PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION O-0027
OCTOBER 8, 1998

RESOLUTION

RESOLUTION O-0027. ARCO PIPELINE COMPANY (APL) SEEKS TO REMOVE FROM COMMON CARRIER SERVICE LINE 211 AND THE SOUTHERN PORTION OF LINE 1, STARTING FROM ITS TEJON PUMP STATION TO ITS LOS ANGELES BASIN DESTINATIONS AND TO CANCEL ALL RELATED TARIFF RATE SHEETS. APPROVED.

BY ADVICE LETTER NO. 46, FILED ON DECEMBER 23, 1997.

SUMMARY

1. By Advice Letter (AL) No. 46, Arco Pipe Line Company (APL) requests authority to remove from common carrier service Line 211 and the southern portion of Line 1, starting from its Tejon Pump Station to its Los Angeles Basin destinations and to cancel all related tariff rate sheets.

2. A protest was filed by Hillcrest Beverly Oil Corporation (HBOC) requesting additional time to conduct studies into the viability of the lines and to explore tie-in capabilities in the Los Angeles Basin. This protest is denied because HBOC has found an alternative way to transport its crude oil and it is uneconomical for APL to continue to operate Line 211 and the southern portion of its Line 1.

3. This resolution approves AL No. 46.

BACKGROUND

1. APL filed this advice letter seeking to remove from common carrier service Line 211 and its southern portion of Line 1, starting from its Tejon Pump station to its Los Angeles Basin destinations and to cancel all related tariff rate sheets.

2. Line 1 was damaged in the 1994 Northridge earthquake. In order to repair Line 1, APL would need to replace approximately 60 miles of acetylene welded pipe between its Kelley Station and the ARCO's Los Angeles Refinery. APL estimates the costs to repair the pipeline range from $40 million to $45 million.

3. APL estimated that it would take approximately two years to repair the pipeline and projected that it may take longer due to lengthy regulatory approval processes and possible opposition by several cities along the pipeline route.

4. Before the 1994 Northridge earthquake, Line 1 transported approximately 30,000-55,000 barrels of crude oil per day. APL projected that if it made the necessary repairs to reopen Line 1, the 10 year break-even volume required for Line 1 would be 41,000 barrels per day, based on an average tariff of $0.60/barrel, capital additions of approximately $42 million, and fixed yearly operating costs of $1 million. APL estimates that less than 10,000 barrels per day is available.

5. Line 211 is an ancillary line to Line 1 and provides pipeline service paralleling a portion of the southern section of Line 1 in the Los Angeles Basin.[1] Although it was not damaged in the 1994 Northridge earthquake, Line 211 has been shut down because Line 211 is interconnected with Line 1 and set up as a high volume trunk line system, i.e., transporting volumes of approximately 30,000-50,000 barrels per day. It is not set up to accommodate a low delivery rate as proposed by HBOC, i.e., 3,000 barrels per day.

6. All trunk line and gathering tariffs rate sheets related to Line 1 and 211 are also proposed for cancellation.

NOTICE

1. Notice of AL No. 46 was made by sending copies of it to all crude oil tariff subscribers, oil producers and shippers known to APL. Notice of the advice letter appeared on the Commission's Calendar.

PROTEST

1. On January 8, 1998, Hillcrest Beverly Oil Corporation (HBOC) protested APL AL No. 46, arguing that Lines 1 and 211 should not be removed from service because HBOC has limited options to transport its crude oil. Prior to the 1994 Northridge earthquake, HBOC, along with two other oil producers, were users of Line 1 connecting at the Cheviot Hills Gathering Station, L.A. County Junction (CHGS). After the earthquake, HBOC argued that it was left with very little flexibility to transport its crude oil as the City of Los Angeles prohibited HBOC from delivering its crude oil by truck. HBOC stated that in order for it to transport its crude oil in the

[1]Line 211 operates as a parallel system from the City of Los Angeles (intersection of Jefferson Blvd and Hauser Streets) to the City of Carson .

L.A. County area, it was forced to purchase certain pipelines and "donate"[2] a portion of them to Unocal in order to provide another delivery method.

2. HBOC further argued that it could transport its crude oil on Line 211, which runs parallel to Line 1. HBOC performed deliveries to the same general area served by Line 1 prior to the Northridge earthquake. Line 211 was not damaged by the earthquake, but was closed because Line 211 is interconnected with Line 1 and set up as a high volume trunk line system. HBOC has been unsuccessful in its attempts to negotiate an agreement with APL to use this line.

3. In its protest, HBOC requested time to study the viability of using both Lines 1 and 211, and, if viable, time to negotiate an agreement with APL.

4. In a January 23, 1998 letter, APL responded that it was unable to accommodate HBOC because it was uneconomical to operate the Line 1/211 system. Prior to the earthquake, APL was able to accommodate the higher sulfur/lower gravity CHGS leases on its Line 1/211 system because APL was also transporting substantial volumes of higher gravity/lower sulfur crude oil on Line 1 from its Newhall Station, whereby the resulting Line 1/CHGS blend met the minimum quality specifications.[3] APL argued that the delivery systems of Line 1/211 are not set up for, nor would it be able to accommodate the low delivery rates (3,000 barrels per day) of the CHGS leases.

