

Decision 06-09-017 September 7, 2006

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Joint Application of Pacific Pipeline System LLC, Plains All American Pipeline, L.P., and LB Pacific, L.P., for Authorization Pursuant to Public Utilities Code Section 854(a) for Transfer of Control of Pacific Pipeline System, LLC from LB Pacific, LP to Plains All American Pipeline, L.P.

Application 06-06-023  
(Filed June 23, 2006)

Joint Application of Pacific Terminals LLC, Plains All American Pipeline, L.P., and LB Pacific, LP, for Authorization Pursuant to Public Utilities Code Section 854(a) for Transfer of Control of Pacific Terminals LLC from LB Pacific, LP to Plains All American Pipeline, L.P.

Application 06-06-024  
(Filed June 24, 2006)

**DECISION GRANTING CONSOLIDATED APPLICATIONS****Summary**

In this decision, we grant the consolidated joint applications of Pacific Pipeline System, LLC (Pacific Pipeline), Pacific Terminals, LLC (Pacific Terminals), Plains All American Pipeline, L.P. (Plains) and LB Pacific, LP (LB Pacific) for authorization pursuant to Pub. Util. Code § 854(a) to transfer control of Pacific Pipeline and Pacific Terminals to Plains. Although the structure of the proposed transaction is complex, the end result is straightforward. Pacific Pipeline and Pacific Terminals are indirectly controlled by LB Pacific, a Lehman Brothers investment partnership. After consummation of the transactions we authorize today, Plains will indirectly control Pacific

Pipeline and Pacific Terminals. The ownership change will have no effects on the business or operations of Pacific Pipeline or Pacific Terminals and no environmental impacts.

## **Background**

### **A. Consolidation of Proceedings**

Pacific Pipeline and Pacific Terminals are regulated public utilities subject to the jurisdiction of this Commission. Commission rules require that each public utility seeking approval for a change of control file a separate application. Accordingly, Pacific Pipeline and Pacific Terminals each filed an application. Except for the descriptions of the respective utilities, the applications are identical and ask for approval of the same transaction. On July 10, 2006 the assigned Administrative Law Judge (ALJ) granted applicants' motion to consolidate the proceedings pursuant to Commission Rule 55.

### **B. The Seller**

Both Pacific Pipeline and Pacific Terminals are owned 100% by Pacific Energy Group LLC, a Delaware limited liability company, which is in turn owned 100% by Pacific Energy, a Delaware limited partnership. Pacific Energy is a master limited partnership that is publicly traded on the New York Stock Exchange, under the trading symbol PPX. Its sole general partner is Pacific Energy GP, LP (Pacific Energy GP), a Delaware limited partnership that holds a 2% general partnership interest. The 98% limited partnership interest of Pacific Energy is represented by common and subordinated units. LB Pacific owns all 7,848,750 of the subordinated units, which constitute approximately 19.9% of the outstanding limited partner interests of Pacific Energy and 2,612,250 of the common units, which constitute approximately 6.65% of the outstanding limited partner interests of Pacific Energy. The remaining outstanding common units,

which constitute approximately 73.38% of the outstanding limited partner interests of Pacific Energy, are owned by public unit holders.<sup>1</sup> LB Pacific also owns all the general and limited partnership interests in Pacific Energy GP.

The controlling interest in LB Pacific is held by entities and investment funds under the control of Lehman Brothers Merchant Banking Group, which is part of the Private Equity Division of Lehman Brothers, a global financial institution. Through the chain of interests described above, LB Pacific effectively controls both Pacific Pipeline and Pacific Terminals.

### **C. The Buyer**

Plains is a Delaware limited partnership with its principal place of business in Houston, Texas. Through its operating subsidiaries, it engages in the business of gathering, transporting, marketing and storing crude oil, liquefied natural gas, and other petroleum products. It is one of the largest mid-stream crude oil companies in North America operating more than 15,000 miles of pipeline as well as terminals and related facilities. More than 3 million barrels of crude oil pass through its network every day.

### **Discussion**

Under the terms of the purchase agreement, LB Pacific will sell to Plains 100 % of its ownership interest in Pacific Management and Pacific Energy, GP together with the 7,848,750 subordinated units and 2,616,250 common units that LB owns in Pacific Energy. The total cash sales price is \$700 million. Although

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<sup>1</sup> Under the terms of Pacific Energy's limited partnership agreement, subordinated units are converted to common units in Pacific Energy upon the occurrence of certain specified events. Effective June 30, 2006, pursuant to the terms of the Limited Partnership Agreement, 2,616,250 of Pacific Energy's subordinated units held by LB Pacific were converted to the common units referenced in the main text.

the interests transferred are less than half of the total ownership interests in Pacific Energy, they include the entire general partnership interest and accordingly represent effective indirect control of the subject utilities.

