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Decision 25-06-044 June 26, 2025

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Crimson California Pipeline L.P. (PLC-26) for Authority to Increase Rates for Its Crude Oil Pipeline Services. (NORTHERN CALIFORNIA)	Application 22-07-015
And Related Matters.	Application 23-01-015 Application 23-03-001 Application 23-08-018

DECISION GRANTING CRIMSON CALIFORNIA PIPELINE, L.P. AND SAN PABLO BAY PIPELINE COMPANY LLC AUTHORITY TO INCREASE RATES ON THE KLM AND SAN PABLO BAY CRUDE OIL PIPELINES

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DECISION GRANTING CRIMSON CALIFORNIA PIPELINE, L.P. AND SAN PABLO BAY PIPELINE COMPANY LLC AUTHORITY TO INCREASE RATES ON THE KLM AND SAN PABLO BAY CRUDE OIL PIPELINES

Summary

This decision authorizes Crimson California Pipeline, L.P. (Crimson) to increase the rate charged for the intrastate transportation of crude oil on its KLM pipeline to $1.9566 per barrel transported effective September 1, 2022. We further authorize the retroactive charge and collection of the difference between the rates billed by Crimson and the approved rate beginning March 3, 2023.

We also authorize San Pablo Bay Pipeline Company LLC (SPBP) to increase the rates charged for the intrastate transportation of crude oil on its pipeline system to $1.9566 per barrel transported effective March 1, 2023. We further authorize the retroactive charge and collection of the difference between the rates billed by SPBP and the approved rate beginning March 1, 2023.

This proceeding is closed.

1. Background

Crimson California Pipeline, L.P. (Crimson) and San Pablo Bay Pipeline Company LLC (SPBP) (jointly, Carriers) are affiliated companies owned by Crimson Midstream Holdings (Crimson Midstream) that own and operate an interconnected network of pipelines that transport crude oil from the San Joaquin Valley to San Francisco Bay Area refineries. John Grier is the majority owner of Crimson Midstream and CorEnergy Infrastructure Trust, Inc. (CorEnergy) holds a significant minority stake in Crimson Midstream.

Carriers are authorized to do business in the State of California as pipeline corporations as defined by Public Utilities (Pub. Util.) Code Section 228. SPBP operates approximately 300 miles of active pipeline. Crimson owns the 265-mile KLM pipeline, only 55.8 miles of which is currently operable. The rest of the KLM line was idled in 2020 when Carriers determined it was most cost effective to physically integrate portions of the system into an interconnection. The KLM system now functions as a gathering system for the SPBP-owned line.

1.1. The Applications

1.1.1. Application 22-07-015

On July 29, 2022, Crimson filed Application (A.) 22-07-015 to increase rates for its crude oil pipeline services on its KLM Pipeline system by 10 percent effective September 1, 2022. Concurrent with the filing of the application, Crimson filed Advice Letter 51-O, requesting that the rate increase become effective September 1, 2022, subject to refund upon the California Public Utilities Commission's (Commission or CPUC) final resolution of the application. The interim increase was approved in Resolution O-0081 pursuant to Pub. Util. Code Section 455.3. The rates went into effect on September 1, 2022.

On September 1, 2022, Valero Marketing and Supply Company (VMSC) protested A.22-07-015. The protest contends that Crimson's proposed rate increase is unreasonable and unjustified. Crimson filed a reply to the protest on September 12, 2022.

1.1.2. Application 23-01-015

On January 27, 2023, SPBP filed A.23-01-015 to increase rates for its crude oil pipeline services on its system by 35.9 percent, with 10 percent of the rate increase becoming effective March 1, 2023, subject to refund pursuant to Pub. Util. Code Section 455.3.

1.1.3. Application 23-03-001

On March 3, 2023, Crimson filed A.23-03-001, seeking to increase rates on its KLM system by an additional 107 percent beyond the increase sought in A.22-07-015.

1.1.4. Application 23-08-018

On August 30, 2023, Crimson filed A.23-08-018, seeking to increase rates for its crude oil pipeline services on the KLM system by 10 percent effective October 1, 2023, and subject to refund pursuant to Pub. Util. Code Section 455.3.

1.2. Procedural Background

On November 1, 2022, the assigned Commissioner issued a Scoping Memo and Ruling in A.22-07-015. Among other things, the Scoping Memo and Ruling established a schedule for resolving the application. The schedule anticipated that testimony would be submitted and discovery completed by July 28, 2023.

On March 22, 2023, VMSC filed a motion to consolidate A.22-07-015, A.23-01-015, and A.23-03-001. Carriers did not oppose the motion provided they were given the opportunity to meet and confer with protestants regarding scheduling.

On April 5, 2023, California Resources Corporation (CRC) filed a motion for party status. The motion cites CRC's economic interest in the matter given that it relies upon Crimson's KLM pipeline system for the shipment of crude oil. Party status was granted on April 24, 2023.

On April 26, 2023, the parties jointly requested that the schedule upon consolidation be modified to require all testimony to be submitted by January 19, 2024, with evidentiary hearings targeted for March/April 2024.

On June 2, 2023, the assigned Commissioner issued a Scoping Memo and Ruling consolidating A.22-07-015, A.23-01-015, and A.23-03-001. The Scoping Memo and Ruling adopted the parties' proposed schedule and extended the deadline for resolving the consolidated matter to December 31, 2024.

On November 7, 2023, Carriers filed a motion for emergency rate relief. The motion requested that the Commission immediately authorize SPBP to implement a 24.27 percent rate increase and Crimson to implement a 27.6 percent rate increase on the KLM system. The motion cited concerns that if emergency rate relief was not granted, Carriers may be unable to fund continued operations.

VMSC filed a response to Crimson's motion for emergency relief on November 17, 2023. Crimson filed a reply to the response of VMSC regarding the motion for emergency rate relief on November 22, 2023. VMSC filed a reply to Crimson's response on November 28, 2023. On December 4, 2023, Crimson's request for emergency rate relief was denied on the basis that it was prohibited by Pub. Util. Code Section 455.3.

On December 7, 2023, PBF Holding Company LLC (PBF), a frequent shipping customer of SPBP, requested party status. PBF cited its concern that if SPBP were to cease delivery of crude oil to the PBF Martinez refinery, it would significantly affect PBF's shipping and supply operations. Party status was granted to PBF on December 22, 2023.

On December 28, 2023, Carriers filed a motion to consolidate A.23-08-018 with the previously consolidated applications (A.22-07-015, *et al*.). Joint Protestants[1] did not oppose the motion so long as the rate increase in A.23.08-018 was not supported by a different justification than that of the previously consolidated applications. The motion to consolidate was granted on January 11, 2024.

Evidentiary hearings for the four consolidated applications were held in February 2024. On March 4, 2024, the parties submitted a joint motion to correct the hearing transcript. That motion is granted.

2. Submission Date

This matter was submitted on June 3, 2024, upon the submission of closing/reply briefs.

3. Issues Before the Commission

The June 2, 2023 Scoping Memo and Ruling determined that the following seven issues were raised by the consolidated applications:

1. Do the proposed rates comply with all applicable laws, regulations, general orders, and decisions of the Commission?
2. Is Crimson's proposal to increase rates on the KLM system by 10 percent effective September 1, 2022, just and reasonable?
3. Is Crimson's proposal to increase rates on its KLM system by an additional 107.2 percent just and reasonable?

[1] Joint Protestants refers to VMSC and CRC. While CRC did not formally protest the applications, it has acted jointly with VMSC throughout the proceedings.

4. Is SPBP's proposal to increase rates by 35.9 percent just and reasonable?
5. Should the KLM and SPBP rates be designed based on one cost of service and, if so, what are the resulting just and reasonable rates?
6. Are there any safety considerations raised by the applications?
7. Are there impacts on environmental and social justice communities, to which the proposed rate increases impact achievement of any of the nine goals of the Commission's Environmental and Social Justice Action Plan?

4. Joint Motion for Stipulation

On February 7, 2024, the parties filed a Joint Motion for Stipulation, requesting that the Commission adopt 10 stipulations of fact. The motion is granted, and the stipulations are adopted. Those stipulations are as follows:

1. There should be one cost of service for the combined pipeline system composed of Crimson's KLM System and SPBP's pipeline system.
2. The Base Period for establishing the combined cost of service in this proceeding is calendar year 2022.
3. The Test Period for establishing the combined cost of service in this proceeding is calendar year 2023.
4. It is appropriate to normalize certain volumes to remove the impact of the non-recurring outage of Plains All American Pipeline, LP Line 2000 (Plains Outage) that occurred between July 2022 and January 2023, specifically:
    a. Volumes on the KLM System originating at Belridge Station should be calculated as zero for the period July 2022 to April 2023 (based on actual data for the noted period) and should otherwise be counted as the actual recorded volumes transported.

b. Volumes shipped on the Station 36 to Cross Valley route on the SPBP system should be calculated as 2,349 barrels per day for the period July 2022 to January 2023 (with the 2,349 barrels-per-day figure based on actual volumes moved on the Station 36 to Cross Valley route from February 2023 to October 2023) and should otherwise be counted as the actual volumes transported.

