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Decision 11-05-026 May 26, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Pablo Bay Pipeline Company LLC for Approval of Tariffs for the San Joaquin Valley Crude Oil Pipeline.	Application 08-09-024 (Filed September 30, 2008)
And Related Matters.	Case 08-03-021 Case 09-02-007 Case 09-03-027

DECISION SETTING RATES FOR TRANSPORTATION OF CRUDE OIL BETWEEN THE SAN JOAQUIN VALLEY AND THE SAN FRANCISCO BAY AREA, ORDERING REFUNDS AND ADOPTING TARIFFS FOR HEATED OIL SERVICE

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1. Summary

1. We set a rate of $1.34 per barrel with a Pipeline Loss Allowance of 0.10% for the transportation of heavy crude oil from Station 36 in the San Joaquin Valley to the San Francisco Bay Area refineries via the heated pipeline operated by San Pablo Bay Pipeline Company (SPBPC).
2. We order the payment of refunds to Independent Shippers for overcharges made by the Pipeline during the period from April 1, 2005 to the effective date of this decision.
3. We approve the transfer of physical assets from the Pipeline's former owner to SPBPC.
4. We deny the application to SPBPC to exclude certain tanks and truck racks from the assets transferred to it.
5. We adopt a tariff to govern the provision of heated oil transportation service by SPBPC in the form of the tariff shown as Attachment A to this opinion.

2. Introduction

In Decision (D.) 10-11-010, the Commission denied the application of San Pablo Bay Pipeline Company, LLC (Applicant or SPBPC) to charge market-based rates for the transportation of heavy crude oil (SJVH) from the San Joaquin Valley to the San Francisco Bay Area on its heated pipeline (Pipeline). That decision left unresolved the following issues (as stated in the

Scoping Memo) between Applicant and Independent Shippers[1] who protested the application:

1. What are the just and reasonable rates, terms and conditions for public utility service on the Pipeline during the period from April 1, 2005 through the effective date of SPBPC's approved tariffs (Past Period)?
2. What refunds, if any, should Applicant or its affiliates (collectively, Shell Parties)[2] be ordered to make to Independent Shippers for unjust and unreasonable shipping charges imposed during the Past Period?
3. Should the determination of just and reasonable rates be based on a cost-of-service analysis using the original depreciated cost of the Pipeline?
4. What are the appropriate rate base, rate of return, operating costs and other cost factors that should be used in determining a cost of service for the Pipeline?
5. Does the Commission's jurisdiction over the Pipeline extend to loading and unloading facilities, tanks, pipeline connections and other ancillary facilities which SPBPC does not permit Independent Shippers to use?
6. Does SPBPC have offsets against the refund claims of Independent Shippers?
7. Are the rates, terms and conditions of SPBPC's proposed tariff, filed September 30, 2008, just and reasonable? Are any portions of the proposed tariff, arbitrary, discriminatory, or contrary to industry practice?

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[1] "Independent Shippers" is the collective designation of Chevron Products Company (Chevron), Tesoro Refining and Marketing Company (Tesoro) and Valero Marketing and Supply Company (Valero) all of whom ship undiluted heavy crude oil on the Pipeline to their respective Bay Area refineries.

[2] Shell Parties include Applicant, Shell Trading US Company (STUSCO), Shell Oil Products US (SOPUS) and their parent corporation, Royal Dutch Shell (Shell).

8. Should the Commission approve the transfer of ownership of the Pipeline from its prior owner Equilon Enterprises, LLC (Equilon) to SPBPC?

We group these issues into four broad categories.

A. What property is subject to Commission jurisdiction? Does the proposed transfer of ownership include all property necessary to the operation of the Pipeline as a common carrier?

B. What are just and reasonable transportation rates (i) from the effective date of this decision forward and (ii) for the Past Period?

C. What refunds, if any, do the Shell Parties owe to Independent Shippers for overcharges during the Past Period?

D. What tariffs are approved?

2.1. Jurisdictional and Necessary Property

Applicant and Independent Shippers agree that the property subject to Commission jurisdiction includes the Pipeline and any ancillary property necessary to provide regulated service on the Pipeline. They disagree as to what that ancillary property consists of.

SPBPC, which has acquired the Pipeline from other Shell parties subject to Commission approval, also owns ancillary assets such as truck racks and storage tanks that it has designated as non-common-carrier or proprietary assets. These ancillary assets were acquired by SPBPC together with the Pipeline and, as discussed in more detail below, were subsequently excluded from the Pipeline's jurisdictional property.[3] Applicant argues that these ancillary assets are unnecessary to the common carrier operation of the Pipeline, have been used

[3] STUSCO Opening Brief, at 15; Exhibit SP-17 (Smith Testimony) at 5.

historically to provide service solely to Shell affiliates, and would be improperly classified as jurisdictional property.[4]

Independent Shippers argue that the excluded ancillary assets have been used to provide service to Independent Shippers as well as Shell affiliates,[5] and cannot be removed from public utility service without prior Commission approval.[6] Independent Shippers are also concerned that SPBPC will use the ancillary assets to discriminate in favor of the Shell Oil refinery in Martinez.[7]

The burden of proof is on Applicant to demonstrate that property excluded from the transfer of the Pipeline to SPBPC is unnecessary to operation of the Pipeline as a public utility.[8] To prove this contention, Applicant introduced the testimony of its witnesses Paul Smith and Harry J. Rathermel. In his direct testimony, Smith testified that the property retained by SPBPC is all the property necessary to operate the Pipeline as a public utility.[9] In his rebuttal testimony, Smith identified assets previously treated as common carrier assets

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4 SPBPC Reply Brief at 58.

5 Exhibit IS-1; Independent Shippers testimony at 12-13. *See also* Exhibit Tesoro 17, "Response No. 27 of San Pablo Bay to Chevron's Third Set of Data Requests" and Attachment F thereto (Fixed Asset Database) dated April 21, 2009.

6 *See* Pub. Util. Code § 851 (no sale or other disposition of public utility property without Commission approval) and § 854 (no transfer of control of a public utility without Commission approval).

7 Independent Shippers Joint Reply Brief, at 15.

8 Applicant's ultimate burden is to prove that the rates it seeks are reasonable. Proving that the excluded property is unnecessary to operation of the Pipeline is an essential part of demonstrating the reasonableness of the requested rates. "[T]he ultimate burden of proof of reasonableness…never shifts from a utility which is seeking to pass its costs of operations on to ratepayers…" (*Pacific Gas and Electric Co.,* D.00-02-046.)

that Applicant has reclassified as ancillary assets. These include truck racks and two proprietary tanks at Coalinga; truck racks and five proprietary tanks at Bakersfield; and one proprietary tank at Rio Bravo.[10]

The effect of this reclassification at each of the four gathering and blending points on the pipeline system is shown in the following table, taken from Rathermel's rebuttal testimony.[11] The table compares the percentage allocation of assets between common carrier and proprietary service as of April 2009 and February 2010 at the Rio Bravo, Bakersfield, Coalinga, and Olig stations:

	April 2009		**February 2010**	
Rio Bravo	Common Carrier	90%	Common Carrier	76%
	Proprietary	10%	Proprietary	24%
Bakersfield	Common Carrier	94%	Common Carrier	86%
	Proprietary	6%	Proprietary	14%
Coalinga	Common Carrier	90%	Common Carrier	90%
	Proprietary	10%	Proprietary	10%
Olig	Common Carrier	100%	Common Carrier	80%
	Proprietary	0%	Proprietary	20%

Except at Coalinga, where the additional changes in asset allocation between April, 2009 and February 2010 were minimal, the February calculation reflects an increase in assets that Applicant asserts are unnecessary for provision of common carrier service of between 8% and 20% of the assets at each location.

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9 Exhibit SP-17 Smith identifies with specificity each asset proposed to be assigned to non-common-carrier service.

10 Exhibit SB-18 Smith Rebuttal Testimony.

11 Exhibit SB-29 Rathermel Rebuttal Testimony.

Independent Shippers countered with the testimony of Tesoro witness Mark Georgen. Georgen testified that historically, the disputed tanks were used for third-party service.[12] According to Georgen, unless the ancillary assets "are deactivated and completely removed from service, [he presumed that] they would be used for the exclusive benefit of San Pablo Bay's affiliates."[13] Unmixed high-quality, low-sulfur crude could be stored in the "proprietary" Shell tanks for delivery in segregated batches to the Shell Oil refinery in Martinez while the Valero and Tesoro refineries could be forced to accept the blended common stream of lower-quality, higher-sulfur crude.[14] [15] Georgen further testified that exclusion of the ancillary assets from the Pipeline's jurisdictional property would reduce the number of quality grades that Independent Shippers could receive via the Pipeline from five to two and that the two grades of crude oil that Independent Shippers would receive at their Bay Area refineries would be significantly inferior in quality to the crude oil they nominate for shipment to the Bay Area via the Pipeline. Georgen estimates that this quality-based discrimination imposes between $1.00 and $4.50 per barrel in costs on Tesoro that are not borne by the competing Shell refinery.[16]

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12 Exhibit Tesoro 31, *Prepared Testimony o f Mark Georgen for Tesoro Refining and Marketing Company,* at 5-6.

13 *Ibid.* at 10.

14 *Ibid.*

15 *Ibid.* Answer 20, at 12. The Pipeline regularly mixes 6,000 bpd of high sulfur outer continental shelf (OCS) crude with low-sulfur Kern River crude at Olig station and "regrades" the OCS to SJVH before shipping it to Independent Shippers' Bay Area refineries. Independent Shippers were unaware of this regrading process prior to discovery in this case.

16 *Ibid.,* Answer 20, at 13.

Georgen's testimony raises plausible concerns about the exclusion of the tanks and truck racks from the jurisdictional property of the Pipeline and the probability that exclusion of those assets from the Pipeline's jurisdictional property will lead to discrimination in favor of the Pipeline's affiliates. Although Applicant's expert Smith testified that it has included in its jurisdictional property all the property necessary to operate the Pipeline as a public utility, Applicant has not effectively rebutted the argument that excluding those assets will facilitate unlawful discrimination.

Furthermore, Independent Shippers argue correctly that, subject to certain statutory exceptions that do not apply to this case, a regulated utility may not remove property from public service without obtaining Commission approval.[17] Typically, utilities seek such approval on an asset-by-asset basis by filing applications under Pub. Util. Code § 851.[18] To the extent that this application seeks approval for transfer of the ancillary assets from SPBPC to Shell affiliates, it is a *de facto* application for § 851 approval. In general, we grant approval of such transfers under § 851 only upon a showing by the utility that the property in question is not "necessary or useful in the performance of its duties to the public." For the reasons outlined above, we believe that SPBPC has not made the requisite showing here and we do not approve the exclusion of those assets from the jurisdictional property of the Pipeline. However, we note

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[17] Chevron Opening Brief, at 102.

[18] § 851. A public utility … shall not sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its …. plant, system, or other property necessary or useful in the performance of its duties to the public … without first having secured an order of the commission authorizing it to do so …. .

that this decision does not preclude SPBPC from filing a subsequent application under § 851 for permission to remove specific assets from public service.

2.2. Just and Reasonable Rates

The bulk of the testimony in this proceeding was directed to the question of what constitutes a reasonable transportation rate. The positions of the parties may be summarized as follows:

2.2.1. Applicant's Position

Applicant's proposed rate of $2.04 per barrel is just and reasonable. The arbitrator's award of a $1.69 rate in 2005 is evidence of the reasonableness of the proposed rate. All past rates, including the present rate of $1.90, are also just and reasonable.

2.2.2. Independent Shippers' Position

The present rate of $1.90 per barrel is unjust and unreasonable. On the assumption that the tanks and truck racks are included in the Pipeline's property, the just and reasonable rate is $1.34 per barrel. All past rates were unjust and unreasonable.

2.2.3. Discussion

Applicant's request to charge market-based rates for its heated oil transportation services was denied in an Interim Decision in this proceeding D.10-11-010, issued by the Commission on November 19, 2010. In that decision, the Commission rejected Applicant's market power analysis finding that Applicant possesses and has exercised considerable market power. To the extent that Applicant seeks to justify the proposed $2.04 rate based on its alleged lack of market power, that rationale falls as a result of the earlier decision.

The Interim Decision also disposes of one of Applicant's other arguments. Applicant's expert Webb testified that the cost of transportation includes a market price adjustment (MPA) of $0.80 cents per barrel which, when added to the nominal transportation charge of $1.90 per barrel results in a "laid-in" price to the refinery purchasers of $2.70 per barrel.[19] On this basis, Webb concluded that both the current $1.90 rate and Applicant's proposed $2.04 should be approved because they are less than the $2.70 that purchasers in the Bay Area are currently paying for transportation of crude oil to their refinery gates. The Commission rejected this analysis, finding that the MPA is an adjustment to the posted price of crude oil at different production sites rather than an element of the transportation charge.[20] The Interim Decision found that the independence of the MPA from the transportation charge is shown by the existence of contracts for sales "at the lease" that include a full MPA but no transportation charge. The price of a barrel of heavy crude oil delivered at the refinery gates in the Bay Area is the sum of the posted price, the MPA, the pipeline loss allowance (PLA), and the transportation charge. The delivered price will vary with changes in the first three factors, but the transportation rate will remain the same whether the MPA is $0.80 a barrel or $8.00 a barrel.

Applicant's discussion of the impact of the 2005 arbitration award is similarly unpersuasive. Chevron's and Applicant's predecessors in interest executed an agreement in 2001 (2001 Agreement) that established an arbitration process for resolving any disputes over transportation rates.[21] In 2004, when the rate was $1.09 per barrel, the parties agreed to binding arbitration under the 2001 Agreement. The arbitrator found that $1.69 per barrel plus a pipeline loss

[19] Exhibit SP-2c, *Rebuttal Testimony of Michael Webb,* at 47.

[20] D.10-11-010 at 12.

