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 California Pipelines, Effective December 1, 2008	Application 08-08-002 (Filed August 1, 2008)

DECISION GRANTING RATE INCREASE APPLICATION

Background

On August 1, 2008, Chevron Pipe Line Company (CPL) filed its application to increase its rates and charges for crude oil transportation on its California Pipelines (separately known as KLM, Inglewood and San Joaquin pipelines) by 59 percent. Tariff sheets reflecting a 59 percent increase were filed concurrently with the application. Subsequent to filing the application, pursuant to Pub. Util. Code § 455.3, CPL submitted Advice No. 36 adopting a ten percent increase, subject to refund, effective September 1, 2008. This application seeks approval of the balance of the increase. This is the first rate increase application for the California Pipelines in 15 years.

The application was protested by Tesoro Refining and Marketing Company on September 8, 2008. Tesoro was the sole protestor. CPL and Tesoro entered into negotiations regarding the proposed tariff rates. As a result of those negotiations, Chevron filed revised tariff sheets on October 31, 2008 reducing the requested increase from 59% to 47% and Tesoro withdrew its protest.

We approved the existing tariff rates for the California Pipelines in 1993. In the 12 months ending April 30, 2008, CPL incurred CPUC jurisdictional expenses of just over $18 million in operating the California Pipelines. During the same period, pursuant to its existing rates, CPL sustained a loss of $4.21 million from those operations. The requested rate increase seeks to remedy the revenue shortfall and restore CPL's ability to earn a Commission-approved overall Rate of Return (ORR) on its California Pipeline assets including a reasonable return on its equity (ROE) plus recovery of its operating expenses.

CPL's previously proposed tariff sheets would have resulted in a projected increase in trunk and gathering revenues of $8,122,142 annually, resulting in an ORR of 8.54 percent, the same ORR that we approved for CPL's Northam Pipeline in D.08-06-042. The proposed revised tariff sheets, which would authorize the agreed-on total increase in rates of 47 percent, would authorize a projected annual increase in trunk and gathering revenues of approximately $6.42 million and result in an ORR of 5.79 percent and an ROE of 7.52 percent, both of which are substantially below the returns we approved for CPL's Northam Pipeline.

As part of its application, CPL agrees that if we approve the revised rates, it will forebear from seeking any additional increases in rates for the California Pipelines through November 30, 2011 other than possible increases on or after July 2009 reflecting changes in the indexation of oil pipeline rates as specified by the regulations of the Federal Energy Regulatory Commission pertaining to indexing.

Discussion

CPL requests that the Commission authorize an increase of CPL's rates for all crude oil transportation services on its California Pipelines by 47 percent, resulting in annual revenues for the California Pipeline of approximately $6.42 million.

To determine the ORR 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 percent equity and 3 percent 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 ORR 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 percent to the assumed debt portion of the imputed capital structure to derive a proposed ROE of 7.52 percent and an ORR of 5.79 percent. The resulting rates of return are substantially below the ROE of 12.09 percent and the ORR of 8.54 percent that we recently approved for CPL's Northam pipeline. They are also well below rates we have approved for other oil pipelines subject to our jurisdiction in recent years.

[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 7.52 percent and the proposed ORR of 5.79 percent are just and reasonable.

Categorization and Need for Hearings

In ALJ Resolution 176-3219 adopted August 21, 2008, the proceeding was preliminarily categorized as ratesetting and it was preliminarily determined that hearings are not necessary.

Waiver of Comment Period

This is uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. 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 in waived.

Assignment of Proceeding

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

Findings of Fact

1. The California Pipelines have not had a general rate increase since 1993.

2. For the year ending December 31 2007, the California Pipelines incurred a net operating loss of $4.21 million.

Conclusions of Law

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

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

3. An Overall Rate of Return of 5.79 percent and a Return on Equity of 7.52 percent are reasonable rates for the California Pipelines.

O R D E R

IT IS ORDERED that:

1. The amended application of Chevron Pipeline Company to increase its rates and charges for crude oil transportation on its California Pipelines is approved.
2. Application 08-08-002 is closed.

This order is effective today.

Dated ______________________________, at San Francisco, California.