5. To account for the idling of certain assets associated with the KLM System, the depreciated original cost of such assets should be removed from the rate base. The original cost of the idled KLM assets is $35,104,465 as of the end of the Base and Test Periods. The accumulated depreciation associated with the idled KLM assets is $22,425,405 as of the end of the Base Period and $23,375,511 as of the end of the Test Period. The resulting net carrier property in service balance associated with the idled KLM assets is therefore $12,679,062 as of the end of the Base Period and $11,728,954 as of the end of the Test Period.[2]

6. A revenue credit of $3,539,105 should be made against the combined cost of service to account for pipeline loss allowance (PLA) revenue.

7. A revenue credit of $324,741 should be made against the combined cost of service to account for truck rack unloading fees.

8. A revenue credit should be made against the combined cost of service to account for revenue from CPUC-authorized fees. This revenue credit should be calculated by multiplying 0.068 percent times total pipeline transportation and truck rack revenues.

[2] The Carriers and Joint Protestants differ as to the appropriate timing for reflecting this removal in the rate base development calculations, which affects the cost-of-service impact of this adjustment in their respective proposals.

9. $1,179,512 should be removed from General Ledger account 7011 to account for the impact of a non-recurring event associated with the Bakersfield tank farm.
10. Carriers' witness Dr. Michael J. Webb and Joint Protestants' witness Michael R. Tolleth will each prepare and submit one new exhibit containing their cost-of-service conclusions revised to incorporate these stipulations.

5. Burden of Proof

As the applicant, Carriers have the burden of affirmatively establishing, by a preponderance of the evidence, the justness and reasonableness of all aspects of its request. Should the Joint Protestants provide evidence raising a reasonable doubt as to the justness and reasonableness of their request, Carriers must respond and overcome this doubt. If they do not, then they have not met their ultimate burden of proof.[3]

6. Operating Expenses

Carriers propose total operating expenses of $54,698,381. Joint Protestants dispute that figure and propose a total operating expense of $40,244,502. Figure 5 reflects the specific areas of disagreement and our determination, as explained in further detail in the sections below.[4]

Figure 5

Analysis Section	Expense Category	Carriers' Request	Joint Protestants' Proposal	Adopted Amount

[3] Pub. Util. Code § 451, 454(a), D.21-08-036 at 9-10.

[4] Joint Submission of Outline of Disputed Issues, Summary of Disputed Issues, and Table of Acronyms (Summary of Disputed Issues) at 4-13.

Analysis Section	Expense Category	Carriers' Request	Joint Protestants' Proposal	Adopted Amount
6.1.1	LTIP[5] Expense	$208,109	$0	$0
6.1.2	Shared Service Expense of Crimson Midstream	$1,827,266	$0	$0
6.1.3	CorEnergy Allocated Expense	$2,941,751	$0	$0
6.1.4	Lobbying Expense	Full Inclusion in Cost of Service	Exclude from Cost of Service	Excluded from Cost of Service
6.2	AME[6]	$5,054,855	$4,262,445	$5,054,855
6.3	Fuel and Power Expense	$12,010,512	$12,093,430	$12,010,512
6.4	Regulatory Compliance Expense	$1,533,126	$1,064,288	$1,533,126
6.5	Salaries and Wages Expense	$10,479,833	$9,450,718	$10,380,531[7]
6.6	Control Center Outsourcing	-$58,825	-$440,090	-$440,090
6.7	Rate Case Litigation Expense	$1,250,000	$565,000	$750,000
6.8	Capitalization Accounting Practice Change	$4,161,125	$0	$0
	Total Operating Expense, Excluding Depreciation	**$54,698,381**	**$40,244,502**	**$41,493,438**

[5] Long-Term Incentive Program.

[6] Asset maintenance expenses.

[7] The Decision generally adopts Joint Protestant's recommended $9,450,718 Salary and Wage expense. We adjust the number to account for (1) a -$772,734 adjustment to remove duplicate Control Center Employee expense, and (2) add $47,504 to account for the approved 6 percent merit pay increase, and (3) add $1,655,043 to account for Crimson Midstream Salary and Wage expense.

6.1. Disputed Cost of Service Expenses

6.1.1. Long-Term Incentive Program Expense

Carriers seek to include $208,109 in LTIP expenses in the cost of service to be recovered from ratepayers.[8] The LTIP program was established in 2022 to incentivize employee retention by providing stock-based compensation to executive-level employees that remain with the company for the duration of the three-year vesting period.[9] These costs were financed through stock-based compensation. However, during the Test Period, the stock value was too low to issue at a reasonable amount, so unvested cash was provided to qualifying employees as an alternative.[10] In 2022, Crimson employees received $114,025 in stock-based compensation and CorEnergy employees received $82,304 in stock-based compensation.[11]

Carriers argue that their unique position as oil pipeline companies requires mechanisms to incentivize long-term employee retention, which, in turn, improves efficiency and advances the goals of more reliable and safe utility service.[12] Carriers state that managers have developed long-term relationships with regulators, minimizing downtime and maximizing efficiency.[13]

Joint Protestants oppose the inclusion of LTIP costs on the grounds that the program was designed to maximize shareholder interests and align employee

[8] Summary of Disputed Issues at 4; Carriers' Opening Brief at 19.

[9] Carriers' Opening Brief at 22-24; *see also* Exhibit (Exh.) VMSC-CRC-MRT-0035 at 4.

[10] Carriers' Opening Brief at 22; Exh. CRIM-RLW-009 at 22.

[11] Summary of Disputed Issues at 4.

[12] Carriers' Opening Brief at 20.

[13] Carriers' Opening Brief at 23.

compensation with the companies' financial success.[14] They state that any benefits to ratepayers are secondary, vague, or implausible. They point to the Commission's long record of rejecting similar programs for electricity and gas service providers on the basis that such incentive programs serve other objectives than providing safe and reliable service at just and reasonable rates.[15]

As evidenced by recent precedent, the Commission determines the reasonableness of LTIPs by evaluating if: (1) the program was designed to explicitly benefit ratepayers; (2) the costs are adequately related to providing utility service to ratepayers; and (3) if the benefits of this type of compensation are reaped primarily by executives and shareholders or primarily by ratepayers.

We find that stock-based LTIP program costs incurred by Carriers are not eligible for inclusion in the cost of service. Carriers do not provide affirmative evidence that LTIP was designed explicitly to advance ratepayer interests. Testimony reveals that compensation, which is available to Crimson's top leadership, is dependent on company performance, including cashflow and earnings to parent companies. Extended investment programs incentivize employees to maximize profits to increase awarded stock value, therefore primarily benefitting shareholders. Crimson states that a complete description of the purpose of LTIP is threefold: to attract and retain employees, consultants, and directors who will contribute to the company's long-term success; to align the interests of employees, consultants, and directors with those of the company;

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[14] Joint Protestants' Opening Brief at 17-18.

[15] Decision (D.) 15-11-021 at 256-257.

and to promote the success of the company's business.[16] This description does not include mention achieving demonstrable ratepayer benefits, such as safety and reliability of the pipeline network.

Furthermore, the ratepayer benefits that Crimson does attribute to this program, such as employee retention, are unsupported and conclusory. The Commission evaluates each individual program based upon the benefit to ratepayers. In D.24-12-027 we rejected Crimson's request to include costs of the same LTIP for its Southern California pipeline operation. We find Carriers have not met their burden of proof and we decline to grant its request.

6.1.2. Shared Service Costs

Joint Protestants seek to exclude $1,827,466 in employee-related service expenses ("shared expenses") "absorbed" by Crimson Midstream and allocated to each of Carriers following corporate reorganization (Crescent Spin-Off). Prior to February 2021, Crimson Midstream owned five pipeline assets, four in California and one in the Gulf Coast.[17] Crimson Midstream employees' time was allocated approximately 60 percent to California operations and 40 percent to Gulf Coast operations.[18] When CorEnergy acquired 49.5 percent of Crimson Midstream, Crimson Midstream "spun-off" Crimson Gulf assets as a new entity, Crescent. From 2021-2022, Crimson Midstream continued to provide operational services to Crescent while Crescent recruited its own personnel.[19] In February

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[16] Exh. VMSC-CRC-MRT-0035 at 8.

[17] Carriers' Opening Brief at 25.

[18] Joint Protestants' Opening Brief at 23.

[19] Carriers' Opening Brief at 25.

