

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

AGENDA ID 14194
RESOLUTION O-0063
August 27, 2015

R E S O L U T I O N

Resolution O-0063. Pacific Pipeline System LLC's Requests Approval to Remove its Line 62 from Service and for the Sale of Certain Assets on its Line 63 System.

PROPOSED OUTCOME:

- This Resolution approves the removal of service on the Line 62 trunkline between the Cuyama Pump Station and Leutholtz Junction and the Cancellation of Related Tariffs; and
- Approves the sale of facilities and assets used to gather crude oil from the Cuyama and South Cuyama Fields.

SAFETY CONSIDERATIONS:

- There are inherent risks in the transportation of crude oil. The proposed removal of service will replace transportation via a pipeline that has been determined to be unsafe with transportation by truck. The sale of facilities and assets will transfer the responsibility for safety from Pacific Pipeline System LLC to E & B Natural Resources Management Corporation.
- Safety responsibility for intrastate oil pipelines is under the jurisdiction of the Office of the State Fire Marshal and the Pipeline & Hazardous Materials Safety Administration.

ESTIMATED COST:

- There is no cost impact.

By Advice Letters 42-O and 43-O both filed on January 7, 2015, as supplemented by Advice Letter 43-O-A, filed on February 12, 2015.

SUMMARY

This Resolution approves Advice Letter 42-O and Advice Letter 43-O, as supplemented by AL 43-O-A. Advice Letter (AL) 42-O requests approval to

remove the Line 62 trunkline of Pacific Pipeline System's (Pacific) Line 63 Pipeline System from service and to cancel the associated tariffs. Continued use of the line is considered unsafe.

AL 43-O requests approval to sell the crude oil gathering pipeline that extends from the Cuyama and South Cuyama oil fields to the Cuyama Pump Station as well as certain facilities, leases, easement rights and permits at the Cuyama Pump Station. An agreement has been reached with E&B Natural Resources Management Corporation (E&B) for the sale of the assets at a price of \$500,000. Section 851 of the California Public Utilities Code allows for asset sales of Utility Property to be approved via AL when the transaction is valued at five million dollars or less.

Supplemental AL 43-O-A was submitted on February 12, 2015 to make non-substantive corrections to the original advice letter.

BACKGROUND

Pacific owns and operates a gathering pipeline system that allows for crude oil produced in the Cuyama and South Cuyama oil fields¹ to be brought to its Cuyama Pump Station in Santa Barbara County. The Crude is then transported to market via Pacific's Line 62 trunkline.

Historically the crude has been transported from the pump station approximately 25 miles via the 10 inch Pacific Line 62 trunkline, which is part of Pacific's Line 63 System, to the Leutholtz Junction in Kern County. Through these services crude produced in the Cuyama and South Cuyama fields reached refineries and markets. E&B is the sole producer in the Cuyama and South Cuyama fields and the sole shipper on the Line 62 trunkline.

The Line 62 trunkline, which is approximately 64 years old, has been tested by Pacific and found unsafe to operate.

¹The fields are located in northeastern Santa Barbara County.

Further, the cost of repair relative to the expected throughput makes restoration of the line uneconomic. Based on these factors, Pacific has requested that it be allowed to take the line out of service (AL 42-O).²

In order to allow for oil produced in the Cuyama and South Cuyama fields to be able to reach refineries and markets, Pacific is requesting that it be allowed to sell the gathering lines and related facilities, leases, easement rights and permits at the pump station to E&B (AL 43-O).

Pacific and E&B have reached an agreement for the sale with a price of \$500,000. Section 851 of the California Public Utilities Code allows for asset sales of Utility Property to be approved via AL when the transaction is valued at five million dollars or less. AL 43-0 has met all of the requirements under Section 851 and the criteria set forth in General Order 173 for Section 851 transactions submitted via AL.

As proposed, E&B will operate and maintain the gathering lines as a proprietary system and construct a truck loading facility at the Cuyama Pump Station. The truck loading facility will allow E&B to transport its crude oil to market via truck without the use of Line 62, i.e., the line proposed in AL 42-O to be taken out of service.

E&B has applied with local authorities for permits to construct and operate the truck loading facility.

NOTICE

Notice of AL 42-O and 43-O was made by publication in the Commission's Daily Calendar. Pacific Pipeline served a copy of the Advice Letters on all shippers and customers of the Pacific Pipeline System LLC.

