

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION O-0088

August 1, 2024

R E S O L U T I O N

Resolution O-0088. Santa Fe Pacific Pipelines, L.P. (SFPP), 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's request to increase its systemwide, intrastate rates by 10 percent on an interim basis, pending the Commission's review of this increase 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 \$12.6 million for the 12-month period commencing March 1, 2024.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

ESTIMATED COST:

- This Resolution is expected to lead to increased ratepayer costs of \$12.6 million for the 12-month period commencing March 1, 2024.

By Advice Letter SFPP, L.P. AL 51-O, Filed on January 30, 2024.

SUMMARY

This Resolution O-0088 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 and General Order 96-B, Energy Industry Rule 8.

This resolution does not grant any additional increase above 10 percent. The Commission will consider the entirety of SFPP's requested increases in SFPP's related Applications A.21-01-015,¹ A.22-01-016,² A.23-01-016,³ and A.24-01-020.⁴

BACKGROUND

SFPP, L.P. filed Tier 3 AL 51-O on January 30, 2024, requesting an increase in its systemwide, intrastate rates of 10 percent in accordance with the provisions of Pub. Util. Code Section 455.3 and General Order 96-B, Energy Industry Rule 8.

¹ A.21-01-015 – SFPP requested a permanent rate increase of 25.527 percent. The 25.527 percent increase requested in A.21-01-015 was inclusive of a ten percent increase requested on an interim basis by AL 44-O. An ALJ Ruling in A.21-01-105 off-calendared that proceeding on August 1, 2022, directing parties to the Commission's Alternative Dispute Resolution process. In AL 44-O, filed in conjunction with this application, SFPP requested an interim rate increase of 10 percent, reflecting a portion of the rate increase requested in A.21-01-015, to go into effect on an interim basis subject to refund on March 1, 2021, as allowed for by Pub. Util. Code section 455.3. AL 44-O was approved subject to refund by Resolution O-0073 on June 24, 2021.

² A.22-01-016 – SFPP requested a permanent rate increase of 10 percent, in addition to the amount requested in A.21-01-015. An ALJ Ruling off-calendared A.22-01-016 on August 19, 2022, directing parties to the Commission's Alternative Dispute Resolution process. In AL 46-O, filed concurrently with A.22-01-016, SFPP requested that the ten percent increase requested in A.22-01-016 become effective on an interim basis subject to refund on March 1, 2022, as provided for in Pub. Util. Code section 455.3. AL 46-O was approved by Resolution O-0080 on December 1, 2022.

³ A.23-01-016 – SFPP requested a permanent rate increase of 12.91 percent, which was inclusive of the 10 percent increase SFPP requested to go into effect on an interim basis subject to refund in AL 49-O. This application was filed on January 27, 2023, concurrently with AL 49-O. AL 49-O was approved by Resolution O-0083 on November 16, 2023.

⁴ A.24-01-020 – SFPP requested a rate increase of 18.663 percent, effective March 1, 2024, which is inclusive of the 10% increase requested on an interim basis in this Advice Letter 51-O. This application was filed concurrently with this AL 51-O on January 30, 2024.

The 10 percent increase, if approved herein, is expected to increase annual revenues by approximately \$12.6 million for the 12-month period commencing March 1, 2024.

AL 51-O was suspended on February 29, 2024.

Three protests were timely filed. The protests are discussed further below.

In GO 96-B, Energy Division Rule 8.2 states "... An advice letter that either is protested or requests a rate increase exceeding the maximum will be disposed of by resolution." Accordingly, this resolution has been prepared.

This resolution disposes of the advice letter which requests a 10 percent rate increase, the maximum permissible in a twelve-month period, as per PU Code Section 455.3. This increase is granted, subject to adjustment following review in the rate case, A. 24-01-020, wherein SFPP has requested an increase of 18.66%, inclusive of the 10 percent increase that is the subject of AL 51-O.⁵

NOTICE

Notice of AL 51-O was made by publication in the Commission's Daily Calendar on February 12, 2024. SFPP confirms in AL 51-O that a copy of the Advice Letter was mailed and distributed in accordance with General Order 96-B to the shipper service list appended as Attachment D of the advice letter.

PROTESTS

Advice Letter 51-O was protested. A.24-01-020 which was filed concurrently was also protested by all of the parties that protested AL 51-O.

SFPP's Advice Letter 51-O was timely protested by Chevron Products Company (Chevron), Phillips 66 Company (Phillips 66), Southwest Airlines Co. (Southwest), and Valero Marketing and Supply Company (VMSC), collectively referred to as Joint Protestants; Marathon Petroleum Company LP (Marathon); and Pilot Travel Centers LLC, Pro Petroleum LLC, and Southern Counties Oil Co (dba SC Fuels), collectively

⁵ A.21-01-015, Page 7.

referred to as Pilot Shippers. The Joint Protestants, Marathon, and Pilot Shippers all use SFPP's pipeline system to ship petroleum products.

In their protest, Joint Protestants request that the Commission reject the rate increase set forth in the Advice Letter on the grounds that it contains material omissions and fails to support the rates it proposes. Joint Protestants state "... SFPP appears to rely on unsound and erroneous assumptions that likely overstate its cost of service and understate its revenue. Primary among these assumptions are numerous substantial and unexplained increases in operating expenses..." and "... unsupported assumptions regarding the cost of capital and related cost of service elements." In addition, Joint Protestants contend SFPP's cost of service is further inflated by unsupported assumptions regarding cost of capital, proposed return on equity, depreciation and AFUDC.

If the Commission is unwilling to reject the Advice Letter, Joint Protestants request that the Commission set this matter for hearings, including full discovery, and consolidate this proceeding with the Commission's review of SFPP's rate increase application, A.24-01-020, in "...order to comprehensively evaluate the merits of SFPP's proposal." Finally, if the Commission allows SFPP's rate increase to take effect, Joint Protestants request that the Commission clarify that the entire rate increase is subject to refund.

Marathon requests that the Commission reject SFPP's Advice Letter, stating that it "... only provides the barest summary information in support of the 10% rate increase," lacking workpapers and underlying source documents. The SFPP expert witness lists sources for depreciation and AFUDC (Schedules 4 and 5) which are not provided in AL 51-O. Marathon contends that: (a) SFPP underestimates its test year throughput; (b) understated test period volumes result in understated test year revenues; (c) SFPP overstates its cost of capital; (d) that cost of service likely overstates operating expenses, and (e) that Marathon's expert's recalculation of cost of service demonstrates SFPP is receiving excessive returns without any rate increase. Marathon concludes that the material submitted in support of AL 51-O does not establish a *prima facie* case that SFPP is entitled to a 10% increase.

Alternatively, Marathon requests that if SFPP's Advice Letter 51-O is not rejected, that the Commission set the 10 percent rate increase for hearing, subject to refund, to determine whether the increase is warranted. It also argues that given that the issues in SFPP's Advice Letter 51-O involve questions of law and fact that are related to those in Advice Letters AL 44-O, 46-O and 49-O, and rate applications A.21-01-015, A.22-01-016 and A.23-01-016 (all of which are currently before a Commission Mediator for

Alternative Dispute Resolution), the Commission should consolidate this proceeding and protest with the SFPP Rate Application, and with ongoing proceedings.

Pilot Shippers request the Commission reject SFPP's proposed rate increase. The protest contends that SFPP has failed to substantiate or justify its proposed rate increase, and that the rates SFPP originally proposed to increase in A. 21-01-015 are in excess of a just and reasonable level. SFPP's requested rate increase in AL 51-O is in addition to the rate increases sought in its January 2021, January 2022, and January 2023 applications and "...present similar, if not greater issues than those applications."

For example, the protest argues that SFPP relies on an unreasonably low projected throughput volume and "... AL 51-O makes no mention of the renewable diesel ("RD") volumes that SFPP and its parent company expected to come on to the SFPP system in 2023."