2022, all Crimson Midstream employees previously devoting 40 percent of their time to the one Gulf Coast asset now allocated 100 percent of their time to the four California assets. This resulted in a 23 percent overall increase in payroll expenses after the spin-off that Carriers request be included in the cost of service. Joint Protestants posit that a six percent increase of payroll expenses is reasonable. The parties agree that no additional economic benefits to ratepayers accompanied the increase in costs.[20]

Carriers state that the $1,827,466 in costs allocated to Carriers following the Crescent Spin-Off are justifiably attributed to ratepayers. Carriers argue that because Crimson Midstream operated at a near-minimum number of employees prior to the spin-off, Carriers were unable to reduce employees after the restructuring without jeopardizing the safety and efficiency of the pipeline. They claim that existing staff levels are required to operate a smaller system due to new and existing regulatory requirements, such as those required by the California Department of Forestry and Fire Protection (CalFire), the Transportation Security Administration, and the Pipeline and Hazardous Materials Safety Administration. Carriers acknowledge that there are no increased economic benefits to ratepayers accompanying the increase in employee payroll cost, but that Base Period costs incurred were essential to the provision of safe and reliable transportation service. Carriers argue that

[20] Joint Protestants' Opening Brief at 23-24; Exh. VMSC-CRC-MRT at 56-57; Exh. VMSC-CRC-002 at 7; Evidentiary Hearing Transcript at 22.

ratepayers did in fact benefit from services provided and therefore are justifiably included.[21]

Joint Protestants argue that Crimson Midstream's "absorbed" payroll expenses are not justly or reasonably included in the cost of service, provide no additional ratepayer benefits, and therefore should not be borne by the ratepayers. They point to Commission decisions that have denied the incorporation of certain one-time corporate reorganization or transaction expenses in Carriers' cost of service.[22] They also argue that despite having fewer assets to maintain and operate, Crimson Midstream improperly retained existing staff levels and unjustly reallocated all previously shared costs to California operations. This resulted in a 23 percent increase in overall payroll costs (attributable to the following four departments: Accounting (53 percent increase), information technology (IT) (40 percent increase), Control Center/Engineering (27 percent increase), and Executive Officers (0.3 full-time equivalent)) for the same type and quality of service.[23] Joint Protestants question the legitimacy of the regulatory mandates and increased workload demands that Carriers state informed their employment decisions after the spin-off in the Base Period.[24]

We decline to authorize the full costs requested by Carriers. Carriers do not provide sufficient information or explanation to justify maintaining existing

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[21] Carriers' Closing Brief at 29-30.

[22] D.11-05-026; D.20-09-019.

[23] Exh. VMSC-MRT-0001 at 47, 55-56.

[24] Joint Protestants' Opening Brief at 29-32.

employment levels after the Crescent spin-off, resulting in a 23 percent overall payroll increase for ratepayers. Carriers' testimony states that security and safety regulations mandated employment levels to be kept at pre-spin-off levels for Carriers' Accounting, IT, and Engineering departments. However, Carriers do not specifically identify such requirements and fail to include an employee-by-employee analysis of job responsibilities after the corporate restructuring. By Carriers' own admission, Carriers run a lean organization and had a 12-month transition period where evaluation of employment levels could have occurred. We find it to have been entirely reasonable for Carriers to substantiate their argument with specific information given the amount of time available and relatively small number of employees.[25] Without such information, we are not persuaded by Carriers' conclusory statements and only authorize costs at a six percent increase.

6.1.3. CorEnergy Infrastructure Trust, Inc. Allocated Expense

Carriers seek to include in their cost of service $2,941,751 in CorEnergy operating expenses that were allocated to Carriers in the Base Period.[26] Carriers also propose a Test Period adjustment of $2,889,480 to account for increased CorEnergy allocations to Carriers following the sale of the MoGas and Omega assets.[27]

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[25] "If weaker and less satisfactory evidence is offered when it was within the power of the party to produce stronger and more satisfactory evidence, the evidence offered should be viewed with distrust." (Cal. Evid. Code § 412.)

[26] Summary of Disputed Issues at 5.

[27] Carriers' Opening Brief at 36.

CorEnergy is an infrastructure Real Estate Investment Trust that earns tax-free income by making investments in infrastructure developments (such as pipelines, electric transmission lines, or offshore drilling rigs) then selling or leasing them to operators (such as utilities) and distributing at least 90 percent of its taxable income from those investments to shareholders. In February 2021, CorEnergy acquired a 49.5 percent stake in Crimson Midstream. Following this transaction, CorEnergy and John Grier jointly applied for a Change of Control of Carriers in a bid to transfer controlling shares from John Grier to CorEnergy. In D.22-12-032 we denied that request. The decision clarified the current role of CorEnergy as a "large, but minority shareholder of Crimson Midstream, entitled to its proportionate share of the dividends declared by Crimson Utilities."[28,29]

Carriers now seek to include CorEnergy costs in the cost of service recoverable by ratepayer rates. In the Base Period, Joint Protestants seek to exclude $2,941,751 in expenses incurred in 2022.[30] The largest portion ($1.3 million) is attributed to compensation for CorEnergy's legal, financial, and corporate employees. The rest is distributed amongst accounting fees, professional fees, directors' fees, consulting fees and the like.[31] In the Test Period, Joint Protestants seek to reject $2,889,480 in expected allocations from CorEnergy attributable to the sale of CorEnergy's MoGas and Omega assets. These expenses

[28] D.22-12-032 (Decision Denying Joint Application for a Change of Control of the Crimson Pipeline, L.P. and the San Pablo Bay Pipeline Company, LLC).

[29] John Grier and CorEnergy have submitted a new application to transfer control of Carriers to CorEnergy (A.24-06-004). That proceeding is currently under consideration.

[30] Summary of Disputed Issues at 5.

[31] Exh. VMSC-CRC-MRT-0029.

are attributable to nondescript corporate overhead costs incurred at the CorEnergy ownership level.[32]

Carriers ask the Commission to include CorEnergy personnel costs generated while "contribut[ing] to the Carriers' operations…" Broadly, Carriers argue that CorEnergy provided financial benefits to ratepayers by saving Crimson Midstream from "insolvency" by selling off assets in Missouri to pay off the Crimson Midstream Credit Facility. Furthermore, Carriers argue that the legal, accounting, commercial, and finance personnel at CorEnergy contribute to Carriers' operations and are not redundant of Crimson Midstream employees.[33]

Joint Protestants assert that CorEnergy is improperly seeking to recover costs in the Base Period that are duplicative, unrelated to the provision of service, and in direct violation of Commission directives set in D.22-12-032. Joint Protestants highlight that the previous minority owner of CorEnergy's minority share in Crimson Midstream, the Carlyle Group, never allocated any expenses to Carriers.[34] Joint Protestants also contend that the inclusion of any costs associated with the MoGas and Omega spin-offs should not be included in the cost of service. Because the actual sale occurred in January 2024, Joint Protestants argue that potential costs — if any — allocated to Carriers could not have been accrued in calendar year 2023, since the sale had not yet occurred. Therefore, any costs related to the sale should be requested in a future application. Second, Joint Protestants oppose this recovery because it has not been shown to have been

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[32] Carriers' Opening Brief at 36.

[33] *Id.* at 41; Carriers' Closing Brief at 48-49.

[34] Joint Protestants' Opening Brief at 37-38.

incurred in the delivery of service to California ratepayers. Lastly, Joint Protestants claim that Carriers failed to justify the reasonableness of the spin-off transaction and therefore are unable to recover associated costs.[35]

We decline to grant inclusion of CorEnergy-related expenses in the cost of service for the Base Period or the Test Period. Per D.22-12-023, CorEnergy's current status is as a "passive, indirect, minority stakeholder… to Crimson Utilities." As such, it is limited to earning income through dividends and "not through business or trade."[36] Despite this clear mandate, CorEnergy repeatedly requests recovery of self-described operating expenses.[37] Because CorEnergy is barred from operating Carriers' pipelines, they are entitled to nothing more than a return on their passive and indirect investment gleaned from their proportionate share of Carriers' profits. Awarding line-item expenses in the cost-of-service would amount to allowing CorEnergy to operate as a utility without being regulated as such by the Commission. Therefore, we decline to grant Carriers' request.

6.1.4. Lobbying Expense

Joint Protestants seek to exclude lobbying expenses from Carriers' requested cost of service.[38] The parties agree that costs in dispute are for "lobbying services," but they differ on the nature of the activities performed and dispute what benefits, if any, were enjoyed by ratepayers.

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[35] Joint Protestants' Closing Brief at 34-37.

[36] D.22-12-032 at 19, 33.

[37] Carriers' Closing Brief at 49.

[38] Summary of Disputed Issues at 6.

Carriers argue lobbying expenses are properly included in the cost of service because they were related to the provision of safe and reliable transportation services and ratepayers received direct benefits. Carriers assert that activities were educational in nature. Regarding Balance Public Relations' work, Carriers state the firm did not engage in traditional lobbying (*i.e.*, promoting a change in law or Commission policy) but was retained to develop a strategy for "how to get our message across to people." Furthermore, Carriers claim that these services benefit ratepayers as they "saved the utility" from "bankruptcy" in 2023. Carriers claim that because ratepayers enjoyed an "operating pipeline," they have benefitted from lobbying activities and, therefore, related expenses are reasonably included in the cost of service.[39]

Joint Protestants oppose the inclusion of lobbying costs on the grounds that general Commission precedent denies rate recovery of any costs for political lobbying or advocacy.[40] Additionally, Joint Protestants claim Carriers must provide affirmative evidence that demonstrates how such expenses provide ratepayer benefits. Joint Protestants assert that Carriers do not affirmatively demonstrate any benefits beyond vague and conclusory statements.[41]

It is well established Commission precedent that lobbying expenses, including but not limited to legislative advocacy, legislative policy research, regulatory advocacy, regulatory policy research, public relations, and associated general administrative overhead are generally denied from inclusion in carriers

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[39] Carriers' Closing Brief at 54-55.

[40] *See* D.06-11-050 at 73.

[41] Joint Protestants' Closing Brief at 38.

cost of service. We decline to authorize the inclusion of lobbying costs in Carriers' cost of service as the funded activities were inherently political in nature and do not have clear ratepayer benefits.

6.2. Asset Maintenance Expense

AME are a category of pipeline utility spending that captures "pipeline integrity inspection and remediation, tank inspection and maintenance, and corrosion inspection and mitigation" as required by CalFire. Actual costs incurred over the Base Period and Test Period are $5,989,809, however Carriers seek only to include costs available before evidentiary hearings for this proceeding, a total of $5,054,855. Joint Protestants dispute this cost and instead argue AME should be $4,262,445.[42]

Carriers claim that basing rates on historical data will not produce representative costs under current circumstances as costs are rising and Carriers face increased regulatory activity.[43] Procedurally, Joint Protestants argue that Carriers should be barred from recovering their "updated" AME expense that was introduced in rebuttal testimony and not included in their direct testimony.[44] Substantively, Joint Protestants argue AME should be $4,262,445, a normalized level of AME expense for the KLM and SPBP assets for January 2020-September 2023. Because AMEs are incurred on a cyclical, multi-year basis, Joint Protestants argue that basing rates on an abnormally high annual period of asset maintenance expenses will lead to unreasonably high rates. Instead, Joint

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[42] Summary of Disputed Issues at 6.

[43] Carriers' Opening Brief at 49-50.

[44] Joint Protestants' Closing Brief at 39-40.

Protestants average Carriers' AMEs over the Base Period and propose the inclusion of those costs going forward.[45]

Carriers' methodology for calculating AME expense in this proceeding is substantially similar to the methodology we approved in D.20-11-026, the decision resolving Crimson Midstream's 2016-2019 rate proceedings for its Southern California operations, and D.24-05-007,[46] addressing the 2022 rate increase proposal for the Southern California Pipelines operated by Crimson Midstream. Unlike other utility rates regulated by the Commission, oil pipeline transportation rates are set at a specific amount on a certain date. We do not authorize attrition year rate increases to account for planned expenses, inflation, *etc.* Accordingly, and consistent with the stipulations regarding Base Period and Test Period, we reject Joint Protestants' proposal to normalize expenses over several years. We are satisfied that Carriers' methodology is just and sound. In the present applications it results in a lower than average AME for SPBP and a higher than average AME for KLM. As costs increase, we anticipate Carriers will seek rate increases to address those costs and that they will apply the same methodology or provide evidence supporting a different approach.

6.3. Fuel and Power Expense

Carriers request $12,010,512 in fuel and power expenses to be included in the cost of service for the Test Period. Carriers determine this figure based on accounting accruals and prefer this method over Joint Protestants' proposed cash payments because cash payments over a given month or period may not

[45] Joint Protestants' Opening Brief at 49.

[46] Modified on other grounds by D.24-12-027.

correlate with actual services received in that period. Therefore, Carriers advise against using it as a metric for forecasting current and going forward cost expectations.[47]

Joint Protestants assert that receipts for cash payments instead of accruals should be used to determine rates for fuel and power expenses. Because accruals are estimates, relying on them may imbed inaccurate expenses in the cost of service. Joint Protestants argue that accruals are biased higher than actual expenses in the Base Period and therefore recommend Test Period adjustments.[48]

We grant Carriers requested fuel and power expenses. Carriers' accounting accrual of estimated monthly fuel and power expense is reasonable. Carriers' testimony that its methodology does not bias expense accruals higher is credited.[49] As addressed below, the request is supported by the adopted volume and throughput numbers, including adjustments for the Rodeo line conversion.

6.4. Regulatory Compliance Expense

Regulatory expenses are those that Carriers incur to comply with local, state, and federal regulations, such as annual fees assessed by agencies as well as costs incurred by third-party analyses and evaluations to comply with regulatory requirements.[50]

Carriers seek $1,533,126 in Test Period regulatory expenses to be included in the cost of service. Carriers used historical data from the Base Period and the

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[47] Carriers' Opening Brief at 50.

[48] Joint Protestants' Opening Brief at 56-59.

[49] Transcript at 401.

[50] Exh. CRIM-MJW-053-B at "OpEx by GL"; Exh. CRIM-DWJ-005 at 14.

first half of the Test Period to generate their requested compliance cost to be included in rates.[51] Joint Protestants challenge a majority of Carriers regulatory expense cost in the Test Period as lacking justification, thereby failing to meet the "known and measurable" ratemaking standard. Joint Protestants raise doubt as to all costs in the Test Period except forecasted CalFire fees for being unsubstantiated by actual data.[52]

We grant Carriers $1,533,126 in Test Period regulatory compliance expenses. Regulatory Compliance expenses over the Base Period and first half of the Test Period remained consistent and Carriers' forecasted costs for the second half of the Test Period rely on historical data to reasonably anticipate similar expense levels. Joint Protestants provide no evidence raising a reasonable doubt as to the reasonableness of such expenses.

6.5. Salaries and Wages Expense

Carriers request $10,479,833 in salaries and wage expenses. Carriers' figure is based upon their 2022 Base Period salaries and wages, with a $772,734 reduction to reflect reduced payroll resulting from the outsourcing of control center positions and $636,938 2023 Test Period adjustment to account for six percent merit-based pay increases. Joint Protestants argue that the salaries and wages expense should be $9,450,718. Their figure is based upon 2022 Base Period salaries and wages expense minus $44,815 for LTIP expense and $1,655,043 in

[51] Carriers' Opening Brief at 52-53.

[52] Joint Protestants' Opening Brief at 59-60.

absorbed Crescent Payroll expense plus an addition of $534,946 to reflect the six percent salary increase in 2023.[53]

As discussed in Sections 5.1.1-5.1.2 above, we have disallowed LTIP expenses and the Crescent Payroll expense. Accordingly, we adopt Joint Protestants' proposal, adjusted to $10,380,531.[54]

6.6. Control Center Outsourcing

Following the Crescent Spin-Off, Crimson elected to eliminate their existing control center employees and outsource operations to a third-party vendor, resulting in cost savings. While parties agree that there are reduced costs, they disagree on the amount of the cost savings.

Carriers seek a downward adjustment of $58,825 to account for reduced control center salary and wage expenses. Carriers arrive at the total downward adjustment figure by subtracting the Test Period upward adjustment for the outsourcing itself from the Test Period downward adjustment for salary and wages saved due to outsourcing.[55] Joint Protestants contest Carriers' proposed cost as inadequate and allege it does not fully capture the actual savings achieved by the outsourcing. Joint Protestants arrive at their proposed total downward adjustment of $440,090 by subtracting the total savings forecasted by Crimson Midstream in May 2022 plus Carriers' 2023 third quarter allocation percentages from the Test Period upward adjustment for the outsourcing itself.[56]

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[53] Summary of Disputed Issues at 7.

[54] See footnote 7 above.

[55] Carriers' Opening Brief at 58-59.

[56] Joint Protestants' Opening Brief at 64-65.

We grant Joint Protestants' proposed $440,090 in Test Period reductions for control center outsourcing. Carriers' provided testimony that, "Mr. Jackson believes that the referenced costs represent the only quantifiable costs that are expected to be offset by the referenced outsourcing."[57] However, the record does not support this "belief." There is evidence of additional cost savings attributable to the outsourcing that are not included in Carriers' calculations, such as 401(k) costs and overtime pay. Carriers have failed to show that these costs are not being incurred with anything more than Mr. Jackson's testimony. Joint Protestants base their suggested savings on Carriers' own estimations for expenses achieved through outsourcing.[58]

6.7. Rate Case Litigation Expense

Carriers seek a normalized allowance of $1,250,000 in rate case litigation expenses, based upon a cost of $6,250,000 amortized over five years. Carriers argue that their request and methodology are the same as those which were approved in D.24-05-007 and are consistent with Commission practices and should therefore be accepted here.[59]

Joint Protestants request a capped allowance of $565,000, normalized as to not incentivize wasteful litigation tactics that drive up costs. Joint Protestants contrast this proceeding with the length, intensity, and effort of the proceeding in

[57] Evidentiary Hearing Transcript at 333.

[58] Joint Protestants' Opening Brief at 65, citing Exh. VMSC-CRC-MRT-0001 at 87; Exh. VMSC-CRC-MRT-0008 at 19; Exh. VMSC-CRC-MRT-0062 at 4.

