Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CHEVRON PIPE LINE COMPANY for Authorization to Increase it Rates and Charges for Crude Oil Transportation Services I on its Northam Pipeline, Effective August 1, 2008.	Application 08-04-004 (Filed April 1, 2008)

DECISION GRANTING RATE INCREASE APPLICATION

1. Summary

We grant the application of Chevron Pipe Line Company for authorization to increase rates and charges for crude oil transportation on its Northam Pipeline effective August 1, 2008 by 144%. The increase will permit the Applicant to earn an 8.54% overall rate of return and a 12.09% return on its equity on an imputed capital structure that is 60% equity and 40% debt.

2. Background

Chevron Pipe Line Company (CPL) seeks approval to increase its rates and charges for crude oil transportation on its Northam Pipeline by 154%. On March 28, 2008, pursuant to Pub. Util. Code § 455.3, CPL submitted Advice Letter (AL) 32 adopting a 10% increase, subject to refund, effective May 1, 2008. This application seeks approval of the balance of the increase (144%) to become effective August 1, 2008, or upon Commission approval, whichever comes first. This is the first application for an increase in rates since 1996.

We approved the first tariff for the Northam Pipeline in 1993. In the past 10 years, annual volume of crude oil transported on the pipeline has declined by

33%. At currently approved rates, this significant decline in throughput volume has made it impossible for CPL to earn a return on its investment in the Northam Pipeline or to fully recover its operating expenses for the services it provides to its customers, leading to a revenue deficiency of $2.08 million in 2007. The requested rate increase seeks to remedy the revenue shortfall and restore CPL's ability to earn a Commission-approved overall Rate of Return (ROR) including a reasonable return on its equity (ROE) plus recovery of its operating expenses.

CPL's total requested rate increase, including the 10% increase adopted by AL 32, is projected to increase trunk and gathering revenues by $2,486,329 annually, resulting in an ROR of 8.54% and an ROE of 12.09%.

There were no protests to the Application. However, Equilon Enterprises (Equilon), the owner-operator of another crude oil pipeline that will shortly be filing its first tariffs, filed comments urging us to consider and adopt three specific recommendations: (1) a finding that declining throughput on a crude oil pipeline provides a "good basis "for a rate increase; (2) "confirming" that crude oil pipelines may impute the capital structure of their parent company for ratemaking purposes and (3) "clarifying" the Commission's approach to allocation of operating expenses. Equilon also sought party status in this proceeding pursuant to Commission Rule 1.4.

CPL responded that the Equilon comments raised general issues germane to a generic rulemaking but not to an application to raise rates on a specific pipeline. Accordingly, CPL urged us to disregard the Equilon comments and deny Equilon's request to become a party.

3. Discussion

3.1. The Proposed Rate Increase

CPL requests that the Commission authorize an increase of CPL's rates for all crude oil transportation services, by 154%, resulting in annual revenues for the Northam Pipeline of approximately $4,335,794. The proposed transportation rates would increase from the current range of 20¢ per barrel to 45¢ per barrel, to new rates ranging from 51¢ per barrel to $1.14 per barrel. Further, CPL requests an increase in the gathering charges for the Montebello Field from 27¢ per barrel to 69¢ per barrel and from 10¢ per barrel to 25¢ per barrel for the other gathering locations. For the year ending December 31 2007, CPL's ROR and ROE for the Northam Pipeline were -54.19% and -90.32%, respectively. For the same year, CPL's net return was -$2.08 million.

To determine the ROR and ROE resulting from the proposed rate increase, it is necessary to apportion the revenue between the debt and equity portions of the Applicant's capital structure. As a wholly-owned subsidiary of Chevron Corporation, CPL has no separate capital structure. The capital structure of Chevron Corporation is approximately 97% equity and 3% debt. In cost of capital analysis, equity commands a higher return than debt because equity holders are at greater risk of non-payment than debt holders and accordingly are entitled to a greater return to compensate for that increased risk. Were we to impute Chevron Corporation's capital structure into CPL for ratemaking purposes, it would result in extremely high ROE and ROR values.