² Pacific will not remove or abandon Line 62 but fill it with inert gas. Should oil field production levels increase, and, as a result, potential throughput on the line economically justify repairs to the line, Pacific would consider making the repairs and returning the line to service.

PROTESTS

ALs 42-O, 43-O, and 43-O-A were not protested.

DISCUSSION

Advice Letter 42-O requesting approval to remove Line 62 from service should be approved. There are significant safety risks associated with continued operation of the line, and at current and projected throughput levels repair of the line cannot be economically justified.

Pacific's AL 42-O notes that, consistent with safety regulations and good pipeline practices, it has periodically conducted internal inspection of the line using a smart pig. Pacific reports that "In 2009, Line 62 was inspected and showed 16 anomalies in 8 dig locations. These anomalies were repaired and the pipeline remained in service. In 2014, the pipeline was again inspected, but this time the number of anomalies found increased significantly to 289 in 73 dig locations."³ In a footnote Pacific further explains that "The increased deterioration of the pipeline is not only attributed to the age of the pipeline [64 years], but to the fact that with the minimal throughput there is increased water accumulation in the low points on the pipeline. The minimal throughput on the pipeline renders the continued operation of the pipeline unsafe, even with the repair of the identified anomalies."⁴ The AL asserts that E&B does not anticipate significant increases in production and that, given the projected continued low level of throughput, the cost of the repairs, \$2.5 million, cannot be financially justified. Further, Pacific asserts that if repairs were made they would likely be needed again in 2019. The AL emphasizes that "the minimal throughput on the pipeline renders the continued operation of the pipeline unsafe, even with the repair of the identified anomalies."⁵ Based on the assessment of the safety risk and costs of repair, and the alternative of transportation by truck proposed in AL 43-O, as discussed below, the Commission agrees with the need to cease service on Line 62.

³ Advice Letter 42-O; Pacific Pipeline System LLC- Line 63 System, January 7, 2015. p.2.

⁴ Ibid., footnote 5, p. 2.

⁵ Ibid., p. 2.

AL 43-O requesting approval to sell the Pacific gathering line and associated assets to E&B should be approved. The sale, combined with the planned construction of truck loading facilities, allows for a reasonable alternative to service on Line 62.

The removal of Line 62 from service essentially renders the Pacific gathering pipelines serving the Cuyama and South Cuyama oil fields useless and of no value absent an alternative to transport crude beyond the Cuyama Pump Station. At the same time, E&B's production is stranded without an alternative to Line 62. Under these circumstances Pacific proposed and E&B has accepted the proposal for the gathering line and associated assets to be purchased by E&B. The agreed upon sales price is \$500,000. E&B will construct truck loading facilities at the site of the Cuyama Pump Station.

The proposed sale meets the requirements for approval by the Commission through an advice letter. Pacific has satisfied the requirements of Rules 3 and 4 in General Order 173.

California Public Utilities Code Section 851 allows for requests for approval of certain transfers or encumbrances of utility property via AL when the transaction is valued at \$5 million or less. The transactions must meet criteria defined in Rules 3 and 4 of General Order (GO) 173. Rule 3 of GO 173 defines Section 851 transactions that are eligible for Advice Letter treatment. Included in the criteria under Rule 3a is that:

- a. The activity proposed in the transaction will not require environmental review by the Commission as a Lead Agency under the California Environmental Quality Act (CEQA), either because:
 - (1) A statutory or categorical exemption applies (the applicant must provide a Notice of Exemption from the Lead Agency or explain why it believes that an exemption applies), or
 - (2) The transaction is not a project under CEQA (the applicant must explain the reasons why it believes that the transaction is not a project), or
 - (3) Another public agency, acting as the Lead Agency under CEQA,

has completed environmental review of the project, and the Commission is required to perform environmental review of the project only as a Responsible Agency under CEQA.⁶

Pacific asserts that the sale of the gathering lines and related assets at the Cuyama Pump Station is not a “project” under CEQA “as it will not cause a direct change in the physical environment or a reasonably foreseeable indirect physical change in the environment.”⁷ The AL notes that the facilities will be used in the same manner that they have been for the last 60 years. Pacific also states that “ With respect to the truck loading facilities at Cuyama Pump Station, E&B Resources has applied to Santa Barbara County for the necessary permits. Any environmental review associated with the construction of these facilities will be done by Santa Barbara County.”⁸

Energy Division staff reviewed the Categorical Exemption prepared by Santa Barbara County from requirements of the California Environmental Quality Act (CEQA) and found it reasonable.