[59] Carriers' Opening Brief at 60; Carriers' Closing Brief at 68.

D.24-05-007, claiming that A.22-07-015 is far less intensive yet Carriers claim it is twice the cost.[60]

We grant Carriers a normalized allowance of $750,000 in litigation expenses, consistent with our findings in D.24-05-007. We are persuaded by evidence produced by Carriers demonstrating that this proceeding has incurred fewer litigation costs. Therefore, we use our discretion to standardize litigation costs for Carriers across proceedings.

6.8. Capitalization Accounting Practice Change

Carriers seek an upward adjustment of $4,161,125 in Test Period expenses due to internal accounting changes where costs related to Integrity Management are now expensed instead of being capitalized.[61] Carriers claim that oil pipelines face increased risks in the coming decades, which places an upper limit on the useful life of Carriers' pipeline assets.

Carriers support this accounting with three arguments. First, they cite California Air Resources Board's (CARB) 2022 Scoping Plan which outlines a goal of reducing crude oil usage by 94 percent by 2045. Therefore, under Generally Accepted Accounting Principles (GAAP), Carriers determined it necessary to expense integrity maintenance expenditures.[62] Second, they point to throughput declines and increased transportation tariffs suggesting that crude oil production may be uneconomic and cause Carriers' pipelines to stop operating before flow rate operational challenges would cause pipelines to cease

[60] Joint Protestants' Opening Brief at 71.

[61] Carriers' Opening Brief at 64; *see also* Exh. CRIM-DWJ-001 at 11.

[62] Carriers' Opening Brief at 65.

operating.[63] Lastly, Carriers argue that integrity-related maintenance projects do not increase the efficiency of the pipeline, but instead, only maintain its existing functionality prior to maintenance.[64]

Joint Protestants argue that Carriers should maintain existing accounting practices consistent with their stated Accounting Policy and Commission rate design principles.[65] First, they refute Carriers' use of CARB's scoping plan to dictate accounting changes and rate increases. CARB's scoping plan is a goal that does not include any mandate to decrease oil production by 94 percent by 2045. Secondly, Joint Protestants cite to Commission precedent stating that GAAP provisions do not control ratemaking policies.[66] Lastly, Joint Protestants argue that any integrity maintenance expenditures extend the pipeline facilities beyond their original useful life, as the pipeline is "already a hundred years old."[67] Joint Protestants highlight the consequences of an accounting change, such as forcing shippers to bear the cost of the integrity capital improvements on a current basis when facilities will provide benefits over a longer-term.[68] Joint Protestants argue that these costs should be properly borne by all shippers using the facilities and

[63] Carriers' Opening Brief at 68.

[64] Carriers' Opening Brief at 68.

[65] Exh. VMSC-CRC-MRT-0065 at 5-6.

[66] D.00-03-021 quoting D.89113.

[67] Joint Protestants' Opening Brief at 83; *see also* Transcript at 68.

[68] Joint Protestants' Opening Brief at 84.

benefitting from their service over the actual useful life of the pipeline, not just those using it today.[69]

We decline to grant Carriers' Test Period adjustment reflecting a change in accounting practices for integrity related expenditures. Carriers have not met their burden demonstrating that the Commission should deviate from existing ratemaking principles. While CARB's 2022 Scoping Plan does forecast industry changes with potential impact on Carriers' pipeline, it does not impose mandates upon Carriers or instruct ceasing all oil pipeline operations by 2045. Furthermore, Carriers do not provide explicit evidence of Ernst & Young accounting calculations, instead only providing testimony recalling such deliberations. Until a demonstrable change in trends and circumstances, substantiated by record evidence, signals a concrete end of operations, we remain unpersuaded by Carriers' proposed rate-design.

6.9. Total Operating Expense Excluding Depreciation

Based upon the foregoing, we adopt a total operating expense excluding depreciation of $41,493,438. This figure represents a 24.14 percent reduction from Carriers' proposed $54,698,381 total and 3.10 increase percent over Joint Protestants' proposal of $40,244,502.

[69] Joint Protestants' Opening Brief at 85.

7. Rate Base, Depreciation, and Amortization Expense

7.1. Total Depreciated Original Cost of Carrier Property In-Service and Removal of Idle KLM Assets

Carriers seek $136,939,676 in total depreciated original cost of carrier property in-service for the 2022 Base Period and $116,224,263 for the 2023 Test Period. Joint Protestants argue that the figures should be $124,287,095 for the Base Period and $118,268,896 for the Test Period. Carriers and Joint Protestants agree that certain idled KLM assets should be removed from rate base but differ upon when that removal should occur. Carriers propose to include the assets in the 2022 Base Period and remove them beginning with the 2023 Test Period. Joint Protestant contend that the assets should be removed in both the 2022 Base Period and the 2023 Test Period. The dispute centers on the question of when the idled assets were no longer "used and useful."[70]

Carriers acknowledge that KLM and SPBP pipelines were integrated in 2020. Elements of the KLM pipeline, including the KLM mainline, ceased to be needed for oil transportation service. The elements were idled and purged. Carriers concede that these elements of the system were not in use, but that they remained dedicated to public utility service and subject to Commission jurisdiction.[71] Carriers signed a term sheet dated January 31, 2023 to convert the idled pipeline to a carbon dioxide sequestration project.[72] Carriers argue that the

[70] Summary of Disputed Issues at 10; Carriers' Opening Brief at 70; Joint Protestants' Opening Brief at 95.

[71] Carriers' Opening Brief at 70-73.

[72] Carriers' Reply Brief at 81-82.

idled pipeline remained used and useful to that point and thus should be included in rate base for the 2022 base year. Carriers' argument is essentially that the idled assets had the potential to return to active service up until the point that they signed a commitment to permanently dedicate the asset to other use. Their argument misapplies our precedent.

In D.84-09-089,[73] we explained that utility property must be actually in use and providing service in order to be included in rate base. We identified two narrow exceptions, one of which, Plant Held For Future Use, applies to Carriers' argument. There we allowed property held for use at a later date to be included in rate base only when there is a definite and reasonably imminent plan for its development.[74] We have found that idled assets held in emergency backup may satisfy this standard.[75] In D.18-12-021 we addressed both inactive assets held with definite plan for future use in public service and assets held as emergency backup. As to assets held with a plan for future use, we disallowed the assets where there was not a definite plan to return the asset to service during the upcoming rate cycle.[76] As to assets held as emergency backup, we found that in order to qualify for the exception there must be a demonstrable need for the backup asset. We also found that "the mere fact that an asset could potentially be

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[73] 1984 Ca. PUC LEXIS 1013, 72-73 (resolving A.82-12-02 (Application of Southern California Gas Company and Pacific Lighting Gas Supply Company for Authority to Include in Rate Base)).

[74] *Id.* at 73-74.

[75] D.18-12-021 (resolving A.16-07-002 (Application of California-American Water Company to Increase its Revenues for Water Service)).

[76] *Id.* at 248-249.

available to provide emergency utility service alone is insufficient to deem that asset as used and useful."

There is no dispute that the idled assets were no longer needed for use by Carriers and were not used in public service after the 2020 integration. The record does not demonstrate a demonstrable need for the asset to serve as a backup asset. The potential for backup or emergency use of the idled assets is at best a technicality and not a real or planned contingency. Accordingly, the idled assets should be removed from rate base in both the Base Period and Test Period.

The parties generally agree that the difference in their proposed total depreciated original cost of carrier property is tied to the differing treatment of the idled KLM assets. Accordingly, we agree with Joint Protestants' proposed 2022 Base Period amount of $124,287,095 and 2023 Test Period total of $118,268,896. This yields an average rate base of $122,768,287. We adopted an adjusted average base of $123,666,921.[77]

7.2. Allowance for Funds Used During Construction Balance Included in Rate Base

The parties agree that we should authorize an allowance for funds used during construction (AFUDC). They differ on the methodology for calculating AFUDC. Carriers seek an AFUDC of $11,032,440 for the 2022 Base Period and $10,646,478 for the 2023 Test Period. Joint Protestants argue the 2022 Base Period amount should be reduced to $997,031 and $1,051,938 for the 2023 Test Period.[78]

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[77] Because Carriers' request to expense integrity-related capital cost is denied, those costs are capitalized and included in rate base. The adopted average rate base reflects this adjustment.

[78] Summary of Disputed Issues at 3.

AFUDC allows a utility to accrue the cost of construction projects before the asset is placed in public service. The accrued balance is then capitalized in rate base and recovered on an amortized basis in rates. Carriers and Joint Protestants differ over when AFUDC accrual should begin. The differing approaches to the start date result in significant differences in Base Period and Test Period AFUDC amounts.

The KLM system, under previous ownership, became a public utility in 1983 and was acquired by Crimson Midstream in 2020. The SPBP system first became a public utility in 2005 and was acquired by Crimson Midstream in 2016. Carriers propose to begin accruing and amortizing AFUDC from the date upon which they were placed in public service, while Joint Protestants propose to do so beginning when Crimson Midstream purchased the systems.