[21] Exhibit Chevron 37.

allowance (PLA) of 0.25% was an appropriate market rate for 2005.[22] Applicant argues that the arbitrator's award is evidence that $2.04 per barrel in 2010 is a just and reasonable rate:

> "Chevron has testified that the establishment by the arbitrator of the rate of $1.69/bbl plus 0.25% PLA reflected a 'favorable ruling' for Chevron. [Citation omitted]. Consequently, as of December 2005 there is a rate for SJV Pipeline services that: (i) has been set by mutually agreed upon processes and procedures freely negotiated by sophisticated commercial enterprises; (ii) by definition constitutes a market-based rate—rather than a cost-based rate—for transportation services; and (iii) is deemed 'favorable' by Chevron.
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> "In this context, it cannot be credibly maintained that the increase in price from $1.09 to $1.69…is indicative of market power. San Pablo Bay further submits that it cannot be creditably maintained that the increase in January 2006 from the arbitrator-approved rate of $1.69 to the existing rate of $1.90 is evidence of market power."[23]

The difficulty with this argument is that the Commission has already ruled that SPBPC is a monopolist that possesses and has exercised market power over Independent Shippers. Given those findings, we must conclude that the 2005 arbitration set a price that reflected the Pipeline's market power. This conclusion is buttressed by the fact that the Pipeline unilaterally raised its transportation charge by another 21 cents per barrel in 2006, without losing any business from Independent Shippers. We discuss the relationship between the 2001 arbitration and Independent Shippers' refund claims at 14, below.

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[22] Exhibit Chevron 47-P; Rebuttal Testimony of David R. Lee, at 18.

[23] SPBPC Opening Brief at 39-40.

Applicant also argues that because pipeline transportation costs are a minor fraction of the total cost of refined petroleum products, the pipeline is without market power.[24] But this argument is both disingenuous and irrelevant. It is disingenuous because it ignores the reality of the pipeline's monopoly power over its shippers. It is irrelevant because the Commission's jurisdiction does not extend to the unregulated portion of the business activities of integrated oil companies. Our jurisdiction is limited to intra-state common carrier pipelines and our duty is to insure just and reasonable transportation rates on those pipelines. Whether pipeline transportation charges are a major portion or a tiny fraction of the total cost of producing gasoline and other refined petroleum products has no bearing on the question of whether the Pipeline's rates for transporting heavy crude oil are just and reasonable.

In summary, Applicant's arguments for the reasonableness of its current and projected transportation prices are not persuasive and we are left with the task of setting transportation prices based on traditional cost-of-service principles. This task requires two lines of analysis. First, we need to determine a just and reasonable transportation price for the Past Period during which the Pipeline should have been operated as a common carrier but was not. Then we need to determine a just and reasonable transportation price on a going-forward basis and approve a tariff that incorporates that rate.

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[24] *Ibid*. at 41-43.

3. Extent of the Past Period

Applicant contends that the refund period begins August 1, 2007, the effective date of D.07-07-040. However, for the reasons set out below, we find that the Past Period is the period from April 1, 2005 to the effective date of a commission–approved tariff.

Chevron's complaint for refund of overcharges [C.08-03-021] was filed under Pub. Util. Code § 494 in March of 2008. Complaints filed under § 494 must be brought within the three-year limitation period set forth in Pub. Util. Code § 736. Chevron's complaint was based on D.07-07-040. In that decision, we found that Chevron had access to the Pipeline via buy-sell agreements for the five years prior to the decision, i.e., from at least July 2002,[25] and that during that period the Pipeline was in the business of transporting oil for a fee, using buy-sell agreements to set the fee.[26] We further found that by transacting business in this way, the owners of the Pipeline had impliedly dedicated it to public use.[27] A pipeline dedicated to public use is a public utility subject to the jurisdiction of this Commission[28] and, as such, required to provide service at just and reasonable rates to all shippers on equal terms.[29] Thus, any charges imposed on Chevron by the Pipeline in the three years preceding the filing of Case (C.) 08-03-021 in excess of those based on just and reasonable rates are subject to refund under § 494. Although the other Independent Shippers (Valero and

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[25] D.07-07-040, Finding of Fact 8.

[26] *Ibid*., Conclusion of Law 8.

[27] *Ibid*., Conclusion of Law 9.

[28] *Ibid*., Conclusion of Law 1.

[29] Pub. Util. Code §§ 451 and 453.

Tesoro) filed refund claims later than Chevron, when the assigned Administrative Law Judge (ALJ) consolidated the refund cases with the San Pablo Bay Pipeline Company rate case, all parties including Applicant treated April 1, 2005 as the earliest date for which refunds could be sought. Accordingly, all refund claims will be measured from that date forward.

4. Determination of Refunds

The Pipeline charged all Independent Shippers the same transportation rates during the Past Period. Therefore each shipper's refund claim will be calculated based on the same general formula:

> Actual Rate Charged during the Past Period **minus** Just and Reasonable Rate for the Past Period **times** Number of Barrels shipped during the Past Period **equals** Refund.

For example, if the actual rate for the Past Period is $2.00, the just and reasonable rate for the Past Period is $1.50, and 10 million barrels were shipped during the Past Period, the Refund would be $0.50 ($2.00 - $1.50) times 10,000,000 or $5,000,000. For calculation purposes, the actual rates for transportation on the Pipeline during the Past Period were:

January through March 2005	$1.09	per barrel
April through December 2005	$1.686	per barrel
January 2006 to present	$1.90	per barrel

Chevron argues for five different values for its refund claim:

1. On the assumption that the 2005 and 2006 price increases were unauthorized and subject to disapproval in their entirety by the Commission, Chevron calculates its refund claim as follows:

April through December 2005	$ 6,665,510
January 2006 through January 2010	41,666,385
Total	**48,331,895**
Interest @ 3-month commercial paper rate	3,023,048
Total Refund as of February 1, 2010	$ 51,354,943

2-3. On the assumption that this proceeding will set just and reasonable rates for the Past Period on a cost of service basis, Chevron offered the testimony of its witness O'Loughlin. He proposed Past Period transportation rates for the Station 36 to Coalinga and Coalinga to Avon segments of the Pipeline of $0.5228 and $0.7847 per barrel, respectively. This analysis[30] resulted in two different refund claims including interest as of February 1, 2010 of $43,717,764 if the excluded assets are in public utility service and $46,194,115 if such assets are not in public utility service.

4-5. O'Loughlin also made an alternate calculation based on the Current Reproduction New Less Depreciation (CRNLD) method of valuation according to which the refund as of February 1, 2010 including interest would be $34,575,350 if the excluded assets are in public utility service and $37, 227, 932 if they are not. The various proposed refunds are summarized in the following table:

CHEVRON PROPOSED REFUNDS AS OF 2/1/2010

1. Rate increases disallowed $51,354,943
2. Just and Reasonable rates based on a traditional cost-of-service approach
   a. Without Excluded Assets $46,194,115
   b. With Excluded Assets $43,717,764
3. Just and Reasonable rates based on a CRNLD approach
   a. Without Excluded Assets $37,227,932
   b. With Excluded Assets $34,575,350

[30] Exhibit Chevron 49, Attachment MPO_61.

Since we have already determined that SPBPC must include the disputed assets from public service, we do not further consider alternatives 2-a and 3-a in the above table. Further, as we have often stated,[31] we believe that just and reasonable rates should be calculated based on traditional cost-of-service principles, and therefore we also exclude alternative 3-b from further consideration.

Applicant's proposed Past Period rates for the same two Pipeline segments were $0.7870 and $1.2770 respectively. Applicant derived these rates from application of traditional cost of service principles to an assumed rate base but its experts and Independent Shippers' experts disagreed sharply about all aspects of the rate calculations.

Applicant argues that the $1.69 competitive market rate set by the arbitrator for 2005 forms a floor under any refund claims. On this basis, refunds would be limited to the difference, if any, between the $1.69 rate and a just and reasonable rate from January 1, 2006 forward, since actual rates prior to January 2006 did not exceed $1.69. Applicant's argument amounts to the claim that Chevron, having voluntarily agreed to the arbitration, is estopped from asserting that the $1.69 rate is not just and reasonable.[32] Chevron's position is that the Commission has the exclusive right and obligation to set just and reasonable rates and may ignore any prior rate determination once it has assumed jurisdiction over a pipeline.[33]

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[31] See, for example, *Application of Red and White Fleet, Inc,* D.97-06-066.

[32] San Pablo Bay Opening Brief, at 73.

[33] Chevron Reply Brief at 37.

Although the 2001 Agreement specifies Texas choice of law, we have no reason to believe that Texas law differs materially from California law in respect of the matter being arbitrated. The "Commercial Rates" provision of the 2001 Agreement which governed the determination of the $1.69 rate is a standard "most favored nation" clause that merely requires that Chevron be charged rates no higher than the Pipeline charges other unaffiliated shippers:

> **4. COMMERCIAL RATES**
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> Equilon will make transportation pursuant to the Agreement available to Texaco [Chevron's predecessor] at location differential rate terms and pipeline loss allowance terms no less favorable than the commercial terms offered or agreed to by third parties for transportation on those same proprietary pipelines for similar movements and similar volume commitments at that time.

This language is clear and we have no reason to suppose that it has any different meaning under Texas law than it does under California law.

The arbitrator's $1.69 market rate represents his estimate of a rate that the Pipeline could charge that all its shippers would pay rather than attempt to clear production by some other means. Such a *market rate*, imposed by a monopoly service provider possessing substantial market power, is not a *competitive rate*. Any rate that exceeds a competitive rate is presumptively not a just and reasonable rate. Accordingly, we find that the $1.69 market rate is not a just and reasonable rate for oil shipped prior to January 1, 2006. For the same reason, $1.90 is not a just and reasonable rate for oil shipped during the balance of the Prior Period.

Having rejected the $1.69 rate and the $1.90 rate, we are left with the problem of determining a just and reasonable rate for the Prior Period. Rejecting the rates proposed by Applicant is not equivalent to accepting the $1.09 rate charged at the beginning of 2005, as Chevron urges us to do. We look instead to the rate the Pipeline charged its affiliate STUSCO to ship SJVH to the Shell Martinez refinery during the same period. As a regulated public utility, the Pipeline is under an obligation not to discriminate between Independent Shippers and affiliates. In 2005, the Pipeline charged STUSCO $1.23 per barrel.[34] This rate appears to be the result of arms-length negotiation between STUSCO and the Pipeline and we adopt it as the just and reasonable rate for the portion of the Prior Period ending December 31, 2005. From January 2006 forward, the Pipeline charged STUSCO at the rate of $1.246 per barrel[35] and we adopt that as the just and reasonable rate for the balance of the Prior Period. Accordingly, the refund claim of each Independent Shipper for the period from April 1, 2005 through December 31, 2005 is equal to $0.46 per barrel ($1.69-$1.23) times the number of barrels shipped plus interest at the 3-month T-bill rate through the date of payment. The refund claim of each Independent Shipper for the period January 1, 2006 to the effective date of new rates developed in this proceeding is $0.654 ($1.90-$1.246) per barrel times the number of barrels shipped plus interest at the 3-month T-bill rate through the date of payment (together with a PLA of 0.15%, equal to the PLA charged to STUSCO by the Pipeline).

5. Forward-looking Just and Reasonable Rates

Chevron argues that a just and reasonable rate for 2010 is $1.34 per barrel with a PLA of 0.10%. Applicant argues that a just and reasonable rate for 2010 is $2.04 per barrel with a PLA of 0.25%. Because Applicant's proposed rate is based on its erroneous contention that it lacks market power, we reject it and limit our

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[34] Exhibit Chevron 12-C.

[35] Exhibit Chevron 13-C.

discussion to consideration of Chevron's proposed rate and its underlying justification.

Chevron's proposed rate was developed by its witness O'Loughlin. As is common in rate-setting proceedings such as this, O'Loughlin derived his proposed rate from a consideration of four elements: rate base, capital structure, cost of capital, and operating expenses. Each of these elements needs to be separately justified and we consider them in turn.

5.1. Rate Base

O'Loughlin used the depreciated original cost method to value the assets in the rate base, which is our preferred ratemaking methodology. On that basis, with the contested assets included in the rate base, he determined that the appropriate 2010 test year rate base is $110,487,187.[36] Original cost methodology requires valuing assets from the time they are placed in public service. O'Louglin's rate base calculation includes the original cost less depreciation of assets placed in service by the Pipeline beginning in 1996. He chose the 1996 starting date because in D.07-12-021, in which we rejected the Shell Parties' challenge to D.07-07-040, we noted that the Pipeline had been providing oil transportation services to third parties since 1996:

> "Shell has substantially more capacity on the Pipeline than it needs, and has continually provided this capacity to third parties since 1996."[37]

SPBPC argues that the quoted language from D.07-12-021 is not based on specific findings of fact or conclusions of law in that proceeding regarding the

[36] Exhibit Chevron 49, Attachment MPO _81, Table 3.

[37] D.07-21-021 Section E-3.

status of the Pipeline in 1996 and therefore cannot be used to support the 1996 asset valuation date.[38] But D.07-12-021 was a decision on SPBPC's application for rehearing of D.07-07-040 that did not involve the taking of additional evidence. And though we did not identify a specific dedication date in D.07-07-040, we noted in D.07-12-021 that there is ample evidence in the record of D.07-07-040 to support the conclusions we reached, including the conclusion that the Pipeline had been dedicated to public service as early as 1996. Therefore it was appropriate for O'Loughlin to depreciate the original cost of assets added to the rate base in 1996 and afterwards.[39] O'Loughlin used cost data supplied by Applicant and applied conventional depreciation schedules to the equipment and we adopt his computed value of $110,487,187 as the 2010 Test Year rate base.

5.2. Capital Structure

Applicant is a wholly-owned subsidiary of SOPUS[40] and has an actual capital structure that is 100% equity. For rate-making purposes, Applicant's expert Teece proposed that its capital structure be deemed to consist of 90.49% equity and 9.51% debt, the weighted average capital structure of 4 major integrated oil companies (Shell, BP plc, Chevron and ExxonMobil Corporation).[41] Chevron's expert Vilbert proposed that Applicant should be deemed to have a

[38] SPBPC Opening Brief at 76.

[39] Tesoro's witness Ashton also uses the 1996 date for valuation but relies on the CRNLD method of valuation, rather than original cost less depreciation, to derive a proposed rate. Since we prefer the original cost methodology, we do not further discuss Ashton's calculations.

[40] Exhibit Chevron 49, attachment MPO_36.

