

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Agenda ID: 19489
RESOLUTION O-0073
June 24, 2021

R E S O L U T I O N

Resolution O-0073. SFPP, L.P., requests Commission approval for a system-wide, intrastate rate increase of 10 percent under Public Utilities Code Section 455.3 and GO 96-B.

PROPOSED OUTCOME:

- Approves SFPP, L.P.'s (SFPP) request to increase its systemwide, intrastate rates by 10 percent in accordance with the provisions of Public Utilities Code Section 455.3 and General Order 96-B, Energy Industry Rule 8.
- The 10 percent increase approved herein is expected to increase annual revenues by approximately \$9.762 million for the 12-month period commencing March 1, 2021.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

ESTIMATED COST:

- This Resolution is expected to lead to increased ratepayer costs of \$9.762 million for 12 months.

By Advice Letter SFPP, L.P. AL 44-O, Filed on January 28, 2021.

SUMMARY

This Resolution O-0073 approves SFPP, L.P.'s (SFPP) request for an interim, system-wide, intrastate rate increase of 10 percent under the provisions of Public Utilities Code Section 455.3.

This resolution does not grant any additional increase above 10 percent. The Commission will consider the entirety of SFPP's requested increase in SFPP's related Application (A.) 21-01-015.

BACKGROUND

SFPP, L.P. filed AL 44-O on January 28, 2021, requesting an increase in its systemwide, intrastate rates by 10 percent in accordance with the provisions of Pub. Util. Code Section 455.3 and General Order 96-B, Energy Industry Rule 8.

The 10 percent increase, approved herein, is expected to increase annual revenues by approximately \$9.762 million for the 12-month period commencing March 1, 2021.

Two protests were timely filed, and a letter was received requesting the Commission's permission to intervene in this advice letter procedure. These filings are discussed further below.

NOTICE

Notice of AL 44-O was made by publication in the Commission's Daily Calendar on February 5, 2021. SFPP confirms that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B to the service list.

PROTESTS

Advice Letter 44-O was protested.

SFPP's Advice Letter 44-O was timely protested by Tesoro Refining and Marketing Company LLC (Tesoro); and by Chevron Products Company (Chevron), Southwest Airlines Co. (Southwest), and Valero Marketing and Supply Company (VMSC), collectively referred to as Joint Protestants. The Joint Protestants use SFPP's pipeline system to ship refined petroleum products.

In its protest, Tesoro requests that the CPUC reject SFPP's Advice Letter. It also requests that alternatively the CPUC suspend the 10 percent rate increase pending a full evidentiary hearing. Tesoro further requests that the Commission set the propriety of the increase for a hearing and provide for refunds to shippers "... when the Commission determines that SFPP was not entitled to any part of the 10% rate increase."

Tesoro states it intends to protest the rate increase application SFPP (A. 21-01-015) filed with the Commission on the same date as the Advice Letter. In that application, SFPP seeks an aggregate increase of 25.527 percent, inclusive of the increase of 10 percent requested in AL 44-O, for all of its intrastate California pipelines. Tesoro further asks that the Commission consolidate the SFPP Advice Letter with the SFPP rate application.

Tesoro contends that SFPP's position that SFPP is under-recovering its costs of service is fundamentally incorrect. Tesoro provides its reasoning for that conclusion, and covers multiple issues, which include claiming that SFPP has failed to substantiate the basis for its rate increase request; disputing throughput and revenue data; questioning SFPP's proposed capital structure and return on equity (ROE); and overstating operating expenses and overheads.

In their protest, Joint Protestants request the Commission to reject the rate increase, set the matter for an evidentiary hearing, and consolidate this with the concurrently filed A. 21-01-015. They ask, further, that if the rate increase in the Advice Letter takes effect, it be subject to refund.

Joint Protestants question SFPP's throughput numbers, projected operations and maintenance costs, cost allocation methodology, cost structure, and proposed return on equity.

