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BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA

Application of San Pablo Bay Pipeline Company LLC for Approval of Tariffs for the San Joaquin Valley Crude Oil Pipeline	A. 08-09-024
and related cases.	C.08-03-021 C.09-02-007 C.09-03-027

NOTICE OF EX PARTE COMMUNICATION

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Attorneys for Shell Trading (US) Company

Date: May 6, 2011

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Application of San Pablo Bay Pipeline Company LLC for Approval of Tariffs for the San Joaquin Valley Crude Oil Pipeline	A. 08-09-024
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NOTICE OF EX PARTE COMMUNICATION

In accordance with Rule 8.3 of the Commission's Rules, Shell Trading (US) Company ("STUSCO") files this notice of four ex parte communications that occurred on May 3, 2011. The communications were oral. A written document (a one-page hand-out) was provided. A copy of the hand-out is attached.

I.

The ex parte communications occurred through four separate meetings between representatives of STUSCO and the advisors to Commissioners Peevey, Simon, Florio and Ferron. Each meeting was held in a conference room on the fifth floor of the Commission's headquarters in San Francisco.

The meeting attendees for STUSCO were Eva-Maria Frohn, Crude Oil Trading – Offshore Team, Steve Smetana, Crude Oil Trader, and John Leslie, the undersigned outside counsel for STUSCO. The Commissioner advisors involved in the meetings, and the approximate times of the meetings, are below:

Carl Meeusen	10:10-10:35 a.m.
Paul Phillips	10:40-11:25 a.m.
Matthew Tisdale	1:00-1:45 p.m.
Sarah Thomas	2:50-3:35 p.m.

The communications were oral, but the undersigned handed out the one-page outline that is attached to this notice. The meetings were initiated by the undersigned.

II.

The purpose of each meeting was to discuss the March 9, 2011 proposed decision ("PD") that was circulated by Presiding Judge Bemesderfer in the above-referenced proceeding. The STUSCO representatives addressed the following objections to the PD:

1. Contrary to the PD, Shell's proprietary truck racks and storage tanks should not be included in the jurisdictional assets of the regulated pipeline. These private assets are not "necessary" for public utility service, and they have not been held out (dedicated) for public use.

2. The proposed tariff unlawfully discriminates against STUSCO in the following respects:

    - The proposed tariff improperly, and without justification, restricts STUSCO's ability to nominate Outer Continental Shelf (OCS) crude on the 20-inch pipeline.

    - The proposed nomination protocol improperly imposes a minimum delivery requirement on STUSCO (with respect to SJVH crude) before STUSCO is allowed to nominate a blended crude supply (SJVB).

    - The proposed tariff improperly applies a higher Pipeline Loss Adjustment (PLA) to STUSCO's blended crude than the PLA that is applied to the SJVH delivered by Tesoro, Valero and Chevron.

STUSCO's representatives raised the following issues with respect to these matters:

A. **Jurisdictional Assets**

1. Storage Tanks: Ms. Frohn explained that proprietary storage tanks are used for long-term storage of crude oil supplies for economic arbitrage. By contrast, "break-out" tanks are used to receive and reinject crude oil to balance the flow of crude oil on the pipeline for seamless operation of the pipeline.

SPBP includes 1.4 million barrels of "break-out" tank capacity with the pipeline's jurisdictional assets. Shell's proprietary storage tanks (500,000 plus barrels) are not included with the jurisdictional assets because they are not needed for crude oil transportation. These tanks have been unavailable for pipeline operation for many years. They are used instead by STUSCO for crude arbitrage– an economic function.

Ms. Frohn stated that the private storage tanks are only operational because STUSCO leased the tanks from Shell pipeline (under a five-year agreement) and refurbished them. The proprietary storage tanks have not been leased to other shippers.

Ms. Frohn noted that the Independent Shippers want access to Shell's private storage tanks for free. This would afford them an economic windfall that should not be allowed. The undersigned emphasized that these tanks are not jurisdictional assets.

2. Truck Racks: Ms. Frohn explained that "truck racks" are receiving facilities located at points of delivery into the 20-inch pipeline. Truck racks allow for discharge of crude supplies into the pipeline from truck deliveries from remote production areas. STUSCO has paid for and maintained these truck racks in order to introduce various crude supplies at different points on the pipeline.

Ms. Frohn noted that shippers are free to build their own truck racks to inject crude grades from different sources into the pipeline. As an "open access" common carrier pipeline, SPBP will allow shippers to connect truck racks for delivery of crude supplies. None of Shell's truck racks have been offered for lease or leased to other shippers.

Ms. Frohn stated that truck racks owned by Chevron that are connected to the KLM pipeline (also owned by Chevron) are not a part of KLM's jurisdictional property. Chevron maintains one of its truck racks for itself. The other truck rack is leased to Plains Pipeline.

Ms. Frohn stated that the Independent Shippers seek a windfall by gaining free access to Shell's proprietary truck racks. The undersigned stated that the truck racks are not public utility assets, however.

B. <u>OCS Crude</u>

The undersigned stated that the proposed tariff improperly restricts STUSCO's ability to inject Outer Continental Shelf (OCS) crude into the pipeline. Ms. Frohn explained that there are more than 20 grades of crude oil that potentially can be introduced into the pipeline. OCS crude is just one of them. STUSCO is the only shipper of OCS on the pipeline, however.

Ms. Frohn explained that the tariff singles out OCS by stating that OCS shall not be included in any Common Stream SJVH, SJVL, or SJVB. The tariff further provides that OCS is accepted only as a "segregated batch," with a "suitable buffer." These provisions substantially restrict injection of OCS crude into the pipeline.

Ms. Frohn stated that OCS has historically been a part of the commingled stream delivered from Coalinga to Avon. Exclusion of OCS from the pipeline would make it more difficult to achieve the "minimum operating requirement" that is necessary to maintain heated service. Ms. Frohn noted that maintaining heated service has been described by the Independent Shippers as their greatest concern in this proceeding.

Ms. Frohn explained that OCS crude has a higher sulfur content than other crude supplies delivered on the pipeline. Sulfur content can be addressed based on economic (price) adjustments made through the "quality bank" that is provided for in the tariff.

OCS crude is the only crude supply that is singled out for "segregated batch" treatment. Other crudes have qualities that differ from the qualities of mainstream crudes. Ms. Frohn stated that the tariff does not place any restriction on the injection of San Ardo crude into the pipeline, for example, yet San Ardo crude, with a very high total acid number ("TAN"), creates corrosion problems that cannot be addressed through an economic "quality bank" adjustment. OCS, while high in sulfur content, has a lower TAN than the SJVH stream, and would actually mitigate the higher TAN contribution from the San Ardo crude. The undersigned stated that OCS crude, which is shipped only by STUSCO, should not be subject to discrimination.

C. Minimum Delivery Requirement

Mr. Smetana explained that the proposed tariff prevents STUSCO from nominating a blended supply (and STUSCO's blended crude is 60 percent of the crude oil delivered on the pipeline) until after the minimum operating requirement (140,000 bbls/day from Coalinga to Avon) is met with nominations of SJVH, SJVL, and segregated batches.

Mr. Smetana stated that STUSCO is the only shipper that delivers a blended supply. The tariff effectively restricts STUSCO's ability to ship a blended supply.

Mr. Smetana noted that the proposed tariff would force STUSCO to ensure that there are sufficient quantities of SJVH to provide "heated" service on the pipeline, even though STUSCO's blended crude does not require heated service. The tariff would require STUSCO to "backstop" the shippers of SJVH.

Ms. Frohn stated that imposition of a minimum delivery requirement on STUSCO substitutes a regulatory directive for rational economic decision-making. If there is no minimum delivery requirement, the price of SJVH crude will adjust to be competitive with waterborne supplies, in order to maintain the quantities on the pipeline necessary to provide heated service. Chevron is the largest producer of SJVH. A minimum delivery requirement would directly benefit Chevron at STUSCO's expense. If STUSCO is forced to increase its delivered quantity of SJVH on the pipeline, it will have to purchase the SJVH from Chevron at any price quoted by Chevron.

D. Pipeline Loss Adjustment

Mr. Smetana stated that the Pipeline Loss Adjustment (PLA) should be the same for all crude supplies delivered on the pipeline. Mr. Smetana explained that the PLA deduction covers evaporation, interface losses and normal losses during transportation. There is no credible evidence that greater line losses occur with blended crudes than with "neat" heavy or light crudes. In fact, Mr. Smetana explained that there is a chance of greater evaporation with the heated SJVH supply compared to the evaporation experienced with the cooler temperature blended supply. Mr. Smetana stated that because the pipeline has the most experience measuring pipeline losses on this system, the pipeline's proposed PLA in its tariff filing should be adopted. The PLA should be the same for all crude oil grades.

III.

To obtain a copy of this notice, please contact:

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Respectfully submitted,

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Attorneys for Shell Trading (US) Company

Date: May 6, 2011

A.08-09-024, et al.
Shell Trading (US) Company
Meetings With Commissioner Advisors
May 3, 2011

STUSCO, an affiliate of Shell Pipeline Company and SPBP, is a crude oil trading company that procures crude supplies for Shell's Martinez refinery. When the pipeline begins operating as a jurisdictional public utility, STUSCO will be a shipper on the pipeline and should be treated the same as any other shipper.

STUSCO's objections to Judge Bemesderfer's March 9 PD are as follows:

1. Private storage tanks and truck racks should not be included as part of the pipeline's jurisdictional property. These private Shell assets are not "necessary" for jurisdictional transportation service and have not been "dedicated" to public use.

- In D.07-07-040, the Commission asserted jurisdiction over the 20-inch pipeline, not ancillary assets.
- Storage tanks should not be confused with "break-out" tanks (which are included as jurisdictional assets).
- STUSCO has rented and paid to refurbish the storage tanks for long-term storage to meet its economic objectives.
- Independent shippers can build and operate their own storage tanks and truck racks to meet their own economic objectives.

2. The PD's proposed tariff unduly discriminates against STUSCO:

a. The tariff improperly restricts STUSCO's ability to inject Outer Continental Shelf (OCS) crude into the pipeline:

- OCS has historically been a part of the commingled crude oil stream delivered from Coalinga to Avon.
- Exclusion of OCS would make it more difficult to achieve the pipeline's minimum operating requirement.
- Differences in sulfur content can be addressed based on economic adjustments made through the "Quality Bank."

b. The nomination process unlawfully restricts STUSCO's ability to nominate and ship blended crude (SJVB) on the pipeline.

- The proposed tariff does not impose a minimum delivery obligation on any shipper except STUSCO.
- STUSCO is the only shipper that delivers a blended supply. The proposed tariff prevents STUSCO from nominating its blended supply until after the minimum operating requirement is met with nominations of SJVH, SJVL, and segregated batches.
- The proposed tariff forces STUSCO to nominate a minimum quantity of SJVH, in order to ensure that heated service is provided for the benefit of other shippers, before STUSCO can nominate its blended supply.

c. The pipeline loss adjustment (PLA) should be the same for all crude supplies.