[41] Exhibit SP-33, Teece Direct Testimony at 9.

balanced capital structure consisting of 50% equity and 50% debt,[42] approximating the average capital structure of a comparison group of seven independent pipeline corporations (Buckeye Energy Partners LP, Enbridge Energy Partners LP, Kinder Morgan Energy Partners LP, Magellan Midstream Partners LP, NuStar Energy LP, Plains All American Pipeline LP and Sunoco Logistic Partners LP).[43] As we noted above, our jurisdiction does not extend beyond the operation of the Pipeline to include the other operations of large integrated oil companies such as those included in Teece's sample. Accordingly, a comparison group of pipeline companies, such as those proposed by Vilbert, provides a truer comparison for ratemaking purposes. Further, as Chevron witness O'Loughlin points out, we have used reference groups of pipeline companies, rather than integrated oil companies, in other similar proceedings[44] and we do so again here. We accept Vilbert's proposed capital structure of 50% equity and 50% debt as Applicant's capital structure for ratemaking purposes.

5.3. Cost of Capital

On behalf of Applicant, Teece proposed a 2010 cost of equity of 10.91% and a weighted average cost of capital (WACC) of 10.37%.[45] Vilbert and O'Loughlin, on behalf of Chevron, proposed a 2010 cost of equity of 13 % and a WACC of 9.75%.[46] The difference in the estimated cost of equity largely reflects the respective capital structures. Highly leveraged equity (i.e., equity that is

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[42] Exhibit Chevron 22, Vilbert Direct Testimony at 4.

[43] *Ibid.*, at 18-22.

[44] Exhibit Chevron 49, at 10.

[45] Exhibit SP-33 at 9.

[46] Exhibit Chevron 49, Attachment MPO_81.

matched or exceeded in amount by debt) is riskier than unleveraged or slightly leveraged equity and hence commands a higher price. In this case, Teece's proposed capital structure contains less than 10% debt and the cost of equity is correspondingly low. Vilbert's capital structure, with 50% debt, puts equity holders at greater risk and his proposed cost of equity (13%) reflects that higher risk. Notwithstanding that Vilbert's proposed cost of equity is higher than Teece's, his proposed WACC is substantially lower, since half of Applicant's capital is assumed to be low-cost debt. We agree with Vilbert that 13% is a reasonable estimate for the cost of equity in a balanced capital structure and we adopt his proposed WACC of 9.75%.

5.4. Test Year Operating Expenses

Applicant's witness Rathermel estimated the Pipeline's Test Year 2010 operating expenses as $49,658,000. Chevron's witness O'Loughlin estimated the Pipeline's Test Year 2010 Operating Expenses as $46,209,173. The difference represents O'Loughlin's adjustments to Rathermels' estimate. Expense categories adjusted by O'Loughlin include: Pipeline Loss Allowance, Litigation Expense, Right of Way Conversion Costs, Overhead Expense, and Fuel and Power Expense.

1. With regard to Pipeline Loss Allowance, O'Loughlin proposes that the Pipeline charge its shippers a PLA of 0.10% which is slightly higher than the actual loss incurred during transit in recent years.
2. He recommends disallowing that portion of litigation expense that reflects the Pipeline's unsuccessful effort to obtain Commission approval of market-based rates.
3. He also recommends disallowance of the costs incurred by the Pipeline's parent SOPUS in transferring ownership of the Pipeline to SPBPC.

4. He proposes to adjust Overhead Expense by applying the so-called Massachusetts Formula, a standard formula used by FERC, to allocate corporate overhead costs that cannot be directly charged or assigned to subsidiary companies.
5. Finally, he proposes to adjust Fuel and Power Expense to correct for an unreasonably low estimate of future throughput.

We concur with all of the above recommendations. There is no good policy reason for the estimated PLA to differ significantly from the actual PLA. Commission litigation expenses related to the effort to obtain approval for market rates are a one-time past expense inappropriately included in a forecast of future expenses. SOPUS voluntarily undertook to transfer ownership of the Pipeline to SPBPC and the costs of doing so are properly those of the ultimate owners rather than the shippers. We endorse the use of the FERC methodology for overhead allocation and we note that the record bears out O'Loughlin's contention that the Applicant underestimated future throughput.

For the reasons given, we find that Test Year 2010 Operating Expenses are $46,209,173.

5.5. Test Year Cost of Service

We now turn to the parties' estimates of Test Year 2010 Cost of Service. In keeping with our decision to set rates on traditional cost of service principles, we consider only estimates based on applying such principles. Applicant's witness Van Hoecke's estimate of the Test Year 2010 Cost of Service on those principles is $72.1 million[47] while Chevron's witness O'Loughlin's estimate on

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[47] Van Hoecke's **recommended** Test Year 2010 Cost of Service is $97.9 million, based on the CRNLD method of valuation and a 2007 starting year. The $72.1 million estimate is

Footnote continued on next page

the same principles is $67.5 million.[48] The difference between these two estimates primarily reflects the sensitivity of the ratesetting process to the capital structure assumption. Van Hoecke's estimate is based on a 91-9 capital structure while O'Loughlin's is based on a 50-50 capital structure. If Van Hoecke's estimate is further modified by replacing his capital structure with a 50-50 capital structure, his 2010 Test Year Cost of Service estimate drops to $66.7 million, minimally different from that of O'Loughlin. While we could adopt either value without significantly affecting the final calculation of a just and reasonable rate, we accept O'Loughlin's $67.5 million value consistent with other decisions made in the course of this opinion.

6. Just and Reasonable Rates

Having accepted the elements of Chevron's rate proposal, we are naturally led to accept the rate implied by those elements, $1.34 per barrel, as the just and reasonable rate for shipping crude oil from Station 36 to the Bay Area refineries.

7. Tariff Provisions

The parties have been unable to reach agreement on language for the tariff. Applicant prepared a proposed tariff; Independent Shippers responded with a mark-up of the proposed tariff that differed materially, particularly in regard to (a) the process of establishing and revising minimum flow requirements and (b) the process of nominating the types and quantities of crude oil that each shipper proposes to ship each day.

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the result of changing the starting year to 1996 and applying the depreciated original cost method of valuation to the components of the rate base.

[48] Exhibit Chevron 49 attachment MPO_60, at 73; Exhibit Chevron 50, attachment MPO_84.

The Pipeline currently transports an average of 150,000 to 160,000 barrels per stream day (bpsd).[49] Of this amount, approximately 50,000 bpsd is piped to Bay Area refineries operated by Chevron, Valero and Tesoro. The balance is piped to the Shell refinery in Martinez.[50] Under the buy-sell arrangements that currently govern the operation of the Pipeline, shippers sell quantities of oil to the Pipeline's affiliate STUSCO at various delivery points on the Pipeline and buy it back from STUSCO in the Bay Area. The difference between the sell price and the buy price is the transportation cost. Under the proposed tariff, buy-sell agreements are replaced by tariffed rates as discussed earlier in this decision. Instead of selling oil to STUSCO, under the tariff shippers will "nominate" barrels for shipment. Nomination is a form of space reservation. So long as total nominations (Independent Shippers plus Shell Parties) equal or exceed the minimum volume required to operate the Pipeline, all similar crude will be shipped at the same price. According to the Pipeline, the minimum required volume at present is approximately 140,000 bpsd.

A principal concern of Independent Shippers is that under the tariff language proposed by Applicant, it would be possible for Applicant to shut down service on the Pipeline if nominations fell below 140,000 bpsd without giving Independent Shippers an opportunity to increase their nominations to avoid the shutdown. Independent Shippers are also concerned that the minimum throughput requirement is too high, particularly given the steadily declining output of the Central Valley fields. They introduced evidence to

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[49] A "stream day" is a 24-hour period of continuous operation that may or may not coincide with a calendar day.

[50] Transcript at 1399 (Miller).

demonstrate that the throughput requirement could be dramatically reduced at relatively minor cost.[51] And beyond an actual shutdown, which would cut off deliveries to the Shell refinery in Martinez as well as to the Independent Shippers' Bay Area refineries, Independent Shippers note that the Pipeline could use the threat of such a shutdown to their disadvantage.[52]

Independent Shippers also object to the proposed tariff's creation of a two-tier structure for the provision of transportation services. Under the Pipeline's proposed tariff, its affiliate STUSCO will receive uninterruptable blended service while the three Independent Shippers will receive heated service that is subject to interruption if the Pipeline's stated minimum volume requirements are not met.[53] As Chevron's witness Lee testified, this arrangement provides STUSCO with little incentive to cooperate with Independent Shippers to assure that minimum volume requirements are always met.[54]

In addition to these disagreements regarding the nomination process, the Pipeline and Independent Shippers also disagree on the wording of other provisions. In each such case, the revisions proposed by Independent Shippers are aimed at eliminating or reducing the opportunity for the Pipeline to be operated in ways that favor the Pipeline's affiliates or disadvantage Independent Shippers. The history of the Pipeline's operation lends credence to Independent Shippers concerns regarding the possibility that the Pipeline's proposed tariff

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[51] *Ibid.*, at 1398.

[52] Exhibit Chevron 46 *Direct Testimony of David Lee on behalf of Chevron Products Company*, at 29-30.

[53] Exhibit SP-20 *Direct Testimony of Robbie Ralph*, Attachment A, Rule 55 at 11-12.

[54] Exhibit Chevron 46 *Lee Direct* at 5.

would permit such discriminatory operation. As recently as the fall of 2008, the Pipeline threatened to suspend heated service on short notice and was prevented from doing so only by an order of the assigned ALJ.[55]

Independent Shippers' proposed tariff language deals with the potential for discrimination and shut-down by providing that all shippers nominate for shipment the actual grades of crude petroleum (crudes) that enter the Pipeline.[56] Once the Pipeline's minimum requirements have been met via this nomination process, any shipper may request that its heavy and light crudes be blended in whatever proportions it desires for shipment north from Coalinga and delivery to its facilities. In effect, the Independent Shippers tariff language requires that the crudes that comprise the SJV Blend delivered to the Shell refinery in Martinez are counted toward meeting the Pipeline's minimum operating requirements rather than being treated as a separate unheated stream that is offered uninterruptable service.

In evaluating the disagreement between the Pipeline and its shippers, we note that each party's version of the proposed tariff is internally consistent and its various provisions and definitions are related to one another such that changing any provision requires tracing the effect of the change through the entire document and carries the risk of unintended consequences. For that reason, we decline to combine features of the two proposals into a new third version and as between a version that favors the Pipeline and a version that favors Independent Shippers we conclude, in keeping with the balance of this

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[55] *Administrative Law Judge's Ruling Granting Emergency Motion for Stay of Proceedings*, November 8, 2008, Ordering Paragraph 2.

[56] Exhibit IS-1, Attachment B, Rule 55A.

decision, that a tariff that responds to the legitimate concerns of Independent Shippers is to be preferred to one that does not. For the reasons given, we adopt the Independent Shippers' proposed tariff, set out as Attachment A to this decision.

8. Comments on Proposed Decision

The proposed decision of ALJ Bemesderfer in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code, and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were received from all parties. In addition, a final oral argument was held on Wednesday, May 4, 2011, at which each of the parties presented a version of its comments directly to the Commissioners.

A. Independent Shipper Comments.

> Independent Shippers broadly supported the PD while suggesting certain corrections and changes to the Findings of Fact, Conclusions of Law, and Ordering Paragraphs of this proposed decision.
>
> Chevron's suggested corrections include, among others, the start date of the refund period and the amount of the Pipeline Loss Allowance during the refund period. Their suggested changes include (a) specifying the corporate relationships among Equilon, STUSCO and SPBPC (b) making Equilon and STUSCO responsible for payment of refunds (c) specifically identifying the assets which Equilon proposes to exclude from the sale to SPBPC and (d) conditioning approval of the sale of the pipeline's assets to SPBPC upon adoption by the direct and indirect parents of SPBPC of a so-called "first priority" corporate resolution.
>
> Tesoro's suggested changes include (a) ordering SPBPC to provide invoices to Independent Shippers on the basis of which refund claims may be calculated (b) specifying that refunds are to be paid to the customer to whom the

transportation was actually provided (c) ordering the immediate implementation of the form of tariff proposed by Independent Shippers and (d) clarifying that the tariff rate of $1.34 per barrel applies to both heated and unheated service.

Valero urged adoption of the PD without changes.

B. San Joaquin Refinery Comments

San Joaquin Refinery suggested (a) revising the definition of "shipper" in the proposed tariff to include "stakeholders" such as San Joaquin (b) finding that Shell entities supply crude oil to San Joaquin Refinery via a specified gathering line and (c) scheduling a second phase of this proceeding to determine whether the gathering line providing service to San Joaquin Refinery has been dedicated to public service.

C. SPBPC and STUSCO comments

The Shell parties broadly criticized the PD and urged many specific changes.

SPBPC's proposed changes include (a) placing the burden of proof on the issue of whether the assets excluded from the proposed sale are jurisdictional property of the pipeline on Independent Shippers (b) finding that Independent Shippers have failed to carry their burden of proof (c) adding additional data points to FOF 3 and revising FOFs 4 and 5 to reflect those additional data points (d) adding additional findings regarding line fill costs and additional costs of transporting heated crude oil to FOF 6 (e) increasing the test year rate base to $239 million (f) beginning the refund period as of August 2007 (g) setting the just and reasonable rate for the refund period at $1.73 per barrel (h) adopting SPBPC's proposed form of tariff rather than the Independent Shippers' proposed form of tariff and (i) deleting some COLs and adding others consistent with the findings detailed above.

STUSCO's proposed changes include (a) a finding that truck racks and proprietary storage tanks are not necessary

> for public utility service (b) rejecting the Independent Shippers' proposed tariff in favor of the form of tariff proposed by SPBPC and STUSCO or, in the alternative, (c) modifying specific provisions of the Independent Shippers' proposed tariff so that it conforms in substance to the tariff proposed by SPBPC and STUSCO.
>
> For the reasons set out below, (a) we adopt the suggested changes and corrections proposed by Chevron and Tesoro other than the requirement that the direct and indirect parents of SPBPC adopt a "first priority" corporate resolution (b) we reject the proposed changes of San Joaquin Refinery (c) we reject the proposed changes of SPBPC and STUSCO and (d) we modify the Findings of Fact, Conclusions of Law and Ordering Paragraphs to conform to these changes.

Discussion

As pointed out in the Chevron comments, the PD contained factual errors relating to the dates of events, the amount of the pipeline loss allowance, and the related calculations of the refunds. We adopt those corrections. The PD also fails to state that the responsibility for the payment of refunds falls upon the parties to whom the past period overcharges were paid, namely, Equilon and/or STUSCO. We modify it to correct those oversights.

We reject the proposal that we condition the sale of the pipeline on the adoption by the direct and indirect parents of SPBPC of a "first priority" corporate resolution. The domestic upstream parents (Shell Petroleum Inc. and Shell Oil Company) are not subject to our jurisdiction. Equilon will no longer be subject to our jurisdiction once it has transferred the assets to SPBPC. Beyond the jurisdictional point, the record establishes that approximately 60% of the oil moving in the pipeline is owned by a Shell entity and bound for delivery to the Shell refinery in Martinez. Under those circumstances, it hardly seems necessary to require a corporate resolution that aims to insure adequate capital for the pipeline. If the pipeline's parents fail to supply adequate capital, it is their own business that will suffer the greatest harm. Should Shell determine, in the future, to shut the Martinez refinery or convert it to a facility that no longer relies upon crude oil from the San Joaquin Valley, we can revisit the question of adequate capital at that time.

We reject the proposal of San Joaquin Refinery to modify the definition of "shipper" in the tariff and order a second phase of this proceeding to determine if a certain gathering line has been dedicated to public service. San Joaquin Refinery is simply an arm's length purchaser of crude oil that is delivered to it via a Shell-owned private pipeline. Nothing in this decision changes those facts. At the oral argument it was represented to us by counsel for the pipeline that discussions are currently underway between the pipeline and the refinery to address the refinery's concerns. Under the circumstances, we see no basis for expanding the class of shippers to include non-shippers nor is there any evidence in the record that the gathering lines in question have been dedicated to public service.

The Shell comments largely replicate arguments that were considered and rejected in the PD.

1. *The refund period price is too low.* Independent Shippers introduced evidence suggesting a significantly lower refund period price but the ALJ chose to use the higher internal transfer price as a proxy to set the floor under the refunds. We find that he acted within his discretion in doing so.
2. *The decision should use multiple price points in the refund period to establish an average internal transfer price.* The record establishes that the internal transfer price varied greatly over a relatively short period of time. The variation was too great to be accounted for as a result of a change in the

mixture of heated and unheated service. The ALJ concluded that the internal transfer prices after January 2006 reflected other considerations that need not be taken into account in setting a floor under the refunds. We agree.

3. *The PD ignored line fill costs during the refund period.* As pointed out in oral argument, all the oil in the pipeline at any time is owned by STUSCO so long as the buy-sell arrangements are in place. Therefore STUSCO, rather than the party from whom STUSCO purchased and to whom STUSCO will sell crude oil, is responsible for line fill costs.
4. *The PD ignored the nine cent cost differential between heated and unheated service.* All oil in the pipeline, whether heavy or light, is shipped heated. Therefore, there is no cost differential.
5. *The test year rate base is too low.* The PD rejects the replacement cost method of valuing the rate base in favor of the depreciated original cost method which is our preferred method of rate-making. The ALJ acted within his discretion in accepting the testimony of Independent Shipper experts on the value of the components of the rate base.
6. *The refund period began when we decided that the pipeline had been dedicated to public service.* In our earlier decision, we stated that the pipeline had been operating as a public utility since at least 1996. The ALJ acted within his discretion in selecting the earlier date for the beginning of the refund period.
7. *The PD erred in accepting the Independent Shipper tariff in its entirety.* The Independent Shipper tariff is a marked-up version of the SPBPC tariff that departs from it in certain specific respects, particularly with regard to guaranteeing that all shippers have equal access to the pipeline. The ALJ acted within his discretion in accepting those changes.

9. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Karl Bemesderfer is the assigned ALJ in this proceeding.

Findings of Fact

1. The Shell Parties propose excluding truck racks and 2 proprietary tanks at Coalinga; truck racks and 5 proprietary tanks at Bakersfield; and 1 proprietary tank at Rio Bravo from the Pipeline assets being sold to Applicant.

2. The assets identified in FOF 1 are useful or necessary in the conduct of Applicant's business.

3. From January 1, 2005 through March 31, 2005, the Pipeline charged Independent Shippers $1.09 per barrel plus a Pipeline Loss Allowance (PLA) of 0.25% to transport heavy crude from Station 36 to the San Francisco Bay Area.

4. From April 1, 2005 to December 31, 2005 the Pipeline charged Independent Shippers $1.69 per barrel plus a PLA of 0.25% to transport heavy crude from Station 36 to the San Francisco Bay Area.

5. From January 1, 2006 to date, the Pipeline has charged Independent Shippers $1.90 per barrel plus a PLA of 0.25% to transport heavy crude from Station 36 to the San Francisco Bay Area.

6. From January 1, 2005 through December 31, 2005, the Pipeline charged its affiliate STUSCO $1.23 per barrel plus a PLA of 0.15% to transport heavy crude from Station 36 to the San Francisco Bay Area.

7. From January 1, 2006 to date, the Pipeline has charged its affiliate STUSCO $1.246 per barrel plus a PLA of 0.15% to transport heavy crude from Station 36 to the San Francisco Bay Area.

8. The Pipeline is wholly-owned by Equilon Enterprises LLC (Equilon) dba Shell Oil Products US. Equilon is a wholly-owned indirect subsidiary of Shell Oil Company. Shell Oil Company is a wholly-owned subsidiary of Shell Petroleum Inc., an indirect wholly-owned subsidiary of Royal Dutch Shell plc.

9. Shell Trading US Company (STUSCO) is a wholly-owned subsidiary of Shell Trading North America Company, a wholly-owned subsidiary of Shell Petroleum Inc., an indirect wholly-owned subsidiary of Royal Dutch Shell plc.

10. San Pablo Bay Pipeline Company LLP (SPBPC) is an indirect wholly-owned subsidiary of Equilon, and thus an indirect subsidiary of each of the entities identified in FOF 8.

11. SPBPC has no employees.

12. For ratemaking purposes, the Pipeline is deemed to have capital structure that is one-half equity and one-half debt.

13. Test Year 2010 Rate Base is $110,487,187.

14. Test Year 2010 Operating Expenses are $46,209,173.

15. Test Year 2010 Cost of Service is $67.5 million.

16. Test Year 2010 Cost of Equity is 13%.

17. Test Year 2010 Weighted Average Cost of Capital is 9.75%.

18. Test Year 2010 Achieved Return is 10.71%.

Conclusions of Law

1. The Pipeline has a monopoly on the transportation of heated heavy crude oil from the San Joaquin Valley to the San Francisco Bay Area.

2. Sale or other disposition of public utility property useful or necessary in the conduct of a public utility's business requires the prior approval of this commission pursuant to Pub. Util. Code § 851.

3. The Application is also a de facto application for § 851 approval of the transfer out of public utility service of the assets identified in FOF 1.

4. The Application of San Pablo Bay Pipeline Corporation for authorization to acquire the Pipeline should be approved.

5. The de facto application of San Pablo Bay Pipeline Corporation for authorization to transfer out of public utility service the assets identified in FOF 1 should be denied.

6. $1.23/barrel plus a PLA of 0.15% is the just and reasonable rate for transportation of crude oil on the Pipeline between Station 36 and the Bay Area refineries from April 1, 2005 through December 31, 2005.

7. $1.246 plus a PLA of 0.15% is the just and reasonable rate for transportation of crude oil on the Pipeline between Station 36 and the Bay Area refineries from January 1, 2006 through the effective date of tariff approved in this decision.

8. Independent Shippers are entitled to refunds of the difference between just and reasonable rates and actual rates paid for transportation of crude oil on the Pipeline during the period from April 1, 2005 to the effective date of the tariff approved in this decision, plus interest at the three-month commercial paper rate.

9. $1.34/barrel plus a PLA of 0.10% is the just and reasonable rate for transportation of crude oil on the Pipeline between Station 36 and the Bay Area refineries from and after the effective date of the tariff approved in this decision.

10. Independent Shippers' proposed tariff, attached hereto as Attachment A, should govern the future operation of the Pipeline.

O R D E R

IT IS ORDERED that:

1. The Application of San Pablo Bay Pipeline Company for authorization to acquire the Pipeline is approved.

2. The de facto application of San Pablo Bay Pipeline Company for authorization to transfer out of public utility service the assets identified in Findings of Fact 1 is denied.

3. Equilon Enterprises, LLC, (Equilon) and Shell Trading US Company (STUSCO) shall refund to Independent Shippers the difference between just and reasonable transportation rates from and after April 1, 2005 and actual rates charged through the effective date of the tariff approved in this decision, plus interest on unpaid sums at the 3-month commercial paper rate. For purposes of calculating the refunds, the parties shall assume a Pipeline Loss Allowance of 0.15%. Equilon and STUSCO are jointly and severally liable to pay the refunds ordered herein.

4. The Pipeline will provide total monthly invoiced volumes by delivery point to the end user for the period April 1, 2005 to the first day of the month next following issuance of this decision. Independent Shippers shall present fully documented refund claims to Equilon Enterprises, LLC, (Equilon) and Shell Trading US Company (STUSCO) within 45 days of the effective date of this decision. Equilon and STUSCO shall review and pay such claims to the party determined to be the customer for whom the transportation service was actually provided and who was ultimately responsible for the transportation rate as promptly as possible thereafter but in no event later than 90 days from the effective date of this decision. Notwithstanding any prior transfer of the Pipeline to SPBPC, Equilon and STUSCO shall remain subject to the jurisdiction of the Commission until the refunds ordered herein are fully paid.

5. Within 45 days of the date of this decision, San Pablo Bay Pipeline Company, LLC (SPBPC) shall file a Tier Two Advice Letter (AL) with the Energy Division containing the tariff needed to implement this decision. The

tariff shall be consistent with and comply with today's decision and shall be substantially in the form of Attachment A to this decision. The AL is subject to protest, and such protests must be filed not later than 20 days after the AL has been filed. SPBPC shall serve the AL by electronic mail on the service list to this proceeding, and on the interested parties who have requested notification of AL filings for SPBPC.

6. Pending approval of the Advice Letter referred in Ordering Paragraph 5, the tariff terms and conditions contained in Attachment A to this decision shall be effective from the first day of the month following issuance of this decision without regard to which entity owns the Pipeline at that time.

7. Effective the first day of the month following issuance of this decision, the Pipeline shall charge all shippers at the rate of $1.34 per barrel plus a pipeline loss allowance of 0.10% for heated and unheated transportation of crude oil from all points on the regulated pipeline system in the Kern County producing area to the Bay Area refineries.

8. Application 08-09-024, Case (C.) 08-03-021, C.09-02-007, and C.09-03-027 are closed.

This order is effective today.

Dated May 26, 2011, at San Francisco, California.

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners

ATTACHMENT A

FORM OF TARIFF

Cal. P.U.C. No.1

SAN PABLO BAY PIPELINE COMPANY LLC

RULES AND REGULATIONS TARIFF

APPLY ON THE GATHERING AND TRANSPORTATION OF

CRUDE PETROLEUM

BY PIPELINE

Carrier will accept and transport Crude Petroleum offered for transportation through Carrier's facilities only as provided in this Rules and Regulations Tariff, except that specific rules and regulations published in individual tariffs making reference hereto will take precedence over the general rules and regulations in this tariff.

The rules and regulations published herein shall apply only under tariffs making specific reference by Cal. P.U.C. number to this tariff, such reference to including supplements hereto and successive issues hereof.

The provisions published herein will, if effective, not result in an effect on the quality of the human environment.

ISSUED: **EFFECTIVE:**

Issued By: Compiled By:

Advice Letter No.
Resolution No.

RULES AND REGULATIONS

5. DEFINITIONS

API — American Petroleum Institute.

API Gravity – Gravity, corrected to 60°F, determined in accordance with ASTM designation and expressed in degrees API.

Assay – A laboratory analysis of Crude Petroleum to include API Gravity, Reid vapor pressure, pour point, sediment and water content, sulfur content, viscosity at various temperatures, nitrogen, Total Acid Number (TAN), carbon residue, metals, hydrogen sulfide, salt, distillation, wax, organic chlorides, and other characteristics as may be required by Carrier.

ASTM – American Society for Testing Materials.

Barrel – Forty-two (42) United States gallons of Crude Petroleum at a temperature of sixty degrees (60°) Fahrenheit and zero psig.

Barrels per Calendar Day (BPCD) – The flow rate measured by the total number of barrels transported over a calendar month divided by the number of days in the month.

Barrels per Stream Day (BPSD) – The flow rate measured by the number of barrels transported over a 24-hour period where the flow is continuous over the period.

Carrier – San Pablo Bay Pipeline Company LLC

Common Stream – Crude Petroleum moved through Carrier's pipeline and pipeline facilities which is commingled or intermixed with Crude Petroleum of like quality and characteristics based on Crude Petroleum Assays and other pertinent analytical data. Common Streams shall be defined and transported in accordance with Items 10 and 15. As specified below, Carrier will transport two common streams: SJVH and SJVL.

Confirmed Nomination - The minimum volume each Shipper is obligated to ship in the Current Month and Forward Nomination Month One once the Carrier accepts the nominations.

Connecting Carrier – A connecting pipeline company as named or referred to herein. Connecting carriers can either deliver to or receive from Carrier.

Consignee – The party to whom a Shipper has ordered the delivery of Crude Petroleum.

CPUC – The California Public Utilities Commission.

Crude Petroleum – The direct liquid hydrocarbon production from oil or gas wells, in its natural form, including S&W contained therein or mixture thereof, not having been enhanced or altered in any manner or by any process that would result in misrepresentation of its true value of adaptability to refining. The following grades of Crude Petroleum will be accepted for transportation as provided in this Tariff: SJVH, SJVL, and Segregated Batches.

Current Month - The first month following the final nomination deadline. For example, if a Shipper desires to ship during May, final nominations are due in April and May is considered the Current Month.

Cure Period – The 24 hour period in which Shippers may make adjustments to their re-nominated volumes to produce a final adjusted nomination following notification from Carrier that the total combined re-nominations are less than the pipeline Minimum Operating Requirements.

Forward Nomination Month One - The first month after the Current Month.

Indirect Liquid Products – Liquid products resulting from operation in oil or gas fields of natural gasoline recovery plants, gas recycling plants or condensate or distillate recovery equipment, or a mixture of such products; often referred to simply as "indirect products."

Minimum Operating Requirements - The minimum volume necessary to support physical flow and maintain hydraulics to operate each segment of the pipeline, and provide the heated oil service consistent with Item 55.1. Currently, Carrier states that the minimum flow rates for the segments are:

Station 36/Bakersfield Tank Farm to Carneras Station	24,000 BPSD
Station 31 to Olig Station	14,000 BPSD
Olig Station to Carneras	20,000 BPSD
Carneras to Coalinga	60,000 BPSD
Coalinga to Avon (continuous flow)	140,000 BPSD
Coalinga to Avon (non-continuous flow)	125,000 BPCD

Net Barrel - Forty-two (42) United States gallons of Crude Petroleum at a temperature of sixty degrees (60°) Fahrenheit, zero psig and no sediment and water.

OCS - Crude Petroleum produced on the California Outer Continental Shelf. OCS will be accepted for transportation as a Segregated Batch only.

psia – Pounds per square inch absolute.

psig – Pounds per square inch gauge.

Regular Shipper – A Shipper having a record of shipments for a minimum of four of the prior six months in a line segment.

S & W – Sediment and water.

San Joaquin Valley Heavy (SJVH)— Common Stream Crude Petroleum produced within the San Joaquin Valley and the San Ardo Field with an approximate API Gravity of 13.5^{o} and sulfur content of less than 2.3 weight percent. SJVH does not include Outer Continental Shelf (OCS) type Crude Petroleum, and OCS shall not be included in any Common Stream SJVH.

San Joaquin Valley Heavy Blend (SJVB) — Custom blend of Crude Petroleum produced through in-line or in-tank blending of Common Stream SJVH and Common Stream SJVL. SJVB shall not be deemed a Segregated Batch. SJVB shall not include OCS type Crude Petroleum, and OCS shall not be included in any SJVB.

San Joaquin Valley Light (SJVL)– Common Stream Crude Petroleum produced within the San Joaquin Valley with an API Gravity of 20.0^{o} to 40.0^{o}, and sulfur content of less than 1.50 weight percent. This definition expressly excludes crudes not produced in the San Joaquin Valley, such as OCS. SJVL does not include OCS type Crude Petroleum, and OCS shall not be included in any Common Stream SJVL. The API gravity of the SJVL Common Stream north of Coalinga may be reduced by the Carrier by blending SJVH into the SJVL, if needed, to meet the maximum API gravity of SJVL for safe operation of the pipeline.

Segregated Batch – A Tender of Crude Petroleum having specific identifiable characteristics that is moved through pipeline facilities so as to maintain its identity. SJVH, SJVL, and SJVB (a blend of Common Stream SJVH and Common Stream SJVL), and any other blend or mixture of two or more grades or types of Crude Petroleum shall not be deemed a Segregated Batch.

Shipper – A party who contracts with Carrier for transportation of Crude Petroleum, as defined herein and under the terms of this tariff, and who is recognized as having title to Crude Petroleum in Carrier’s custody.

Tender – A nomination by a Shipper to Carrier of a stated quantity and grade of Crude Petroleum for transportation from a specified origin or origins to a specified destination or destinations in accordance with these rules and regulations.

True Vapor Pressure (TVP) – The partial pressure exerted by a vapor when it is in equilibrium with its liquid phase in a closed system, is difficult to measure in complicated mixtures such as crude oils. Therefore, the TVP in most cases is calculated from the Reid Vapor Pressure and the actual temperature. The Reid Vapor Pressure can be determined for crude oils by ATSM D-33 (preferred method) or by ASTM D-6377 or ASTM D-5191.

10. ESTABLISHMENT OF QUALITY

A. Carrier will from time to time determine the quality of Crude Petroleum it will regularly transport in a Common Stream between particular origin points and destination points on its trunk pipelines. Carrier will provide Common Stream service for both SJVH and SJVL for Crude Petroleum meeting the definitions of SJVH and SJVL. Carrier will inform all interested persons of such Crude Petroleum quality upon request by them. Changes in Common Stream quality definitions will be made by new tariff filings. The conditions applying to Common Stream operation are set forth In Item 15.

B. Carrier will accept for transportation, in a Segregated Batch, Crude Petroleum that does not meet the SJVH or SJVL Common Stream quality requirements provided that the conditions set forth in Item 20 are met.

C. Crude Petroleum, which is properly settled, shall not exceed 11 psia True Vapor Pressure at the receiving temperature, independent of gravity. One of the following API Gravity options will be used when specifically referenced in the tariff.

<u>Option 1</u>

Crude Petroleum with an approximate API Gravity of 11.0° to 17.0° shall not exceed 5.9 psia true vapor pressure, shall not contain more than three percent (3%) of S&W and other impurities, and shall have a temperature not less than one hundred fifty degrees (150^{o}) Fahrenheit and a maximum temperature that may be established by Carrier, which shall in no case be less than one hundred eighty degrees (180^{o}) Fahrenheit unless limited by Carrier's facilities, in which case, this exception will be communicated in writing to all affected Shippers. For each one-tenth percent (0.1%) the S&W content of the Crude Petroleum received exceeds three percent (3.0%), Shipper shall incur a penalty of four cents ($0.04) per Barrel.

Option 2

Crude Petroleum with an approximate API Gravity of 17.0 to 40.0 shall not exceed 9.2 psia true vapor pressure, shall not contain more than three percent (3%) of S&W and other impurities, and shall have a temperature not in excess of one hundred and twenty degrees (120) Fahrenheit. For each one-tenth percent (0.1%) the S&W content of the Crude Petroleum received exceeds three percent (3.0%), Shipper shall incur a penalty of four cents ($0.04) per Barrel.

Option 3

Crude Petroleum with an approximate API Gravity of 11.0 to 17.0 shall not exceed 2.5 psia true vapor pressure, shall not contain more than three percent (3%) of S&W and other impurities, and shall have a temperature not less than one hundred and fifty degrees (150 o) Fahrenheit and a maximum temperature that may be established by Carrier, which shall in no case be less than one hundred eighty degrees (180o) Fahrenheit unless limited by Carrier's facilities, in which case, this exception will be communicated in writing to all affected Shippers. For each one-tenth percent (0.1%) the S&W content of the Crude Petroleum received exceeds three percent (3.0%), Shipper shall Incur a penalty of four cents ($0.04) per Barrel.

The vapor pressures in the Options above are dictated by permits and shall be adjusted when and if such permits require changes.

D. Carrier reserves the right to reject Crude Petroleum containing more than three percent (3%) of S&W, provided, however, that where delivery is being made to a Connecting Carrier, the S&W limitations of the Connecting Carrier may be imposed upon Carrier when such limits are less than that of Carrier, in which case the limitations of the Connecting Carrier will be applied.

E. If, upon investigation, Carrier determines that a Shipper has delivered to Carrier's facilities Crude Petroleum that has been contaminated by the existence of and/or excess amounts of impure substances, including, but not limited to, chlorinated and/or oxygenated hydrocarbons, arsenic, lead and/or other metals, and any other contaminants such as those defined in Item 25B, such Shipper will be excluded from further entry into applicable segments of the pipeline system until such time quality specifications are met to the satisfaction of Carrier. Further, Carrier reserves the right to dispose of any contaminated Crude Petroleum blocking its pipeline system, if Shipper cannot receive the contaminated crude. Disposal of such contaminated crude, if necessary, may be made in any reasonable commercial manner, and any costs, expense, damages or liability associated with the contamination of or disposal of any contaminated Crude Petroleum shall be borne by the Shipper introducing the contaminated Crude Petroleum into Carrier's system.

F. Before Carrier will accept Tenders from a potential Shipper seeking to transport Crude Petroleum on Carrier's system, such potential Shipper must first provide to Carrier a complete, industry-accepted Assay of the Crude Petroleum it intends to ship. Carrier shall have the right to make the Assay available to other Shippers upon request. Submission of the whole crude Assay to Carrier is evidence of the potential Shipper's consent to release the Assay to other Shippers or potential Shippers.

G. No Crude Petroleum will be accepted for transportation unless its gravity, sulfur, viscosity and other characteristics are such that it will be readily susceptible to transportation through Carrier's existing facilities and will not materially affect the quality of other shipments or cause damage to other Shippers' shipments and/or Carrier's system.

15. COMMON STREAM OPERATION

A. Carrier shall make a good faith effort to ensure that the quality of the SJVH and SJVL Common Streams is maintained. Because of commingling that takes place in Common Streams, all Shippers will be required to participate in, and Carrier shall be responsible for administering the quality banks as defined in Item 150. Unless quality degradation is caused at least in part by actions or inactions of Carrier, other than the administration of the quality banks, Carrier shall have no responsibility in, or for, any revaluations, administration or settlement which may be deemed appropriate by Shippers and/or Consignees because of mixing or commingling of Crude Petroleum shipments between the receipt and delivery of such shipments by Carrier within the same Common Stream.

B. Carrier will transport SJVH and SJVL Crude Petroleum as Common Streams.

C. Crude Petroleum will be accepted for transportation only on condition that it may be subject to such changes in gravity or quality while in transit as would result from its mixture with other Crude Petroleum in the Common Stream or tanks of the Carrier. Carrier shall be under no obligation to deliver the identical petroleum received and may make delivery out of the Common Stream.

D. San Joaquin Valley crudes that are introduced to the pipeline in a location where segregated facilities for both SJVH and SJVL cannot be made available and does not meet the common stream API gravity definition for the Common Stream specifications at the nearest pipeline origin may be deemed SJVH or SJVL by a simple majority vote of the Regular Shippers, counting all affiliated Shippers as one Regular Shipper, provided the Crude Petroleum sulfur content is within the Common Stream definition.

E. North Shafter Crude petroleum will be injected into the SJVH Common Stream.

20. SEGREGATED BATCH OPERATIONS

A. Carrier will accept Crude Petroleum which differs in quality and other characteristics from Carrier's SJVH and SJVL Common Streams, provided that:

1. Carrier has facilities available to segregate such Crude Petroleum while in transit and at the destination, and
2. Subject to Item 85, Carrier shall not be liable to Shipper or Consignee for changes in the quality of such grade of Crude Petroleum while in transit, and
3. For Segregated Batches with sulfur content less than 2.3 weight percent, the interface between such batches shall be allocated equitably between those shipments that precede and follow the interface.
4. For Segregated Batches with sulfur content greater than 2.3 weight percent, the shipper is required to provide a suitable buffer to be wrapped around a segregated batch for protection of quality of the Common Streams. The buffer shall be provided by the Shipper requesting the segregated batch and nominated as such as part of the normal nomination process. The buffer Crude Petroleum must contain less than 2.3 weight percent sulfur.
5. For Segregated Batches with sulfur content less than 2.3 weight percent, any shipper may request that a buffer be wrapped around a segregated batch for protection of quality or for operational purposes. The buffer shall be provided by the Shipper requesting the segregated batch and nominated as such as part of the normal nomination process. The buffer Crude Petroleum must contain less than 2.3 weight percent sulfur.

B. Once Minimum Operating Requirements are met through Confirmed Nominations to maintain heated service, Carrier may offer to Shippers delivery of SJVB, originating in Coalinga to final destination. Shipment of SJVB south of Coalinga is prohibited.

25. INDIRECT LIQUID PRODUCTS

A. Carrier will not accept Indirect Liquid Products of oil or gas wells, including natural gasoline and natural gas liquids.

B. Carrier will not accept blends of Crude Petroleum containing any of the following: waste oils, lube oils, crankcase oils, PCBs, dioxins, organic chlorides or other chemical compounds that are not natural to crude oil.

30. ADDITIVES

Carrier reserves the right to require, approve or reject the injection of corrosion inhibitors, viscosity or pour point depressants, or other such additives in Crude Petroleum to be transported.

35. STORAGE

Carrier has working tanks incident to transportation of Crude Petroleum, and unless otherwise specifically provided for in a separate tariff item, Carrier does not offer separate storage service.

40. RECEIPT FACILITIES REQUIRED

A. Carrier will not provide storage facilities at origin points unless specifically provided in a separate tariff item. Carrier will provide access to existing truck unloading racks and Lease Automated Custody Transfer (LACT) units at origin points for all Shippers. A usage fee for each location established pursuant to a tariff duly filed with the CPUC, in addition to the published Crude Petroleum pipeline transportation rate on file at the CPUC, will be applied to Crude Petroleum delivered into the pipeline via truck rack. Carrier will receive Crude Petroleum from Shippers at origin points at which Shipper has transportation or storage rights. Crude Petroleum will be received from pipelines, tanks, truck racks, or other facilities. Carrier will determine and advise Shippers of the size and capacity of pipelines, tanks and/or metering facilities to be provided by Shipper at the point of receipt to meet the operating conditions of Carrier's facilities at such point. Carrier will not accept Crude Petroleum for transportation unless such facilities meet Carrier and industry standards.

B. Where Crude Petroleum to be shipped requires transportation in a Segregated Batch, Shippers or Consignees shall be responsible for providing tankage to meet minimum Tender requirements as provided in Item No. 65 hereof at a point where Carrier facilities are available for receipt and transportation of such Crude Petroleum batches.

45. DESTINATION FACILITIES REQUIRED

A. Carrier will not provide storage facilities at destination points unless specifically provided in a separate tariff item. Carrier may refuse to accept Crude Petroleum for transportation unless satisfactory evidence is furnished that the Shipper, or Consignee, has provided the necessary facilities for the prompt receiving of said Crude Petroleum batches.

B. If the Shipper, or Consignee, is unable or refuses to receive said Crude Petroleum as it arrives at its destination point, Shipper or Consignee will provide alternate arrangements and will notify Carrier regarding the disposition of the crude. Carrier will make reasonable efforts to carry out reasonable arrangements for alternate delivery. Any additional expenses incurred by Carrier and any applicable demurrage charges as specified in Item 50 in making such alternate arrangements shall be borne by the Shipper, or Consignee. In the absence of reasonable efforts to provide alternate arrangements by Shipper, Carrier reserves the right to make those arrangements for disposition of the Crude Petroleum it deems appropriate in order to clear its pipeline. Any additional expenses incurred by Carrier in making such arrangements shall be borne by the Shipper, or Consignee. Carrier shall not be responsible for any reasonable losses sustained by Shipper, or Consignee, due to Carrier making other arrangements for the disposition of the Crude Petroleum

50. NOTICE OF DELIVERY, DEMURRAGE

Within 48 hours after nominations have been accepted and confirmed by Carrier, Carrier will provide a delivery schedule to each destination for the calendar month corresponding to the current month nominated volumes. Carrier may, at any time after receipt of a consignment of Crude Petroleum, amend the delivery schedule with 24-hour notice to Shipper or Consignee and begin delivery of Crude Petroleum at Carrier's then current rate of pumping consistent with system capacity. Commencing at seven o'clock a.m. (Pacific Time), after expiration of said 24-hour notice, Carrier shall assess a demurrage charge on any part of said Crude Petroleum shipment offered for delivery and not taken by Shipper or Consignee. Provided, however, demurrage will only be charged if alternative arrangements for delivery cannot be made by Shipper or Consignee. The demurrage charge will be three cents ($0.03) per Barrel per day for each day of 24 hours or fractional part thereof. After expiration of said 24-hour notice, Carrier's liability for loss, damage or delay with respect to Crude Petroleum offered for delivery but not taken by Shipper or Consignee shall be that of warehouseman only.

55. NOMINATIONS

A. All Shippers and Consignees desiring to ship or receive Crude Petroleum through the pipelines of Carrier shall nominate SJVH, SJVL, and Segregated Batches only. After Minimum Operating Requirements for continuous flow have been met, any Shipper or Consignee may request that all or part of its nomination of SJVH and SJVL be delivered as SJVB. After Minimum Operating Requirements have been nominated, Carrier will notify SJVL Shippers of the maximum allowable delivery API gravity for the pipeline segment from Coalinga to Avon in a manner that would not impact safe operations of the pipeline. Carrier will deliver up to the maximum operable API gravity SJVL from Coalinga to Avon and, if necessary, by blending SJVH into the SJVL Common Stream north of Coalinga, and Carrier will require the SJVL Shipper to nominate sufficient SJVH to meet such maximum operable API gravity requirements.

B. All Shippers shall provide Carrier, through its website nomination process (or in writing until the website nomination process is in place), with the following information required by Carrier to schedule and dispatch each shipment of Crude Petroleum: the kind, quantity, origin point, sequence of delivery, destination point and Shipper of each proposed crude shipment. All Nominations must contain a final destination point to be accepted. Nominations must be received by the final nomination deadline. The final nomination deadline is 3:00 p.m. (Pacific Time) on the fifth (5th) working day (excluding Carrier holidays) before the first day of the month in which Shipper desires to ship. Carrier will inform Shippers of Carrier holidays at the time they become Shippers and thereafter by December 15 of the preceding year.

C. Nominations or changes in nominations received after the final nomination deadline will be accepted only in writing and only if space is available and the additional or changed nominations do not impair the movement of crude nominated prior to the final nomination deadline.

D. In addition to the above, Shippers will nominate according to the following rolling bimonthly nomination process to ensure the Minimum Operating Requirements for continuous flow are nominated and to allow Shippers adequate time to re-nominate if the Minimum Operating Requirements for continuous flow are not met.

For purposes of implementation of nominations under this tariff, Carrier assumes the nominations for the initial Current Month meets the Minimum Operating Requirements for continuous flow. As the example will show, as nominations roll forward, the Forward Nomination Month

One Confirmed Nomination will become the Current Month minimum nomination.

1. Carrier will accept nominations for the Current Month and Forward Nomination Month One in accordance with Item 55A.
2. If nominations are equal to or greater than the Minimum Operating Requirements for continuous flow, each Shipper's Forward Nomination Month One is a Confirmed Nomination, and Carrier will notify Shippers that nominations are accepted. If nominations for the Forward Nomination Month One are less than the Minimum Operating Requirements for continuous flow, Carrier will notify Shippers, and Shippers will have 48 hours to re-nominate Forward Nomination Month One.
3. If the re-nominated shipments are greater than the Minimum Operating Requirements for continuous flow, Carrier will notify Shippers that nominations are accepted, and each Shipper's Forward Nomination Month One becomes a Confirmed Nomination.
4. If the re-nominated shipments are less than the Minimum Operating Requirements for continuous flow, Carrier will notify Shippers of the shortfall, and shippers will have 24 hours to cure the Minimum Operating Requirements for continuous flow by adjusting their final nominations.
5. If the final adjusted nominations are greater than the Minimum Operating Requirements for continuous flow, Carrier will notify Shippers that nominations are accepted, and each Shipper's final adjusted nomination for Forward Nomination Month One becomes a Confirmed Nomination.
6. In the event that the final adjusted nominations for Forward Nomination Month One are below the Minimum Operating Requirements for continuous flow, Carrier will notify Shippers of non-continuous operation and will make best efforts to deliver the nominated volumes on a non-continuous basis, i.e., the pipeline will perform intermittent shutdowns as needed to reduce the average pipeline deliveries to the nominated volumes.
7. If the final adjusted nominations are less than the Minimum Operating Requirements for continuous flow, all future nomination increases to Forward Nomination Month One in excess of 110% of the final adjusted nominations by any Shipper whose final adjusted nomination is less

than that Shipper's actual average shipments over the three prior calendar months are subject to penalty of 100% of the posted tariff on file with the CPUC. Penalties charged to Shippers in a given month are credited to all Shippers not subject to the penalty.

Example 1:

Assume the Minimum Operating Requirement for continuous flow from Coalinga to Avon is 140,000 BPSD and nominations are due for June business. June is the Current Month, and July is the Forward Nomination Month One. Total Shipper nominations for the Coalinga to Avon segment are as follows:

June	July
150,000	120,000

Carrier will notify Shippers as follows:

a. Nomination for the Current Month is accepted and becomes a Confirmed Nomination;

b. July nomination is short by 20,000 Barrels per day.

c. Shippers are notified that July nominations are not accepted and are asked to re-nominate July volumes. Shippers would be able to request deliveries of SJVB in June because nominations would have met the 140,000 BPSD minimum volume.

Case 1: Total July re-nomination of 140,000 BPD

Since the total July Shipper re-nominations for the Coalinga to Avon segment are greater than or equal to the 140,000 barrels per day segment minimum for continuous flow, Carrier will notify Shippers that their Forward Nomination Month One nominations are accepted and each is a Confirmed Nomination. Carrier would be able to fill any shipper requests for deliveries of SJVB during July because the 140,000 BPSD minimum volume was nominated in that month for this mode of operations.

Case 2: July re-nomination of 120,000 BPD

Since the total July Shipper re-nominations for the Coalinga to Avon segment are less than the 140,000 barrels per day segment minimum for continuous flow, Carrier will notify Shippers of the following:

a. Total July nominations are short 20,000 BPD.

b. Shippers are notified they have 24 hours to cure the July minimum pipeline nomination.

c. Upon expiration of the 24 hour cure period, Shippers are notified that their final adjusted nomination (i.e. re-nominated volumes plus any additional nominations during the cure period) are subject to penalty for increased nominations for shipment of barrels in excess of 110% of the total re-nomination plus cure period volume, if the Shipper's final adjusted nomination is less than the Shipper's actual average shipments over the prior three calendar months.

d. Shippers are notified of potential non-continuous service (i.e. possible intermittent pipeline shutdowns) for Forward Nomination Month One. Carrier will make best efforts to develop a feasible operating schedule that meets delivery of Shipper nominations in Forward Month One.

Example 2: (Final adjusted nomination penalty provision)

This example demonstrates the penalty provision associated with the final adjusted nomination process. **The example assumes that total nominations remain below the Coalinga to Avon line segment Minimum Operating Requirement for continuous flow after the Forward Month One nominations, re-nominations, and cure period.**

Shipper A nominates 20,000 BPD as its original Forward Month One nomination (July). Shipper A nominates 25,000 BPD as its re-nomination for Forward Month One (July). Shipper A adds 5,000 BPD to its nomination during the cure period to produce a final adjusted nomination of 30,000 BPD for Forward Month One (July). Shipper A's actual average shipments over the calendar months of April, May, and June averaged 40,000 BPCD. Shipper A can increase its nomination up to 33,000 BPD prior to and during the Shipment month (July) without penalty. Nominations greater than 33,000 BPD prior to and during the shipment month (July) are subject to penalty of 100% of the filed tariff.

The intent of the penalty provision is to incentivize Shippers to make realistic nominations for the Current Month and Forward Month One and to penalize Shippers who impact the operation of the pipeline and other Shippers by under nominating expected shipments through the nomination, re-nomination, and cure periods.

Under this example, July is potentially a non-operating month for the heated oil service, if Carrier cannot accommodate nominated volumes with interruptible service.

E. Carrier recognizes that the provision of non-discriminatory service to all Shippers is of the utmost importance to pipeline operations and that the interruption of any type of service due to insufficient volume nominations should be a last resort. In the event Carrier believes that it is not operationally feasible to continue heated service on either a continuous or non-continuous basis as a result of insufficient nominations, Carrier shall file an application with the CPUC, on not less than fifteen (15) days' notice to the Shippers, seeking authorization to shut down such heated service on a showing by clear and convincing evidence that there is no reasonable alternative to maintain heated service while protecting the safety of the pipeline and the public.

55.1 MINIMUM OPERATING REQUIREMENTS

A. Within one (1) month of the effective date of this tariff, Carrier and Shippers shall determine the Minimum Operating Requirements for continuous and non-continuous flow for each system segment based on sound engineering and reasonable assumptions in hydraulic studies performed by Carrier.

B. Within six (6) months of the effective date of this tariff, and at a minimum every twelve (12) months thereafter, Carrier will develop options for reducing the required Minimum Operating Requirements as established in Item 55.1.A. This will be presented as "step down" options, to cover a range of Minimum Operating Requirements for continuous and non-continuous flow (on the 20-inch northbound segment from Coalinga) to achieve the lowest Minimum Operating Requirements. Carrier will provide the following to Shippers:

1. Description of facility modifications and/or operational changes for each of the "step down" options.
2. Minimum Volume associated with each option, by pipeline segment.
3. Estimated capital and incremental operating costs (+/- 35%) for each option, by pipeline segment.
4. Time required to implement each option, by pipeline segment.
5. Other possible ways to reduce the cost and time to implement the options, including:
    a. Cost and timing to complete engineering costs for selected options.
    b. Cost and timing for delivery of major equipment

c. Time savings and cost impact of having Item 55.1.B.5.a and Item 55.1.B.5.b completed in advance of the anticipated need.

C. Prior to Carrier committing to conduct any study, Carrier will inform Shippers of the nature of the proposed study, its estimated costs, timeline for completion, and provide Shippers the opportunity to comment on the proposed study and its cost.

D. Carrier will organize a Shippers' meeting at least once per calendar year, which will include a discussion of forecast volumes for the foreseeable future. This forecast will then be compared against the "step down" options. Shippers and Carrier will discuss whether any "step down" enhancements should be considered at that time.

E. Following the discussion at the Shippers' meeting, Carrier will determine what detailed engineering studies to conduct to determine the capital and operating costs to construct and operate new or modified facilities, and Carrier will determine and communicate to the Shippers investment level (+/- 10 percent) estimates as well as required increases in transportation rates in accordance with Item 55.1.G. below.

F. After receiving any additional Shipper comments with the majority of Regular Shippers, counting all affiliated Shippers as one Regular Shipper, supporting, all shipper-recommended projects will be deemed to be in the public interest and consistent with Carrier's public utility obligation to serve. Carrier shall thereafter file with the CPUC to proceed with the project(s) and to include the costs of such in rates on an equal cost per barrel basis for all SJVH, SJVL, SJVB, and Segregated Batch shipments north of Coalinga. In the event Carrier determines it will not proceed with a Shipper requested project(s), Shippers may file a complaint with the CPUC for Carrier's refusal to act. In any complaint as to a refusal to proceed with a project, Carrier will have the burden of proof to justify that the Shipper-recommended project should not proceed.

G. Such cost recovery will not include any administrative fee, processing fee, handling fee, or any similar fee for Carrier's employees' time and expense.

60. APPORTIONMENT WHEN TENDERS ARE IN EXCESS OF FACILITIES

A. When there shall be Tendered to Carrier, for transportation, more Crude Petroleum than can be immediately transported, on a line segment, the transportation furnished by Carrier shall be apportioned among "Regular Shippers" and "New Shippers" as follows:

1. New Shippers will be allocated a total of ten percent (10%) of the available pipeline capacity. If more than one New Shipper has nominated volumes, pipeline space shall be allocated proportionately to each New Shipper in relation to the total nominations by New Shippers, so that the total pipeline capacity allocated for all New Shippers shall not exceed ten percent (10%) of the available pipeline capacity.
2. The remaining capacity shall be allocated among Regular Shippers in proportion to their base period shipments.

B. The "base period" is a period of 6 months historical shipments during months the pipeline was in operation, beginning 7 operating months prior to the month of allocation and excluding the month preceding the month of allocation. A "Regular Shipper" is any Shipper having a record of shipments, in the line segment being prorated for at least four months during the base period. A "New Shipper" is a Shipper who does not qualify as a Regular Shipper under the above definition, but excludes any Shipper that is an affiliate of any Regular Shipper.

C. If a line segment is prorated and a Shipper is unable to tender Crude Petroleum equal to the space allocated to it, the Shipper will be invoiced and will be responsible for payment of any amount equal to the space allocated or the actual volumes delivered, whichever is higher, times the tariff rate.

65. TENDER, MINIMUM QUANTITY

Tenders for the transportation of Crude Petroleum for which Carrier has facilities will be accepted into Carrier's system under this tariff in quantities of not less than thirty-five thousand (35,000) Barrels. Nominations for delivery of tenders of each Common Stream may include aggregated volumes from one or more Shippers as operations permit and provided such Crude Petroleum is of similar quality and characteristics as is being transported from receipt point to destination point. Carrier will accept any quantity of Crude Petroleum from lease tanks or other facilities to which Carrier's facilities are connected if such quantity and quality can be consolidated with other Crude Petroleum such that Carrier can make a single delivery of not less than thirty-five thousand (35,000) Barrels, and Carrier will not be obligated to make any single delivery of less than thirty-five thousand (35,000) Barrels. The term "single delivery" as used herein means a delivery of Crude Petroleum in one continuous operation to one or more Consignees into a single facility, furnished by such Consignee or Consignees, to which Carrier is connected.

70. TITLE

Carrier shall have the right to reject any Crude Petroleum which, when Tendered for transportation, may be involved in litigation, or the title of which may be in dispute, or which may be encumbered by lien or charge of any kind, and Carrier may require of the Shipper satisfactory evidence of the Shipper's perfect and unencumbered title or satisfactory indemnity bond to protect Carrier. By Tendering Crude Petroleum, the Shipper warrants and guarantees that it has good title thereto and agrees to hold Carrier harmless for any and all loss, cost, liability, damage and/or expense resulting from failure of title thereto; provided, that acceptance for transportation shall not be deemed a representation by Carrier as to title.

75 GAUGING, TESTING AND DEDUCTIONS

A. All shipments Tendered for transportation to and from Carrier shall be tested, gauged or metered in accordance with API standards, by a representative of Carrier prior to, or at the time of receipt from the Shipper and delivery to Consignee. The Shipper or Consignee shall at all times have the privilege of being present or represented during the testing and shall be notified prior to testing, gauging, or metering; however, failure of a Shipper and Consignee to have a representative present will constitute a waiver, and the Shipper and Consignee shall be bound by the information and data on the tickets.

B. Corrections will be made to adjust quantities to standard conditions (60 degrees Fahrenheit, zero psig and no S&W) and report volumes in Net Barrels.

C. A deduction of ten hundredths of one percent (0.10%) for the Common Stream SJVH and fifteen hundredths of one percent (0.15%) for the Common Stream SJVL, SJVB, and Segregated Batches will be made to cover evaporation, interface losses, and normal losses during transportation. The loss adjustment will be applied to volumes shipped from Coalinga or origins north of Coalinga to final destination. D. After consideration of all of the factors set forth in this Item No. 75, a net balance will be determined as the quantity deliverable by Carrier, and transportation charges will be assessed on the net balance.

E. Any volumetric difference between receipts from Shipper and delivery to Shipper or Consignee during a Current Month as a result of scheduling will be adjusted in the following month without any further liability to Carrier, taking into consideration all prior deductions allowed pursuant to the rules and regulations contained herein.

F. Any Carrier meter error adjustment must be made within six months of deliveries, or be barred in the absence of fraud, gross negligence, or willful misconduct.

80. EVIDENCE OF RECEIPTS AND DELIVERIES

Crude Petroleum received from Shipper and Crude Petroleum delivered to Consignee shall, in each instance, be evidenced by tickets or Carrier's statements containing data essential to the determination of quantity.

85. LIABILITY OF CARRIER

The Carrier, while in possession of Crude Petroleum herein described, shall not be liable for any loss thereof; damage thereto; or delay caused by act of God, war, act of public enemy, quarantine, the authority of law, strikes, riots, civil disorder, requisition or necessity of the Government of the United States in time of war, default of Shipper or owner, or from any cause not due to the sole negligence or willful misconduct of the Carrier. In case of loss of Crude Petroleum for which Carrier is not responsible, the Shipper shall bear the loss. Where such loss occurs in a tank containing Crude Petroleum which is the property of more than one Shipper, or in a line containing a Segregated Batch of Crude Petroleum which is the property of more than one Shipper, each Shipper shall bear the loss in such proportion as his total volume in said tank or batch bears to the total volume in said tank or batch.

90. DUTY OF CARRIER

Carrier shall not be required to transport Crude Petroleum except with reasonable diligence, considering the quality of the Crude Petroleum, the distance of transportation and other material elements, and will not accept Crude Petroleum to be transported in time for any particular market.

95. RATES APPLICABLE

The rate and the rules and regulations that shall apply to the transportation of Crude Petroleum shall be the rate and the rules and regulations in effect on the date Carrier receives the Crude Petroleum for transportation.

100. PAYMENT OF TRANSPORTATION AND OTHER CHARGES

Shipper shall be responsible for payment of transportation and all other charges and costs collectible under this tariff. Crude Petroleum accepted for gathering and/or transportation shall be subject to the rates and charges on file with the CPUC in effect on the date of receipt by Carrier. Payments not received by Carrier in accordance with invoice terms shall be subject to a late charge equivalent to 125% of prime rate as quoted by a major New York bank. Shipper shall be responsible to Carrier for any attorney fees or other costs incurred in connection with the collection of payments due to Carrier by Shipper. Carrier shall have a lien on all Crude Petroleum accepted for transportation to secure the payment of all charges and costs, including demurrage charges and may refuse to make delivery of the Crude Petroleum until all charges have been paid. If said charges and costs, or any part thereof, shall remain unpaid for five days, as computed from the first seven o'clock a.m. after written notice is mailed to Shipper of Carrier's intention to enforce its lien as herein provided, or when there shall be failure to take the Crude Petroleum at the point of destination as provided in Item 50 within five days, as computed from the first seven o'clock a.m. after expiration of the notice therein provided, Carrier shall have the right through an agent to sell said Crude Petroleum at public auction, for cash, between the hours of ten o'clock a.m. and four o'clock p.m. on any day not a weekend or legal holiday, and not less than twenty-four hours after notice of the time and place of such sale and the quantity, general description, and location of the Crude Petroleum to be sold has been published in a daily newspaper of general circulation published in the town or city where sale is to be held, and sent by facsimile (or other comparable means) to Shipper. Carrier may be a bidder and purchaser at such sale. Out of the proceeds of said sale, Carrier shall pay itself for all transportation, demurrage, charges and costs collectible under this tariff, and other lawful charges, expenses of notice, advertisement, sale and other necessary expenses, and expenses of caring for and maintaining the Crude Petroleum, and the balance shall be held for whomsoever may be lawfully entitled thereto; if the proceeds of said sale do not cover all expenses incurred by Carrier, the Shipper and/or Consignee are liable to Carrier for any deficiency.

105. CLAIMS

A. Notice of claims for loss or damage in connection with shipments must be made to Carrier or Shipper in writing within nine (9) months and one (1) day after same shall have accrued, or, in case of failure to make delivery, within nine (9) months and one (1) day after a reasonable time for delivery shall have elapsed. Such claims, fully amplified, must be filed with Carrier or Shipper within nine (9) months and one (1) day thereafter, and unless so made and filed, Carrier or Shipper shall be wholly released and discharged there from and shall not be liable therefore in any court of justice unless damages are determined to be by reason of fraud, willful misconduct, or negligence. No suit at law or in equity shall be maintained upon any claim unless instituted within two (2) years and one (1) day after the cause of action accrued unless damages are determined to be by reason of fraud, willful misconduct, or negligence of the liable party. Carrier or Shipper will determine any such loss or damage on either the basis of the volumetric loss or monetary value of the Crude Petroleum.

B. Where claims are not filed or suits are not instituted thereon in accordance with the foregoing provisions, Carrier or Shipper will not be liable and such claims will not be accepted unless damages are determined to be by reason of fraud, willful misconduct, or negligence of the liable party.

110. PIPEAGE OR OTHER CONTRACTS

In accordance with the applicable tariff and these rules and regulations, in the event construction of new or additional facilities or installation of new equipment or additional equipment is required to accommodate new shipments, separate pipeage and/or other contracts relating to the repayment of costs for equipment that must be added, or physical adjustments that must be made to Carrier's pipeline system in order to accommodate a Shipper's request for service may be required by Carrier before any duty of transportation shall arise.

115. APPLICATION OF RATES FROM AND TO INTERMEDIATE POINTS

For Crude Petroleum accepted for transportation from any point on Carrier's lines not named in a particular tariff which is intermediate to a point from which rates are published therein, through such unnamed point, Carrier will apply from such unnamed point the rate published therein from the next more distant point specified in such tariff. For Crude Petroleum accepted for transportation to any point not named in a particular tariff which is intermediate to a point to which rates are published in said tariffs, through such unnamed point, the rate published therein to the next more distant point specified in the tariff will apply.

120. DIVERSION

Diversion may be made without charge if requested in writing by shipper prior to delivery at original destination, subject to the rates, rules and regulations applicable from point of origin to point of final destination, upon the condition that no out-of-line or backhaul movement will be made.

125. INTRASYSTEM TRANSFERS

Transfers of title to Crude Petroleum at non-custody transfer locations will not be recognized by Carrier while in Carrier's custody.

130. LINE FILL AND TANK BOTTOM INVENTORY REQUIREMENTS

Carrier will require each Shipper to supply a pro rata share of Crude Petroleum necessary for pipeline and tankage fill to ensure efficient operation of Carrier's pipeline system prior to delivery. Carrier will provide detailed calculation of the minimum pipeline and tankage fill for operational requirements to all shippers for each Common Stream (SJVH and SJVL) and Segregated Batch operation. Such pro rata share for Common Stream SJVH, Common Stream SJVL, and Segregated Batches shall be calculated every six (6) months and also when either a new Shipper begins shipments or when a Shipper ceases shipments. The pro rata share of the Common Stream SJVH, Common Stream SJVL, and Segregated Batches (each grade) shall be equal to the Shipper's previous six month shipments divided by the total shipments of the corresponding grades of Common Stream SJVH, Common Stream SJVL, and Segregated Batches (each grade) for the same previous six months. Carrier will recalculate inventory requirements for all Crude Petroleum grades in January and July of each calendar year and provide the Shippers with a reconciliation of the actual prior six months system inventory to the calculated minimum required inventory for each Crude Petroleum grade. In the case of a Shipper ceasing Shipments of a particular grade, the previous six months total shipments of that grade shall be reduced by the amount the Shipper leaving the system shipped during those six months. In the case of a new Shipper commencing Shipments of a particular grade, the previous six months total shipments of that grade shall be increased by the New Shipper's first month nomination multiplied by six. After the reallocation of each grade has been calculated, each Shipper shall be notified of the inventory requirements for pipeline and tankage fill and shall have two months from the date of nomination to supply any additional inventory requirement. Crude Petroleum provided by Shippers for this purpose may be withdrawn only after: (1) shipments have ceased and Shipper has notified Carrier in writing to discontinue shipments in the Carrier's system, and (2) Shipper balances have been reconciled between Shipper and Carrier. Carrier, at its discretion, may require advance payment of transportation charges on the volumes to be cleared from Carrier's system, and any unpaid accounts receivable, before final delivery will be made. Carrier shall have a reasonable period of time, not to exceed six months, from the receipt of said notice to complete administrative and operational requirements incidental to Shipper withdrawal.

135. CHARGE FOR COMPENSATION FUND FEES INCURRED BY CARRIER

In addition to the transportation charges and all other charges accruing on the Crude Petroleum accepted for transportation through the Carrier's facilities, a per Barrel charge will be assessed and collected in the amount of any tax, fee, or other charge levied against Carrier in connection with transportation of Crude Petroleum, as the result of any Federal, State or Local act or regulation which levies a tax, fee, or other charge, on the receipt, delivery, transfer or transportation of such commodities within their jurisdiction for the purpose of creating a fund for prevention, containment, cleanup and/or removal of spills and/or the reimbursement of parties sustaining loss therefrom.

140. PUBLIC UTILITIES COMMISSION REGULATORY FEES

Carrier is authorized by the CPUC to collect from its Shippers the fee[s] required to be paid pursuant to Public Utilities Code Section 421. Such fee[s] shall be included as a charge on the invoices rendered each month for gathering and transportation charges and shall be due and payable in accordance with Rule No. 100.

145. NEW CONNECTIONS

Connections to Carrier's pipeline(s) will only be considered if made by formal written notification to Carrier and all requests will be subject to the following standards and conditions. All connections will be subject to design requirements necessary to protect the safety, security, and efficient operation of the Carrier's pipeline(s) in accordance with generally accepted industry standards and compliance with governmental regulations.

150. QUALITY BANK

1. To assure no Shipper will be materially damaged or allowed to benefit by changes in gravity or sulfur due to the intermixing of Crude Petroleum in the system, Shippers will be required to participate in Gravity and Sulfur Banks for all Common Stream grades of Crude Petroleum shipped, unless shipped in a Segregated Batch with a buffer on both sides. A fee of 0.2 cents per barrel will be assessed to cover Carrier's costs for administration of the quality banks for Shippers.
2. Each shipper is required to participate in the gravity and sulfur banks. Each Shipper agrees to pay the Carrier the computed adjustments due from said Shipper in accordance with these rules and regulations.
3. Carrier shall publish, and from time to time, revise a Gravity Value Table providing for adjustments for the value of crudes of different gravities and sulfur. Said table, and subsequent issues thereof, shall be incorporated by reference into this tariff.
4. The table of gravity differential values per barrel as attached hereto as **Exhibit "A"** is incorporated herein and made a part of these Rules.
5. Factors in the Gravity Value Table are based on posted crude oil price adjustment scales as published by major posters of California crude oil. Carrier will revise the Gravity Value Table only if there has been an increase or decrease made in a majority of the crude oil price adjustment scales upon which the current Gravity Value Table is based.
6. Upon change, Carrier will provide Shippers with written notice of the new Gravity Value Table on or before the 15th day of the month proceeding the month in which the new Gravity Value Table shall take effect. The effective date of change will be on the first day of the next month.

7. Carrier shall administer the quality banks providing adjustments for the value of the SJVH and SJVL Common Streams with different qualities in the manner specified below for both receipt and delivery volumes:

8. Applicable barrels and gravities shall be the net barrels at 60° Fahrenheit (with no deduction for loss allowance). Sulfur analysis to determine weight percent sulfur shall be conducted on the custody transfer composite samples.

9. The weighted average gravity differential value per barrel (for two or more gravities of Crude Petroleum), as hereinafter referred to, shall be obtained in the following manner: Multiply the gravity differential values per barrel (from the attached table as same is from time to time revised) by the number of barrels to which such gravity differential values are applicable and then divide the total of the resultant gravity differential values in dollars and cents by the total of the applicable barrels.

I. Adjustment between Shippers, for both receipt volumes and delivery volumes, shall be computed as follows for each Crude Petroleum grade (Common Streams):

A. Compute the weighted average gravity differential value per barrel of the barrels received from/delivered to each Shipper.

B. Compute the weighted average gravity differential value per barrel for each composite common stream for the receipts and deliveries.

Receipt Calculations:

C. If the weighted average gravity differential value per barrel of a Shipper as so determined under Paragraph I above shall be greater than the weighted average gravity differential value per barrel for the aforementioned common stream Crude Petroleum as determined under Paragraph II, the difference in cents per barrel shall be calculated and Shipper shall be credited (receives) an amount calculated by multiplying said difference in gravity differential value per barrel by the applicable barrels.

D. If the weighted average gravity differential value per barrel of a Shipper is less than the weighted average gravity differential value per barrel of the aforementioned common stream Crude Petroleum, the difference shall be calculated as above outlined and a Shipper debited (pays) for such difference.

Delivery Calculations:

E. If the weighted average gravity differential value per barrel of a Shipper as so determined under Paragraph I above shall be greater than the weighted average gravity differential value per barrel for the aforementioned common stream Crude

Petroleum as determined under Paragraph II, the difference in cents per barrel shall be calculated and Shipper shall be debited (pays) an amount calculated by multiplying said difference in gravity differential value per barrel by the applicable barrels.

F. If the weighted average gravity differential value per barrel of a Shipper is less than the weighted average gravity differential value per barrel of the aforementioned common stream Crude Petroleum, the difference shall be calculated as above outlined and a Shipper credited (receives) for such difference.

II. Sample calculations are attached as **Exhibit "B"**.

10. In order to facilitate equitable adjustment among all Shippers for sulfur differentials arising out of Common Stream operations, Carrier or Carrier's authorized representative shall calculate adjustments for the value of Crude Petroleum of different sulfur content in the manner described herein.

A. A "Sulfur Value" in $/wt% S shall be utilized and shall initially be set at $1.00/wt% S. If desired by Shippers, the Sulfur Value shall be reviewed at the end of each calendar year by an industry consultant. The consultant, if desired by the majority of Regular Shippers, counting all affiliated Shippers as one Regular Shipper, will conduct a study and recommend adjustments to the Sulfur Value as deemed necessary based on a review of oil prices for crudes of like gravity and quality except for sulfur content. The consultant shall perform a regression analysis to determine Sulfur Value for the following year. Since there are insufficient postings in California to perform such a regression, the consultant may consider domestic and foreign crude oil in other regions of the United States to review the Sulfur Value. If the consultant recommends a change to Sulfur Value in the range of $0.50/wt% S to $1.50/wt% S, rounded to the nearest $0.01/wt% S, the Shippers shall adopt this recommendation. If the recommended Sulfur Value is outside of this range, the recommendation shall not be binding on the Shippers, but the recommendation may be adopted by a majority vote of Regular Shippers, counting all affiliated Shippers as one Regular Shipper. If the consultant recommendation is not adopted by a majority of the Regular Shippers, the Sulfur Value will remain unchanged from the prior calendar year.

11. At the close of each month, each Shipper's weighted average sulfur content (% S by weight) shall be determined for all crude oil received from that Shipper into Carrier's Common Stream. Each Shipper's

weighted average sulfur content shall be determined by dividing the total number of barrels received from that Shipper into the sum of the products obtained by multiplying the quantity of barrels received from that Shipper by the sulfur content per barrel of the receipt.

12. At the close of each month, the weighted average sulfur content shall be determined for all crude oil received from all Shippers into Carrier's Common Stream. The weighted average sulfur content per barrel of the Common Stream will be determined by dividing the total number of barrels received from all Shippers into the sum of the products obtained by multiplying each receipt volume in such stream by its corresponding sulfur content per barrel.

13. If the weighted average sulfur content per barrel of oil received from a Shipper is less than the weighted average sulfur content per barrel of Carrier's Common Stream, then the Shipper's account shall be credited by an amount which shall be calculated by:

(a) multiplying the differences in sulfur content per barrel by the total barrels received from such Shipper during the month; and,

(b) multiplying the result in (a) by the "Sulfur Value" referred to in Item 150.10.A.

14. If the weighted average sulfur content per barrel of oil received from a Shipper is more than the weighted average sulfur content per barrel of Carrier's Common Stream, then the Shipper's account shall be debited by an amount which shall be calculated by:

(a) multiplying the differences in sulfur content per barrel by the total barrels received from such Shipper during the month; and

(b) multiplying the result in (a) by the "Sulfur Value" referred to in Item 150.10.A.

15. Likewise, in a similar manner each month, the respective weighted average sulfur content per barrel shall be determined for deliveries of all Common Stream crude oil at Avon, CA, Coalinga, CA, or into SJVB at Coalinga. Similar calculations and adjustments to each Shipper's account shall be made as follows:

If the weighted average sulfur content per barrel of oil delivered to a Shipper is less than the weighted average sulfur content per barrel of

Carrier's Common Stream, then the Shipper's account shall be debited by an amount which shall be calculated by:

(a) multiplying the differences in sulfur content per barrel by the total barrels delivered to such Shipper during the month; and

(b) multiplying the result in (a) by the "Sulfur Value" referred to in Item 150.10.A.

If the weighted average sulfur content per barrel of oil delivered to a Shipper is more than the weighted average sulfur content per barrel of Carrier's Common Stream, then the Shipper's account shall be credited by an amount which shall be calculated by:

(a) multiplying the differences in sulfur content per barrel by the total barrels delivered to such Shipper during the month; and

(b) multiplying the result in (a) by the "Sulfur Value" referred to in Item 150.10.A.

16. Carrier or Carrier's authorized representative shall net out each Shipper's sulfur differential account and shall render a monthly accounting to each Shipper stating the net credit or debit balance of each Shipper's sulfur differential account. Shippers having a net debit balance shall remit to Carrier or Carrier's authorized representative the amount of the net debit balance within ten (10) days from receipt of the statement of such debit. Carrier or Carrier's authorized representative shall remit the amount of a net credit balance to any Shipper having a net credit balance, after Carrier or Carrier's authorized representative has received the sums from those Shippers having debits. Carrier or Carrier's authorized representative's obligations and liabilities with respect to sulfur differential accounting and adjustments are limited to those specified in the tariff.

17. In order to complete the balance on sulfur for a Common Stream such as SJVH, deliveries into tankage at Coalinga, deliveries directly into SJVB at Coalinga, and deliveries of SJVH at Avon will be treated as destination locations in the monthly analysis.

18. Samples will be collected and tested for sulfur for each receipt and delivery custody ticket number and a duplicate sample will be retained for ninety (90) days after the month of collection. The sample will be tested for sulfur according to an ASTM standard suitable for the API gravity range and typical BS&W content of the sample such as ASTM Standard D-1552 or another method as mutually agreed such as ASTM

Standard D-5453. Shipper shall have the right to request a retest of the retain sample for sulfur determination. Requests for retesting must be received by Carrier in writing within thirty (30) days following the end of the month in which the receipt or delivery occurred. Requests beyond the thirty (30) day period will not be honored. Shipper will identify the sample to be retested by the custody ticket number and Carrier will submit a retention sample to a mutually agreed upon laboratory. If the results of the laboratory differ by more than the allowed reproducibility between the original and the second, agreed upon laboratory as defined by ASTM Standard D-1552, then the results of the second laboratory shall be used in the sulfur determinations. The cost of retesting shall be borne by the Shipper.

19. These calculations shall be made for each calendar month and the sum of the adjustments for the system shall be zero +/- One Dollar. If a Shipper shall have a net debit balance in combining the two adjustments made above, the balance shall be remitted to the Carrier within fifteen (15) days from receipt of statement of such debit. If a Shipper shall have a credit, the Carrier shall remit the amount thereof after receipt by the Carrier of the sums from those Shippers having debits as calculated above.

20. Carrier will provide at the end of each month a record of the Shipper's calculation and debit or credit amount.

EXHIBIT "A"
ADJUSTMENT AUTHORIZATION

TABLES OF DIFFERENTIALS FOR USE IN DETERMINING ADJUSTMENTS FOR DIFFERENCE IN GRAVITY OF CRUDE PETROLEUM IN SAN PABLO BAY PIPELINE SYSTEM COMMON STREAM SJV CRUDE

API GRAVITY	DIFF PER BBL	API GRAVITY	DIFF PER BBL	API GRAVITY	DIFF PER BBL	API GRAVITY	DIFF PER BBL
10.0	0.000	15.0	2.250	20.0	4.500	25.0	6.750
10.1	0.045	15.1	2.295	20.1	4.545	25.1	6.795
10.2	0.090	15.2	2.340	20.2	4.590	25.2	6.840
10.3	0.135	15.3	2.385	20.3	4.635	25.3	6.885
10.4	0.180	15.4	2.430	20.4	4.680	25.4	6.930
10.5	0.225	15.5	2.475	20.5	4.725	25.5	6.975
10.6	0.270	15.6	2.520	20.6	4.770	25.6	7.020
10.7	0.315	15.7	2.565	20.7	4.815	25.7	7.065

10.8	0.360	15.8	2.610	20.8	4.860	25.8	7.110
10.9	0.405	15.9	2.655	20.9	4.905	25.9	7.155
11.0	0.450	16.0	2.700	21.0	4.950	26.0	7.200
11.1	0.495	16.1	2.745	21.1	4.995	26.1	7.245
11.2	0.540	16.2	2.790	21.2	5.040	26.2	7.290
11.3	0.585	16.3	2.835	21.3	5.085	26.3	7.335
11.4	0.630	16.4	2.880	21.4	5.130	26.4	7.380
11.5	0.675	16.5	2.925	21.5	5.175	26.5	7.425
11.6	0.720	16.6	2.970	21.6	5.220	26.6	7.470
11.7	0.765	16.7	3.015	21.7	5.265	26.7	7.515
11.8	0.810	16.8	3.060	21.8	5.310	26.8	7.560
11.9	0.855	16.9	3.105	21.9	5.355	26.9	7.605
12.0	0.900	17.0	3.150	22.0	5.400	27.0	7.650
12.1	0.945	17.1	3.195	22.1	5.445	27.1	7.695
12.2	0.990	17.2	3.240	22.2	5.490	27.2	7.740
12.3	1.035	17.3	3.285	22.3	5.535	27.3	7.785
12.4	1.080	17.4	3.330	22.4	5.580	27.4	7.830
12.5	1.125	17.5	3.375	22.5	5.625	27.5	7.875
12.6	1.170	17.6	3.420	22.6	5.670	27.6	7.920
12.7	1.215	17.7	3.465	22.7	5.715	27.7	7.965
12.8	1.260	17.8	3.510	22.8	5.760	27.8	8.010
12.9	1.305	17.9	3.555	22.9	5.805	27.9	8.055
13.0	1.350	18.0	3.600	23.0	5.850	28.0	8.100
13.1	1.395	18.1	3.645	23.1	5.895	28.1	8.145
13.2	1.440	18.2	3.690	23.2	5.940	28.2	8.190
13.3	1.485	18.3	3.735	23.3	5.985	28.3	8.235
13.4	1.530	18.4	3.780	23.4	6.030	28.4	8.280
13.5	1.575	18.5	3.825	23.5	6.075	28.5	8.325
13.6	1.620	18.6	3.870	23.6	6.120	28.6	8.370
13.7	1.655	18.7	3.915	23.7	6.165	28.7	8.415
13.8	1.710	18.8	3.960	23.8	6.210	28.8	8.460
13.9	1.755	18.9	4.005	23.9	6.255	26.9	8.505
14.0	1.800	19.0	4.050	24.0	6.300	29.0	8.550
14.1	1.845	19.1	4.095	24.1	6.345	29.1	8.595
14.2	1.890	19.2	4.140	24.2	6.390	29.2	8.640
14.3	1.935	19.3	4.185	24.3	6.435	29.3	8.685
14.4	1.980	19.4	4.230	24.4	6.480	29.4	8.730
14.5	2.025	19.5	4.275	24.5	6.525	29.5	8.775
14.6	2.070	19.6	4.320	24.6	6.570	29.6	8.820
14.7	2.115	19.7	4.365	24.7	5.615	29.7	8.865

14.8	2.160	19.8	4.410	24.8	6.660	29.8	8.910
14.9	2.205	19.9	4.455	24.9	6.705	29.9	8.955

EXHIBIT "B"

SAMPLE QUALITY BANK CALCULATION

SAN PABLO BAY PIPELINE SYSTEM COMMON STREAM SJV CRUDE

RECEIPT BANK

SHIPPER	BBLS REC'D	API GRAV	FROM EXH."A" GRAVITY DIFF	BBLS RECD. X GRAV DIFF
A	100.00	13.0	1.350	135.00
B	150.00	14.1	1.845	276.75
C	100.00	13.7	1.665	166.50
C	200.00	12.0	0.900	180.00
TOTAL	550.00			758.25

Common stream weighted average GRAVITY value: 758.25/550=	1.37864	
Shipper A:		
Weighted average GRAVITY value: 135.00/100=	1.350	
Calculation: (1.37864 - 1.350) x 100 =		2.86
Total Shipper A pays the bank:		$2.86
Shipper B:		
Weighted average GRAVITY value: 276.75/100=	1.845	
Calculation: (1.37864 - 1.845) x 150 =		-69.95
Total Shipper B receives from the bank:		$(69.95)
Shipper C:		
Weighted average GRAVITY value: 346.5/300=	1.155	
Calculation: (1.37864 - 1.155) x 300 =		67.09
Total Shipper C pays to the bank:		$67.09
NET		$0.00

DELIVERY BANK

SHIPPER	BBLS REC'D	API GRAV	FROM "A" GRAVITY DIFF	BBLS REC'D X GRAV DIFF
A	90.00	12.5	1.125	101.25
B	140.00	13.0	1.350	189.00
C	90.00	13.7	1.665	149.85
C	210.00	13.2	1.440	302.40
TOTAL	530.00			742.50

Common stream weighted average GRAVITY value:	742.5 / 530 =	1.40094
Shipper A:		
Weighted average GRAVITY value: 101.25/90=	1.125	
Calculation: (1.125 – 1.40094) x 90		-24.83
Total Shipper A receives from the bank:		$(24.83)
Shipper B:		
Weighted average GRAVITY value: 189.00/140=	1.350	
Calculation: (1.3501 – 1.40094) x 140		-7.13
Total Shipper B receives from the bank:		$(7.13)
Shipper C:		
Weighted average GRAVITY value: 452.24/300	1.508	
Calculation: (1.508 – 1.40094) x 300 =		31.97
Total Shipper C pays the bank:		$31.97
NET		$0.00

(END OF ATTACHMENT A)