The parties cite various regulations and prior decisions of the Commission as support for their decision. Carriers point to Federal Energy Regulatory Commission (FERC) rules for the content of pipeline rate case applications as evidence of FERC’s position on the question. Joint Protestants point to D.20-11-026 as Commission precedent on the question. The data required by FERC in an application for rates is not evidence of FERC’s position on the question of whether or when to allow AFUDC accruals post-transfer of a pipeline dedicated to public service. Our decision in D.20-11-026 does not address the question before us today.

AFUDC is “an allowance that is calculated to compensate the utility for the cost of both the equity and debt capital invested in the construction project. In effect, this allows the utility to add its construction period interest expense and a reasonable return to stockholders to the cost of the plant under construction… it is designed to generate the revenues needed for the utility to recover its capital costs on construction projects."[79] It is undisputed that Crimson Midstream did not expend the funds to construct the KLM or SPBP systems. The systems were purchased after construction. Carriers have not demonstrated that it is reasonable for them to recover construction costs they did not expend. Joint Protestants' methodology calculates AFUDC based upon construction expenditures on the two systems made by Crimson Midstream systems after their acquisition. Accordingly, we adopt Joint Protestants' proposed AFUDC, adjusted to $1,002,410 for the 2022 Base Period and $1,168,031 for the 2023 Test Period.[80]

7.3. Rate Base, Depreciation, and Allowance for Funds Used During Construction

Based upon the removal of the idled KLM assets and our determination of AFUDC in rate base, we fix Carriers' rate base at $126,043,822 for the Base Period and $122,768,287[81] for the Test Period. Carriers seek a depreciation expense of $9,077,847 based upon inclusion of the idled KLM assets. Because we have eliminated those assets from rate base, we adjust Joint Protestants' proposed

[79] 2 Regulation of the Gas Industry § 48.02 (2024).

[80] The Joint Protestant's recommended $997,031 for 2022 Base Period and $1,051,938 for the 2023 Test Period is generally adopted. We adjust figures to reflect an adjusted amortization of $31,180 to reflect the inclusion of integrity-related costs in rate base.

[81] Mid-Year Average Rate Base for the Test Period (average of 2022 Base Period and 2023 Test Period Rate Base ($126,043,822 + $119,492,752)/2).

depreciation expense to $8,621,332.[82] Similarly, Carriers request an amortization of AFUDC expense in the amount of $410,243, based upon their calculation of AFUDC. Based upon the lower AFUDC figure adopted above, we adopt Joint Protestants' amortization, adjusted to $31,180.[83]

8. Cost of Capital

8.1. Capital Structure

Carriers seek a capital structure of 60 percent equity, 40 percent debt while Joint Protestants argue for a 55 percent equity, 45 percent debt capital structure. We have consistently approved a 60 percent equity and 40 percent debt for Crimson Midstream. (*See* D.20-11-026, D.24-05-007 (modified on other grounds by D.24-12-027).) Carriers rely upon methodology and expert testimony in this proceeding that is substantially similar to that offered in those earlier proceedings. Those prior decisions, and others cited by the parties in briefing involving other pipeline corporations, upheld a 60 percent equity/40 percent debt structure that do not bind us to a particular result in this proceeding. They do, however, establish a strong presumption of reasonableness in Carriers' proposal to continue that capital structure.[84]

Joint Protestants have attempted to raise a reasonable doubt by (1) arguing that we should apply the median capital structure of the companies identified in the proxy groups evaluated by the parties' experts, and (2) that CorEnergy's

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[82] Inclusion of integrity-related costs in rate base results in an adjusted depreciation expense of $8,621,332.

[83] Inclusion of integrity-related costs increases this figure from Joint Protestant's recommended $29,551 for amortization of AFUDC.

[84] Carriers' Opening Brief at 80.

capital structure should be utilized as an estimate due to its relationship with Crimson Midstream. We are unpersuaded by either argument.[85]

The record does not demonstrate that the two proxy groups in question are comparable to Carriers. The companies in one proxy group have investment-grade credit ratings. The other proxy group of sub-investment grade companies included many highly leveraged companies, which negatively impacts their credit ratings., making them equally unreliable as a comparison group.

Bolstered by a somewhat stronger record, Joint Protestants advance the same arguments rejected in D.24-05-007 and D.24-12-027 that CorEnergy's capital structure provides an adequate hypothetical capital structure for Carriers. They point to CorEnergy's integration and involvement in Crimson Midstream operations as support for their position and note that CorEnergy utilized the sale of its other assets to pay off Crimson Midstream's credit facility. An application is currently pending before the Commission to allow CorEnergy to assume a controlling interest in Crimson Midstream and its subsidiary pipelines. [86] We previously rejected a similar application.[87]

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[85] Joint Protestants' Opening Brief at 105-106.

[86] A.24-06-004 (Application of Mr. John D. Grier for Authority to Sell and Transfer and CorEnergy Infrastructure Trust, Inc. to Acquire Control of Crimson California Pipeline L.P. and San Pablo Bay Pipeline Company, LLC).

[87] D.22-12-032, denying A.21-02-013 (Application of Mr. John D. Grier for Authority to Sell and Transfer and CorEnergy Infrastructure Trust, Inc. to Acquire Control of Crimson California Pipeline, L.P. and San Pablo Bay Pipeline Company, LLC).

Joint Protestants' arguments do not raise sufficient doubt about the reasonableness of Carriers' requested capital structure. We are unpersuaded that Carriers' risk prospects have improved sufficiently to justify less equity. Accordingly, we grant their requested 60/40 equity-to-debt ratio.

8.2. Cost of Debt

Carriers argue for an 11 percent cost of debt based upon the midpoint cost of CAA bonds and Single B bonds. In testimony they utilize a hypothetical estimate of the bond rating Crimson Midstream would receive based upon Moody's scorecard, a 13.5 percent debt cost based upon a CAA rating. They characterize the 11 percent request as a conservative number, noting an 8.5 percent debt cost for a Single B rating.[88]

Joint Protestants argue the cost of debt should be reduced to 7.66 percent based upon CorEnergy's cost of debt. They arrive at this number by taking a weighted average of CorEnergy's three sources of debt. Joint Protestants note that the median cost of debt of their examined proxy groups is lower than CorEnergy's, hence CorEnergy provides the best proxy.[89]

We are unpersuaded by either party. We recently adopted an 8.8 percent cost of debt for Crimson Midstream in D.24-05-007. Carriers' evidence in this proceeding does not persuade us that a 2.2 percent increase is reasonable. Joint Protestants are equally unpersuasive in their advocacy of a cost of debt based upon CorEnergy's cost of debt. As Carriers note, CorEnergy's cost of debt is

[88] Carriers' Opening Brief at 86-89.

[89] Joint Protestants' Opening Brief at 111-112.

heavily influenced by debt issued in 2019 that was not available to Crimson Midstream.

As Carriers' testimony notes, Crimson Midstream's cost of debt under a hypothetical Single B credit rating is 8.5 percent. The evidence is insufficient to convince us that Crimson Midstream's hypothetical bond rating has fallen from Single B to CAA in the months between the filing of the applications, the submission of testimony, and the hearing of two applications. Accordingly, we adopt the 8.5 percent cost of debt that Carriers affix to a Single B bond rating.

8.3. Return on Equity

Carriers utilize three different methodologies to determine a recommended return on equity (ROE), each resulting in an ROE in excess of 15 percent. They propose an ROE of 15 percent as a conservative approach. Joint Protestants recommend a 9.98 percent ROE utilizing a combination of the discounted cash flow (DCF) and capital asset pricing model (CAPM) models. Carriers calculate an ROE of 11.91 percent when utilizing the historical proxy group approved in past decisions and the DCF and CAPM models.[90]

Carriers justify utilizing a method other than the DCF and CAPM models as necessary because the results do not adequately address the higher degree of compensation required by equity investors versus debt investors. Their argument is that the DCF and CAPM models provide too small of a premium for equity investors.[91] In D.20-11-026 and D.24-05-007, we rejected Carriers' proposed ROE based upon the DCF and CAPM models, increased by 3.5 percent

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[90] Carriers' Opening Brief at 98.

[91] Carriers' Opening Brief at 99.

and one percent, respectively, "risk adders" intended to provide a premium for equity investors. The current proposal to reject the methodology utilized in those proceedings because it does not generate a sufficient premium is little more than a repackaging of the "risk adder" approach to increase ROE. We remain unpersuaded that the historic DCF and CAPM methodology is insufficient for determining just ROE.

The different ROE proposals between the parties utilizing the DCF and CAPM models result from the use of different proxy groups. We are satisfied that Carriers' proxy group is reasonable and just and we note that it results in an ROE that tracks closely with the historic ROE approved for Crimson Midstream in other proceedings. Accordingly, we adopt an ROE of 11.91 percent.