Pilot Shippers states that numerous elements of SFPP's proposed cost of service appear to be overstated, including: (a) excessive Operations and Maintenance costs; (b) cost allocations that are unclear and unjustified; (c) a proposed capital structure with an excess amount of equity, which inflates SFPP's proposed rates; (d) an excessive return on equity; and (e) unsupported depreciation and AFUDC levels.

The protest concludes that SFPP has failed to justify its proposed rate increase in AL 51-O, which, if not rejected, should be made subject to refund with interest and consolidated with docket number A. 24-01-020.

SFPP timely responded to the protests of Joint Protestants, Marathon, and Pilot Shippers on February 27, 2024, and rebuts the protests. SFPP asks that the Commission reject the protests, contending that AL 51-O's request for a rate increase is in accordance with the provisions of Public Utilities Code Section 455.3. In its response to each of the three protests, SFPP states Subparts (b)(2) and (b)(5) of Section 455.3 expressly provide that, "[a]fter the 30-day notice of rate change, pipeline corporations *shall* be permitted to change rates and use those rates *prior to commission approval*."

In rebutting the positions of Joint Protestants, Marathon, and Pilot Shippers, SFPP contends that it has adequately justified its proposed rate increase that is the subject of AL 51-O and is entitled to implement such a rate increase on March 1, 2024.

SFPP notes all parties in the subject proceedings have acted in accordance with directives on Alternative Dispute Resolution (ADR) "... while mediation has been

ongoing, SFPP continued to under-recover its cost of service in 2023 despite the three 10-percent rate increases granted previously. SFPP therefore submitted AL 51-O on January 30, 2024, that is the subject of the Protests. Contemporaneous with the submission of AL 51-O, SFPP submitted an application in A.24-01-020 that seeks an increase of 18.663 percent. As demonstrated in the cost-of-service presentation included with both the A.24-01-020 application and AL 51-O, SFPP's rate justification is based primarily on actual volume and expense data for the recent 12-month period ending November 2023."

In addressing issues in the individual protests, SFPP covers in its responses sufficiency of information provided, volumes shipped (including renewable diesel shipments), operating expense amounts, volume shipped, capital structure, return on equity, and the quantum of rate increases sought cumulated over multiple rate proceedings and advice letters filed in 2021-2024.

In SFPP's response to Joint Protestants' claim that it has failed to adequately support the requested rate increase, SFPP states the information in AL 51-O is consistent with that in AL 44-O, AL 46-O and AL 49-O. While Joint Protestants had made essentially the same deficiency claims in their protest to AL 44-O, AL 46-O, and AL 49-O, the Commission did not accept such claims and accepted SFPP's advice letters, allowing it to increase its rates by 10 percent in each instance, in accordance with Section 455.3.

On renewable diesel volumes, SFPP contends Joint Protestants assume that renewable diesel will meet new market demand and not replace existing diesel demand (being approximately one million barrels less than the actual intrastate volumes during the previous 12-month period discussed in SFPP's A. 23-01-016 application). Further, that while they offer no support for such a presumption, SFPP's data demonstrates the opposite.

For allocating cost of service between intra- and interstate service, SFPP states its expert witness started with the actual SFPP data for the 12-month period December 2022 to November 2023 and made certain test period adjustments to operating expense amounts to reflect what SFPP reasonably anticipates incurring during the period the requested rates would be in place. Volumes are approximately one million barrels less than the actual intrastate volumes during the previous 12-month period discussed in SFPP's A. 23-01-016 application.

Turning to Marathon's protest, SFPP contends Marathon relies on volume data from its parent Kinder Morgan's (KMI) investor presentation on KMI's entire portfolio, not

specifically tied to SFPP or SFPP's California intrastate operations. Regarding Marathon's claim that SFPP has overstated its cost of service and cost of capital, SFPP responds that on cost of service, Marathon made similar arguments in the A.21-01-015 proceeding, and that its position on cost of capital position is inconsistent with Commission precedent, failing to appropriately account for the risk SFPP faces in its California operations.