To avoid this result, Applicant imputes a 60-40 equity-to-debt capital structure rather than the 97-3 capital structure of the parent corporation.[1] Applicant applies Chevron Corporation's actual embedded cost of debt of 3.21% to the assumed debt portion of the imputed capital structure to derive a proposed ROE of 12.09% and an ROR of 8.54%.

The Application included a rate of return analysis by Professor J. Peter Williamson, Emeritus Professor of Finance from the Tuck Business School of Dartmouth University, which concluded that the ROE of 12.09% was appropriate and in line with returns on equity approved by the FERC for four pipelines under its jurisdiction, which ranged from 11.44% to 15.14%. Professor Williamson's analysis was served but not filed. His conclusion is consistent with the comparison of ROE rates in the Commission's 2004 decision approving rates for Pacific Pipeline Systems, D.04-12-040. In that case, we found that four crude oil pipelines under our jurisdiction had ROEs ranging from 13.10% to 15.86%.

Looking at the rates we have most recently approved for the large investor-owned gas and electric utilities subject to our jurisdiction yields a similar result. D.07-120-049 was issued and effective December 20, 2007 for 2008 operations. That decision set Pacific Gas and Electric Company's ROE at 11.35% and its ROR at 8.79%; Southern California Edison Company's ROE at 11.50% and its ROR at 8.75%; and San Diego Gas & Electric Company's ROE at 11.10% and its ROR at 8.40%.

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[1] We have sometimes used actual capital structures for ratemaking purposes and at other times used imputed structures. Generally, imputed structures are preferable when, as in this case, the actual capital structure differs markedly from the typical capital structures of regulated utilities in the same or closely related industries.

We conclude that the proposed ROE of 12.09% and the proposed ROR of 8.54% are just and reasonable.

3.2. Equilon's *Comments and Application to Become a Party*

Although Equilon, as the owner-operator of a crude oil pipeline that is in the process of preparing its initial set of tariffs, may have an interest in how we deal with a rate increase application from another pipeline operator, the general questions that Equilon asks us to address are inappropriate to this application. They are more appropriate to a rulemaking proceeding than to a specific application to raise rates. Given the nature of its comments, we do not believe that Equilon will contribute any more to this proceeding as a party than it has contributed by filing its comments. Accordingly Equilon's request to become a party will be denied.

4. Categorization and Need for Hearings

In ALJ Resolution 176-3211, adopted April 10, 2008, the proceeding was preliminarily categorized as ratesetting and it was preliminarily determined that hearings are not necessary.

5. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Karl J. Bemesderfer is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. In the past 10 years, annual volume of crude oil transported on the Northam Pipeline has declined by 33%.

2. For the year ending December 31 2007, Chevron Pipe Line's Overall Rate of Return and Return on Equity for the Northam Pipeline were -54.19% and -90.32%, respectively.

3. For the year ending December 31, 2007, Chevron Pipe Line's net return on its investment in the Northam Pipeline was -$2.08 million.

Conclusions of Law

1. An imputed capital structure for Chevron Pipe Line Company of 60% common equity and 40% debt is reasonable.

2. Use of Chevron Corporation's embedded cost of debt of 3.21% as a cost of debt for Chevron Pipeline Company is reasonable.

3. An overall Overall Rate of Return of 12.09% and an ROE of 8.54% are reasonable rates for Chevron Pipeline Company.

4. It is inappropriate to address the general questions raised by Equilon Enterprises in this proceeding.

O R D E R

IT IS ORDERED that:

1. The application of Chevron Pipeline Company to increase its rates and charges for crude oil transportation on its Northam Pipeline is approved.

2. The application of Equilon Enterprises to become a party to this proceeding is denied.

3. Application 08-04-004 is closed.

This order is effective today.

Dated ______________________________, at San Francisco, California.