8.4. Weighted Average Cost of Capital

As noted above, we adopt a 60 percent equity/40 percent debt capital structure with an 8.5 percent cost of debt and 11.91 percent ROE. Accordingly, we adopt a weighted average cost of capital of 10.546 percent.

9. Volumes

The Phillips 66 Rodeo refinery (Rodeo) is served by Carriers' pipeline systems. Phillips 66 converted Rodeo to renewable diesel production with anticipated start of production in early 2024. The parties disagree over how to account for the Rodeo conversion when determining throughput volumes. Carriers' methodology results in a long-haul transportation volume of 28,756,304 barrels while Joint Protestants arrive at a figure of 31,761,593 barrels.[92] For the reasons outlined below, we adopt a throughput volume of 29,457,864 barrels.

[92] Summary of Disputed Issues at 12-13.

Carriers' approach to the Rodeo conversion is to add 1,876,672 barrels to the throughput volume for the 12 months ending November 2023. Joint Protestants dispute that number, arguing that it does not fully account for Rodeo-related incremental volumes. They argue that Carriers only account for volumes from one station, excluding two other reception points related to Rodeo.[93] Carriers argue that the two reception points are unrelated to the Rodeo conversion and should not be factored into Rodeo-related throughput adjustments.[94] We agree that the record does not support with sufficient evidence Joint Protestants' argument to include the additional reception points. Carriers' methodology is reasonable based upon the record.

The parties also differ on the methodology used to project declines in Rodeo-related volumes. Carriers' throughput volume includes a projected decline in Rodeo throughput volume of 2,298,811 barrels through 2024. Joint Protestants object to that projection on two grounds. First, they argue there is insufficient evidence to demonstrate a historical decline in throughput volumes. We are satisfied that the evidence supports Carriers' conclusion that oil production, and its related throughput volumes, have historically declined and will continue to do so.

Joint Protestants also dispute Carriers' method for applying the projected decline. Carriers apply the entire annualized decline at once. Joint Protestants argue that the projected decline should be calculated and implemented in a more

[93] Joint Protestants' Opening Brief at 133.

[94] Carriers' Closing Brief at 116.

gradual, incremental decline. Utilizing Joint Protestants' methodology for calculating a gradual, incremental decline along with our other conclusions results in a volume throughput of 29,457,864 barrels. We adopt the gradual decline proposed by Joint Protestants as a more reasonable reflection of the declining throughput.

10. Revenue Credits

The parties reached stipulations regarding revenue credits for PLA ($3,539,105) and truck rack unloading fees ($324,741). Calculation of the credit for authorized Commission Fees (CPUC Fee) depends upon the adopted pipeline transportation revenue and truck rack revenues. While the parties agree that the CPUC Fee credit is 0.068 percent of those revenues, the final calculation depends upon the adopted throughput volume, upon which the parties disagree. Based upon our conclusion regarding volume throughput in Section 8, we fix the CPUC Fee revenue credit at $36,440.[95]

The parties agree that transportation revenue from the San Joaquin Refinery (SJR) and Western San Joaquin (WSJ) routes should be subtracted from Test Period revenue, with that revenue being applied as a credit to avoid double recovery of costs. Each party agrees upon the methodology for calculating the revenue credit but disagrees on the throughput volumes used in the calculation. Carriers propose a credit of $1,611,735 based upon 3,140,080 barrels for SJR and

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[95] Pipeline Transportation Volume total of 35,284,918 barrels (29,457,864 barrels for lines excluding SJR and WSJ, plus 5,827,054 barrels for SJR and WSJ), resulting in transportation revenues of $53,262,969 (inclusive of revenue from SJR and WSJ lines).

2,548,198 barrels for WSJ.[96] Joint Protestants propose a credit of $1,685,931, based upon 3,316,332 barrels for SJR and 2,593,628 barrels for WSJ.[97]

As discussed in Section 8, we adopt a throughput volume of 29,457,864 barrels, a 2.44 percent increase over Carriers' requested 28,756,304 barrels. Accordingly, we apply this increase to Carriers' requested volumes for SJR and WSJ, resulting in 3,216,688 barrels and 2,610,366 barrels, respectively. The resulting revenue credit from these volumes is $1,651,056, which we adopt.

11. Rates

The parties agree that a single, base shipping rate should apply to both SPBP and KLM.[98] Their proposed rates reflect their positions on the issues determined above, including Carriers' revenue requirement, revenue credits, and the shipping volumes. Separately, Crimson proposes a $0.50 per barrel premium on the KLM line. Under Carriers' proposal, the rate for the SPBP line would be $2.4210 per barrel on SPBP and $2.9210 per barrel on KLM. Joint Protestants propose a rate of $1.7078 per barrel for both lines.[99]

Our findings above establish total cost of service before revenue credits of $63,187,863[100]. Subtracting $5,551,342 in revenue credits results in total cost of

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[96] Exh. CRIM-MJW-053-A at Workpaper 3.

[97] Exh. VMSC-CRC-MRT-0018 at Workpaper 3.

[98] Carriers' Opening Brief at 132; Joint Protestants' Opening Brief at 140; Joint Protestants' Closing Brief at 119.

[99] *Ibid.*

[100] $13,041,913 (Return on Rate Base) + $41,493,438 (Operating Expense excluding depreciation) + $8,621,332 (Depreciation Expense) + $31,180 (Amortization of AFUDC) = $63,187,863. A WACC of 10.546% ((60% * 11.91%) + (40% * 8.5%)) and an average rate base of $123,666,921 was used to calculate the Return on Rate Base.

service of $57,636,522. Transportation revenues at current rates, excluding SJR and WSJ line revenues, are estimated to be $51,611,913[101]. Based upon the volumes projected in Section 9, total revenues at currently approved rates results in a $6,024,609[102] (11.67 percent) revenue deficiency. Accordingly, it is reasonable to authorize an average system-wide rate increase of 11.67 percent over the existing rates.

The existing rate structures for SPBP and KLM differ. SPBP is the primary line in terms of volumes transported. Aside from a premium for volumes on the KLM line, the parties are in support of a flat rate for SPBP and KLM routes. We adopt a rate of $1.9566 per barrel, which represents the total cost of service divided by total volume for the systems.[103]

Carriers argue for a $0.50 per barrel premium for the limited volumes shipped on the KLM line. They base this upon the testimony of their expert, Dr. Webb, that KLM shippers impose incremental cost on the KLM-SPBP system, costs that would be avoided if KLM ceased operating. Carriers argue that because Joint Protestants did not "substantively challenge" Dr. Webb's analysis, his incremental cost finding should be treated as an established fact. They argue

[101] Transportation revenues for lines other than SJR and WSJ were approximated using adopted volume throughput of 29,457,864. Volumes for each of these lines were increased in proportion to their relative volumes in Carriers' requested total estimate of 28,756,304, then multiplied by current rates.

[102] $51,611,913 (Transportation Revenues excluding SJR and WSJ revenues) minus $57,636,522 (total Cost of Service after application of revenue credits) = ($6,024,609)

[103] $57,636,522/29,457,854 barrels=$1.9566/bbl.

that this in turn compels us to accept Dr. Webb's recommendation for a $0.50 premium. [104] We reject this proposal as a misallocation of the burden of proof.

Carriers bear the burden of proving that every element of their proposal is just and reasonable.[105] The record does not satisfy us that the KLM shipments merit a rate 25.5 percent higher than the base rate established for the systems. Carriers rely upon vague and largely unsubstantiated claims to support the premium. It is not enough to establish that there are or may be increased costs associated with KLM shipments; Carriers must establish that $0.50 is a just and reasonable reflection of those costs consistent with the principles of cost causation. Carriers have not met their burden of proof on the question of a KLM premium. Accordingly, we fix a single rate of $1.9566 per barrel for both KLM and SPBP.

12. Retroactive Charge

Pub. Util. Code Section 455.3, subdivision (b)(5) allows the Commission to authorize retroactive charges and collection of the difference between a 10 percent interim rate increase and the final approved rate increase. Carriers' shippers, including Joint Protestants, are entitled to protest and vigorously challenge rate increase proposals. The Commission is committed to ensuring that all parties are afforded full and robust opportunities to disagree. We also recognize that, unlike other regulated utilities, interim rates for oil pipeline corporations are subject to statutory limits. Oil pipelines are not subject to rate cycles that provide other utilities full adjudication of their proposed rates prior to

[104] Carriers' Opening Brief at 131; Carriers' Closing Brief at 120-122.

[105] D.21-08-036 at 9-10.

the proposed effective date. Robust consideration of the protest in this proceeding should not result in a windfall to shippers or loss to Carriers. Accordingly, we find it appropriate to authorize Carriers to retroactively charge and collect rates. KLM is authorized to retroactively charge and collect the difference between the rates collected and the rates authorized herein, with interest, beginning March 3, 2023. SPBP is authorized to retroactively charge and collect the difference between the rates collected and the rates authorized herein, with interest, beginning March 1, 2023.

