, since FCPL's customers have alternative shipment methods available, which is not the case for most customers of other types of energy utilities, the proposed increase is not to their detriment. Therefore, CACD recommends that FCPL's request be granted. CACD also recommends that approval of this unique request not establish a precedent for circumventing General Order 96-A.

PROTESTS

1. Although all known customers were notified of this filing, only one protest to this Advice Letter was received. The protest was stated in general terms, objecting to the rate increase as an increased cost of operation to the customer. It did not object to any specific acts of FCPL, or deny that FCPL needed rate relief.

FINDINGS

1. For the reasons discussed above FCPL's request will not result in an unreasonably high return on equity.

2. General Order (GO) 96-A, Section VI states that ordinarily a utility or district of a utility, other than a telephone utility, may only request rate relief by the Advice Letter procedure if the increase is minor and its annual operating revenues, after the rate increase, does not exceed \$750,000.

3. A one time exception to Section VI of GO 96-A, should be authorized for FCPL.

THEREFORE IT IS ORDERED that:

1. Four Corners Pipe Line Company is granted a onetime exception, as authorized by Paragraph XV "Exceptions." of General Order 96-A from the annual revenue limitations contained in Section VI "Procedure in Filing Increased Rates" of General Order 96-A.
2. Four Corners Pipe Line Company is authorized to file the tariff sheets attached to Advice Letter No. 15.
3. Advice Letter No. 15 and accompanying tariff sheets shall be marked to show that they were adopted by Resolution No. G-2846 and to be effective for service on and after today.

4. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 8, 1989. The following Commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. CHANIAN
Commissioners



VICTOR R. WEISSER
Executive Director

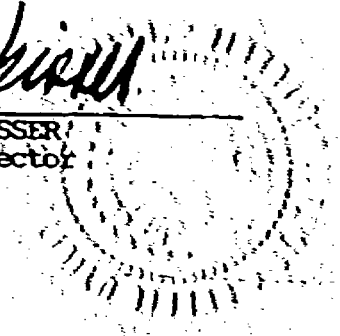


Table 1.

FOUR CORNERS PIPELINE COMPANY
FORECAST RESULTS OF OPERATIONS FOR 1989

	Present Rates	Proposed Rates
REVENUES	\$24,161,935	\$25,218,487
LESS:		
OPERATING EXPENSES	19,039,060	19,039,060
IMPUTED INTEREST EXPENSE	2,309,239	2,309,239
INCOME TAX ALLOWANCE	1,097,318	1,509,373
NET OPERATING INCOME	<u>\$4,025,557</u>	<u>\$4,670,054</u>
DEPRECIATED RATE BASE	48,114,620	48,114,620
RATE OF RETURN	8.37%	9.71%
RETURN ON EQUITY	6.86%	9.44%

Capital Structure at proposed rates:

	Ratio	Cost	Weighted Cost
Long Term Debt	47.99%	10.00%	4.80%
Equity	52.01%	9.44%	4.91%
		Total	9.71%