

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Chevron Pipeline Company for Authorization Pursuant to Public Utilities Code Section 851 to Transfer Pipeline Facilities to Chevron Products Company, a Division of Chevron USA, Inc.

Application 08-04-010
(Filed April 3, 2008)

DECISION GRANTING APPLICATION**1. Summary**

We grant the application of Chevron Pipeline Company (CPL or Applicant) to sell to its affiliate Chevron Products Company (CPC) certain public utility pipeline assets commonly referred to as the Wilmington-Torrance Pipeline System (W/T Pipeline), pursuant to § 851 of the Public Utilities Code.

2. Background

CPL is a Delaware corporation qualified to do business in California with a principal place of business in Bellaire, Texas. It is a wholly-owned subsidiary of Chevron Corporation, a Delaware corporation. CPL owns and operates a number of crude oil and petroleum products pipeline systems within California. This application is limited to the W/T Pipeline.

CPC is a division of Chevron U.S.A. Inc., a wholly-owned subsidiary of Chevron Corporation. CPC is headquartered in San Ramon, California. It operates five oil refineries and about 600 company-owned service stations in the United States.

The W/T Pipeline extends from the Chevron El Segundo Refinery to the Wilmington/Long Beach Harbor Area. The pipeline is 12 inches in diameter from the El Segundo Refinery to the Torrance Station, between 4 and 6 inches in diameter at some parts extending to the Torrance area gathering points, 10 inches in diameter from the Torrance Station to the Wilmington Town Lot, 12 inches in diameter from the Wilmington Town Lot to THUMS,¹ and 8 inches in diameter from THUMS to the Wilmington/Long Beach Harbor Area.

CPL operated the W/T Pipeline as a regulated public pipeline for several years prior to March 1, 1994. As of that date CPL, with Commission approval,² ceased offering service on the southern portion of the pipeline (Torrance Station to Wilmington). Effective December 1, 1994, the Commission approved advice letters removing the remainder of the W/T pipeline from service. In 1995, the entire pipeline was flushed with water and displaced with nitrogen. The W/T pipeline has remained idled and unused for the past thirteen years.

In support of the requested transfer of ownership, Applicant represents that during the past 13 years, no prospective shipper has requested service on the W/T pipeline. CPL's unregulated affiliate CPC has had preliminary discussions with an unaffiliated third party about using a portion of the pipeline to transport

¹ THUMS Long Beach Company operates the eastern offshore section of California's Wilmington oil field, which lies beneath Long Beach Harbor. The company gets its name from the oil property's original shareholders (Texaco, Humble Union, Mobil and Shell).

² Applicant has been unable to discover in its records or those of the Commission the notice of official action by the Commission authorizing CPL to cease offering service on the southern portion of the CPL pipeline. However, Applicant represents that the Commission approved cessation of service on the southern portion of the Pipeline in response to an Advice Letter filed with the Commission in January 1994. A copy of the Advice Letter was included as an exhibit to the Application.

hydrogen. However, CPC has not made and cannot make definitive commercial arrangements while the W/T pipeline remains subject to this Commission's public utility regulation and is owned by CPL. Accordingly, CPL seeks authority under Pub. Util. Code § 851 to sell the W/T Pipeline to its unregulated affiliate CPC.

3. Discussion

Section 851 authorizes a regulated utility to sell or otherwise dispose of property that is no longer "necessary or useful" in the performance of the utility's duties to the public. For the past 13 years, this pipeline has sat idle and no shipper has requested service. At the time the pipeline was removed from service, no customer objected to its removal. Applicant represents that there is no prospect that it would use the pipeline to provide regulated utility service in the foreseeable future. Under the circumstances it appears plain that the pipeline is no longer necessary or useful to the Applicant in the performance of its duties to the public.