13. Environmental and Social Justice

The Commission first adopted an Environmental and Social Justice Action Plan (ESJ Action Plan) in 2019. We adopted an updated ESJ Action Plan in April 2022. The ESJ Action Plan establishes nine goals related to health and safety, consumer protection, program benefits, and enforcement in all of the sectors regulated by the Commission.

The overarching purpose of the ESJ Action Plan is to improve environmental and social justice for disadvantaged communities, Tribal lands, and low-income households (ESJ Communities). The Commission recognizes that historically ESJ Communities have been disproportionately harmed by environmental damage. It also recognizes the need to ensure that those communities are not overly burdened by the cost of efforts to improve and protect our environment. The approved rate includes funding to comply with and implement environmental protection and safety standards. Unlike the cost of safety and environmental protection in other regulated sectors, the direct cost of these measures will not be borne by the communities that benefit from these protections. Instead, the costs will be paid by the shippers utilizing the oil pipelines. We find that environmental and safety protection, with no direct cost to ESJ Communities, advances the goals of the ESJ Action Plan.

14. Confidential Treatment of Exhibits, Motions, Briefs and Testimony

Throughout the consolidated proceedings, the parties have submitted motions and requests that certain documents, evidentiary exhibits, and testimony be received confidentially. At the request of the Administrative Law Judge (ALJ), the parties submitted a confidentiality matrix of the items proposed for confidential treatment. The matrix proposes a three-year period of confidentiality for most of the items. The matrix is attached as Appendix A. VMSC requests indefinite confidential treatment of Exh. CRIM-048; Exh. VMSC-CRC-0062; Exh. VMSC-CRC-0063; the evidentiary hearing transcript at page 851, line 13 through page 866, line 24; page 1030, line 18 through page 1033, line 25; and page 1047, line 11 through page 1056, line 18; Joint Applicants' Opening Brief pages 124-128; and Joint Applicants' Closing Brief page 71.

VMSC asserts that exhibits Exh. VMSC-CRC-0062 and Exh. VMSC-CRC-0063 contain trade secrets as defined by Civil Code Section 3426.1, subdivision (d). A trade secret is information that derives independent economic value from not being known to the public or persons who can obtain economic value from its use and which has been the subject of reasonable efforts to maintain its secrecy. Each of the exhibits include details of VMSC's production process that are not known to the public, including the details of its "recipe" for creating refined products from crude oil. The information derives economic value from its confidentiality. VMSC has taken reasonable steps to protect the confidentiality of the information by seeking a protective order. California Evidence Code Section 1060 recognizes a privilege to protect trade secrets, so long as the allowance of the privilege does not conceal fraud or otherwise work injustice. Neither is the case here, and accordingly we allow the privilege and grant indefinite confidential treatment to Exh. VMSC-CRC-062 and Exh. VMSC-CRC-063. Indefinite confidential treatment is also extended to the evidentiary hearing transcript page 1030, line 18 through page 1033, line 25 and page 1047, line 11 through page 1056, line 18 as the testimony includes a discussion of the privileged information included in Exh. VMSC-CRC-062 and Exh. VMSC-CRC-063.

With respect to Exh. CRIM-048, neither party asserts a privilege. Accordingly, we do not grant indefinite confidentiality to that exhibit, the evidentiary hearing transcript (page 851, line 13 through page 866, line 24), and the portions of Joint Applicants' Opening and Closing Briefs (pages 124-128 and page 71, respectively) discussing Exh. CRIM-048. We do find that Exh. CRIM-048 and the related transcript and briefing, along with the remaining items identified in the joint motion, include sensitive information necessitating confidential treatment. As they are not subject to a claim of privilege, we fix the period of confidentiality at three years, with the provision that any party may petition to extend the period of confidentiality prior to its expiration.

15. Summary of Public Comment

Rule 1.18 of the Commission's Rules of Practice and Procedure (Rules) allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding. No comments were filed on the Docket Card for any of the consolidated applications addressed herein.

16. Procedural Matters

This decision affirms all rulings made by the ALJ and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

17. Comments on Proposed Decision

The proposed decision of ALJ Jacob L. Rambo in this matter was mailed to the parties in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3. Comments were filed on April 10, 2025, and reply comments were filed on April 15, 2025, by the Carriers and the Joint Protestants. PBF did not file opening or reply comments. The comments identified an error in the Proposed Decision's calculations attributable to changes made to the Carriers' proposal made in the Proposed Decision. We have adjusted our findings to reflect those corrections. Otherwise, the comments advance arguments considered and addressed or rejected in the Proposed Decision.

18. Assignment of Proceeding

Matthew Baker is the assigned Commissioner and Jacob L. Rambo is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Crimson Midstream owns and operates the KLM and SPBP networks of common carrier crude oil pipeline systems in California through which it provides transportation service for crude oil shippers, including VMSC and CRC.

2. Crimson's total cost of service after non-transportation revenue credits for KLM and SPBP is $57,636,522.

3. Crimson's transportation revenues at existing approved rates for KLM and SPBP total $51,611,913.

4. KLM and SPBP are highly integrated.

5. The adopted rates advance the goals the ESJ Action Plan 2.0 by improving environmental protection without direct cost to ESJ Communities.

6. Exh. VMSC-CRC-062 and Exh. VMSC-CRC-063 contain trade secrets.

7. The materials identified in Appendix A, other than those containing or discussing trade secrets, contain information that, if disclosed, could place either or both parties at a significant business disadvantage if disclosed.

Conclusions of Law

1. The shipping volumes, operating expenses, rate base, weighted cost of capital, and revenue credits identified in Sections 6-10 are reasonable and supported by a preponderance of the evidence.

2. A total average system-wide rate increase of 11.67 percent is reasonable, supported by a preponderance of the evidence, and necessary to ensure that Carriers achieve a reasonable rate of return. A single rate of $1.9566 per barrel transported on both KLM and SPBP systems reflects that percentage increase.

3. Collection of the difference between the rates charged and collected by the KLM system and the rates authorized beginning March 3, 2023, with interest, is reasonable.

4. Collection of the difference between the rates charged and collected by the SPBP system and the authorized rates beginning March 1, 2023, with interest, is reasonable.

5. Exh. VMSC-CRC-062 and Exh. VMSC-CRC-063 contain privileged trade secrets pursuant to Cal. Evid. Code Section 1060 and should remain confidential and held under seal indefinitely. The evidentiary hearing transcript page 1030, line 18 through page 1033, line 25 and page 1047, line 11 through page 1056, line 18 include testimony about the privilege trade secrets contained in Exh. VMSC-CRC-062 and Exh. VMSC-CRC-063, and should be remain confidential and under seal indefinitely.

6. The items listed in Appendix A, other than those addresses in Conclusion of Law 5, should remain confidential and held under seal for a period of three years.

O R D E R

IT IS ORDERED that:

1. Crimson California Pipeline, L.P. is authorized to increase rates on its KLM pipeline system to $1.9566 per barrel transported effective September 1, 2022.

2. Crimson California Pipeline, L.P. is authorized to retroactively charge and collect the difference between the authorized rates and the rates charged and collected beginning March 3, 2023, with interest.

3. San Pablo Bay Pipeline Company LLC is authorized to increase rates to $1.9566 per barrel transported effective March 1, 2023.

4. San Pablo Bay Pipeline Company, LLC is authorized to retroactively charge and collect the difference between the authorized rates and the rates charged and collected beginning March 1, 2023, with interest.

5. Exh. VMSC-CRC-062 and Exh. VMSC-CRC-063 and evidentiary hearing transcript, page 1030, line 18 through page 1033, line 25 and page 1047, line 11 through page 1056, line 18 shall be held under seal indefinitely. They shall not be publicly disclosed except upon further California Public Utilities Commission order or Administrative Law Judge ruling.

6. The items listed in Appendix A, other than those identified in Ordering Paragraph 5, shall be held under seal for a period of three years from the date of this decision. During this three-year period this information shall not be publicly disclosed except on further Commission order or Administrative Law Judge ruling. If Crimson California, L.P., San Pablo Bay Pipeline Company LLC, Valero Marketing and Supply Company, the California Resources Corporation, or PBF Holding Company, LLC believes that it is necessary for this information to remain under seal for longer than three years, it may file a motion showing good cause extending this order. Such motion shall be filed no later than 30 days before the expiration of the three-year period.

7. Within 30 days of the issuance of this decision, Crimson California Pipeline, L.P. shall file an Advice Letter detailing the revised tariffs approved by this decision and an Advice Letter detailing the process for billing and collecting the retroactive charges approved in Ordering Paragraph 2.

8. Within 30 days of the issuance of this decision, San Pablo Bay Pipeline Company LLC shall file an Advice Letter detailing the revised tariffs approved

by this decision and an Advice Letter detailing the process for billing and collecting the retroactive charges approved in Ordering Paragraph 4.

9. Application (A.) 22-07-015, A.23-01-015, A.23-03-001, and A.23-08-018 are closed.

This order is effective today.

Dated June 26, 2025, at Sacramento, California.

ALICE REYNOLDS
President
DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER
Commissioners

APPENDIX A