SFPP claims that Joint Protestants' and Marathon's "factual mischaracterizations" do not alter the fact that SFPP's rate increase under AL 51-O is fully justified. Most of these claims are a reiteration of their positions on various materially disputed facts that they raised with respect to A.21-01-015, A.22-01-016, and A. 23-01-016 that are currently pending before the Commission. SFPP states it responded to those positions in its pre-filed testimony and asserts that they lack merit.

In response to Pilot Shippers, SFPP counters the contention that "... actual volumes are not representative of typical or future volumes." SFPP states that "... the development of the Southern California RD Hub has not translated to incremental diesel volumes." RD volumes have largely displaced CARB diesel volumes.

For cost of service, SFPP states Pilot Shippers claimed numerous elements appear to be overstated. SFPP counters this, stating Pilot Shippers do not offer further elaboration of how such elements are, in fact, overstated, and that such an unsupported statement should not serve as a basis for rejecting AL 51-O, which meets all of the requirements of Section 455.3.

Regarding Pilot Shippers' request that the Commission clarify the rate increase in AL 51-O is subject to refund, SFPP states that is unnecessary because Commission regulations already specify that a rate increase pursuant to Section 455.3 is subject to refund.

DISCUSSION

SFPP filed AL 51-O seeking approval to increase its system-wide, intrastate rates by 10 percent in accordance with provisions of Public Utilities Code 455.3 and General Order 96-B, Energy Industry Rule 8.

In AL 51-O, SFPP sets forth financial justification for the 10 percent increase. These include a cost-of-service analysis for TY 2023 based on a 12-month base period from

December 1, 2021, through November 30, 2022, covering operating expenses, rate base, operating expenses, depreciation, Allowance for Funds Used During Construction (AFUDC) and throughput.

We find that based on Pub. Util. Code Section 455.3 and General Order 96-B, Energy Industry Rule 8, SFPP may increase rates by 10 percent at this time as requested in AL 51-O.

The 10 percent rate 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 A.24-01-020.

Because SFPP is entitled by Public Utilities Code section 455.3 to effectuate the increase requested by AL 51-O on an interim basis subject to refund, the protests to AL 51-O are denied. All protestants have also protested the associated rate case, A. 24-01-020. Substantive arguments in opposition to the rate increase requested in A.24-01-020, which is inclusive of the 10% increase requested in AL 51-O, will be considered in the rate case.

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. Any comments are due within 20 days of the date of its mailing and publication on the Commission's website and in accordance with any instructions accompanying the notice. 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.

No comments were received.

FINDINGS

1. SFPP filed AL 51-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.

2. Concurrently, SFPP has filed A. 24-01-020 where it seeks a rate increase of over 10 percent, specifically 18.66 percent, inclusive of the 10 percent requested in AL 51-O.
3. SFPP is entitled to an advice letter-based rate increase, up to a 10 percent maximum, in accordance with Public Utilities Code Section 455.3 and General Order 96-B Energy Industry Rule 8, effective March 1, 2024.
4. Whether the rates requested in AL 51-O are just and reasonable pursuant to Public Utilities Code Section 451 shall be determined in A. 24-01-020.
5. This rate increase is subject to refund pending the outcome of A. 24-01-020.

THEREFORE, IT IS ORDERED THAT:

1. The request of SFPP, L.P. in Advice Letter 51-O for an interim 10 percent rate increase system-wide for its intrastate pipelines effective as of March 1, 2024, as provided in Section 455.3 of the Public Utilities Code and GO 96-B Energy Industry Rule 8 is approved.
2. This interim increase shall be subject to refunds to shippers in the event the Commission rejects or modifies any part of this 10 percent increase in subsequent proceedings as provided in Section 455.3 of the Public Utilities Code.
3. The 10 percent increase requested in AL 51-O and substantive arguments made in the protests will be considered in A. 24-01-020.

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 1, 2024; the following Commissioners voting favorably thereon:

/s/ RACHEL PETERSON

Rachel Peterson
Executive Director

ALICE REYNOLDS
President

DARCIE HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER
Commissioners