5. Moreover, APL argues that HBOC and the other oil producers are currently transporting their lease production into the Unocal Pipeline System (now Tosco Pipeline), which is a regulated common carrier pipeline, that can access multiple end users, i.e., Texaco, Mobil, Chevron, Tosco, and, therefore, can offer competitive transportation rates.

6. In its April 30, 1998 letter, HBOC responded that APL should separately reinstate Line 211 to common carrier status because it believes that Line 211 is a necessary pipeline for the future viability of their collective operations. HBOC and the other oil producers (Producers[4]) argued that Line 211, in conjunction with a very few hundred feet of Line 1, could provide a direct conduit from their producing fields to the L.A. area oil refining center. Further, the

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[2]HBOC uses the word "donate" without defining or clarifying its usage.

[3]APL argued that HBOC crude oil did not meet the minimum gravity/maximum sulfur specifications for Line 63 Crude Oil.

[4]HBOC and two other oil producers, Breitburn Energy Company, LLC, and Venoco, Inc., collectively conducted a study into the viability of APL's Lines 1 and 211, and refer to themselves as the "Producers."

Producers believe they could provide APL with sufficient production levels and revenues to make it worthwhile for APL to reactivate the system. Moreover, the Producers stated that each of the producing companies have aggressive plans for future, in-field development that would substantially increase production levels. The Producers also argued that other producers along the right-of-way of Line 211 could be connected and would significantly increase the volume. Finally, since Line 211 is a conduit where all utility costs for pumping and metering are the responsibility of the producer, there appears to be negligible operating cost exposure for APL relative to the revenue generated.

7. In a July 13, 1998 letter, HBOC stated that it was unable to obtain a firm commitment from other producing companies which would result in daily shipments through Lines 1 and/or 211 in excess of 10,000 barrels per day. Although HBOC remains interested in possibly using the lines in the future, HBOC stated that it would contact APL directly. Further, HBOC did not respond to staff's inquiry into its study of the viability of Lines 1 and/or 211.

DISCUSSION

1. It appears economically and practically infeasible to operate Line 211 independently from Line 1 because Line 211 is interconnected with Line 1 and set up as a high volume trunk line system.

2. Advice letter No. 46 should be approved because the damage to Line 1, and its subsequent effect on Line 211, makes it uneconomical to reactivate either pipeline for crude oil service.

FINDINGS

1. APL filed AL No. 46 on December 23, 1997 requesting authority to remove from common carrier service Line 211 and the southern portion of Line 1, starting from its Tejon Pump Station to its Los Angeles Basin destinations and to cancel all related tariff rate sheets.

2. Line 1 was damaged in the 1994 Northridge earthquake. In order to repair Line 1, APL would need to replace approximately 60 miles of acetylene welded pipe between its Kelley Station and ARCO's Los Angeles Refinery. APL estimated costs to repair the pipeline range from $40 million to $45 million.

3. APL estimated that it would take at least two years to repair the pipeline and maybe longer due to lengthy regulatory approval processes and possible opposition by several cities along the pipeline route arise.

4. Before the 1994 Northridge earthquake, Line 1 transported approximately 30,000-55,000 barrels of crude oil per day. APL projected that if it made the necessary repairs to reopen Line 1, the 10 year break-even volume required for Line 1 would be 41,000 barrels per day, based on an average tariff of $0.60/barrel, capital additions of approximately $42 million, and fixed yearly operating costs of $1 million. APL estimates that less than 10,000 barrels per day is available.

5. Line 211 operates as a parallel system from the City of Los Angeles (intersection of Jefferson Blvd and Hauser Streets) to the City of Carson. Further, it appears economically and practically infeasible to operate Line 211 independently from Line 1 because Line 211 is interconnected with Line 1 and set up as a high volume trunk line system.

6. HBOC filed a protest to AL No. 46 on January 8, 1998 arguing that neither Line 1 nor Line 211 should be removed from common carrier service because HBOC has no other alternative to transport its crude oil, as the City of Los Angeles prohibited HBOC from delivering its crude oil by truck, and it was forced to purchase certain pipelines and "donate" a portion of them to Unocal in order to provide another delivery method.

7. HBOC further argued that it and two other oil producers could provide APL with sufficient production levels and revenues to make it worthwhile for APL to reactivate the system.

8. In a July 13, 1998 letter, HBOC stated that it was unable to obtain a firm commitment from the other oil producing companies which would result in daily shipments through Lines 1 and/or 211 in excess of 10,000 barrels per day.

9. HBOC has not responded to staff's inquiry into its study of the viability of Lines 1 and/or 211.

10. HBOC has found another delivery system for its oil.

11. HBOC cannot confirm sufficient deliveries so that APL can operate Line 211 efficiently.

12. HBOC cannot confirm sufficient deliveries to justify the repair of Line 1.

13. HBOC's protest should be denied.

14. APL's request is reasonable.

Resolution O-0027 October 8, 1998
APL AL No. 46/BFS

THEREFORE IT IS ORDERED THAT:

1. Arco Pipe Line Company's request for approval of Advice Letter No. 46 is approved.

2. The protest of Hillcrest Beverly Oil Corporation is denied.

3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 8, 1998; the following Commissioners voting favorably thereon:

Wesley Franklin

WESLEY M. FRANKLIN
Executive Director

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