PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION O-0028
OCTOBER 8, 1998

RESOLUTION

RESOLUTION O-0028. PACIFIC PIPELINE SYSTEM INC. (PPSI) REQUESTS APPROVAL OF ITS MARKET BASED TARIFF AND RATES ON ITS NEW 130 MILE CRUDE OIL PIPELINE WHICH EXTENDS FROM EMIDIO, IN SOUTHERN KERN COUNTY TO VARIOUS REFINERY DESTINATIONS IN THE LOS ANGELES BASIN. APPROVED

BY ADVICE LETTER NO. 1, FILED ON JULY 7, 1998

SUMMARY

1. By Advice Letter (AL) No. 1, Pacific Pipeline Systems, Inc. (PPSI) requests approval of its market based tariff and rates on its new 130 mile crude oil pipeline which extends from Emidio, in Southern Kern County to various refinery destinations in the Los Angeles Basin.

2. A protest was filed in AL No. 1 by the United States Department of Agriculture, Angeles National Forest, Forest Service (Forest Service). The Forest Service contends that its Special Use Permit limits PPSI to "shipping crude oil with a volume not to exceed an annual average of 130,000 barrels per day....". PPSI reaffirmed that the pipeline would only be used to ship crude oil, including naturally occurring liquid petroleum, and that the volume transported through the pipeline would not exceed an annual average of 130,000 barrels per day.

3. This resolution approves the market based tariff and rates proposed by PPSI.

BACKGROUND

1. In Decision (D.) 96-04-056, the Commission approved a Final Environmental Impact Statement/Subsequent Environmental Impact Report for the PPSI crude oil project. This project consisted of a new 130 mile crude oil pipeline which would extend from Emidio, in Southern Kern County to various refinery destinations in the Los Angeles Basin.

2. PPSI's crude oil pipeline and appurtenant facilities are now being constructed. PPSI anticipates the pipeline will be ready to commence commercial operation on or about October 1, 1998.

3. The Commission ordered PPSI to file its market based tariff to advise the Commission of the actual provisions of its market based tariff and anticipated rates that will be available for service to shippers.[1] PPSI was further ordered to file its rates for service forty-five (45) days prior to the commencement of pipeline service.

4. PPSI's market-based tariff consist of two classes of shippers. The first class of shippers are identified as "participating shippers." Participating shippers were instrumental in the development of the pipeline project through the making of advance payments or fostered the financing of the project by executing a Transportation Agreement.[2] The Commission agreed that participating shippers would be entitled to a rate below the market-based rate that was available to other shippers that wanted to ship crude oil on the pipeline, but were unwilling to undertake the development or financial risks. PPSI states that the volume of pipeline capacity reserved for participating shippers is 70,000 barrels per day.

5. The second class of shippers defined by PPSI as the "contract shippers". This class is open to any shipper that executes a Shipping Agreement. A Shipping Agreement is for a minimum term of one year (nine years less than that required of participating shippers) and requires a minimum ship-or-pay commitment (the required volume) for each quarterly period of 5,000 barrels per day (one half the amount of the required volume for participating shippers). PPSI proposes to reserve pipeline capacity of 30,000 barrels per day for contract shippers. Contract shippers also have the first right to use reserved capacity that is not being used by participating shippers. .

6. PPSI proposes that the rates for contract shippers would be market based and will differ depending on the length of the contract and the market base price at the time the contract was executed. Further, PPSI offers that by executing a longer term Shipping Agreement, a contract shipper can qualify for a rate that is relatively close to the rate available to participating shippers.

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[1] PPSI states that the rates are it best current estimates and may be modified slightly prior to the commencement of its commercial operations. PPSI states that any changes will still occur within the time limits imposed by D.96-04-056, Ordering Paragraph 11 which required PPSI to file its tariff not less than 45 days prior to commencement of service on the Project.

[2] PPSI list 3 shippers who qualify as participating shippers: Chevron, U.S.A., Inc. (Chevron), Texaco Trading and Transportation, Inc. (Texaco), and Anshutz Company (Anshutz).

7. The third and final class of shippers is the non-participating shipper. This is a shipper that is neither a participating nor a contract shipper. The non-participating shipper ships crude oil pursuant to the general terms and conditions of the tariff and does not execute a contract with PPSI. PPSI proposes a pipeline capacity of 30,000 barrels per day for non-participating shippers, plus any other capacity that is not utilized by participating or contract shippers.

8. PPSI states that the rates for shipments of crude oil by non-participating shippers will be market based rates, as approved in D.96-04-056.

9. PPSI also proposes market based rates for transportation of outer continental shelf (OCS) crude oil. Originally, PPSI anticipated that it would provide pipeline service for shippers that wanted crude petroleum produced on the OCS. However, PPSI does not extend to the California coast. PPSI has entered into an agreement with Texaco whereby PPSI would lease and operate certain pipeline facilities owned by Texaco that would allow PPSI to receive OCS crude oil at Pentland, a Kern County facility located approximately 14 miles west of Emidio, and to ship such crude oil through the Texaco/PPSI pipeline facilities to the various refinery destinations in the Los Angeles Basin. The rates for each class of shippers incorporates the same principles as are applicable to shipments from Emidio.