In response to a request of the Energy Division Pacific provided a **Notice Of Exemption** from the County of Santa Barbara stating that the E&B Truck Loading Rack Project was “determined to be exempt from further environmental review requirements of the California Environmental Quality Act (CEQA)...”⁹ Additionally, Pacific provided the LAND USE PERMIT from the County of Santa Barbara Planning and Development approving the project on December 17, 2014. Energy Division staff reviewed the Categorical Exemption prepared by Santa Barbara County, and found it reasonable.

⁶ General Order 173, Public Utilities Code Section 851 Advice Letters, Rule 3. Section 851 Transactions Eligible for Advice Letter Treatment, p. 2.

⁷ Advice Letter 43-O; Pacific Pipeline System LLC – Line 63 System. Sale of Facilities and Assets Used to Gather Crude Oil from the Cuyama and South Cuyama Fields. January 7, 2015. p. 3. The quoted section of the AL references CEQA, Section 21065.

⁸ Ibid., p. 3.

⁹ NOTICE OF EXEMPTION, County of Santa Barbara, APN: 147-030-025, Case No.: 14LUP-00000-00495. December 10, 2014.

The transaction also complies with other criteria of GO 173, Rule 3

Pacific also provided sufficient responses to the other criteria of GO 173, Rule 3. The responses addressed the issues in Rule 3 noting that there will be no adverse effect on the public interest and the ability to provide safe, reliable service at reasonable rates; that the appropriate accounting treatment of the sales transaction is being used; that the value of the assets to be transferred does not exceed \$5 million; that the transaction will not have a material impact on the Pacific rate base nor on the operations of Pacific; and that the transaction will not trigger a need for a more comprehensive review.

Rule 4 defines specific information, in addition to that required by General Order 96-B, to be included in an AL submitted under General Order 173. Pacific provided, in full, the required information.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. Pacific Pipeline System LLC (Pacific) filed Advice Letter (AL) 42-O on January 7, 2015. The AL requests approval to remove service on its Line 62 trunkline and to cancel tariffs related to service on Line 62. The Line 62 trunkline is part of the Pacific Line 63 System
2. Line 62 is connected at the Pacific Cuyama Pump Station to a Pacific pipeline gathering system serving the Cuyama and South Cuyama oil fields in northeast Santa Barbara County. Line 62 transports crude oil from the pump station to Leutholtz Junction in Kern County thereby allowing access to markets and refineries.
3. E&B Natural Resources Management Corporation (E&B) is the sole producer in the Cuyama and South Cuyama oil fields and only shipper using the gathering line and Line 62.
4. Pacific has determined that Line 62 is unsafe. Testing has shown a dramatic increase in the number of anomalies on the line. Further, even if repaired, the

low throughput on the line will result in the continual recurrence of anomalies.

5. Pacific states that it is uneconomical to repair and maintain the existing line. Given existing and projected throughput on the line, repairs cannot be financially justified. Additionally, low throughput levels leading to the continuing recurrence of anomalies further aggravate the financial viability of the line.
6. Without the use of Line 62, the gathering line has no practical value and crude oil produced by E&B is stranded.
7. Concurrent with the filing of AL 42-O, Pacific filed AL 43-O. AL 43-O seeks approval to enter a transaction to sell the gathering line serving the Cuyama and South Cuyama oil fields and certain facilities, leases, easement rights and permits at the Cuyama Pump Station to E&B for a price of \$500,000.
8. E&B has agreed to the transaction to purchase the gathering line and associated assets for \$500,000. E&B will operate the gathering line as a proprietary line.
9. E&B will construct a truck loading facility at the Cuyama Pump station allowing it to replace, via truck transport, the service previously provided by Line 62.
10. E&B has applied with local authorities for and received permits to construct and operate the truck loading facility.
11. California Public Utilities Code Section 851 allows for requests for approval of certain transfers or encumbrances of utility property via AL when the transaction is valued at \$5 million or less. The transactions must meet criteria defined in Rules 3 and 4 of General Order (GO) 173.
12. As presented in AL 43-O, Pacific has met all of the requirements of Section 851 and GO 173.
13. Pacific submitted AL 43-O-A to make non-substantive corrections to ALs 42-O and 43-O.

THEREFORE IT IS ORDERED THAT:

1. Pacific Pipeline System Advice Letter 42-O is approved.
2. Pacific Pipeline System Advice Letter 43-O, as supplemented by Advice Letter 43-O-A, is approved.

This Resolution is effective today.

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 August 27, 2015 the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director