Applicant has agreed to sell the W/T pipeline to CPC for its net book value³ which is estimated to be \$933,932.00 as of March 31, 2008. The actual sale price will be the pipeline's net book value as of the closing date. This choice of a

³ The purchase price and other terms and conditions of the proposed sale are set out in that certain purchase and sale agreement (PSA) entitled "Agreement for the Sale of a

Footnote continued on next page

Pipe Line By and Between Chevron Pipeline Company and Chevron U.S.A. Inc.”
attached as Exhibit J to the Application.

sale price reflects the inherent difficulty of finding a market price for a unique and specialized property interest such as an abandoned pipeline.⁴ There is no evidence in the record that any third party has sought or seeks to acquire the pipeline and no comparable arm's-length sales with which to compare the sale of this pipeline. A sale at net book value ensures that CPL has recovered its investment in the pipeline. Accordingly, we find that net book value is a reasonable sales price.

3.1. Rule 2.4 – Information Submitted in Compliance with CEQA

The transfer of the W/T pipeline is categorically exempt from the requirement for the preparation of environmental documents and does not have a significant effect on the environment within the meaning of California Environmental Quality Act (CEQA) Guidelines 15300 *et seq.* The current application seeks authorization only to transfer legal title to a portion of a presently unused pipeline. The transfer of title, by itself, does not change the physical circumstances of the pipeline. Therefore, it can be seen with certainty that there is no possibility that the project may have a significant effect on the environment. Because the transaction is categorically exempt from CEQA, no Proponent's Environmental Assessment is required pursuant to Rule 2.4.

This conclusion is not altered by the fact that the purpose of the title transfer is to make a portion of the W/T pipeline potentially available to a third party for the transport of hydrogen. The Applicant asserts that there is no

⁴ By using net book value instead of fair market value for the pipeline, Applicant has deprived itself of the opportunity to use the Commission's 851 Pilot Program. The 851 Pilot Program is an expedited procedure for disposing of assets that are no longer necessary or useful to a utility. However, the utility must dispose of the assets at fair

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contract in place for such transport nor can any such contract be sought by CPC until it is the owner of the pipeline. Meaningful review of the environmental effects of using the pipeline to transport hydrogen is not possible until and unless CPC and a third party enter into such a contract. If and when CPC is successful in negotiating a contract for the transport of hydrogen through the W/T pipeline, the details of the proposed use will determine the level of necessary environmental review.

In reviewing past Section 851 applications, we have found CEQA review premature and unnecessary when the “details associated with future development...are largely unknown.”⁵ That is the case with this application and accordingly no CEQA review is required.

4. Comments on Proposed Decision

This is an 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(c)(2) of the Commission’s Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

5. Categorization and Need for Hearings

In Resolution ALJ 176-3211 dated April 10, 2008 the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. There is no apparent reason why the application should not be granted. Given

market value to qualify for the Pilot Program. (See Resolution ALJ-202 (August 23, 2007).)

⁵ *Re Pacific Gas & Elec. Co. Application to Establish Market Values for and to Sell its Richmond-to-Pittsburg Fuel Oil Pipeline Utilities*, D.05-07-016, *mimeo*, at 9 (July 21,2005).

these developments, a public hearing is not necessary, and it is not necessary to disturb the preliminary determinations.

6. Assignment of Proceeding

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

Findings of Fact

1. Net book value is a reasonable sales price for the pipeline.
2. It can be seen with certainty that the proposed transfer will not have a significant effect on the environment.

Conclusions of Law

1. The sale of the pipeline to Chevron Products Company is exempt from CEQA review.
2. The Application should be approved.

O R D E R

IT IS ORDERED that:

1. Application 08-04-010 is approved.
2. Chevron Pipeline Company may sell to Chevron Products Company, a division of Chevron U.S.A. Inc., the public utility pipeline assets described in the PSA for the price and on the other terms and conditions of the Purchase and Sale Agreement.
3. Application 08-04-010 is closed.

This order is effective today.

Dated _____, at San Francisco, California.