

PUBLIC UTILITIES COMMISSION505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**

4-15-14

Agenda ID # 1293610:19 AM
Ratesetting

April 15, 2014

TO PARTIES OF RECORD IN APPLICATION 14-01-003:

This is the proposed decision of Administrative Law Judge Karl J. Bemesderfer. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 15, 2014 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ MARYAM EBKE for
Timothy J. Sullivan,
Chief Administrative Law Judge (Acting)

TJS:sk6

Attachment

Decision **PROPOSED DECISION OF ALJ BEMESDERFER** (Mailed 4/15/14)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of San Pablo Bay Pipeline Company LLC (PLC- 29) for authority, pursuant to Public Utilities Code Section 455.3, to increase its rates for pipeline transportation services within California.

Application 14-01-003
(Filed January 2, 2014)

**DECISION GRANTING APPLICATION OF SAN PABLO BAY
PIPELINE COMPANY, LLC FOR RATE INCREASE**

1. Summary

The Commission approves the application of San Pablo Bay Pipeline Company for authority to increase its rates for transportation of crude oil by \$0.055 per barrel.

2. Background

San Pablo Bay Pipeline Company, LLC (SPBPC), seeks approval to increase its rates and charges for transportation of crude oil on its San Pablo Bay pipeline by \$0.055 per barrel, subject to refund, pursuant to Public Utilities Code § 455.3.¹ SPBPC seeks this increase to offset declining revenues expected to result

¹ Section 455.3 allows oil pipeline corporations like SPBPC to increase pipeline transportation rates upon thirty days' notice to the Commission and prior to Commission approval, provided that the proposed increase does not exceed 10 percent per 12-month period. Section 455.3 further provides the Commission with authority to suspend any such rate increase and use of the increased rate for a period of time not

Footnote continued on next page

from projected declines in throughput. The requested increase from \$1.34 per barrel to \$1.395 per barrel, with a corresponding increase in annual intrastate revenues of \$2.56 million, is a rate increase of approximately 4.1% and thus falls below the 10% threshold established by the statute.

Simultaneously with this application, SPBPC filed its Advice Letter No. 2 with the Energy Division, mirroring the requested rate increase that is the subject of this application. Although SPBPC could have raised its rates by this amount, subject to refund, upon thirty days' notice to shippers and the Commission, it has declined to do so pending Commission action on this application.

The application was protested by Tesoro Refining and Marketing Company, LLC (Tesoro) on the grounds that (a) SPBPC had offered inadequate support for its projection of declining throughput, and (b) recent technological changes in methods of oil extraction, coupled with the discovery of substantial deposits of shale oil, might substantially increase California oil production in the future. In its protest, Tesoro requested the Commission schedule evidentiary hearings at which a record could be developed regarding past and projected throughput. SPBPC replied to the protest by supplying additional documentation regarding trends in throughput on the SPBPC pipeline for the past half dozen years as well as current throughput levels.

to exceed 30 days from expiration of the thirty-day notice of increase provided by the oil pipeline corporation. Finally, Section 455.3 allows the Commission to subsequently evaluate the reasonableness of any rate increase effected prior to Commission approval, to disallow any portion of the rate increase that is ultimately deemed unreasonable, and to require refund of that portion of the increase found to be unreasonable.

3. Discussion

Section 455.3 specifically authorizes oil pipeline corporations to increase transportation rates by up to 10% per year, subject to refund, if found to be unreasonable. Such increases may be challenged either by Commission staff or by a protester. Evidentiary hearings may be required if the applicant provides inadequate evidentiary support for the proposed increase.

In the application, the reply to the Tesoro protest, and the exhibits provided in connection with both, SPBPC provides substantial evidence to demonstrate that throughput has been gradually declining in recent years and is continuing to decline in 2014; and that without the requested increase, SPBPC will not recover its costs of service or achieve the overall rate of return the Commission has previously authorized. The exhibits provided in connection with SPBPC's reply to the Tesoro's protest² clearly demonstrate a steady decline in throughput from 2008 to the present, thus answering Tesoro's first and more serious objection. SPBPC's reply also points out that there is no guarantee that California's shale oil reserves will ever be developed, and even if they are, there is no guarantee that any of the crude produced from shale will make its way into the SPBPC pipeline, thus effectively responding to Tesoro's second objection. This evidence is sufficient to satisfy the burden of proof. Consequently, there is no need for evidentiary hearings and this application should be approved.

² See Reply of San Pablo Bay Pipeline Company to Protest of Tesoro Refining and Marketing Company LLC, Attachment A: Declaration of Charles B. Hawkins, at 2-3, February 20, 2014.

4. Categorization and Need for Hearing

In ALJ Resolution 176-3329 dated January 16, 2014, the Commission preliminarily categorized this application as ratesetting and preliminarily determined that hearings were necessary. We confirm the preliminary categorization and change the hearing determination to “not necessary.”

5. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission’s Rules of Practice and Procedure. Comments were filed on _____ and reply comments were filed on _____ by _____

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Karl J. Bemesderfer is the assigned ALJ in this proceeding.

Findings of Fact

1. Throughput on the SPBPC has steadily decreased from an average of 159,146 barrels per day in 2008 to 133,113 barrels per day through September, 2013.

2. The average of actual January and nominated February and March volumes for 2014 (126,128 barrels per day) is below the 2014 volume forecasted in the application (127,608 barrels per day).

3. A rate increase of \$0.055 per barrel will permit SPBPC to recover its costs of service and achieve the overall rate of return and return on equity previously authorized by this Commission.

4. Although authorized to do so by Pub. Util. Code § 455.3, SPBPC has not increased its crude oil transportation rates by the requested amount pending Commission action on this application.

5. Tesoro protested the application.

Conclusions of Law

1. SPBPC is an oil pipeline corporation as that term is defined in Pub. Util. Code § 455.3.

2. Oil pipeline corporations are authorized by Pub. Util. Code § 455.3 to increase transportation rates by up to 10% per 12-month period, subject to Commission review for reasonableness and potential refund to customers.

3. A rate increase of \$0.055 per barrel (approximately 4.1%) is necessary in order to permit SPBPC to achieve the overall rate of return and return on equity previously authorized by this Commission.

4. The application should be approved.

O R D E R

IT IS ORDERED that:

1. The application of San Pablo Bay Pipeline Company, LLC, to increase its rates and charges for transportation of crude oil on its California pipeline by \$0.055 per barrel effective as of the date hereof is approved.

2. Hearing determination is changed to no hearings necessary.

3. Application 14-01-003 is closed.

This order is effective today.

Dated _____, at San Francisco, California.