PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3041
MAY 25, 1994

R E S O L U T I O N

RESOLUTION G-3041. SHELL CALIFORNIA PIPELINE COMPANY REQUESTS APPROVAL OF TARIFFS WHICH GOVERN THE TRANSPORTATION AND DELIVERY OF PETROLEUM AS DESCRIBED IN CAL PUC NO. 5, ORIGINATING IN BAKERSFIELD, CONTINUING TO CALIOLA STATION AND TERMINATING AT COALINGA, AND CAL PUC NO. 6, ORIGINATING IN BREA AND TERMINATING AT SHELL'S CONNECTION TO THE UNOCAP PIPELINE IN SANTA FE SPRINGS.

BY ADVICE LETTER 6, FILED ON DECEMBER 23, 1992.

SUMMARY

1. Shell California Pipeline Company (Shell) filed Advice Letter No. 6 on December 23, 1992, which contains the tariffs outlining the rules and regulations for transporting and delivering petroleum. The petroleum movement described in Cal PUC No. 5 originates in Bakersfield, continues on to Caliola Station and terminates at Coalinga. Cal PUC No. 6's petroleum movement originates in Brea and terminates at Shell's connection to the UNOCAP Pipeline in Santa Fe Springs.

2. The City of Long Beach (Long Beach) filed a protest.

3. This resolution grants Shell's request subject to Shell's filing a supplement to Advice Letter No. 6, containing the modifications resulting from the protest, before the tariffs in Advice Letter No. 6 become effective.

BACKGROUND

1. The Pipeline Dedication Agreement ("The Agreement", Case No. C-587912, Exhibit C-1) dated August 26, 1991, was the result of litigation between Shell and the City of Long Beach (Long Beach). The parties agreed to dedicate the Brea and Caliola-Coalinga Crude Lines to common carrier service.

2. Advice Letter No. 6 was filed pursuant to The Agreement to contain the guidelines that govern the transportation and delivery of petroleum for these two lines and are described in Cal PUC Nos. 5 and 6 in Advice Letter No. 6.

3. When The Agreement was signed, Shell owned the Wilmington Refinery in Carson, California. The Brea Line, described in Cal PUC No. 6, carried crude oil from the Brea field to the Wilmington Refinery. Since the settlement, in December 1992, Shell has sold that refinery to Unocal. As a result, the southern portion of the Brea pipeline, starting at the Signal Hill Station and ending at the Wilmington Refinery, was idled.

4. A stipulation between Long Beach and Shell regarding the issues raised by Long Beach in this advice letter were being discussed during 1993. An agreement couldn't be reached and hence, the Commission resolves the issues as discussed in this resolution.

NOTICE:

Public notice of this filing was recorded in the Commission's calendar on December 24, 1992, and by mailing copies of the filing to adjacent utilities and interested parties.

PROTESTS

1. Long Beach filed a protest on January 11, 1993. Specifically, Long Beach asserted that: 1) Shell failed to establish in its tariffs an adjustment for differences in the quality of crude oil delivered into and received out of its pipelines, 2) the proposed minimum tender provision of 25,000 barrels for common stream operations in Shell's Cal PUC No. 5, Item No. 30, is too high, 3) the proposed rate of 24 cents per barrel in Cal. P.U.C. No. 6, the Brea Tariff, should be reduced to 12 cents per barrel, and 4) Shell lacks an origin point in Shell's Cal PUC No. 6, the Brea Line, at Signal Hill Station and a destination point at the Unocal Wilmington Refinery.

2. Shell responded to the protest on January 21, 1993. Shell then attempted to resolve some of the issues raised by Long Beach as described in the Discussion part of this resolution.

DISCUSSION

Lack of Quality Adjustment:

1. Long Beach states that Shell's pipelines are connected to oil fields producing widely varying gravities and that a tariff typically includes some provision for equitable adjustment among shippers for gravity differences arising out of common stream operations. Thus, a gravity bank is often used to compensate shippers for changes in quality that occur when a shipper puts into a pipeline a different quality crude oil than it receives at the other end.