NOTICE

1. Notice of AL No. 1 were made by serving all parties to Application 91-10-013 and by publication in the Commission Calendar.

PROTEST

1. On July 24, 1998, the Forest Service filed a protest of AL No. 1 contending that the Special Use Permit authorizing PPSI's pipeline on National Forest System land is "...shipping crude oil with a volume not to exceed an annual average of 130,000 barrels per day...." The Forest Service emphasized that this wording was chosen to implement Mitigation Measure SS-22a as recommended in its joint EIS/SEIR for the Pacific Pipeline Project.[3]

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[3] The Forest Service defined Mitigation Measure SS-22a as:
"The proposed pipeline shall only be used as stated in the Applicant's Project Description: for transportation of crude oil only and at a rate of 130,000 :BPD. No exceedence of this level shall be allowed without appropriate environmental review and analysis, and no other material including petroleum compounds or products (whether in gas or liquid form) may be transported through this pipeline. The H2S content of the crude oil transported by the pipeline shall not exceed 10 ppm".

2. On August 14, 1998, PPSI responded to the Forest Service protest. In its response, PPSI stated that its proposed tariff and Proforma Shipping Agreement are consistent with or should be interpreted in a manner that is consistent with Mitigation Measure SS-22a. PPSI further reaffirmed that the pipeline will only be used to ship crude oil, including naturally occurring liquid petroleum, and that the volume transported through the pipeline will not exceed an annual average of 130,000 barrels per day. Moreover, PPSI stated that it has discussed the protest with Mr. Rich Borden of Angeles National Forest and that he indicated that the Forest Service's concern about AL No. 1 has been met. Mr. Borden authorized PPSI to convey this fact to the Commission as part of its response.

DISCUSSION

1. Advice Letter No. 1 should be approved because PPSI has sufficiently explained its market based tariff and rates on its new 130 mile crude oil pipeline which extends from Emidio, in Southern Kern County to various refinery destinations in the Los Angeles Basin.

2. The protest of the Forest Service has been resolved by PPSI. Energy Division considers the Forest Service issue to be moot.

3. PPSI AL No. 1 is in compliance with D.96-04-056.

FINDINGS

1. PPSI filed AL No. 1 on July 7, 1998 requesting approval of its market based tariff and rates on its new 130 mile crude oil pipeline which extends from Emidio, in Southern Kern County to various refinery destinations in the Los Angeles Basin.

2. The Forest Service filed a protest to AL No. 1 on July 24, 1998 contending that the Special Use Permit authorizing PPSI's pipeline on National Forest System land is "...shipping crude oil with a volume not to exceed an annual average of 130,000 barrels per day...." The Forest Service emphasized that this wording was chosen to implement Mitigation Measure SS-22a as recommended in its joint EIS/SEIR for the Pacific Pipeline Project.

3. On August 14, 1998, PPSI responded to the Forest Service protest. In its response, PPSI stated that its proposed tariff and Proforma Shipping Agreement are consistent with or should be interpreted in a manner that is consistent with Mitigation Measure SS-22a. PPSI further reaffirmed that the pipeline will only be used to ship crude oil, including naturally occurring liquid petroleum, and that the volume transported through the pipeline will not exceed an annual average of 130,000 barrels per day. Moreover, PPSI stated that t has discussed the protest with

Mr. Rich Borden of Angeles National Forest and that he indicated that the USFS's concern about AL No. 1 has been met. Mr. Borden authorized PPSI to convey this fact to the Commission as part of its response.

4. PPSI's market based tariff will consist of three classes of shippers. The first class of shippers, called participating shippers, are shippers who were willing to undertake the development or financial risks in creating the pipeline. The pipeline capacity reserved for participating shipper is 70,000 barrels per day. Participating shippers are entitled to a rate below the market-based rate that others would be subject to.

5. The second class of shippers, called the contract shippers, are shippers who execute a shipping agreement for a minimum of one year and enter into a required minimum ship or pay commitment for each quarterly period of 5,000 barrels per day. The pipeline capacity reserved for contract shippers is 30,000 barrels per day. Contract shippers have the right to use reserved capacity that is not being used by participating shippers. Rates for contract shippers will be market based and will differ depending on the length of the contract and the market price at the time the contract was executed.

6. The third class of shippers, called non-participating shippers, is a shipper that is not a participating or contract shipper. This shipper will ship crude oil at tariff rate and will not execute a contract with PPSI. Pipeline capacity for non-participating shippers will be 30,000 barrels per day, plus any other capacity not utilized by the participating or contract shippers.

7. PPSI will provide transportation of outer continental shelf crude oil at market based rates.

8. The protest of the United States Forest Service is moot.

THEREFORE IT IS ORDERED THAT:

1. Pacific Pipeline Systems, Inc. request for approval of Advice Letter No. 1 is approved.

2. This resolution is effective today.

Resolution O-0028
PPSI AL No. 1/BFS

October 8, 1998

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