SFPP timely responded to the protests of Tesoro and of Joint Protestants on February 22, 2021. SFPP denies Tesoro's and Joint Protestant's positions and contends that the arguments in both protests lack merit. However, SFPP does not contest Tesoro and Joint Protestant's request for an evidentiary hearing with regard to AL 44-O. It asks that the Commission reject the protests, contending that AL 44-O's request for a rate increase is in accordance with the provisions of Public Utilities Code Section 455.3. It states that SFPP is entitled to implement its proposal in AL 44-O for a 10 percent rate increase, even if the increase is subject to an evidentiary hearing, and that under those same provisions, the rate increase would be subject to refund if any portion of the rate change is subsequently disallowed by the Commission.

In addition to the above protests, on February 17, 2021, American Airlines, Inc. (American), Delta Air Lines, Inc., (Delta) and United Air Lines, Inc., (United), (collectively, "Airlines"), filed a letter with the Commission, requesting permission to intervene in SFPP's AL 44-O.

The Airlines stated that they purchase significant quantities of refined petroleum products, primarily jet fuel, which has been transported on SFPP's system, and therefore have a substantial economic interest in the matter. They request that they be permitted to intervene in the proceeding and be granted party status on a joint and individual basis, should the Commission set the matter for an evidentiary hearing.

SFPP responded to the letter of Airlines on February 22, 2021. In its reply SFPP noted that the Commission's advice letter procedures do not contemplate a process for intervention. SFPP further suggested that if the Airlines wish to do so, they could participate in the A. 21-01-015 proceeding, where SFPP requests an

aggregate increase of 25.527 percent, inclusive of the increase of 10 percent requested in AL 44-O.

DISCUSSION

SFPP filed AL 44-O seeking approval to increase its system-wide, intrastate rates by 10 percent in accordance with the provisions of Public Utilities Code Section 455.3 and General Order 96-B, Energy Industry Rule 8.

In AL 44-O, SFPP sets forth financial analyses and justification for the 10 percent increase. These include a cost-of-service analysis assuming 2021 as the test year, as well as assumptions for capital structure, cost of debt and rate of return. SFPP's AL 44-O also covers transported volumes, rate base calculations using depreciated original costs, carrier property balance to arrive at annual depreciation, working capital, test-year operating expense calculations and adjustments used.

SFPP's analysis arrives at a cost of service of \$122.1 million with an overall achieved return of 10.26% and return on equity of 13.58%.

The analyses presented conclude with a reference to an increase of 25.527 percent.

While AL 44-O only seeks approval for a 10 percent rate increase, SFPP does not state or make clear in AL 44-O that the analyses presented are the same as submitted in SFPP's A. 21-01-015, also filed on January 28, 2021. We find that based on Pub. Util. Code Section 455.3, and as explicitly requested in Advice Letter AL 44-O, SFPP may increase rates only by 10 percent at this time. The Commission will consider the entire rate increase in A. 21-01-015.

The increase under Pub. Util. Code Section 455.3 is subject to refund, in the event the Commission should reject or modify any part of it in the subsequent proceeding or proceedings.

We agree with protestants that any rate increase beyond 10%, as referenced in the workpapers, is outside the scope of Pub. Util. Code Section 455.3 and should be considered in A. 21-01-015.

The Airlines “request to intervene” is not appropriate for an advice letter procedure. This request should be made in A. 21-01-015. However, we have construed this request to intervene as a general protest to AL 44-O.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review. Please note that comments are due 20 days from the mailing date of this resolution. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. SFPP filed AL 44-O requesting an interim 10 percent increase in system-wide intrastate rates in, accordance with the provisions of Pub Utilities Code Section 455.3 and General Order 96-B, Energy Industry Rule 8.

THEREFORE IT IS ORDERED THAT:

1. The request of SFPP, L.P., in Advice Letter 44-O for a 10 percent rate increase system-wide for its intrastate pipelines as provided in Section 455.3 of the Public Utilities Code and GO 96-B is approved.
2. This increase shall be subject to refunds to shippers in the event the Commission should reject or modify any part of this 10 percent increase in subsequent proceedings as provided in Section 455.3 of the Public Utilities Code.
3. The Commission will consider SFPP's request for a 25.527 percent increase in A. 21-01-015, and potential subsequent proceedings.
4. 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 June 24, 2021; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director