2. Shell has agreed to establish a gravity or quality bank at a shipper's request for any common stream shipped under the terms of its tariff. The carrier, Shell, will establish an appropriate gravity or quality bank to calculate, collect and remit monetary adjustments among all shippers in that common stream so that all shippers are protected from changes in petroleum value due to changes in gravity or quality during shipment.

3. CACD recommends adding to Shell's tariffs the following language as submitted by Shell:

> "Gravity/Quality Bank: If any shipper requests the establishment of a gravity or quality bank for any common stream shipped under the terms of this tariff, the carrier will establish an appropriate gravity or quality bank to calculate, collect and remit monetary adjustments among all shippers in that common stream so that all shippers are protected from changes in petroleum value due to changes in gravity or quality during shipment."

Minimum Tender is Too High:

4. Long Beach asserts that the 25,000 barrel per month minimum tender requirement discourages potential shippers from use of Shell's lines for many of their shipments, and forces potential shippers to rely on other less efficient forms of transportation.

5. Shell has agreed to amend the minimum tender provision to state that for common stream operations, the minimum tender shall be 10,000 barrels and for petroleum, which requires segregated batch operations, the minimum tender shall be 25,000 barrels.

6. Long Beach is in agreement with Shell concerning the above minimum tender requirements for Cal PUC No. 5. CACD believes this agreement is reasonable.

Rate per Barrel in Cal PUC No. 6 is too high:

7. Long Beach asserts that Shell's current rate of 24 cents per barrel in its Cal PUC No. 6, the Brea tariff, is too high. Long Beach has compared Shell's throughput and mileage with that of Unocal's, a competing pipeline carrier in the Brea field. Unocal's pipeline (8.12 mile section) throughput of 1,300 barrels per day and rate of 13 cents per barrel was compared with Shell's pipeline (9 mile section) throughput of 3,750 barrels per day and rate of 24 cents per barrel. Based on this information alone, Long Beach has concluded that the Shell tariff is unreasonable and should be reduced to 12 cents.

8. Shell responded that its rate calculation includes actual costs of providing service and that a reduction of the rate to 12 cents per barrel would cause Shell to lose money on this pipeline. Shell does not share Long Beach's expressed belief that a lower rate will attract new shippers to the line because production in the area is declining and there are not enough barrels available to support two pipelines.

9. CACD has reviewed Shell's rate calculation and believes that the cost of service for its Brea pipeline reflects actual costs and recommends that Shell's proposed rate of 24 cents per barrel be adopted.

Lack of Delivery Destination Points:

10. As a result of The Agreement, Shell and Long Beach agreed to dedicate the Brea Line to common carrier service. The Brea Line was to begin at the Brea Pump Station in the City of Brea, continuing to the Signal Hill Pump Station in the City of Signal Hill, and end at the Wilmington Refinery in the City of Carson.

11. Shell's dedication of the Brea Line to common carrier status as proposed in Advice Letter No. 6 does not include the Signal Hill Pump Station as an origin point or the Wilmington Refinery as a destination point. These points are located on the idle portion of the Brea Line resulting from the sale of the Wilmington Refinery.

12. Long Beach has requested that an origin point be added on the Brea Line at Signal Hill Station and a destination point be added at Unocal's Wilmington Refinery as agreed in the Pipeline Dedication Agreement.

13. Long Beach asserts that it will be harmed and discouraged from shipping without these additional delivery and destination points. If Long Beach is prevented from using Shell's pipelines in a fair and equitable manner, this will limit competition for crude oil and materially affect crude oil prices in California. Long Beach will be harmed because it will be severely limited in transportation alternatives, which will lead to less competition for the purchase of crude oil and thus affect prices to Long Beach's detriment. Thus, Long Beach's efforts in the Pipeline Dedication Agreement to make these pipelines common carriers would be defeated.

14. Shell responded that when The Agreement was signed, Shell owned the Wilmington Refinery. The Brea crude line, to which Cal. PUC No. 6 refers, carried crude from the Brea field to that refinery. Since the settlement, Shell has sold the Wilmington Refinery to Unocal. Subsequently, Unocal did not wish to utilize the southern portion of the Brea pipeline, but rather preferred to utilize its own pipeline which follows a similar route to the refinery. As a result the southern leg of the Brea pipeline, including the Signal Hill Pump Station, was idled. To avoid wasting resources by reactivating the idle portion of the line, Shell decided to convert only the <u>active</u> portion of the Brea line to common carriage.

15. Both Unocal and Four Corners Pipeline Companies are common carriers that closely parallel the idle portion of the Brea line. Long Beach can ship its crude oil on either of these pipelines, and hence, the reactivation of the southern portion of the Brea line, in Shell's opinion, is an unnecessary waste of funds. Furthermore, all of the destination points on the active portion of the Brea line listed in Cal. PUC No. 6 are part of The Agreement.

16. Although the Pipeline Dedication Agreement included the Signal Hill Station as an origin point and the Wilmington Refinery as a destination point, the sale of Shell's Wilmington Refinery should permit the southern portion of the Brea Line to be idle. There are two competing common carriers that closely parallel Shell's Brea Line that can provide service to transport and deliver crude oil.

FINDINGS

1. Shell filed Advice Letter No. 6 on December 23, 1992, in compliance to the Pipeline Dedication Agreement (Case No. C-587912, Exhibit C-1) dated August 26, 1991. This agreement resulted from litigation proceedings between Shell and Long Beach in which both parties agreed to dedicate the Brea and Caliola-Coalinga Crude Oil Transmission Lines to common carrier status.

2. The guidelines that govern the transportation and delivery of petroleum for these two lines are described in Cal PUC Nos. 5 and 6 in Advice Letter No. 6.

3. Shell has filed Advice Letter No. 6 in compliance with General Order 96-A, Section III.

4. Shell will establish a gravity or quality bank at a shipper's request for any common stream shipped under the terms of its tariff. The following language will be used:

> Gravity/Quality Bank: If any shipper requests the establishment of a gravity or quality bank for any common stream shipped under the terms of this tariff, the carrier will establish an appropriate gravity or quality bank to calculate, collect and remit monetary adjustments among all shippers in that common stream so that all shippers are protected from changes in petroleum value due to changes in gravity or quality during shipment.

5. Shell will amend the minimum tender provision to state that for common stream operations, the minimum tender shall be 10,000 barrels and for petroleum, which requires segregated batch operations, the minimum tender shall be 25,000 barrels.

6. Shell should be allowed to charge a rate of 24 cents per barrel in its Cal PUC No. 6, the Brea tariff.

7. The origin and destination points as filed by Shell in Cal. PUC No. 6 are reasonable.

THEREFORE, IT IS ORDERED that:

1. Shell California Pipeline Company's Advice Letter No. 6 is approved as modified below.

2. Shell may establish a gravity or quality bank at a shipper's request for common stream operations.

3. Shell may amend the minimum tender provision to state that for common stream operations the minimum tender shall be 10,000 barrels, and for petroleum which requires segregated batch operations, the minimum tender shall be 25,000 barrels.

4. Shell may file with the Commission a supplement to Advice Letter No. 6 containing the changes outlined in ordering paragraph no(s). two and three above, no later than twenty days after the date of this resolution.

5. Shell may charge a rate of 24 cents per barrel from Brea to the UNOCAP connection, 10 cents per barrel from Caliola to Coalinga, 40 cents per barrel from Bakersfield to Caliola, and 50 cents per barrel from Bakersfield to Coalinga.

6. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on May 25, 1994. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
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Commissioners