Public Utilities Code § 854 requires Commission authorization before a company may “merge, acquire, or control ... any public utility organized and doing business in this state....” The purpose of this section is to enable the Commission, before any transfer of public utility property is consummated, to review the situation and to take such action, as a condition of the transfer, as the public interest may require. *San Jose Water Co.* (1916) 10 CRC 56.

This transaction will make Pacific Pipeline and Pacific Terminals part of a large company with a strong balance sheet. Pacific Energy is unable at present to issue investment-grade securities should it need to raise additional money to support the operations of its utility subsidiaries. As of June 2006, Plains’ unsecured debt ratings with Standard and Poor’s and Moody’s Investment Services were BBB- and Baa3, respectively, both of which are considered investment-grade ratings. The savings in interest costs and the enhanced ability to borrow money for operations via an investment-grade parent will benefit both utilities. Moreover, by integrating their facilities into the Plains network, both companies should benefit from economies of scale. In addition to its balance sheet strength, Plains also has significant management depth and a long track record of successful business operations. Finally, both companies will continue to be regulated in the public interest by this Commission after completion of the transaction.

The California Environmental Quality Act (CEQA) requires the Commission as the designated lead agency to assess the potential impact of a project to ensure that adverse effects are avoided, alternatives are investigated,

and environmental quality is restored or enhanced to the fullest degree possible. Applicants will not be constructing any facilities beyond those already in use. Therefore it can be seen with certainty that there is no possibility that granting this application will have an adverse effect on the environment. Applicant must file for additional authority and submit to any required CEQA review before it can construct additional facilities.

### **Categorization and Need for Hearings**

In Resolution ALJ 176-3175, dated June 29, 2006, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that hearings were not necessary. Based on the record, we confirm the preliminary determinations in Resolution ALJ 176-3175.

The application is granted, subject to the terms and conditions set forth below.

### **Comments on Draft Decision**

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

### **Assignment of Proceeding**

Geoffrey F. Brown is the Assigned Commissioner and Karl J. Bemederfer is the assigned Administrative Law Judge in this proceeding.

### **Findings of Fact**

1. Notice of this application appeared in the Commission's Daily Calendar of June 28, 2006.
2. Applicants seek approval pursuant to Pub. Util. Code § 854 of a sale of interests that will result in a change of control of Pacific Pipeline and Pacific Terminals.

3. Pacific Pipeline is a public utility corporation subject to the jurisdiction of this Commission.

4. Pacific Terminals is a public utility corporation subject to the jurisdiction of this Commission.

5. There will be no change in current services or rates provided by Pacific Pipeline or Pacific Terminals as a result of the change of control.

6. Plains has the management experience and financial strength necessary to acquire and successfully operate Pacific Pipeline and Pacific Terminals.

### **Conclusions of Law**

1. The proposed change of control is not adverse to the public interest.

2. This proceeding is designated a ratesetting proceeding; no protests having been received, no hearing is necessary.

3. Since Applicants will be constructing no facilities, it can be seen with certainty that there will be no significant effect on the environment.

4. The application should be approved.

## **O R D E R**

### **IT IS ORDERED** that:

1. Pacific Pipeline System LLC and its direct and indirect parent corporations are authorized pursuant to § 854 of the Public Utilities Code to enter into a sale of interests, as more fully described in the application and its exhibits, that will result in a change of control of Pacific Pipeline System LLC, subject to the terms and condition set forth in this order.

2. Pacific Terminals LLC and its direct and indirect parent corporations are authorized pursuant to § 854 of the Public Utilities Code to enter into a sale of interests, as more fully described in the application and its exhibits, that will

result in a change of control of Pacific Terminals LLC, subject to the terms of and conditions set forth in this order.

3. Applicants shall notify the Director of the Commission's Energy Division in writing of the transfer of control, as authorized herein, within 10 days of the date of consummation of such transfer. A true copy of the instruments of transfer shall be attached to the notification.

4. Pacific Pipeline and Pacific Terminals shall make all books and records available for review and inspection upon Commission staff request.

5. The authority granted herein shall expire if not exercised within one year of the date of this order.

6. Applications (A.) 06-06-023 and A.06-06-024 are closed.

This order is effective today.

Dated September 7, 2006, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
GEOFFREY F. BROWN  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners