

Decision 09-02-022 February 20, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
Crimson California Pipeline L.P. (PLC-26)
for Authority to Increase Rates for its
Crude Oil Pipeline Services.

Application 08-12-002
(Filed December 8, 2008)

**DECISION GRANTING APPLICATION OF
CRIMSON CALIFORNIA PIPELINE, L.P.**

1. Summary

Crimson California Pipeline, L.P. seeks authority under Public Utilities Code Section 454 to increase its revenues for intrastate crude oil pipeline transportation services on its Line 600 and Line 700 pipeline systems by about \$4.13 million, an increase of 65% over revenues at existing rates. We grant the requested authority subject to the terms and conditions herein.

2. Background

Crimson California Pipeline, L.P. (Applicant) is a California limited partnership authorized to do business in the State of California. Its general partner is Crimson Pipeline Management, Inc., a California corporation, whose parent, Crimson Resource Management Corp., a Colorado corporation, currently operates in excess of 30 petroleum production properties located in four different California counties, with the bulk of its operations in Kern County. Crimson is a public utility, subject to the Commission's jurisdiction pursuant to Pub. Util. Code § 216. Specifically, Crimson is a pipeline corporation as defined by Pub. Util. Code § 228, which owns and operates certain oil pipeline facilities in

Southern California. Crimson currently owns and operates six common carrier crude oil pipeline systems. Two of these systems, the Line 600 pipeline system and its associated gathering pipelines and the Line 700 pipeline system and its associated gathering pipelines, were recently acquired from ConocoPhillips Pipeline Company (ConocoPhillips) with approval by the Commission in Decision (D.) 07-12-046. After authorizing the acquisition of these two systems, the Commission in D.08-11-047 also granted Crimson authority to encumber the Line 600 and Line 700 assets with a lien in favor of Bank of Oklahoma (BOK) as additional security for a line of credit extended to Crimson by BOK.

The Line 600 pipeline system includes approximately 100 miles of pipe, three tanks with over 200,000 barrels of storage capacity and a crude oil truck unloading facility. The Line 700 system includes over 30 miles of pipe, one tank with approximately 5,000 barrels of storage capacity, and a crude oil truck unloading facility. As noted in D.07-12-046, as part of the purchase and sale agreement between Crimson and ConocoPhillips, portions of both the Line 600 and Line 700 pipeline systems were idled because these pipeline systems run generally parallel with the pipeline systems that Crimson already owns. However, all receipt and delivery points on both the Line 600 and the Line 700 system have been maintained.

The Line 700 pipeline system has been interconnected with another Crimson-owned pipeline system (Brea Crude) and Brea Crude has been converted from a private pipeline to a public utility pipeline pursuant to the terms of Advice Letter 6, dated May 30, 2008. This application seeks to increase rates on the Line 600 and Line 700 (including Brea Crude) pipeline systems. Current rates for those systems have been in effect and unchanged since January 1, 1992.

3. Discussion

Crimson requests that we authorize an increase in rates on the Line 600 and Line 700 pipeline systems of approximately 65%, resulting in an annual revenue increase of \$4.13 million. The proposed rates were based on (1) personal knowledge of California's crude oil distribution systems and the alternatives available to potential customers of the pipelines; (2) comparison with rates approved by the Commission for other pipeline utilities; and (3) consideration of anticipated rates of return. As noted above, rates for shipping oil on Lines 600 and 700 have not increased since January 1, 1992. During that period, oil production in the subject service area has declined approximately 30%¹ and the Consumer Price Index has increased approximately 56%.² Assuming that the amount of oil shipped on these pipelines has decreased to the same extent that oil production has dropped in the region, an increase of at least 86% would be necessary to restore revenues to their real 1992 levels.

Applicant also compared its proposed rates with rates we recently approved for Chevron Pipeline Company's (CPL) Northam Pipeline System, a system that is quite similar to the Line 600 and Line 700 system. CPL's Northam Pipeline charges Commission-approved rates that range from 3.2¢ to 11.1¢ per mile for transporting crude. Applicant's proposed rates would range from 1.0¢ to 1.3¢ per mile. Finally, if we approve Applicant's proposed rates, Applicant will enjoy a 3.45% overall rate of return (ROR) including a 5.46%

¹ California Division of Oil and Gas District 1 production declined from 43.5 million barrels in 1992 to 30.1 barrels in 2006. Exhibit D to the Application, Declaration of Larry Alexander, at ¶ 4.

² *Ibid.* ¶ 5.

return on equity (ROE). ROR in this range compare very favorably with the rates authorized for CPL's Northam system in D.08-06-042 of 8.54% ROR and 12.09% ROE.

We conclude that the proposed rate increase is reasonable and should be approved.

4. Categorization and Need for Hearings

In Resolution ALJ 176-3327, dated December 18, 2008, the Commission preliminarily categorized this proceeding as ratesetting and made no preliminary determination regarding the need for hearings. No protests have been received. Given this status, public hearing is not necessary and it is not necessary to alter the preliminary categorization made in Resolution ALJ 176-3327.

5. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Karl J. Bemederfer is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. A notice of the filing of the application appeared in the Daily Calendar on December 11, 2008.
2. There were no protests to this application.
3. A hearing is not required.

4. There has been no general rate increase on Line 600 and Line 700 since January 1, 1992.

Conclusions of Law

1. An overall ROR of 3.45% and a ROE of 5.46% are reasonable for this applicant.
2. The following order should be effective immediately.
3. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The application of Crimson California Pipeline, L.P. to increase its rates and charges for transporting crude oil on its Line 600 pipeline system and its Line 700 pipeline system, including the Brea Crude pipeline system, is approved.
2. Application 08-12-002 is closed.

This order is effective today.

Dated February 20, 2009, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners