

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Tesoro Refining and Marketing Company,
Complainant

v.

Docket No.

SFPP, L.P.

Respondent

NOTICE OF COMPLAINT

Take notice that on December 1, 2006, Tesoro Refining and Marketing Company (Tesoro) filed a formal complaint against SFPP, L.P. pursuant to Rule 206 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, 18 C.F.R. § 385.206; the Procedural Rules Applicable to Oil Pipeline Proceedings, 18 C.F.R. § 343.2; Sections 1(5), 8, 9, 13, 15, and 16 of the Interstate Commerce Act (ICA), 49 U.S.C. App. §§ 1(5), 8, 9, 13, 15 and 16 (1984); and Section 1803 of the Energy Policy Act of 1992 ("EPAct").

Complainant alleges that SFPP's North Line rates are unjust and unreasonable. Complainant requests that the Commission determine that the rates established by SFPP for the shipment of refined petroleum products are so substantially in excess of SFPP's actual costs as to be unjust and unreasonable; prescribe new rates that are just and reasonable for the shipment of refined petroleum products on SFPP's North Line; determine that SFPP overcharged Tesoro for shipments of refined petroleum products on SFPP's North Line from at least December 1, 2004 to the present, and is continuing to overcharge Tesoro for such shipments; order SFPP to pay refunds, reparations and damages, plus interest to Tesoro for shipments made by Tesoro on the North Line from December 1, 2004; award Tesoro its costs and attorneys fees in prosecuting this Complaint; and grant Tesoro such other, different or additional relief as the Commission may determine to be appropriate.

Tesoro certifies that copies of the complaint were served on the contacts for SFPP as listed on the Commission's list of Corporate Officials and on SFPP's counsel.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a notice of intervention or motion to intervene, as appropriate. The Respondent's answer and all interventions, or protests must be filed on or before the comment date. The Respondent's answer, motions to intervene, and protests must be served on the Complainant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at <http://www.ferc.gov>. Persons unable to file electronically

should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

This filing is accessible on-line at <http://www.ferc.gov>, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: 5:00 pm Eastern Time on (insert date).

Magalie R. Salas
Secretary

under Section 15(13) of the Interstate Commerce Act. The information is not customarily revealed to members of the public and its disclosure could have a detrimental effect on Tesoro's competitive position. Data regarding the quantity of petroleum products shipped for its account is the only information that has been deleted from the public version of the Tesoro Complaint.

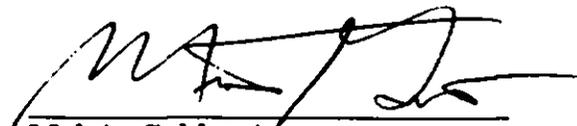
Accordingly, Tesoro respectfully requests that the Commission accord privileged treatment to this shipment information in the Tesoro Complaint.

We wish to inform the Commission that the person to be contacted with respect to this request for the privileged treatment of documents is:

Melvin Goldstein
Goldstein & Associates, P.C.
1757 P Street N.W.
Washington, D.C. 20036
Tele: (202) 872-8740
Fax: (202) 872-8744
Email: mgoldstein@goldstein-law.com

Dated: December 1, 2006

Respectfully submitted,



Melvin Goldstein
Matthew A. Corcoran
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*Attorneys for Tesoro Refining and
Marketing Company*

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

SFPP, L.P.

§

Docket No.

PROTECTIVE ORDER

(Issued)

1. This Protective Order shall govern the use of all Protected Materials produced by, or on behalf of, any Participant. Notwithstanding any order terminating this proceeding, this Protective Order shall remain in effect until specifically modified or terminated by the Presiding Administrative Law Judge ("Presiding Judge") or the Federal Energy Regulatory Commission ("Commission").

2. This Protective Order applies to the following two categories of materials: (A) A Participant may designate as protected those materials which customarily are treated by that Participant as sensitive or proprietary, which are not available to the public, and which, if disclosed freely, would subject that Participant or its customers to risk of competitive disadvantage or other business injury; and (B) A Participant shall designate as protected those materials which contain critical energy infrastructure information, as defined in 18 CFR § 388.113(c)(1) ("Critical Energy Infrastructure Information").

3. Definitions -- For purposes of this Order:

(a) The term "Participant" shall mean a Participant as defined in 18 CFR § 385.102(b).

(b) (1) The term "Protected Materials" means (A) materials (including depositions) provided by a Participant in response to discovery requests and designated by such Participant as protected; (B) any information contained in or obtained from such designated materials; (C) any other materials which are made subject to this Protective Order by the Presiding Judge, by the Commission, by any court or other body having appropriate authority, or by agreement of the Participants; (D) notes of Protected Materials; and (E) copies of Protected Materials. The Participant producing the Protected Materials shall physically mark them on each page as "PROTECTED MATERIALS" or with words of similar import as long as the term "Protected Materials" is included in that designation to indicate that they are Protected Materials. If the Protected Materials contain Critical Energy Infrastructure Information, the Participant producing such information shall additionally mark on each page containing such information the words "Contains Critical Energy Infrastructure Information B Do Not Release".

(2) The term "Notes of Protected Materials" means memoranda, handwritten notes, or any other form of information (including electronic form) which copies or discloses materials described in Paragraph 3(b)(1). Notes of Protected Materials are subject to the same restrictions provided in this order for Protected Materials except as specifically provided in this order.

(3) Protected Materials shall not include (A) any information or document contained in the files of the Commission, or any other federal or state agency, or any federal or state court, unless the information or document has been determined to be protected by such agency or court,

or (B) information that is public knowledge, or which becomes public knowledge, other than through disclosure in violation of this Protective Order, or (C) any information or document labeled as "Non-Internet Public" by a Participant, in accordance with Paragraph 30 of FERC Order No. 630, FERC Stat. & Reg. & 31,140. Protected Materials do include any information or document contained in the files of the Commission that has been designated as Critical Energy Infrastructure Information.

(c) The term "Non-Disclosure Certificate" shall mean the certificate annexed hereto by which Participants who have been granted access to Protected Materials shall certify their understanding that such access to Protected Materials is provided pursuant to the terms and restrictions of this Protective Order, and that such Participants have read the Protective Order and agree to be bound by it. All Non-Disclosure Certificates shall be served on all parties on the official service list maintained by the Secretary in this proceeding.

(d) The term "Reviewing Representative" shall mean a person who has signed a Non-Disclosure Certificate and who is:

- (1) Commission Litigation Staff;
- (2) an attorney who has made an appearance in this proceeding for a Participant;
- (3) attorneys, paralegals, and other employees associated for purposes of this case with an attorney described in Paragraph (2);
- (4) an expert or an employee of an expert retained by a Participant for the purpose of advising, preparing for or testifying in this proceeding;
- (5) a person designated as a Reviewing Representative by order of the Presiding Judge or the Commission; or
- (6) employees or other representatives of Participants appearing in this proceeding with significant responsibility for this docket.

4. Protected Materials shall be made available under the terms of this Protective Order only to Participants and only through their Reviewing Representatives as provided in Paragraphs 7-9.

5. Protected Materials shall remain available to Participants until the later of the date that an order terminating this proceeding becomes no longer subject to judicial review, or the date that any other Commission proceeding relating to the Protected Material is concluded and no longer subject to judicial review. If requested to do so in writing after that date, the Participants shall, within fifteen days of such request, return the Protected Materials (excluding Notes of Protected Materials) to the Participant that produced them, or shall destroy the materials, except that copies of filings, official transcripts and exhibits in this proceeding that contain Protected Materials, and Notes of Protected Material may be retained, if they are maintained in accordance with Paragraph 6, below. Within such time period each Participant, if requested to do so, shall also submit to the producing Participant an affidavit stating that, to the best of its knowledge, all Protected Materials and all Notes of Protected Materials have been returned or have been

destroyed or will be maintained in accordance with Paragraph 6. To the extent Protected Materials are not returned or destroyed, they shall remain subject to the Protective Order.

6. All Protected Materials shall be maintained by the Participant in a secure place. Access to those materials shall be limited to those Reviewing Representatives specifically authorized pursuant to Paragraphs 8-9. The Secretary shall place any Protected Materials filed with the Commission in a non-public file. By placing such documents in a nonpublic file, the Commission is not making a determination of any claim of privilege. The Commission retains the right to make determinations regarding any claim of privilege and the discretion to release information necessary to carry out its jurisdictional responsibilities. For documents submitted to Commission Litigation Staff ("Staff"), Staff shall follow the notification procedures of 18 CFR § 388.112 before making public any Protected Materials.

7. Protected Materials shall be treated as confidential by each Participant and by the Reviewing Representative in accordance with the certificate executed pursuant to Paragraph 9. Protected Materials shall not be used except as necessary for the conduct of this proceeding, nor shall they be disclosed in any manner to any person except a Reviewing Representative who is engaged in the conduct of this proceeding and who needs to know the information in order to carry out that person's responsibilities in this proceeding. Reviewing Representatives may make copies of Protected Materials, but such copies become Protected Materials. Reviewing Representatives may make notes of Protected Materials, which shall be treated as Notes of Protected Materials if they disclose the contents of Protected Materials.

8. (a) If a Reviewing Representative's scope of employment includes the marketing of energy, the direct supervision of any employee or employees whose duties include the marketing of energy, the provision of consulting services to any person whose duties include the marketing of energy, or the direct supervision of any employee or employees whose duties include the marketing of energy, such Reviewing Representative may not use information contained in any Protected Materials obtained through this proceeding to give any Participant or any competitor of any Participant a commercial advantage.

(b) In the event that a Participant wishes to designate as a Reviewing Representative a person not described in Paragraph 3(d) above, the Participant shall seek agreement from the Participant providing the Protected Materials. If an agreement is reached that person shall be a Reviewing Representative pursuant to Paragraphs 3(d) above with respect to those materials. If no agreement is reached, the Participant shall submit the disputed designation to the Presiding Judge for resolution.

9. (a) A Reviewing Representative shall not be permitted to inspect, participate in discussions regarding, or otherwise be permitted access to Protected Materials pursuant to this Protective Order unless that Reviewing Representative has first executed a Non-Disclosure Certificate provided that if an attorney qualified as a Reviewing Representative has executed such a certificate, the paralegals, secretarial and clerical personnel under the attorneys instruction, supervision or control need not do so. A copy of each Non-Disclosure Certificate shall be provided to counsel for the Participant asserting confidentiality prior to disclosure of any Protected Material to that Reviewing Representative.

(b) Attorneys qualified as Reviewing Representatives are responsible for ensuring that persons under their supervision or control comply with this order.

10. Any Reviewing Representative may disclose Protected Materials to any other Reviewing Representative as long as the disclosing Reviewing Representative and the receiving Reviewing Representative both have executed a Non-Disclosure Certificate. In the event that any Reviewing Representative to whom the Protected Materials are disclosed ceases to be engaged in these proceedings, or is employed or retained for a position whose occupant is not qualified to be a Reviewing Representative under Paragraph 3(d), access to Protected Materials by that person shall be terminated. Even if no longer engaged in this proceeding, every person who has executed a Non-Disclosure Certificate shall continue to be bound by the provisions of this Protective Order and the certification.

11. Subject to Paragraph 17, the Presiding Administrative Law Judge shall resolve any disputes arising under this Protective Order. Prior to presenting any dispute under this Protective Order to the Presiding Administrative Law Judge, the parties to the dispute shall use their best efforts to resolve it. Any participant that contests the designation of materials as protected shall notify the party that provided the protected materials by specifying in writing the materials whose designation is contested. This Protective Order shall automatically cease to apply to such materials five (5) business days after the notification is made unless the designator, within said 5-day period, files a motion with the Presiding Administrative Law Judge, with supporting affidavits, demonstrating that the materials should continue to be protected. In any challenge to the designation of materials as protected, the burden of proof shall be on the participant seeking protection. If the Presiding Administrative Law Judge finds that the materials at issue are not entitled to protection, the procedures of Paragraph 17 shall apply. The procedures described above shall not apply to protected materials designated by a Participant as Critical Energy Infrastructure Information. Materials so designated shall remain protected and subject to the provisions of this Protective Order, unless a Participant requests and obtains a determination from the Commission's Critical Energy Infrastructure Information Coordinator that such materials need not remain protected.

12. All copies of all documents reflecting Protected Materials, including the portion of the hearing testimony, exhibits, transcripts, briefs and other documents which refer to Protected Materials, shall be filed and served in sealed envelopes or other appropriate containers endorsed to the effect that they are sealed pursuant to this Protective Order. Such documents shall be marked "PROTECTED MATERIALS" and shall be filed under seal and served under seal upon the Presiding Judge and all Reviewing Representatives who are on the service list. Such documents containing Critical Energy Infrastructure Information shall be additionally marked "Contains Critical Energy Infrastructure Information -- Do Not Release". For anything filed under seal, redacted versions or, where an entire document is protected, a letter indicating such, will also be filed with the Commission and served on all parties on the service list and the Presiding Judge. Counsel for the producing Participant shall provide to all Participants who request the same, a list of Reviewing Representatives who are entitled to receive such material. Counsel shall take all reasonable precautions necessary to assure that Protected Materials are not distributed to unauthorized persons.

If any Participant desires to include, utilize or refer to any Protected Materials or information derived therefrom in testimony or exhibits during the hearing in these proceedings in such a manner that might require disclosure of such material to persons other than reviewing representatives, such participant shall first notify both counsel for the disclosing participant and the Presiding Judge of such desire, identifying with particularity each of the Protected Materials. Thereafter, use of such Protected Material will be governed by procedures determined by the Presiding Judge.

13. Nothing in this Protective Order shall be construed as precluding any Participant from objecting to the use of Protected Materials on any legal grounds.

14. Nothing in this Protective Order shall preclude any Participant from requesting the Presiding Judge, the Commission, or any other body having appropriate authority, to find that this Protective Order should not apply to all or any materials previously designated as Protected Materials pursuant to this Protective Order. The Presiding Judge may alter or amend this Protective Order as circumstances warrant at any time during the course of this proceeding.

15. Each party governed by this Protective Order has the right to seek changes in it as appropriate from the Presiding Judge or the Commission.

16. All Protected Materials filed with the Commission, the Presiding Judge, or any other judicial or administrative body, in support of, or as a part of, a motion, other pleading, brief, or other document, shall be filed and served in sealed envelopes or other appropriate containers bearing prominent markings indicating that the contents include Protected Materials subject to this Protective Order. Such documents containing Critical Energy Infrastructure Information shall be additionally marked "Contains Critical Energy Infrastructure Information - Do Not Release."

17. If the Presiding Judge finds at any time in the course of this proceeding that all or part of the Protected Materials need not be protected, those materials shall, nevertheless, be subject to the protection afforded by this Protective Order for three (3) business days from the date of issuance of the Presiding Judge's decision, and if the Participant seeking protection files an interlocutory appeal or requests that the issue be certified to the Commission, for an additional seven (7) business days. None of the Participants waives its rights to seek additional administrative or judicial remedies after the Presiding Judge's decision respecting Protected Materials or Reviewing Representatives, or the Commission's denial of any appeal thereof. The provisions of 18 CFR " 388.112 and 388.113 shall apply to any requests for Protected Materials in the files of the Commission under the Freedom of Information Act. (5 U.S.C. § 552).

18. Nothing in this Protective Order shall be deemed to preclude any Participant from independently seeking through discovery in any other administrative or judicial proceeding information or materials produced in this proceeding under this Protective Order.

19. None of the Participants waives the right to pursue any other legal or equitable remedies that may be available in the event of actual or anticipated disclosure of Protected Materials.

20. The contents of Protected Materials or any other form of information that copies or discloses Protected Materials shall not be disclosed to anyone other than in accordance with this

Protective Order and shall be used only in connection with this (these) proceeding(s). Any violation of this Protective Order and of any Non-Disclosure Certificate executed hereunder shall constitute a violation of an order of the Commission.

21. The addenda reflected in Attachment A are hereby incorporated by reference. In the event of conflict, the language of the addenda shall control.

It is so ordered.

Presiding Administrative Law Judge

ATTACHMENT A

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

SFPP, L.P.

§

Docket No.

NON-DISCLOSURE CERTIFICATE

I hereby certify my understanding that access to Protected Materials is provided to me pursuant to the terms and restrictions of the Protective Order in this proceeding, that I have been given a copy of and have read the Protective Order, and that I agree to be bound by it. I understand that the contents of the Protected Materials, any notes or other memoranda, or any other form of information that copies or discloses Protected Materials shall not be disclosed to anyone other than in accordance with that Protective Order. I acknowledge that a violation of this certificate constitutes a violation of an order of the Federal Energy Regulatory Commission.

By: _____

Title: _____

Representing: _____

Date: _____

**SWORN DECLARATION OF WILLIAM M. WEIMER IN SUPPORT OF TESORO
REFINING AND MARKETING COMPANY'S COMPLAINT AGAINST SFPP,
L.P.**

Pursuant to 18 U.S.C. § 1746, William M. Weimer states as follows:

1. My name is William M. Weimer. My business address is 300 Concord Plaza Drive, San Antonio, TX 78216. I am presently employed as Director of Supply Logistics for Tesoro Refining and Marketing Company (Tesoro). Based upon my personal knowledge obtained in that capacity, I state the following.

2. Tesoro owns and operates several refineries in the Western United States. Since it does not control all the pipelines that are necessary to transport crude oil to its refineries or all the pipelines that transport petroleum products from those refineries to its customers, Tesoro relies on common carrier pipelines. One of the principal common carrier pipelines that Tesoro uses is the SFPP North Line, which originates at Concord, CA and facilitates delivery to Reno, NV.

3. Over the past three years, Tesoro has shipped millions of barrels of petroleum products from Concord to Reno on the SFPP North Line. Tesoro is currently shipping

petroleum products on the North Line and intends to continue to do so in the future.

4. Tesoro therefore has a substantial economic interest in the rates SFPP has charged and continues to charge on the North Line.

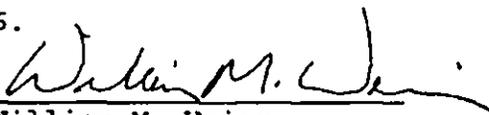
5. Between December 2004 and November 2006, Tesoro has shipped the following quantities of petroleum products in interstate commerce on the North Line:

[Privileged Information Removed]

[Privileged Information Removed]

I, William M. Weimer, hereby state under penalty of perjury that the foregoing is true and correct to the best of my information and belief.

Executed on November 29th, 2006.


William M. Weimer

UNITED STATES OF AMERICA 116 FERC ¶63,059
FEDERAL ENERGY REGULATORY COMMISSION

SFPP, L.P.

Docket No. IS05-230-000

INITIAL DECISION

(Issued September 25, 2006)

APPEARANCES

Albert S. Tabor, Jr., Esq., Andrea M. Halverson, Esq., Charles F. Caldwell, Esq., Dean H. Lefler, Esq. and Susan M. Schwager, Esq., on behalf of SFPP, L.P.

Gordon Gooch, Esq. and Elisabeth R. Myers, Esq. on behalf of BP West Coast Products LLC and ExxonMobil Oil Corporation.

Melvin Goldstein, Esq. and Matthew Corcoran, Esq. on behalf of Tesoro Refining and Marketing Company.

Steven A. Adduci, Esq. and Judith M. Andrade, Esq. on behalf of Valero Marketing and Supply Company.

Mark Sisk, Esq., Frederick W. Jauss, IV, Esq., Kevin Bedell, Esq. and Gina Allery, Esq. on behalf of ConocoPhillips Company.

George L. Weber, Esq. on behalf of Chevron Products Company.

William W. Bennett, Esq. and Derek Anderson, Esq. on behalf of Federal Energy Regulatory Commission Trial Staff.

H. PETER YOUNG, Presiding Administrative Law Judge

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I. BACKGROUND/PROCEDURAL HISTORY

1. SFPP, L.P. (SFPP) is a jurisdictional entity that operates various pipelines transporting petroleum products throughout Texas, New Mexico, Arizona, Oregon, California and Nevada. The instant proceeding concerns only SFPP's North Line, which runs between Concord, California and Reno/Fallon, Nevada. In 2001, SFPP undertook to replace a segment of 14" diameter North Line pipe running from Concord to Sacramento, California with 20" diameter pipe. SFPP also relocated most of the new Concord-Sacramento segment to what it determined to be a less populated/less environmentally-sensitive route.

2. On April 28, 2005, SFPP filed tariff FERC No. 111 to increase its North Line rate to reflect the cost of replacing the Concord-Sacramento segment. BP West Coast Products, L.L.C. and ExxonMobil Oil Co. (together, BP/EM), Chevron Products Co., ConocoPhillips Co. and Valero Marketing and Supply Co. (collectively, CCV) and Tesoro Refining and Marketing Company (Tesoro) protested the April 28, 2005 filing on numerous grounds. These include allegations that: (1) SFPP had maintained the North Line imprudently; (2) the new 20" segment does not benefit interstate shippers; (3) the filing reflects inadequate cost support; and (4) SFPP used inappropriate throughput data to calculate the new North Line rate. Instant Docket No. IS05-230-000 is limited to the April 28, 2005 SFPP filing and the specified protests. The issues presented here cannot be resolved in such isolation, however.

3. This case is but one in a protracted series of litigation between SFPP and certain SFPP shipper customers stretching back to November 1992—a number of which remain pending before the Commission in some context or other. These disputes concern various SFPP pipelines (separately or in combination) and different timeframes, but commonly involve the same shippers and issues. The several proceedings impact one another dynamically, rendering their common issues ever more convoluted and inextricable as each persists before the Commission.

4. The additional circumstance that SFPP's capital and ownership structures have morphed markedly over the intervening years of litigation complicates matters further still. SFPP was an oil pipeline limited partnership owned by Santa Fe Southern Pacific Railroad (SFSPR) when the first complaints were filed in 1992. From 1988 through early 1998, the SFPP/SFSPR corporate relationship and capital structure remained materially unchanged: SFSPR maintained two general partnership interests and 47 percent of the limited partnership interests in SFPP through a series of wholly-owned subsidiary corporations. In March 1998, however, SFPP was acquired by KinderMorgan Energy Partnership (KMEP), a master limited partnership (MLP) already controlling several

other jurisdictional entities.¹ KMEP's acquisition of SFPP resulted in significant changes to SFPP's capital structure and balance sheet, as well as a materially different and more complex SFPP ownership structure. These changes/differences are pertinent because they are responsible in significant degree for the enduring intractableness of the issues presented both here and in the other cases with which this proceeding is intertwined.

5. The North Line was among the pipelines subsumed in a set of "global" complaints filed in 1996 against all SFPP pipelines in Docket No. OR96-2, *et al.* Later in 1996 and in 1997, shippers filed additional complaints challenging all of SFPP's FERC-jurisdictional rates and charges, including those of the North Line. *ARCO Products Co. v. SFPP, L.P.*, 82 FERC ¶ 61,043 (1998). The Commission subsequently consolidated these latter complaints into Docket No. OR96-2, *et al.*, but held the entire consolidated proceeding in abeyance because it presented essentially the same or similar issues to those still pending from the original 1992 complaints in Docket No. OR92-8, *et al.* In 2000, amended and new complaints were filed and set for hearing by the Commission. *SFPP, L.P.*, 91 FERC ¶ 61,142 (2000); *ARCO Products Co. v. SFPP, L.P.*, 92 FERC ¶ 61,244 (2000). Two more rounds of "global" complaints against all SFPP pipelines—including the North Line—followed in 2003 and 2004. These complaints were consolidated into a new Docket No. OR03-5-000; issues confined to the North Line and SFPP's Oregon Line were set for hearing in Docket No. OR03-5-001. *Chevron Products Co. v. SFPP, L.P.*, 114 FERC ¶ 61,133 (2006). That docket involves a different test year than the instant docket, but again presents essentially the same issues. The other referenced (and still pending) proceedings present at least some of those issues as well.

6. Compounding the various North Line/SFPP proceedings' entanglement with one another is the fact that a number of opinions not specifically addressing the North Line or SFPP arguably have profound implications for both. The most germane of these to the instant case trace the Commission's evolving tax allowance policy. They include, in chronological order: *City of Charlottesville v. FERC*, 774 F.2d 1205 (D.C. Cir. 1985) (*City of Charlottesville*); *Lakehead Pipeline Co., L.P.*, 71 FERC ¶ 61,338 (1995) (*Lakehead*), *reh'g denied*, 75 FERC ¶ 61,181 (1996) (*Lakehead II*); *SFPP, L.P.*, Opinion No. 435, 86 FERC ¶ 61,022 (1999), *order on reh'g*, Opinion No. 435-A, 91 FERC ¶ 61,135 (2000), *order on reh'g*, Opinion No. 435-B, 96 FERC ¶ 61,281 (2001), *order on reh'g*, Opinion No. 435-C, 97 FERC ¶ 61,138 (2001); *BP West Coast Prods., LLC v. FERC*, 374 F.3d 1263 (D.C. Cir. 2004) (*BP West Coast*); *Policy Statement on Income Tax Allowances*, 111 FERC ¶ 61,139 (2005) (*Policy Statement*); *SFPP, L.P.*, 111 FERC ¶ 61,334 (2005) (June 1 Order); *SFPP, L.P.*, 113 FERC ¶ 61,277 (2005) (December 16 Order).

¹ KMEP's general partner is Kinder Morgan GP, Inc. (KMPG), a non-jurisdictional subchapter C corporation.

7. In *BP West Coast*, the U.S. Court of Appeals reversed and remanded Commission orders in Docket No. OR92-8, *et al.* Though not concerned with North Line rates specifically, those orders had granted SFPP an income tax allowance under the tax allowance policy established in *Lakehead/Lakehead II* despite the fact that SFPP, a limited partnership pass-through entity, did not itself actually pay any income taxes.² The court, however, found that granting an income tax allowance to an entity that did not itself pay any costs the allowance was intended to reimburse was impermissible, and remanded the issue to the Commission for further action. The *Policy Statement* was issued in response to the *BP West Coast* remand, and was based in substantial part on comments received by the Commission in response to a general notice of inquiry concerning the appropriateness of granting income tax allowances to regulated utility partnerships or similar pass-through entities.³ In it, the Commission stated that a pass-through entity legitimately may claim an income tax allowance if its owner(s) can demonstrate an “actual or potential income tax liability on the public utility income earned through the [ownership] interest.” *Policy Statement* at P 1.

8. The June 1 Order also was issued in response to the *BP West Coast* remand, and indicated that the Commission would apply the *Policy Statement* instead of *Lakehead/Lakehead II* in Docket No. OR92-8, *et al.* and Docket No. OR96-2, *et al.* The December 16 Order, in turn, examined whether SFPP had satisfied the *Policy Statement* standard for claiming income tax allowances in those dockets.⁴ The Commission concluded the record was insufficient in that regard due to changes made to the applicable legal

² The prior policy, established in *City of Charlottesville*, presupposed corporate ownership of a jurisdictional pipeline by a tax-paying subchapter C corporation, and determined the pipeline’s tax allowance in accordance with the corporate owner’s income tax liability attributable to the pipeline’s jurisdictional activities. The policy essentially imputed the income tax liability stemming from the pipeline’s jurisdictional activities as a “second-tier” cost to the corporate owner(s), and granted the pipeline a pass-through rate allowance to reimburse the corporate owner(s) for paying a commensurate income tax. The policy did not contemplate jurisdictional pipeline ownership by pass-through entities that themselves paid no tax on the pipeline’s jurisdictional activity income. *Lakehead/Lakehead II* essentially imputed the income tax liability attributable to the pipeline’s jurisdictional activities as a “third-tier” cost to the pass-through entity’s corporate owner(s) in proportion to percentage ownership interest.

³ *Inquiry Regarding Income Tax Allowances*, Docket No. PL05-5-000, Request for Comments (December 2, 2004).

⁴ The December 16 Order also addressed a number of other relevant cost-of-service issues, including SFPP’s return on equity (ROE), capital structure, Purchase Accounting Adjustments (PAA), debt categorization, and overhead and litigation cost allocations.

standard after the record had closed, and directed SFPP to file additional information to assist the Commission in determining the appropriate allowance. The *Policy Statement*, June 1 Order and December 16 Order all were issued during the course of the instant proceeding—the December 16 Order just weeks prior to hearing commencement.⁵

9. The hearing was conducted from January 24, 2006 through February 16, 2006. The evidentiary record closed on March 8, 2006. Initial briefs were filed on April 3, 2006; reply briefs were filed on April 24, 2006.

II. ISSUE ANALYSES

A. Is SFPP’s North Line Expansion In California “Used And Useful” To Interstate Service?

Participant Positions

SFPP

10. SFPP contends as a threshold matter that Concord-Sacramento replacement segment costs are recoverable in North Line rates because the new segment is “used and useful” to North Line interstate service. On SFPP’s account, the Commission employs the “used and useful” test exclusively to ensure that utility rate base only includes assets that actually have been put into service. SFPP argues the “used and useful” standard has been satisfied insofar as the 20” Concord-Sacramento replacement segment is concerned because the segment has been completed and currently is utilized to ship every barrel transported under the North Line rates at issue in this proceeding.

11. SFPP dismisses Commission Trial Staff (Trial Staff) and BP/EM allegations that the 20” Concord-Sacramento replacement segment fails the “used and useful” test. SFPP first reiterates its contention that the 20” segment necessarily satisfies the “used and useful” standard because every interstate barrel the North Line transports passes through it. In addition, SFPP maintains that it replaced the old 14” segment because the pipe was aging, not to increase capacity. It argues no participant has demonstrated that replacing the 14” segment was unnecessary, and that the 20” replacement segment is “used and useful” on additional bases as well: interstate shippers currently benefit from the 14” to 20” capacity expansion, and population growth trends likely will lead to increased interstate throughput in the future.

12. SFPP argues further that no participant has demonstrated the old 14” Concord-Sacramento segment was imprudently maintained. SFPP states that although Tesoro

⁵ No participant requested leave to supplement the record in this proceeding to address the December 16 Order prior to hearing commencement.

introduced U.S. Department of Transportation (DOT) documents discussing releases from various SFPP lines, the documents do nothing to establish SFPP imprudence because they neither evaluate SFPP's management decisions/maintenance practices nor demonstrate that SFPP failed properly to maintain the pipeline.

13. SFPP also contends the underlying decision to construct the 20" Concord-Sacramento replacement segment was prudent. SFPP submits that a party claiming costs to have been imprudently incurred must establish "serious doubt" with respect to prudence by showing some standard of good engineering judgment or some norm of prudent utility behavior was violated. SFPP emphasizes that an affirmative burden to establish prudence is imposed on the utility only after a challenging party establishes such doubt. SFPP maintains no participant has demonstrated that SFPP acted imprudently either in deciding to build or in constructing the 20" replacement segment. According to SFPP, just the opposite is true: the record reflects un rebutted evidence demonstrating it was prudent for SFPP to replace the old 14" pipe with a relocated 20" segment.

Trial Staff

14. Trial Staff asserts SFPP has failed to demonstrate the Concord-Sacramento replacement segment is "used and useful" in providing interstate service. Trial Staff notes the old 14" segment had adequate capacity to satisfy past and present interstate shipper demands, adding SFPP has demonstrated neither that the replacement segment reduces costs to such shippers nor that they receive any benefit from the new segment's expanded capacity. Trial Staff also alleges that SFPP purposefully conflates the "used and useful" test with the "prudence" test in an attempt to support the inappropriately narrow rate recovery inquiry SFPP advocates. On Trial Staff's account, a prudently constructed asset may fail the "used and useful" test, and the fact that an asset is used to provide a service does not necessarily render it useful in providing that service.

BP/EM

15. BP/EM also assert the Concord-Sacramento replacement segment is not "used and useful" in providing North Line interstate service. BP/EM first characterize SFPP's emphasis on prudence as a "straw man" argument intended to divert attention—and the burden of proof—away from the appropriate "used and useful" analysis and SFPP. This point notwithstanding, BP/EM submit that if prudence is to be considered, it should be done in the context of whether SFPP's pre-replacement management decisions, pipeline operations and maintenance practices were responsible for the 14" segment's deterioration in the first place, not whether it thereafter was prudent for SFPP to replace and relocate the deteriorated segment. Turning to the "used and useful" issue, BP/EM underscore the circumstance that replacing the old 14" Concord-Sacramento segment with a 20" segment did not increase North Line capacity east of Sacramento—i.e. the

line's interstate capacity. BP/EM thus claim the new 20" Concord-Sacramento segment leaves interstate shippers in an identical situation to when they shipped on the old 14" segment and, as a consequence, neither the new pipe nor its increased capacity legitimately may be characterized as useful to interstate shippers. BP/EM therefore conclude that any increased cost associated with the new segment cannot be reflected in North Line interstate rates because the segment fails the "used and useful" test. Instead, BP/EM argue that interstate shippers should continue to pay the rates they paid to ship on the old 14" segment.

Tesoro

16. Tesoro initially deferred to other shippers and Trial Staff on this issue, but on reply brief argues the Concord-Sacramento replacement segment fails the "used and useful" test because that test is part of the prudent investment theory, and reasonable utility management would not have incurred the replacement costs at issue. Tesoro concedes that SFPP's decision to construct the 20" replacement segment was motivated by problems on the 14" segment, but attributes those problems to imprudent SFPP pipeline management and maintenance. Moreover, according to Tesoro, SFPP inadequately manages and maintains the 20" replacement segment as well. Tesoro relies on extensive DOT hazardous release documentation to support these claims. This evidence, in Tesoro's view, conclusively demonstrates that SFPP imprudence underlay the need to replace the old 14" segment and, by extension, no part of the 20" replacement segment should be deemed useful to North Line interstate shippers.

Discussion/Analysis

17. The "used and useful" standard is an element of the "prudent investment" theory, and generally prescribes that an asset may be included in utility rate base only if the asset provides current service to the ratepayers who are asked to pay for it. *See, e.g., New England Power Co.*, 42 FERC ¶ 61,016 at 61,078 (1988). Strictly speaking, the "used and useful" standard is subsumed within the broader "prudent investment" standard, not the other way around. This implies that BP/EM is correct in taking the position that prudence is not at issue here. The Joint Stipulation of Contested Issues controlling the parameters of this proceeding supports the same conclusion. It specifies as the threshold issue "Is SFPP's North Line Expansion in California 'Used and Useful' to Interstate Service?" Tr. 74. Nowhere does it suggest a prudence component to the used and useful inquiry.⁶ *Id.* at 74-92. Still, it is difficult to conceive how the 20" replacement segment

⁶ The Joint Stipulation of Contested Issues addresses prudence in the context of SFPP's *system-wide* security and integrity maintenance history under Issue E. In addition to imposing the entire cost of replacing the 14" Concord-Sacramento segment on SFPP, Tesoro proposes specific disallowances for environmental management and remediation expenses from SFPP's proposed cost of service and a return on equity (ROE) at the low

anything but replace and relocate the 14" segment in light of the prevailing circumstances.

20. Tesoro and BP/EM allege the 14" Concord-Sacramento segment's poor condition was attributable to SFPP's imprudent North Line operation and maintenance practices. If true, these allegations would nullify any conclusion that the costs of replacing/relocating the 14" segment were prudently incurred and therefore should be reflected in North Line rates. Although it undoubtedly was prudent for SFPP to replace/relocate the deteriorated 14" pipe in 2001, it would be inappropriate to include the cost of doing so in rates if imprudent SFPP management decisions, pipeline operations and maintenance practices were responsible for the 14" segment's deterioration in the first place. The record before me, however, provides inadequate support for the conclusion imprudent SFPP management decisions, pipeline operations or maintenance practices were the proximate cause of the 14" segment's deterioration, hence the need to replace/relocate it.

21. There is no suggestion the 14" segment was improperly routed in 1967. SFPP therefore cannot reasonably be held responsible for subsequent population growth along the old 14" segment's route. Neither can it reasonably be held responsible for post-1967 determinations that the old 14" segment traversed environmentally sensitive areas. It follows that any incremental costs exclusively attributable to the need to relocate the Concord-Sacramento segment cannot be deemed imprudent—even if the cost of replacing the deteriorated 14" pipe is deemed imprudent.

22. The evidence concerning SFPP's pipeline operation and maintenance practices is suggestive of imprudence but does not establish "serious doubt" with respect to prudence—particularly insofar as the old 14" segment is concerned. Most of the documents submitted to establish imprudent SFPP pipeline operation or maintenance practices implicate the 20" replacement segment, other North Line segments or discrete SFPP pipelines rather than the 14" segment to which the instant inquiry necessarily must be directed. See generally Ex. TES-28; Ex. TES-29; Ex. TES-37; Tr. 652-62. See also Ex. TES-20; Ex. TES-21; Ex. TES-22. Moreover, the evidence specifically directed to the 14" segment generally documents hazardous releases attributable to outside mechanical force (i.e. third-party) damage or pipeline corrosion. See, e.g., Ex. TES-28 at 2-3. That evidence reflects some criticism of SFPP failures to detect such damage and corrosion, but it does not attribute those failures to SFPP neglect, charge any SFPP misfeasance in maintaining or operating the 14" segment or allege any pipeline integrity management rule violations. Ex. TES-28 at 1, 3; Ex. TES-36. As a consequence, it does little to demonstrate SFPP imprudence insofar as the 14" Concord-Sacramento segment is concerned. Even the single relevant event for which SFPP admitted accountability by pleading guilty to two misdemeanor counts of discharging diesel fuel into an environmentally sensitive marsh and two additional misdemeanor counts of failing promptly to report the spill proves nothing more than the empirical facts the discharge

occurred and SFPP conceded it had failed to report the discharge in a timely manner.⁷ See Ex. TES-28 at 1, 3; Ex. TES-38; Ex. TES-39. I therefore find and conclude the record before me falls far short of establishing “serious doubt” as to whether SFPP’s 14” Concord-Sacramento segment operation or maintenance practices were prudent. It follows that the cost of replacing (in addition to relocating) the 14” segment may be included in North Line interstate rates provided SFPP⁸ demonstrates the replacement segment is currently “used and useful” to North Line interstate shippers.

23. I reject as overly liberal the “used and useful” interpretation proposed by SFPP. SFPP essentially contends the “used and useful” standard is satisfied if an asset is merely constructed and placed into service. This interpretation is patently incorrect since it would reduce the “used and useful” standard to a single prong (i.e. “used”) standard. As Trial Staff correctly points out, an asset may be used to provide service without being useful in providing the service. The question here is not whether the 20” replacement segment is used to provide interstate service on the North Line. The replacement segment is undeniably a *sine qua non* of current interstate service since every interstate barrel shipped over the North Line must first pass through the Concord-Sacramento portion of the pipeline. Ex. SFN-1 at 2; Ex. BPX-45. The question here concerns whether the 20” replacement segment is currently used *and useful* in providing interstate service.

24. BP/EM and Trial Staff emphasize the fact that expanding the Concord-Sacramento segment’s capacity from 14” to 20” did not increase the North Line’s interstate capacity because SFPP did not expand the capacity of any other North Line segment east of Sacramento.⁹ Since each of these segments has less than 14” of capacity,¹⁰ BP/EM and Trial Staff conclude that none of the 20” replacement segment’s expansion capacity conceivably may be deemed either used or useful to current interstate ratepayers.

⁷ SFPP claims it entered into a plea bargain on these four counts to avoid further litigation. Ex. SFN-1 at 4. Notably, the permitting process to relocate the Concord-Sacramento segment to its present route was long underway when the discharge occurred in April 2004. *Id.*

⁸ In contrast to the preceding prudence inquiries, in which the initial burden of proof fell on those alleging imprudence, the “used and useful” inquiry imposes the burden of proof on the rate inclusion proponent: SFPP.

⁹ BP/EM contends that the 20” replacement segment actually reduced North Line interstate capacity because a Sacramento booster station was shut down as unnecessary to serve current interstate demand. See Tr. 803. I do not find this contention persuasive.

¹⁰ The North Line segments east of Sacramento have capacities ranging from as little as six inches to as much as twelve inches.

25. SFPP counters that the 20" replacement segment is "used and useful" to interstate shippers because: (1) interstate demand is expected to increase due to projected population growth east of Sacramento; (2) the incremental cost of constructing a 20" replacement segment more than doubled the Concord-Sacramento segment's actual transportation capacity and therefore was more cost-effective than constructing a 14" replacement segment; (3) the 20" replacement segment enhances overall North Line reliability because the 20" segment will require less major maintenance than the original 14" segment; (4) the 20" replacement segment has lower power and drag reducing agent (DRA) costs than the 14" segment; (5) the 20" replacement segment reduces the probability that over-subscription on the intrastate (Concord-Sacramento) segment of the North Line will result in pro-ration to interstate (east of Sacramento) destinations.¹¹ SFPP adds it would be inequitable—and a windfall to interstate shippers—to impose the entire cost of the 20" replacement segment on intrastate shippers since it is impossible to provide North Line interstate service without using the Concord-Sacramento segment.

26. The applicable standard is whether the 20" replacement segment is presently "used and useful" to interstate shippers. I therefore reject any contention that the 20" replacement segment satisfies the standard on account of anticipated increases in interstate demand or reduced probability that intrastate over-subscription prospectively may result in interstate pro-ration. These are speculative *future* events, and therefore establish no present use or usefulness to interstate shippers.¹² The same holds true for any cost efficiency associated with SFPP's decision to more than double the Concord-Sacramento segment's actual transportation capacity by investing in a 20" replacement pipe instead of a 14" pipe. That investment very well may have secured SFPP and interstate shippers future cost savings. Potential—even probable—future cost/rate savings, however, do not satisfy the present use requirement. Similar reasoning applies to the claim that 20" replacement segment enhances overall North Line reliability because it will require less major maintenance than the original 14" segment. First, this claim begs the question of why a 14" replacement segment would not achieve the same result. Second, the claim is again prospective and speculative: although it seems reasonable to presume a new pipe will have fewer major maintenance problems than a 34-year-old one, there is no way currently to determine whether time will bear out this presumption, and the record suggests just the opposite. *Compare* Ex. TES-31 *with* Ex. TES-32 and *compare* Ex. TES-34 *with* Ex. TES-35. *See also* Ex. TES-37. Finally, it is uncertain whether SFPP's assertion that the 20" replacement segment has lower power

¹¹ SFPP artfully crafts some of these rationales to create the impression that it is contrasting the 20" replacement segment with a 14" replacement segment when in fact it is contrasting the 20" replacement segment with the old 14" pipe.

¹² There was no history of pro-rationing on the old 14" Concord-Sacramento segment. *See, e.g.,* Ex. TES-26 at 2 [PROTECTED].

only if and when the associated capacity proves “used and useful” to interstate shippers—most likely when SFPP expands capacity on the North Line segments east of Sacramento. In the meantime, if SFPP desires to recover the cost associated with its 6” Concord-Sacramento expansion capacity investment, it must seek to do so from the only ratepayers who could possibly benefit from that investment at this time: intrastate shippers.

29. Problematic is how to quantify the costs attributable to only 14” inches of the replacement segment’s capacity when the record has not been developed in a manner consistent with that objective. The simplest option would be to rule SFPP has failed to satisfy its burden of proof on this issue—which is technically accurate since SFPP made a case for including a 20” Concord-Sacramento replacement segment in rates, not a 14” segment—and deny any rate recovery whatsoever. Having determined it was prudent for SFPP to replace and relocate the old 14” Concord-Sacramento segment, however, it hardly seems just or reasonable to impose such a harsh result. A more equitable solution would be to permit only 70% (14/20) of the replacement segment costs to be included in North Line interstate rates. I nevertheless recognize this solution could easily either overcompensate or undercompensate the legitimate cost of replacing/relocating the 14” Concord-Sacramento segment to a significant degree. Accordingly, I believe the best course is to establish a rebuttable presumption that 70% of the replacement segment costs legitimately may be included in North Line interstate rates, and to require SFPP to make a prompt¹⁵ compliance filing reasonably demonstrating the cost SFPP would have incurred had it constructed a 14” replacement segment instead of the 20” segment. I believe it is reasonable to establish a second rebuttable presumption that costs attributable to relocating the segment would not vary based on the 20”/14” capacity differential. And while interstate shippers should have a meaningful opportunity to rebut these presumptions in a concurrent or responsive filing,¹⁶ I am loathe to prolong/complicate yet another SFPP docket’s final resolution with further hearing procedures. Instead, the Commission should determine what—if any—adjustment to the 70% presumption is appropriate based on the compliance filings.

¹⁵ Since SFPP failed to make the appropriate record on this issue, I do not consider it unreasonable to require the compliance filing within 45 days of the Commission order (or reconsideration order) concerning this Initial Decision.

¹⁶ Any responsive filing should be required within a maximum of 45 days, and preferably within 30 days.

B. In Determining the Allowed Return in this Case, What is the Appropriate Rate Base?

1. Whether SFPP’s Proposed Rate Base For Designing Its North Line Rate Is Justified And Appropriate? If Not, What Are The Appropriate Rate Base Modifications For Designing SFPP’s Test Year North Line Rate?

Participant Positions

SFPP

30. SFPP asserts it calculated rate base in accordance with Commission oil pipeline ratemaking precedent. SFPP consequently maintains it has demonstrated its proposed rate base is justified, appropriate and should be used to calculate the North Line interstate rate.

Trial Staff

31. Trial Staff submits the appropriate rate base for oil pipelines is net depreciated trended original cost. On Trial Staff’s account, pipelines constructed in 1983 or before are entitled to add new assets to rate base at original cost so long as a one-time adjustment is made to account for a change from the reproduction cost methodology utilized by the Interstate Commerce Commission (ICC) when that agency regulated oil pipelines. The adjustment involves (i) multiplying debt ratio against depreciated original cost and (ii) multiplying equity ratio against depreciated reproduction cost—the sum of the two operations comprising the starting rate base.¹⁷ Except as argued under specific rate base sub-issues, *infra*, Trial Staff accepts SFPP’s proposed rate base as justified and appropriate in designing a test year North Line rate.

CCV

32. CCV also accept SFPP’s proposed test year North Line rate base, save two exceptions discussed under specific rate base sub-issues: (1) the 1998-2004 capital structure calculations impacting SFPP’s deferred return calculation; and (2) the amortization rate calculation.

BP/EM

33. BP/EM address this issue only insofar as they contend the 20” Concord-Sacramento replacement segment fails to satisfy the “used and useful” standard and

¹⁷ The same depreciation percentage is used in both components of the adjustment.

therefore must be excluded from rate base in its entirety. BP/EM instead advocate restoring the costs removed from rate base due to the old 14" segment's retirement.

Discussion/Analysis

34. All but the issue addressed here by BP/EM are discussed subsequently under more specific topics. Insofar as that single issue is concerned, I previously ruled the 20" Concord-Sacramento replacement segment is "used and useful" to interstate shippers—albeit to an indeterminate degree at this stage. I therefore summarily reject BP/EM's contention that the cost of the 20" replacement segment must be removed from North Line rate base and substituted with the cost previously removed due to the old 14" segment's retirement. The appropriate rate base for calculating North Line interstate rates presumptively shall include 100% of the cost associated with relocating the Concord-Sacramento segment and 70% of the cost of associated with constructing the 20" replacement segment, as those figures may be adjusted by the Commission upon consideration of the previously-specified compliance filings.

2. Whether SFPP's Proposed Starting Rate Base For Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Cost-Of-Service Treatment For SFPP's Starting Rate Base In Designing SFPP's Test Year North Line Rate?

35. The Commission adopted a trended original cost (TOC) rate base formula in *Williams Pipe Line Company*, 31 FERC ¶ 61,377 (1985) (Opinion No. 154-B). The TOC formula replaced the valuation formula previously applied to oil pipelines by the ICC. The transition required the Commission to establish a going-forward value or "starting rate base" (SRB) for existing plant by making a one-time upward adjustment. The adjustment essentially multiplies equity rate base by the rate of return inflation factor to derive a rate base "write-up." The pipeline amortizes this write-up over the existing plant's remaining life in the same manner as depreciation; it also is allowed to earn a return on the write-up balance until the balance is fully amortized.

Participant Positions

SFPP

36. SFPP maintains it calculated the SRB write-up in accordance with Opinion No. 154-B.¹⁸ It vigorously disputes the Trial Staff/Tesoro suggestion that the write-up should not be included in rate base simply because it will be fully amortized in late 2008. According to SFPP, the amount of time remaining until the write-up balance fully

¹⁸ SFPP concedes the calculation reflects a \$29,000 error identified by Trial Staff. Ex. S-4 at 85-86 [PROTECTED]; Ex. SFN-49 at 31-32.

amortizes is crucial in determining whether that rate component should be removed. SFPP stresses that in this case the write-up will not be fully amortized until over three and one-half years after SFPP filed the North Line rate at issue. It submits that excluding the write-up in this circumstance equates to converting a 25 year amortization period into a 21 year period. SFPP adds that the Commission's test period principles contemplate adjustments for known and measurable changes that will occur up to only nine months after the end of the base period, not for changes occurring approximately four years after the base period ends.

Trial Staff

37. Trial Staff opposes including the SRB write-up in rate base. Instead, it advocates imposing a declining annual surcharge on ratepayers to recover the equivalent of the write-up return balance over four years. Trial Staff analogizes the write-up balance to a non-recurring item, also emphasizing it is a comparatively minor and declining rate base component. Trial Staff maintains that including this declining/foreseeably expiring component in rate base will artificially (and indefinitely) inflate North Line rates because the base period balance will continue to generate undiminished return until the line's next rate case—potentially long after the write-up is fully amortized. Trial Staff underscores the fact the Commission adopted a similar surcharge for an expiring East Line rate component in Opinion No. 435-B.

Tesoro

38. Tesoro echoes Trial Staff's suggested imposition of a declining annual surcharge to recover the write-up return balance over four years.¹⁹ Tesoro disputes SFPP's contention that excluding the write-up because it will be fully amortized in late 2008 equates to converting a 25 year amortization period into a 21 year period, claiming the contention ignores Staff's proposed surcharge.

Discussion/Analysis

39. SFPP accepts Trial Staff's \$29,000 adjustment to the SRB calculation. Ex. SFN-49 at 31-32. I therefore find and conclude the adjustment is appropriate. In contrast, I consider Trial Staff's proposal to impose a four year declining annual surcharge on ratepayers in lieu of reflecting the SRB write-up in rate base to be inappropriate. Trial Staff's attempt to analogize the write-up to a non-recurring charge is unavailing. It has been reflected in North Line rates for more than 21 years. Tr. 2037-38. The fact that less than four years of the initial 25 year amortization period now remain does not transform the write-up into a non-recurring item. True, the write-up balance declines annually, and this characteristic will inflate North Line return on equity to some degree because the

¹⁹ Tesoro also cites the calculation error referenced in footnote 18, *supra*.

embedded base period figure will remain constant while the write-up continues to amortize. But Trial Staff itself concedes that the embedded write-up is small in any event—indeed, this is Trial Staff’s principal justification for removing it from rate base. Moreover, the interim until SFPP will file its next North Line rate case is pure speculation at this point.²⁰

40. More important, removing the SRB write-up from North Line rate base at this time would contravene one of the most integral Commission ratemaking principles. The purpose of the Commission’s base/test year benchmarks is to provide a reasonable prospective framework to set rates. The framework anticipates that rates may be skewed by future events. It therefore specifies a nine month test period within which reasonably known and measurable future changes may impact rate base/return on equity. See 18 C.F.R. § 346.2 (a) (1) (ii) (2006). Known and measurable changes falling outside this nine month period presumptively may not be considered—except, for good cause shown, the Commission may allow reasonable deviation from the nine month limitation. *Id.* Key here is the *reasonable* proscription. A workable ratemaking paradigm requires rate base to be determined at some reasonably fixed point in time. Although it may have been quite reasonable for the Commission to have deviated from the nine month limitation by three months under arguably analogous circumstances in Opinion No. 435-B, the deviation which Trial Staff advocates here is somewhere between 3½ and 4 years. If that is appropriate, why not 5 years? Why not 10? The obvious answer is ratemaking requires some reasonable limitation on taking future events into account. Commission regulations establish the presumptive limitation at nine months. The record before me provides no legitimate basis to deviate from it to the degree Trial Staff advocates. I therefore find and conclude the SRB write-up reflected in SFPP’s filing should be used to calculate North Line rates in this proceeding.

²⁰ I note, however, that the record suggests such a filing will happen sooner rather than later due to projected population growth (and capacity expansion) on the North Line east of Sacramento—particularly in light of this Initial Decision’s 6” excess capacity disallowance for the Concord-Sacramento replacement segment. Moreover, the Commission may act *sua sponte* at any time in the future if it believes North Line rates become unjust or unreasonable due to the SRB write-up component.

3. Whether SFPP's Proposed Inflation-Adjusted Deferred Return In Developing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Inflation-Adjusted Deferred Return For Designing SFPP's Test Year North Line Rate?

Participant Positions

SFPP

41. SFPP states Opinion No. 154-B requires the equity return inflation component to be extracted and amortized over the life of the pipeline rather than recovered in the year it was earned, asserting that its North Line deferred return calculation is consistent with the Commission's decisions in Opinion No. 435 and Opinion No. 435-A. SFPP maintains Trial Staff's interpretation of those opinions is flawed, and Trial Staff's recommended inflation rate is incorrect as a consequence. SFPP claims it demonstrated this flaw in rebuttal testimony which Trial Staff made no attempt to rebut through cross-examination.

Trial Staff

42. Trial Staff submits the Opinion No. 154-B ratemaking approach defers a portion of each year's equity return to future periods by applying an inflation factor to three variables: (1) the equity portion of original cost rate base, (2) net SRB write-up, and (3) accumulated net deferred return. On Trial Staff's account, the resulting deferred return is added to a future year's rate base as part of the accumulated net deferred return on which future return is calculated; current deferred return is simultaneously amortized over the pipeline's remaining life. Trial Staff emphasizes that deferred return is calculated by applying the prior year's inflation factor to the equity portion of that year's SRB write-up, but at the start of the current year. The calculus, according to Trial Staff, matches prior year inflation to prior year rate base. Trial Staff contrasts this scenario with SFPP's methodology, which it casts as mechanically miscomputing deferred return by matching current year inflation to prior year equity SRB. Trial Staff alleges that SFPP concedes the inflation factor and SRB write-up years must match, but does not compute inflation-adjusted deferred return in accordance with that concession.

CCV

43. Insofar as SFPP's capital structure relates to deferred return, CCV take the position that it should be adjusted to remove the 1988 PAA resulting from KMED's acquisition of SFPP. CCV argue SFPP did not dispute this position on initial brief, and therefore should be deemed to have conceded and accepted the CCV position because SFPP was required to "open fully" on initial brief.

Discussion/Analysis

44. CCV’s position concerning the 1988 PAA is addressed under Issue C-3. Accordingly, I will not discuss it here except to the extent CCV argue SFPP should be deemed to have conceded and accepted CCV’s position because SFPP did not dispute that position on initial brief. SFPP addressed the 1988 PAA in its initial brief under Issue C-3. See SFPP IB at 19-20. Moreover, as I previously ruled in response to CCV’s April 28, 2006 motion to strike/disregard portions of SFPP’s reply brief for the same reason CCV raise here:

SFPP was under no obligation in its initial brief to attempt to anticipate, address or rebut any testimony, evidence or argument which might have been advanced at hearing or in opposing initial briefs to undercut SFPP’s case-in-chief. Bearing the burden of proof, the objective of SFPP’s initial brief necessarily was to demonstrate that SFPP had satisfied the burden of affirmatively proving its case, not to answer challenges to that case...The appropriate place for SFPP to address such rebuttal evidence and argument was in its reply brief. This holds true irrespective of whether SFPP knew or reasonably could have anticipated the rebuttal evidence and argument advanced by other participants at hearing or in initial briefs.

Order on Motion to Strike or Disregard Portions of Reply Brief at P 2, Docket No. IS05-230-000 (May 3, 2006). I find and conclude SFPP satisfied its obligation to “open fully” on initial brief for all the preceding reasons.

45. I also reject Trial Staff’s contention SFPP erred by not calculating each year’s deferred return by multiplying the prior year’s trended rate base by the prior year’s inflation factor. First, Trial Staff’s reliance on Opinion No. 154-B is misplaced. Opinion No. 154-B’s inflation rate discussion specifically states “[w]hat is important is that the index used to decrease the nominal equity rate of return is also used to increase the equity rate base.” 31 FERC at 61,835. Under Trial Staff’s approach, however, the annual capitalized return component does not coincide with annual nominal return. Ex. SFN-49 at 34-35. And while Opinion No. 154-B states in a footnote that the prior year’s inflation rate would be used as the current year’s estimated rate—hence rate base would be written up at the start of the current year rather than the end—the footnote simply expands on the main text discussion concerning *which* inflation index should be used in the first place, and applies only if a CPI or GNP deflator is selected. 31 FERC at 61,835, n. 35. It does not mandate the calculus Trial Staff endorses. Further, Opinion No. 435 specifically addresses the inflation rate SFPP should apply—albeit in the context of the East and West Lines. That opinion states the inflation rate used to determine the portion of equity cost of capital that should be capitalized is “the actual inflation rate in the year in which the investment is made.” 86 FERC at 61,091. SFPP logically has extended this same methodology to the North Line. Ex. SFN-28 at 9-10; Ex. SFN-49 at 34. It would be

inconsistent to do otherwise. I therefore find and conclude SFPP has applied the proper inflation rate in this case.

4. Whether SFPP's Proposed Methodology For Calculating Each Year's Deferred Return Is Justified And Appropriate? If Not, What Is The Appropriate Methodology For Calculating Each Year's Deferred Return In Designing SFPP's Test Year North Line Rate?

46. The income tax allowance now begins to complicate matters. Although the allowance is discussed in greater detail under subsequent issues, a simplified summary is attempted here. The income tax allowance impacts SFPP's debt/equity ratio (i.e. capital structure) for ratemaking purposes. The allowance skews the true capital structure in a manner that inflates the implied interest expense. This inflation artificially lowers the return on equity. The lower return on equity, in turn, under-recovers the income tax allowance. The Opinion No. 154-B/Opinion 435-A solution to this circular problem is to calculate the debt/equity ratio with deferred return—which has an embedded debt component—transferred entirely to the equity side of the TOC rate base.²¹

Participant Positions

SFPP

47. SFPP contends it calculated deferred return using the methodology prescribed in Opinion No. 154-B/Opinion No. 435-A. SFPP believes the only issue concerning its deferred return calculus not previously addressed under Issue A-3 is Trial Staff's proposal to depart from that methodology insofar as the adjustment to capital structure to account for deferred return is implicated. According to SFPP, Trial Staff proposes to use SFPP's actual capital structure to calculate the weighted cost of capital for determining both the overall return on rate base and the synchronized interest expense for income tax purposes. SFPP maintains Trial Staff's proposal runs contrary to the Opinion No. 154-B/Opinion No. 435-A prescription that deferred return should be treated as 100% equity as SFPP did in the North Line rate filing.

Trial Staff

48. Trial Staff concedes on initial brief that SFPP used the Opinion No. 154-B methodology except as previously discussed. On reply brief, however, Trial Staff adds

²¹ The resulting capital structure has the desired effect of imputing the same interest expense for income tax and return on rate base purposes, but it increases both the weighted cost of capital and the overall return on capital. This increased return on capital is exclusively attributable to the income tax allowance and has appreciable rate impacts.

that the use of an adjusted capital structure to determine a cost of service²² is inappropriate here because SFPP is not entitled to any income tax allowance. Trial Staff maintains denying SFPP's proposed \$2,649,000 income tax allowance and adopting Trial Staff's recommended cost of capital—two rate components which Trial Staff characterizes as distinct from deferred return—would moot the instant issue.

Discussion/Analysis

49. I find and conclude Trial Staff concedes that: (1) the Opinion No. 154-B deferred return methodology is appropriate; and (2) SFPP generally has followed that methodology insofar as deferred return is concerned. What Trial Staff disputes is whether SFPP is entitled to incorporate its proposed cost of capital and income tax allowance into the deferred return rate component. Those questions are resolved in accordance with the findings and conclusions reached under Issues C and D of this Initial Decision. I note here, however, that I see no conceptual inconsistency between Trial Staff's proposal and the Opinion No. 154-B/Opinion No. 435-A prescription that deferred return should be treated as 100% equity. SFPP's North Line deferred return is a function of both SFPP's cost of capital and its income tax allowance. If the level of either of those components changes from what is reflected in the filing, the change(s) necessarily will affect the amount of deferred return that would be treated as 100% equity in accordance with Opinion No. 154-B/Opinion No. 435-A because the change(s) simultaneously affect the underlying capital structure on which deferred return is calculated. As I understand it, Trial Staff's proposal removes the income tax allowance, thereby altering the cost of capital and leaving SFPP to use its actual capital structure in applying the Opinion No. 154-B/Opinion No. 435-A methodology. Treating deferred return as 100% equity seems incoherent under these circumstances.²³

²² Which implicitly subsumes the deferred equity component.

²³ I admit I find this issue confusing—a situation which the record does little to alleviate. I explain my understanding to provide the participants and the Commission with as clear a basis as possible for critique if my understanding—hence, the findings and conclusions it supports—is inaccurate.

5. Whether SFPP's Proposed Methodology For Calculating Its Test Period Amortization Rate Is Justified And Appropriate? If Not, What Is The Appropriate Methodology For Calculating Test Period Amortization For Designing SFPP's Test Period North Line Rate?

Participant Positions

SFPP

50. SFPP states it averaged year-end 2003 and end of test period property balances to derive a 3.31% amortization rate for test period AFUDC²⁴ and deferred return. SFPP submits this methodology "more accurately reflects test period principles" than using a year-end 2004 property balance, as Trial Staff and CCV advocate. Although SFPP concedes the Trial Staff/CCV approach is reasonable if correctly applied, SFPP contends this would require three modifications to CCV's calculations, two of which it notes Trial Staff endorses. SFPP maintains a correctly modified Trial Staff/CCV approach would increase SFPP's test period cost of service by \$95,000.

Trial Staff

51. Trial Staff counters that SFPP erred in developing a composite amortization rate by averaging year-end 2003 and end of test period (i.e. September 30, 2005) property balances. On Trial Staff's account, this approach links a relatively high depreciation expense to a relatively low plant balance, thereby exaggerating the amortization rate and, as a consequence, the cost of service. Trial Staff attributes the exaggerated amortization rate to SFPP improperly skipping over the 2004 base period in deriving the rate. Trial Staff relies on what it characterizes as the proper 2004 base period and 2005 test period figures to derive a rate of 2.67%.

CCV

52. CCV echo Trial Staff's criticism that SFPP erroneously averaged year-end 2003 and end of test period property balances to derive the 3.31% amortization rate. CCV nevertheless agree with SFPP that the error's North Line cost of service impact is minimal.

Discussion/Analysis

53. I summarily reject SFPP's claim that averaging year-end 2003 and end of test period property balances to derive the amortization rate for test period AFUDC and deferred return is preferable here because it "more accurately reflects test period

²⁴ Allowance for Funds Used During Construction.

principles” (Ex. SFN-49 at 28) than using a year-end 2004 property balance. First, the record is devoid of any explanatory or evidentiary support for that claim. More important, Trial Staff/CCV are correct that ignoring the 2004 base period in this case conveniently couples a comparatively high depreciation expense to a comparatively low plant balance, resulting in an artificially exaggerated amortization rate. It is immaterial that the cost of service impact of applying SFPP’s methodology may be negligible in this instance. The proper methodology should be used. I therefore find and conclude Trial Staff’s methodology should be used to derive the amortization rate here.²⁵ Ex. S-4 at 88-89 [PROTECTED]; Ex. S-5 at 21.

6. Whether SFPP’s Proposed Treatment Of Accumulated Deferred Income Taxes (“ADIT”) In Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Treatment Of ADIT In Designing SFPP’s Test Year North Line Rate?

Participant Positions

SFPP

54. SFPP states the ADIT reflected in its North Line rate filing was developed using the maximum corporate marginal income tax rates for all years. SFPP submits it is now necessary to adjust the ADIT reflected in the filing to conform to the income tax allowance specified in the December 16 Order. According to SFPP, the adjustment needs to be made beginning in 1989—the year the SFPP partnership initially was formed—since that is when SFPP’s income no longer was wholly consolidated on a parent company’s corporate income tax return, and consequently no longer would have been subject to tax at the presumptive maximum corporate marginal income tax rate under the December 16 Order.²⁶ SFPP maintains it did not present adjusted ADIT information in this proceeding because it would have been necessary to determine the weighted income tax rates for each year going back to 1989, a task which the December 16 Order directed SFPP to undertake in compliance filings due February 28, 2006.

55. SFPP asserts the required ADIT adjustments would have two effects on cost of service. First, they would increase rate base. This would increase deferred return, amortization of deferred return and allowed return on rate base—all of which would increase cost of service. Second, the adjustments would over-fund the portion of ADIT

²⁵ I nevertheless agree with SFPP that Trial Staff’s proposed test period amortization on the 2004 deferred return component should be doubled. Ex. SFN-49 at 29-30.

²⁶ The ADIT balances reflected in the filing are larger than they would be if calculated under the December 16 Order according to SFPP.

accrued at the maximum corporate marginal income tax rates prior to 1989. This is because a lower income tax rate would apply under the December 16 Order when the book tax timing differential reverses. SFPP suggests the over-funded amount should be amortized, with the annual amortization used to adjust the income tax allowance—likely reducing cost of service in SFPP's view. SFPP notes that annual changes to the weighted income tax rate under the December 16 Order could produce additional layers of over/under-funded ADIT depending on whether the rate decreases or increases. These additional layers would need to be amortized and used to adjust the income tax allowance on SFPP's account.

Trial Staff

56. Trial Staff emphasizes ADIT accounts for timing differences between actual tax liability computed using liberalized depreciation and book tax liability computed using straight-line depreciation. Trial Staff takes the position that because SFPP is a partnership which does not itself incur any tax liability, the tax liability timing differential for which ADIT accounts is meaningless insofar as SFPP's cost of service ratemaking for the rate-effective period is concerned. Trial Staff adds that any ADIT adjustments arising out of the December 16 Order's impact on the original SFPP rate filing in this case should be the subject of a compliance filing rather than being presented for the first time on rebuttal, as SFPP has done here.

CCV

57. CCV address this topic exclusively under Issue D-2.

BP/EM

58. BP/EM generally adopt the position that SFPP pays no income taxes, so it has none to defer. BP/EM first focus on the historical differentiation for ratemaking purposes between book depreciation and tax depreciation, noting that the differentiation survives from a time when the public utility model was purely corporate. BP/EM underscore the fact that tax depreciation occurs over a much shorter period than book depreciation and is accelerated even further by other mechanisms. The result, according to BP/EM, is that tax depreciation shelters more income from taxes than book depreciation does. The Commission mitigated this disparity's impact on ratepayers by requiring the differential to be deducted from rate base in the return calculus. It also required the differential to be deposited into an account representing prepaid utility income taxes—i.e. the ADIT account. BP/EM stress the ADIT account was no mere accounting mechanism; it accumulated actual dollars for the corporate utility by virtue of the income tax component embedded in rates. But the utility eventually would exhaust its tax depreciation, thereafter paying its corporate income taxes by drawing down the ADIT account—eventually to zero. BP/EM also point out that if the ADIT account accumulated more

than the corporation eventually would require to cover future income tax payments, the excess had to be flowed back to ratepayers.

59. BP/EM next point out what they characterize as the fatal flaw in SFPP's claim: it is not a corporation. SFPP has been a partnership since 1989. As such, SFPP itself pays absolutely no income taxes and logically cannot have any to defer. In fact, BP/EM argue, the circumstance that SFPP inappropriately has been collecting ADIT through rates since 1989 means a reckoning is required. BP/EM contend: (1) the ADIT account should be restored to its full amount by reincorporating the deductions proposed by SFPP; (2) since the ADIT account is over-funded, the entire account should be credited to income (as a negative) and as an offset to income tax liability (referencing Issue D-2-a); (3) the ADIT account should continue to be deducted from rate base (as it is now) until the account has been amortized sufficiently to offset any taxable income/income tax allowance; and (4) the cost of service should reflect the deduction of tax depreciation from the taxable allowed return proposed by SFPP (referencing Issue D-2-b).

Discussion/Analysis

60. I previously noted the December 16 Order was issued just weeks prior to hearing commencement in this docket. I also noted no participant requested leave to supplement the record here to address the December 16 Order's relevance to this proceeding prior to hearing commencement.²⁷ These are problematic circumstances for everyone involved. First, neither SFPP's North Line tariff filing nor its direct case in support of that filing accord with the order. This implies one of three alternatives: (1) SFPP's tariff filing and direct case should be evaluated without considering the December 16 Order; (2) SFPP's tariff filing and direct case should be evaluated with full consideration of the order—with which they are patently inconsistent through no fault of SFPP's; or (3) SFPP's tariff filing and direct case, as supplemented by its rebuttal case, should be evaluated in accordance with the December 16 Order. None of these alternatives is entirely satisfactory or equitable.

61. The December 16 Order specifically addresses both SFPP and many of the issues presented in this proceeding. Disregarding it surely will impede any consistent resolution among the various pending proceedings. Still, the December 16 Order was issued almost eight months after the North Line tariff filing and nearly four months after SFPP filed its direct supporting case. May SFPP reasonably be held responsible for failing to conform the tariff and direct supporting case to the order's specifications under these

²⁷ SFPP extensively referenced the December 16 Order in its January 5, 2006 rebuttal testimony. *See generally* Ex. SFN-43. Although this afforded the other participants no opportunity to challenge SFPP's reliance on the order in accordance with the procedural schedule, the hearing had been underway for two full weeks before anyone disputed its relevance/applicability here. *See* Tr. 1168-69.

circumstances? Clearly not. But should SFPP be permitted to conform its supporting case in a rebuttal context that precludes meaningful opportunity for challenge by other participants? Again, clearly not.

62. I find and conclude it would be inappropriate to disregard the *Policy Statement*, June 1 Order or December 16 Order for purposes of this proceeding. True, all were issued at inopportune points in this docket's procedural schedule and none specifically concerns the North Line. But the expediency in ignoring these intervening issuances is far outweighed by the fact that each is clearly relevant/arguably controlling here. And while it would be inequitable to penalize SFPP for failing to craft its proposed tariff and direct supporting case in accordance with subsequently issued Commission guidance/directives, it would be similarly inequitable to penalize opposing participants by permitting SFPP to preclude any meaningful opportunity for challenge by using its rebuttal case to make its direct supporting case by proxy. This holding should not be construed as approving SFPP's failure to seek immediate leave to amend its tariff filing/direct case upon issuance of the December 16 Order, or the earlier *Policy Statement* for that matter. Neither should it be construed as approving any challenging participant's failure to seek timely determinations with respect to *Policy Statement/December 16 Order* applicability here. Each side of the issue could (and should) have been more proactive in this regard, thus it would be inequitable to hold either side more accountable than the other.

63. I repeat I am loathe to prolong/complicate yet another SFPP docket's final resolution with further hearing procedures. But there appears to be no equitable alternative, save requiring SFPP to address *Policy Statement/December 16 Order* impacts on its proposed North Line tariff in the context of the compliance filing required under Issue A, *supra*.²⁸ This solution mitigates the harsh result of ruling SFPP has failed to satisfy its ADIT burden of proof—technically accurate here as well since SFPP filed a tariff and direct supporting case that calculated ADIT using the maximum corporate marginal income tax rates for all years, which is patently inconsistent with the *Policy Statement/December 16 Order*.²⁹ Moreover, SFPP already should have determined the requisite underlying weighted income tax rates for 1989 forward since the December 16 Order directed SFPP to submit that information in its February 28, 2006 compliance filings in Docket No. OR92-8 *et al.* and Docket No. OR96-2, *et al.* An ADIT compliance filing in accordance with the *Policy Statement/December 16 Order* also would afford opposing participants the meaningful opportunity to challenge SFPP's ADIT claim they

²⁸ This aspect of the compliance filing would be obviated by a final determination that SFPP is entitled to no income tax allowance.

²⁹ Even SFPP's rebuttal case fails to cure this deficiency because it lacks any adjusted ADIT data conforming to the December 16 Order. *See Ex. SFN-43* at 20-21.

have thus far been denied.³⁰ I therefore find and conclude the ADIT issue should be resolved in the context of the compliance filing required under Issue A, *supra*, and in accordance with the following analyses—assuming SFPP is entitled to an income tax allowance.

64. SFPP maintains any ADIT adjustment grounded in a partnership income tax allowance should relate back to 1989, the first year SFPP operated in partnership form.³¹ CCV and BP/EM counter that Commission policy restricts any such adjustments' effective date to the year a regulatory decision is made, in this case 2005. I agree with CCV and BP/EM. The Commission previously rejected an identical SFPP argument in Opinion No. 435, stating "Commission practice is to base its decision on the policy in effect in the year a regulatory decision is made, and then apply that decision to the time frame to which the case applies." 86 FERC at 61,093-94. The *Policy Statement* and December 16 Order both were issued in 2005. It follows that any allowable ADIT adjustments must be made prospectively, beginning on the June 1, 2005 rate effective date.³²

65. I reject BP/EM's contention that the entire ADIT account should be credited as a negative to income and as an offset to income tax liability because the account is over-funded—at least at this point in the analysis. BP/EM's position implicates the *entire* ADIT account balance. That balance has been accumulating for many years, including years prior to 1989 when SFPP relied exclusively on corporate marginal rates to estimate its income tax liability. This circumstance indicates the account currently must be over-funded to *some* degree. SFPP has not paid income taxes at corporate marginal rates since it became a limited partnership in 1989. Moreover, the ADIT account is specifically designed to over-collect actual income tax liability in earlier years. Prematurely reducing or eliminating whatever total anticipated income tax liability the accelerated accrual was collected to pay in later years necessarily generates a surplus. Quantifying that surplus, however, requires knowledge of the income tax allowance SFPP ultimately will be granted. BP/EM's position is valid only if that allowance is zero. Any non-zero allowance implies income tax liability to be paid out of the ADIT account, therefore precluding the 100% ADIT account credit/offset BP/EM advocate. It follows that a

³⁰ I see no reason to extend the timeframes specified in footnotes 15 and 16 on account of the additional ADIT issue. I note, however, the December 16 Order establishes rebuttable presumptions which may shift the burden of proof on this issue.

³¹ The SFPP limited partnership was formed December 18, 1988.

³² Whether SFPP's proposed adjustments are quantitatively appropriate necessarily must be determined from the compliance filing since SFPP submitted no data to support the conceptual adjustments proposed in its rebuttal testimony.

ruling on what the appropriate credit/offset should be must be deferred until SFPP's income tax allowance is determined.

66. I agree with BP/EM that the ADIT account should continue to be deducted from rate base until the account has been sufficiently amortized to offset any taxable income/income tax allowance. This ensures shippers will not pay a return on cost-free deferred tax capital—a situation that is exacerbated to whatever degree the ADIT account is currently over-funded.

C. In Determining the Allowed Return in this Case, What Is the Appropriate Cost of Capital?

Participant Positions

SFPP

67. SFPP proposes to calculate its test year cost of capital using a target capital structure comprised of 60% equity and 40% long-term debt, then applying the Commission's DCF methodology to a set of five MLP oil pipelines "approved" as proxy companies in Opinion No. 435. This produces an indicated test period cost of capital totaling 8.63%. On SFPP's account, the 60% to 40% equity to long-term debt ratio reflects its KMEP parent's year-end 2004 business strategy, and that ratio is well within the range previously approved by the Commission. SFPP characterizes the BP/EM, CCV and Tesoro positions on this issue as "effective abandonment" of the DCF methodology.

Trial Staff

68. Trial Staff puts SFPP's appropriate base period capital structure at 41.53% equity and 58.47% long-term debt, and the appropriate test period capital structure at 35.46% equity and 64.54% long-term debt. This produces an indicated test period cost of capital totaling 7.04%. Trial Staff dismisses SFPP/KMEP's target capital structure as irrelevant, unjustified and completely unsupported by legal precedent, emphasizing it is Commission policy to use the actual capital structure of the entity financing the pipeline so long as it produces just and reasonable rates.

BP/EM

69. BP/EM generally confine their discussion of this topic to whether cash distributions legitimately may be substituted for dividends in the DCF methodology's dividend yield formula or for purposes of calculating dividend growth, both of which are specifically addressed under Issue C-5. BP/EM cast as a corollary issue of first impression whether the MLPs included by SFPP in its proxy group are in fact eligible for such inclusion. BP/EM challenge such inclusion, endorsing instead Trial Staff's

alternative proxy group of four dividend-paying partnerships and those entities' earnings growth projections.

CCV

70. CCV describe SFPP's proposed 60% equity and 40% debt capital structure as neither reflective of SFPP's actual capital structure nor supported by relevant Commission precedent. CCV allege SFPP misinterprets test period principles, stressing that the Commission's long-established policy is to use a pipeline's actual capital structure—or its parent's actual capital structure if the parent finances the pipeline—to calculate a cost of service rate. CCV note SFPP advantageously employs its or KMEP's actual capital structure(s) for other purposes in this proceeding (e.g., AFUDC and 1994-2004 deferred return), but here disingenuously proposes an inconsistent target structure to even further advantage. CCV also question the sincerity of SFPP/KMEP's expressed commitment to a 60% to 40% equity to debt ratio in light of an allegedly inconsistent pattern of behavior dating back to 2001. Using SFPP's actual capital structure produces an indicated test period cost of capital totaling 6.95% according to CCV.

Tesoro

71. Tesoro generally emphasizes that SFPP's proposal to use a target or theoretical capital structure consisting of 60% equity and 40% debt instead of its actual capital structure artificially inflates the indicated cost of capital by between 1.62% if Trial Staff's position is adopted to as much as 2.07% if Tesoro's 6.56% cost of capital figure is accepted. Tesoro characterizes the differences as a function of varying views on subsequent sub-issues, including PAA, short-term debt inclusion, and DCF methodological assumptions—most important among these being the actual/hypothetical capital structure disparity.

- 1. Whether SFPP's Proposed Capital Structure For Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Capital Structure For Designing SFPP's Test Year North Line Rate?**

Discussion/Analysis

72. I summarily reject SFPP's proposed use of any "target" capital structure in lieu of the actual SFPP/KMEP capital structure. Using a hypothetical capital structure to calculate cost of capital—or for any other purpose—is wholly inconsistent with base/test period principles. This holds particularly true when the actual capital structure is otherwise known or readily ascertainable. *Accord* Opinion No. 154-B, 31 FERC at 61,836; Tr. 387. Further, the Commission specifically addressed this issue in the December 16 Order, concluding "SFPP's argument that KMEP had a corporate 'goal' of

40 percent debt and 60 percent equity is irrelevant. Since the 40 percent debt and 60 percent equity capital is a subjective goal, it could just as easily have been 35 percent debt and 65 percent equity. . . .” December 16 Order at P 66. The suggestion of arbitrariness is obvious. In addition, the record confirms that SFPP/KMEP behavior since the 60% to 40% equity to debt goal ostensibly was established in 2001 has been discernably at odds with achieving that goal. See, e.g., Ex. CCV-1 at 5-6 [PROTECTED]; Ex. CCV-3; Ex. TES-1 at 21 [PROTECTED]. See also Ex. SFN-28 at 12.

2. Is The Opinion No. 154-B Methodology Appropriate For Determining SFPP’s Return On Equity?

Participant Positions

SFPP

73. SFPP states it did not propose this issue, but Opinion No. 154-B and subsequent Commission decisions do not suggest any particular methodology for determining a carrier’s return on equity (such as the DCF methodology) is an integral component of the Opinion No. 154-B methodology. SFPP defers further discussion to Issue C-5, where it argues its methodology—including the use of distributions in the DCF formula—is both appropriate and upheld in the December 16 Order.

Trial Staff

74. Trial Staff maintains SFPP’s actual capital structure is the appropriate starting point under the Opinion No. 154-B methodology. Since SFPP is entitled to no income tax allowance in Trial Staff’s view, SFPP cannot use an adjusted capital structure to determine its cost of service under that methodology.

BP/EM

75. BP/EM address this issue exclusively under Issue C-5.

Tesoro

76. Tesoro claims the Opinion No. 154-B TOC ratemaking methodology includes three separate rate bases in the return computation: (1) the depreciated original cost rate base; (2) the depreciated original cost write-up subsumed in the equity portion of the starting rate base write-up; and (3) the deferred return. Tesoro relies on its Issue B-2 position insofar as starting rate base is concerned. It next characterizes the Opinion No. 154-B rationale for including deferred return as the circumstance that shippers would benefit from dividing the rate of return into a “real” rate and an “inflation” rate, with the

current cost of service reflecting the real rate and the deferred return component reflecting the inflation rate impact on the equity portion of rate base. Tesoro stresses that shippers pay an incremental equity return on the deferred return component until it is fully amortized, stating Opinion No. 154-B explained deferred return as a mechanism to allow new pipelines with high rate bases to compete against older pipelines with much lower rate bases by deferring recovery of front-end costs incurred by new market entrants. Tesoro submits it is time to revisit the blanket application of this aspect of the Opinion No. 154-B methodology—particularly as it applies to pipelines like the North Line, which face neither new market entrants nor any meaningful competition.

Discussion/Analysis

77. There is no claim the general Opinion No. 154-B methodology for determining SFPP's return on equity should not apply here. I therefore find and conclude it is appropriate for SFPP to apply that methodology to the extent its application is otherwise consistent with Opinion No. 154-B. Such consistency is principally examined in the immediately-following sections.³³ I observe here, however, that although Tesoro appears to be correct in its assertion that Opinion No. 154-B adopted the TOC ratemaking methodology primarily to enhance the competitiveness of new pipelines vis-à-vis older ones with lower rate bases, the opinion also specifically references "other modes of oil transport" and "competition generally." See 31 FERC at 61,834. Whether the North Line faces competition from other pipelines therefore is not dispositive. And while the hearing transcript reflects some suggestion the North Line does not face significant competition from other modes of oil transport, Tesoro declines to cite even that scant record evidence to support the contention it is permissible to reject the deferred return component of the Opinion No. 154-B methodology in this case, relying instead on a conclusory Initial Decision statement in a discrete proceeding. This falls far short of the Commission standard for changing an established methodology.

³³ Trial Staff's position is addressed under Issue B-4, and more comprehensively under Issue D. Tesoro's position is resolved in accordance with Issue B-2 insofar as starting rate base is concerned.

3. Whether SFPP’s Proposed Capital Structure For Designing Its North Line Rate Should Be Adjusted For Purchase Accounting Adjustments (“PAA”)? If Yes, What Are The Appropriate PAA Adjustments For Designing SFPP’s Test Year North Line Rate?

Participant Positions

SFPP

78. SFPP complains that in testimony filed prior to the December 16 Order, Trial Staff, CCV and Tesoro removed PAA pertaining to KMED’s pipeline acquisitions in their entirety from the equity portion of KMED’s capital structure, thereby artificially deflating the equity portion of that structure. SFPP maintains Paragraph 72 of the order confirms it is solely the PAA equity component that should be removed from the equity component of the acquiring company’s capital structure, but Trial Staff, CCV and Tesoro all declined to revise their testimony to reflect that principle despite being offered the opportunity to do so. SFPP also maintains deducting both the equity and debt components from the equity portion of the acquiring company’s capital structure leads to absurd results irrespective of the December 16 Order. In addition, it complains that Trial Staff, CCV and Tesoro removed PAA relating to both carrier and non-carrier property, the latter of which is non-jurisdictional. Finally, SFPP asserts Trial Staff’s position on this issue is based on an erroneous presumption that PAA are included in SFPP rate base.

Trial Staff

79. Trial Staff counters that PAA are patently unacceptable for ratemaking purposes, characterizing them as accounting adjustments to an asset’s book value (original cost minus accumulated depreciation) to reflect an acquisition price exceeding book value. Trial Staff maintains PAA can have a significant effect on the debt/equity ratio reflected in an entity’s capital structure, artificially inflating the equity portion of that structure. It contends the Commission’s general rule on write-ups therefore requires acquired assets to be included in rate base at no more than depreciated original cost unless it is shown by clear and convincing evidence that the assets produce substantial ratepayer benefits. Trial Staff asserts SFPP has failed to satisfy this requirement here, so the PAA must be removed from KMED’s capital structure. It vigorously disputes SFPP’s claim that Paragraph 72 of the December 16 Order establishes that PAA equity components alone should be removed, instead citing the order at Paragraph 65 to support removing the adjustments in their entirety.

CCV

80. CCV rely primarily on the December 16 Order and the February 13, 2006 Order on Rehearing of that order (Order on Rehearing, 114 FERC ¶ 61,136 (2006)) to rebut

SFPP's characterization of the Commission's PAA policy. CCV argue that SFPP completely mischaracterizes the December 16 Order and the rehearing order on this topic, maintaining both orders required SFPP to remove all PAA from the equity component of capital structure because SFPP did not demonstrate there was any debt component to the relevant PAA. CCV paint SFPP's references to a PAA debt component and the non-carrier portion of capital structure as red herrings injected to muddle the facts. Adjusted to remove PAA, the capital structure SFPP should use for ratemaking purposes consists of 34.68% equity and 65.32% debt according to CCV.

Tesoro

81. Tesoro also focuses primarily on the December 16 Order/rehearing order as proof the Commission has ruled SFPP is not permitted to include PAA in developing new rates. Tesoro endorses the adjustments proposed by CCV as best capturing the relevant PAA impacts on SFPP's test period capital structure due to their more thorough consideration of historical data.

Discussion/Analysis

82. SFPP's position on this issue is meritless. The December 16 Order and the rehearing order unequivocally require SFPP to remove all PAA from the equity component of its capital structure for ratemaking purposes. See December 16 Order at P 65; Order on Rehearing, 114 FERC ¶ 61,136 at P 15. Moreover, there is nothing in Paragraph 72 of the December 16 Order that reasonably suggests—let alone “makes clear” as SFPP alleges—that only some PAA equity sub-component should be removed from the equity portion of SFPP's capital structure. Paragraph 72 directs SFPP “to remove the PPA [sic] from the Form 6 accounts . . . and reconstitute the relevant balance sheet, income statements, and cash flow statements for rate making purposes. This means removing those portions of the increase in rate base and equity accounts attributable to the PPA [sic]. . . .” December 16 Order at P 72. There is no disjunction between this language and that reflected in Paragraph 65, which states: “the use of a PPA [sic] is consistent with generally accepted accounting principles and is acceptable under Commission accounting practices for booking, *but not rate-making*, purposes. . . . [A] PPA [sic] write-up may not be used for rate-making purposes.” *Id.* at P 65 (emphasis added). Further, the record in this proceeding clearly establishes that the PAA at issue are all equity adjustments; they subsume no debt components.³⁴ See Ex. CCV-6 at 5, 7 [PROTECTED]; Ex. CCV-44 at 2. Accordingly, I find and conclude the following

³⁴ The “absurd results” SFPP illustrates (Ex. SFN-46 at 3-4) might be valid, but they are entirely hypothetical. In addition, the record reflects no support for analogizing those results to the PAA at issue because, in contrast to SFPP's hypothetical equity/debt financing scenario, there simply is no evidence here that the financing for any relevant acquisition subsumed a debt component.

adjustments must be made to the SFPP/KMEP capital structure for ratemaking purposes: (1) remove the \$788 million PAA increase in equity attributable to KMEP's acquisition of SFPP; (2) add \$272 million in equity as an offset to negative PAA attributable to KMEP's acquisition of Trailblazer Pipeline Company and KMIGT; (3) remove the \$6.4 million PAA increase in equity attributable to KMEP's acquisition of TransColorado Gas Transmission Company; (4) remove the \$61.2 million PAA increase in equity attributable to KMEP's acquisition of Kaston Pipeline Company, L.P.; (5) remove the approximately \$65 million PAA increase in equity attributable to KMEP's acquisition of Calnev Pipe Line.³⁵

4. Whether SFPP's Proposed Cost Of Debt For Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Cost Of Debt For Designing SFPP's Test Year North Line Rate?

Participant Positions

SFPP

83. SFPP maintains it followed Commission precedent to calculate a 6.57% cost of North Line debt. It criticizes Trial Staff, CCV and Tesoro for including in their debt cost calculi \$416,900,000 in commercial paper and certain tax-exempt/special purpose bonds (including industrial revenue bonds). According to SFPP, including debt maturing in less than one year runs contrary to the Commission's general historical practice of only including debt with maturities exceeding one year. Including money raised through issuance of industrial revenue bonds is likewise inappropriate in SFPP's view because those bonds are purpose-specific and consequently could not have been used to finance North Line rate base.

Trial Staff

84. Trial Staff challenges SFPP's proposed cost of debt, arguing SFPP mischaracterized \$513 million worth of long-term debt as short-term debt. It contends KMEP used the debt at issue to meet long-term financial needs and also reported the debt to the Securities and Exchange Commission (SEC) as long-term debt. In addition, Trial Staff notes KMEP was SFPP's surrogate for DCF analysis purposes, asserting that all KMEP bond debt should be included as a consequence. Trial Staff casts doubt on SFPP's claim that tax exempt/special purpose bonds were unavailable for North Line financing, emphasizing that KMEP concentrates all operating partnership/subsidiary cash assets in joint accounts and places no restrictions on moving cash among those entities. Trial Staff

³⁵ I am unable to determine on the evidentiary record before me whether the carrier/non-carrier distinction SFPP cites is meaningful and, if so, in what amount. No participant—including SFPP—adequately addresses PAA rate base inclusion/exclusion.

maintains these assets should be included in the debt cost calculation in this proceeding because the bond proceeds are available to finance any KMEP operation, including the North Line. It therefore advocates a base period debt cost of 6.09% and a test period cost of 5.96%.

CCV

85. CCV maintain both the commercial paper and tax-exempt/special purpose bonds at issue should be included in SFPP's cost of debt, producing a 5.97% figure as of June 30, 2005. CCV assert the December 16 Order directly addresses how SFPP should treat the short-term debt at issue, concluding it should be treated as long-term debt because KMEP treats it that way. CCV makes a similar argument concerning the bonds, claiming KMEP not only treats them as long-term debt, but also consolidates the bond proceeds into joint cash accounts with no entity-specific restrictions or accounting mechanisms.

Tesoro

86. Tesoro maintains SFPP's proposed 6.57% test period cost of debt relies on an overstated long-term debt component and therefore produces an inflated cost of capital. Tesoro instead endorses a base period KMEP debt cost totaling 6.09% and a test period cost totaling 5.96% based on KMEP's own SEC filings. According to Tesoro, those filings clearly demonstrate KMEP treats commercial paper as long-term debt—which Tesoro states is consistent with SFPP's position in the dockets underlying the December 16 Order. Tesoro also underscores the fact that KMEP concentrates all operating partnership/subsidiary cash assets in joint accounts and places no restrictions on the ability to move cash between entities, dismissing as a consequence SFPP's claim that those assets cannot be used for North Line purposes. Tesoro notes in addition that SFPP was unable to differentiate SFPP-related/secured bond issuances from any other KMEP debt.

Discussion/Analysis

87. The debt component of a pipeline's capital structure generally excludes commercial paper with a one year or less maturity from issuance.³⁶ See, e.g., *Trailblazer Pipeline Co.*, 106 FERC ¶ 63,005 at P 82, *vacated as moot*, 107 FERC ¶ 61,008 (2004). Because debt levels/interest rates attributable to short-term instruments like commercial paper fluctuate constantly, those instruments generally are not useful debt cost indicators for ratemaking purposes. In this case, however, the record establishes KMEP itself

³⁶ I construe this standard to mean debt with an *initial* maturity from issuance of more than one year constitutes long-term debt. It follows there may be instances where a debt instrument maturing in less than one year legitimately may be characterized as long-term debt because its maturity date is more than one year from issuance.

the group Trial Staff endorses. SFPP also underscores the fact that Trial Staff agrees SFPP should be placed at the proxy group median to determine its return on equity, dismissing other participant recommendations to place SFPP at the bottom of the range as patently inconsistent with the December 16 Order. Turning to distributions, SFPP stresses the DCF formula relies on an equity investment's cash payments to investors to ascertain the investors' projected return. On SFPP's account, these payments are dividends in the corporate context and distributions in the case of MLPs. SFPP asserts the December 16 Order expressly accepted this correspondence and, as a consequence, it was appropriate for SFPP and Trial Staff to substitute distributions for dividends in their DCF calculations. SFPP vigorously disputes any claim that distributions are fundamentally different from dividends because distributions constitute a return *of* capital rather than the return *on* capital that dividends represent. SFPP maintains it is appropriate to use distributions in a DCF return calculation in any event because market-driven MLP investment yields are lower than those of comparable corporations.

Trial Staff

91. Trial Staff supports substituting cash distributions for dividends in the DCF dividend yield calculation and for calculating dividend growth in this proceeding. It relies principally on the December 16 Order finding there is no practical alternative to this approach insofar as MLPs are involved. Trial Staff stresses that while it presents an alternate return on equity based on a proxy group consisting of natural gas pipeline corporations, the alternative is not intended to advocate that the Commission cease using an MLP proxy group for oil pipelines. Instead, it is intended as a hypothetical approach in the event the Commission determines it is inappropriate to use an MLP proxy group here based on a finding that cash distributions are returns *of* capital rather than returns on capital. Trial Staff disputes BP/EM's claim this is a case of first impression insofar as MLP proxy group inclusion is implicated, citing Opinion No. 435 and the December 16 Order as proof to the contrary. It also challenges any claim that *High Island Offshore System, L.L.C.*, 110 FERC ¶ 61,043 (*HIOS*), *reh'g denied*, 112 FERC ¶ 61,050 (2005) stands for the proposition that MLP cash distributions cannot be utilized in a DCF analysis. Although Trial Staff excludes one member of the proxy group proposed by SFPP because it ceased to be publicly owned as of July 1, 2005, it otherwise endorses that proxy group and places SFPP at the group median—which produces a 12.27% nominal return on equity for SFPP in this proceeding.

BP/EM

92. BP/EM address this issue at length and in extensive detail. To summarize, they argue: (1) cash distributions cannot sensibly be substituted for dividends in the DCF dividend yield formula; (2) cash distributions are unrelated to earnings, and therefore to growth in dividends; and (3) the appropriate methodology to derive the rate of return on equity for SFPP in this proceeding is to use Trial Staff's alternate proxy group, and to

the 10.42% nominal rate produced under Trial Staff's hypothetical alternative and stands in stark contrast to a 14.40% nominal test period rate produced by simply treating distributions as identical to dividends in the DCF model as SFPP proposes. CCV maintain SFPP's proposal relies on the December 16 Order in error because that order was premised on a lack of practical alternatives, which is not the case here.

Tesoro

96. Tesoro focuses primarily on the *HIOS* concern that MLP distributions are not comparable to corporate dividends insofar as they constitute returns of capital rather than returns on capital. Tesoro maintains the record in this proceeding is clear that MLP distributions are in fact returns of capital, and this fact disqualifies any rate of return on equity proposal that simply substitutes distributions for dividends in the DCF model. Accordingly, Tesoro endorses any of three proposed alternatives: (1) the CCV and Tesoro proposals to use an oil pipeline MLP proxy group, excluding KMED and placing SFPP at the low end of the group's range of reasonableness (Ex. CCV-1 at 11-12 [PROTECTED]; Ex. TES-1 at 39-40 [PROTECTED]); (2) the Tesoro proposal to use an oil pipeline MLP proxy group, but eliminating the MLP distributions' return of capital components by focusing exclusively on earnings per unit and placing SFPP at the median of the group's range of reasonableness (Ex. TES-1 at 33-35 [PROTECTED]; Tr. 1798-99); or (3) the Trial Staff alternative based on a proxy group consisting of natural gas pipeline corporations.

Discussion/Analysis

97. This issue is not technically one of first impression, but it has yet to be definitively resolved by the Commission. The *HIOS* opinion expresses concern with respect to the comparability between dividends and distributions, specifically noting that distributions may "include a return of a portion of the partners' original investment." 110 FERC ¶ 61,043 at P 126. Because such inclusion skews DCF results by inflating dividend yield, the opinion continues, "the Commission will not consider including an MLP in the proxy group unless the record demonstrates that the distribution used as the "dividend" includes only a payment of earnings and not a return of investment." *Id.* Although I cannot agree that *HIOS* is necessarily limited to natural gas pipelines in this respect as SFPP suggests, neither can I ignore the fact *HIOS* unambiguously acknowledges that oil pipeline proxy groups necessarily must consist of MLPs because those entities comprise the entire oil pipeline sector at this point:

The Commission's decision in *SFPP* to employ MLPs as a comparison group is limited to oil pipelines as there no longer existed sufficient companies in that industry to provide a satisfactory reference group, so that the only entities in the oil pipeline business that could be included in the proxy group were MLPs.

Id. at P 129 (referencing Opinion No. 435). It is this industry circumstance—not the absence of participant-proposed proxy group/range of reasonableness alternatives in the underlying dockets—that compelled the December 16 Order to conclude with respect to SFPP “there is no practical alternative to treating distributions as the equivalent of dividends and using distributions in the conventional discounted cash flow (DCF) formula.”³⁷ December 16 Order at P 77, n. 104. Unfortunately, it is an enduring circumstance.

98. Although not dispositive, the record before me strongly suggests distributions subsume at least some return of capital component.³⁸ If so, using them as dividend surrogates in the DCF formula violates *HIOS*. The record in this proceeding is divided—if not outright confused—on the subject. This is not surprising since the expert witnesses seem to be similarly divided/confused. I therefore find and conclude that while distributions present an issue of crucial importance—and one in need of prompt/definitive resolution—it would border on arbitrary for me to attempt such resolution based on the record developed in this proceeding. The better course would be for the Commission either to initiate an expedited rulemaking or convene a technical conference³⁹ of industry, legal and financial experts to present/vet evidence on the subject that could serve as the basis for a definitive policy statement—perhaps one addressing the MLP business structure in general. As things stand, oil pipeline industry evolution and structural innovation have outmoded the historical DCF rate of return on equity paradigm.

99. The preceding analysis compels me to find and conclude there still remains no practical alternative to treating distributions as the equivalent of dividends in the DCF formula. Though not a completely satisfactory result, it at least preserves ratemaking consistency among the various SFPP pipelines and proceedings.⁴⁰ In further accord with Opinion No. 435 and the December 16 Order, I also find and conclude SFPP should be placed at the median of the four member MLP oil pipeline proxy group endorsed by Trial

³⁷ In *HIOS*, by contrast, the Commission was able to resort to a non-MLP natural gas pipeline proxy group for the natural gas pipeline at issue. See 110 FERC ¶ 61,043 at P 129.

³⁸ I expressly find and conclude *HIOS* is not dispositive on this question either, stating only that distributions *may* include a return of investment. See 110 FERC ¶ 61,043 at P 126.

³⁹ On the record.

⁴⁰ It also acknowledges that distributions are the primary means by which ordinary investors determine the capitalized value of publicly-traded MLP interests.

Staff.⁴¹ See Ex. S-1 at 30-33. That group constitutes the comparable universe of MLP oil pipelines and no party has made a persuasive case that SFPP's risk is materially different from the risk exhibited by the group's members. *Accord HIOS*, 110 FERC ¶ 61,043 at PP 128-29; *Transcontinental Gas Pipe Line Corp.*, 90 FERC ¶ 61,279 at 61,926 (2000), *reh'g denied*, 94 FERC ¶ 61,066 (2001). Applying these inputs to the DCF formula yields a 12.27% nominal return on equity, which I find is justified and appropriate for SFPP in this proceeding.

6. Whether SFPP's Proposed Rate Of Return On Equity In Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Rate Of Return On Equity For Designing SFPP's Test Year North Line Rate?

100. This issue is resolved in accordance with Issue C-5.

7. Has SFPP Prudently And Properly Maintained The Security And Integrity Of Its Pipeline System? If Not, What Should Be The Regulatory Consequences With Respect To The Rate That SFPP Can Properly Charge?

101. This issue is resolved in accordance with Issue A.

D. What is the Appropriate Income Tax Allowance in this Case?

1. Is SFPP's Proposed Income Tax Allowance Justified and Appropriate For Determining Its North Line Rate? If Not, What Is The Justified and Appropriate Income Tax Allowance For Designing SFPP's Test Year North Line Rate?

102. SFPP argues it is entitled to an income tax allowance based on a weighted tax rate of 37.92%. Every other participant argues that SFPP is entitled to no tax allowance whatsoever or, at best, a minimal allowance based on marginal income tax rates ranging from 1.23% to 4.50%.

⁴¹ I endorse Trial Staff's rationale for excluding Kaneb Pipeline Partners, L.P. from the group approved in Opinion No. 435 and the December 16 Order. And while I consider it undesirably circular to include KMEP in the SFPP proxy group, I defer to the Commission's Opinion No. 435/December 16 Order determinations that excluding KMEP from the available pool of oil pipeline MLPs removes a significant segment of the oil pipeline industry from consideration, thereby skewing market perception of the industry as a whole.

a. Whether SFPP Is Entitled To Any Income Tax Allowance At All As A Matter Of Law?

Participant Positions

SFPP

103. SFPP asserts it is entitled to an income tax allowance as a matter of law. According to SFPP, the *Policy Statement* expressly reverses *Lakehead/Lakehead II* and permits any entity or individual owning public utility assets to claim an income tax allowance provided only that it has an actual or potential income tax liability to be paid on income generated by its utility assets. SFPP argues that both the June 1 Order and the December 16 Order apply the *Policy Statement* standard to SFPP in the context of individual rate proceedings, as the *Policy Statement* contemplates, and that the *Policy Statement* cannot properly be applied in this case without applying those orders as well. SFPP emphasizes the December 16 Order specifies the precise manner by which SFPP should prove actual or potential income tax liability to satisfy the *Policy Statement* standard, contending that the income tax allowance reflected in the North Line tariff filing is appropriate because it conforms to the December 16 Order’s specifications.

104. SFPP focuses on the meaning of “actual or potential income tax liability” as the key element here. On SFPP’s account, that term is derived from the *City of Charlottesville* principle that an income tax allowance may reflect “actual or estimated taxes paid or incurred.” SFPP submits that the emphasis on a tax-pass-through entity partner/member’s actual or potential income tax liability arises from the circumstance that some such partners/members are themselves governmental entities (e.g., municipalities or cooperatives) that have no actual or potential income tax liability because they pay no taxes. SFPP also maintains *City of Charlottesville* makes clear the income tax determination is no different in principle from any other expense, thus the determination must focus on when liability for the expense is incurred even though the actual payment may be made at some future point in time. In addition, SFPP contends the December 16 Order’s reliance on *City of Charlottesville* forecloses any argument that SFPP fails to satisfy the “actual or potential income tax liability” standard because it cannot demonstrate that every SFPP partner actually pays taxes on SFPP’s regulated utility income. SFPP emphasizes the December 16 Order found it sufficient in this regard if a partner is required to file a Form 1040 or Form 1120 reflecting a partnership income or loss. SFPP defends this finding’s legitimacy on the basis that the *Policy Statement*, June 1 Order and December 16 Order all were issued in response to the *BP West Coast* remand order and therefore constituted legitimate exercises of Commission discretion/authority.

Trial Staff

105. Trial Staff disputes SFPP is entitled to an income tax allowance as a matter of law. It emphasizes that SFPP did not move for partial summary judgment on this issue, adding there are at least two genuine issues of material fact concerning SFPP's income tax allowance claim: (1) whether KMEP's public limited partners actually received taxable income from SFPP in 2004; and (2) whether SFPP's public limited partners have actual or potential income tax liability for income generated by SFPP's regulated utility assets. Trial Staff pointedly declines to address whether *City of Charlottesville, BP West Coast* and subsequent Commission issuances apply here, characterizing that debate as a collateral attack on the hearing order in this proceeding.⁴² Trial Staff nevertheless takes issue with SFPP's recitation of the *Policy Statement* standard as limited to "actual or potential income tax liability," stressing that the pertinent language is "actual or potential income tax liability on the public utility income earned through the interest."

BP/EM

106. BP/EM not only contest SFPP's claim it is entitled to an income tax allowance as a matter of law, they maintain *BP West Coast* affirmatively precludes SFPP from claiming any such allowance as a matter of law. BP/EM argue that one of the grounds cited by the *BP West Coast* court in rejecting the Commission's application of the *Lakehead/Lakehead II* tax allowance policy was the allowance's benefits were not restricted to corporate partners. According to BP/EM, the record here confirms SFPP has no mechanism either to restrict tax allowance benefits to corporate partners or to apportion the benefits between corporate partners at the corporate rate and individual partners at their lower individual rate(s). BP/EM raise as a corollary question whether the *Policy Statement* and December 16 Order are consistent with the *BP West Coast* remand order. BP/EM submit that they are not, and question the Commission's authority to "trump" the U.S. Court of Appeals in this manner. In contrast to the December 16 Order, BP/EM cite with approval the Commission order in *Trans-Elect NTD Path 15, LLC*, 113 FERC ¶ 61,162 (2005) (*Trans-Elect*), which requires the utility to tender evidence of actual or potential partner tax liability on utility income to qualify for an income tax allowance.

⁴² This is inaccurate. Trial Staff vigorously disputes the December 16 Order's applicability to this proceeding under Issue D-1-b, *infra*. It does the same to a lesser degree insofar as the *Policy Statement* is implicated.

CCV

107. CCV⁴³ summarize the rationale for an income tax allowance as follows: a regulated company subject to income taxes should have the opportunity to earn its allowed return on a post-income tax basis. CCV distinguish this situation from SFPP's, stressing that SFPP is not subject to income taxes. CCV therefore rely on *BP West Coast* to argue SFPP should not have the benefit of an income tax allowance because such allowance is unnecessary for SFPP to earn its allowed return. According to CCV, *BP West Coast* confirms that income taxes must be treated as any other cost would be, and neither hypothetical taxes nor any other hypothetical expense legitimately may be included in a cost of service. CCV maintain *BP West Coast* also confirms that the Commission's *Lakehead/Lakehead II* income tax policy wrongly focused on income tax liability/costs at an ownership level rather than at the regulated utility level. CCV criticize the *Policy Statement* for repeating this mistake, concluding as a consequence SFPP's reliance on the *Policy Statement* is unavailing.

Tesoro

108. Tesoro relies on *BP West Coast* for the proposition SFPP is not entitled to an income tax allowance as a matter of law. Tesoro submits that if *BP West Coast* is controlling, the consequence is unambiguous: SFPP cannot include an income tax allowance in its cost of service because it is an MLP which pays no taxes. Assuming SFPP's status is not an absolute bar to claiming an income tax allowance, Tesoro argues in the alternative that the *Policy Statement* entitles SFPP to an allowance only insofar as it demonstrates actual or potential tax liability on income earned. Tesoro maintains the *Policy Statement* indicates this should be achieved through a "blended rate that reflects the owning interest," which Tesoro quantifies at 4.50%.

Discussion/Analysis

109. I find and conclude as a threshold matter of law that *BP West Coast* is both applicable and controlling here. That decision, while not specifically concerned with the North Line, directly addresses both the Commission's income tax allowance policy and that policy's application to SFPP. Moreover, the *Policy Statement*, June 1 Order and December 16 Order all were issued consequent to the *BP West Coast* remand—and in full accordance with it in the Commission's view. It therefore would be utterly senseless to evaluate SFPP's compliance with the *Policy Statement*, June 1 Order or December 16 Order without regard to whether those issuances are consistent with the remand order that precipitated them. SFPP is entitled to rely on its compliance with the *Policy Statement*, June 1 Order and December 16 Order to support an income tax allowance only insofar as those issuances are consistent with *BP West Coast*. Accordingly, I reject SFPP's implied

⁴³ ConocoPhillips does not join in this position. CCV IB at 19, n. 3.

suggestion that the legitimacy of its income tax allowance turns exclusively on compliance with the *Policy Statement*, June 1 Order and December 16 Order. I reject Trial Staff's suggestion that evaluating SFPP's income tax allowance in light of *City of Charlottesville, BP West Coast*, the *Policy Statement*, June 1 Order or December 16 Order constitutes a collateral attack on the hearing order in this proceeding for the same reason.

110. Turning to the main issue,⁴⁴ I note first that SFPP's assertion it is entitled to an income tax allowance as a matter of law is undermined by its own argument. SFPP maintains the *Policy Statement* permits any entity owning public utility assets to claim an income tax allowance provided it has an actual or potential income tax liability to be paid on income generated by its utility assets. SFPP then emphasizes that the *Policy Statement* contemplates such liability will be demonstrated in the context of individual rate proceedings. What SFPP fails to reconcile, however, is the sole purpose of such proceedings is to present, challenge and evaluate demonstrative evidence—i.e. ostensible facts. In this case, SFPP must establish a number of facts to satisfy the *Policy Statement*. These include demonstrating that it—or in SFPP's view, its owner partners—has/have an actual or potential income tax liability to be paid on income generated by SFPP's utility assets. But no matter how easily SFPP might be able to prove these facts (vigorously disputed here), the proof cannot be made as a matter of law.⁴⁵ SFPP acknowledges as much when it touts compliance with the December 16 Order's evidentiary specifications as satisfying the *Policy Statement*'s "actual or potential income tax" liability standard. Those specifications require SFPP to identify its various partner owners, factually establish their characteristics and their respective interests, demonstrate their respective income tax liabilities and that those liabilities are attributable to SFPP utility income, etc. December 16 Order at PP 44-46. Whether SFPP has satisfied those requirements in this proceeding implicates matters of fact, not of law.

111. SFPP's emphasis on the meaning of "actual or potential income tax liability" is similarly unavailing. Although I agree the meaning of this phrase is crucial to resolving the income tax allowance issue in a broader context, it does not support SFPP's contention that it is entitled to an income tax allowance as a matter of law. I grant for the sake of argument SFPP's assertion that the phrase is derived from the *City of Charlottesville* principle that an income tax allowance may reflect any "actual or estimated taxes paid or incurred." SFPP then proceeds to claim *City of Charlottesville*'s

⁴⁴ I assign no weight to Trial Staff's emphasis on SFPP's failure to seek summary judgment on this issue. Failure to seek summary judgment does not constitute a waiver of the right to have an issue decided as a matter of law, nor does it diminish the force of any argument(s) advanced to that end.

⁴⁵ The *Policy Statement* expressly states this is a fact-specific issue. *Policy Statement* at P 42.

emphasis on a tax-pass-through entity partner/member's actual or potential income tax liability arises from the circumstance some such partners/members may be governmental entities (e.g., municipalities or cooperatives) which have no actual or potential income tax liability because they pay no income taxes. This implies that while such entities should not be included in calculating an income tax allowance because they are legally exempted from paying income taxes, all other entities/individuals necessarily *should* be included because they do not enjoy the exemption. The reasoning is sensible, but flawed. It presupposes a tax-pass-through entity partner/member ultimately pays income taxes simply because it cannot claim the governmental exemption. One of the principal attractions of the partnership business structure is it provides income tax advantages—both to the partnership and to its partners/members. It therefore is immaterial from an “actual or potential income tax liability” perspective whether the partnership or its partners/members is/are exempted from income taxation by virtue of government entity status or by virtue of other favorable income tax laws and regulations. The key is whether income taxes ultimately are *paid*. There is absolute certainty a government entity will never pay any income taxes. But there is equal certainty a tax-pass-through entity like SFPP will never pay any income taxes either. More important, there is an extremely high probability—albeit less than certainty—that tax-pass-through entity partners/members ultimately will escape income taxation on at least *some* of the partnership income flowed-through/attributed to them. The flaw in SFPP's interpretation of the *City of Charlottesville* “actual or estimated taxes paid or incurred” standard is it *presupposes* every dollar of income tax liability attributable to utility income ultimately will be paid by someone at some time. The complex partnership structures erected by MLPs like SFPP/KMEP, however, are specifically designed to virtually ensure this will not occur. Presumably, that is one reason the *Policy Statement*, June 1 Order and December 16 Order impose the factual burden of quantifying the appropriate income tax allowance on SFPP. Regardless, it clearly constitutes a reason SFPP cannot claim an income tax allowance as a matter of law.

112. SFPP counters that *City of Charlottesville* confirms the income tax allowance determination is no different in principle from that of any other expense, thus it must focus on when liability for the expense is incurred even though the actual payment may be made at some future point in time. I agree, but this is beside the point. SFPP again uncritically *presupposes* every dollar of tax liability attributable to its utility income ultimately will be paid by someone at some time. The preceding discussion illustrates this is not necessarily true, and SFPP has not factually demonstrated it is true in this case.⁴⁶ I observe that SFPP is careful not to use the term “cost” here and throughout. This may seem inconsequential, but it is not. “Cost” is a term of art in utility ratemaking. All “costs” are expenses paid by the utility itself at the utility level. Income taxes or

⁴⁶ SFPP emphasizes the December 16 Order deems proof sufficient in this regard if a partner is required to file a Form 1040 or Form 1120 reflecting a partnership income or loss. This topic is addressed in more detail *infra*.

income tax liability (e.g., deferred income taxes) legitimately may be characterized as “costs” insofar as the utility bears the ultimate responsibility to pay them. But however one might characterize financial liabilities for which the utility itself does not bear ultimate responsibility, they cannot legitimately be designated “costs.” It follows that while all actual/potential utility “costs” may be characterized informally as expenses, all actual/potential expenses attributable to utility operations may not be characterized formally as “costs.” In contrast to previous discussion, where the key is whether *anyone* must make a particular payment at some time, the key to a “cost”-based analysis is whether the *utility* must make that payment at some time.

113. The *BP West Coast* remand order confirms this conclusion. The order criticizes the Commission’s *Lakehead/Lakehead II* income tax allowance policy/application on numerous grounds, but its central criticism concentrates on the ratemaking fundamental that the income tax allowance is no different than the allowance for any other cost, and it may be included in cost of service only because it is a *cost*. See, e.g., *BP West Coast*, 374 F.3d at 1288 (emphasis in original). As I read it, the court’s entire income tax allowance analysis turns on this fundamental. To illustrate, the court initially confirms “[t]here is no question that as a general proposition a pipeline that pays income taxes is entitled to recover the costs of the taxes paid from its ratepayers.” *Id.* at 1286 (referencing *City of Charlottesville*). The court then confirms “[t]axes, including federal income taxes, are costs.” *Id.* (citing *City of Charlottesville*, 774 F.2d at 1207). What the court expressly finds problematic in applying these straightforward principles to a utility limited partnership subsumed within a consolidated group, however, are the circumstances that (i) it is difficult to segregate the taxable income specifically attributable to the utility’s jurisdictional activities and (ii) a limited partnership operating jurisdictional pipelines incurs no income tax liability. *Id.* (citing *City of Charlottesville*, 774 F.2d at 1207; 26 U.S.C. § 7704 (d)(1)(E)). The court consequently rejects: (1) SFPP’s contention it should be granted a tax allowance based on a supposition that SFPP itself was responsible for paying 100% of the income tax attributable to its jurisdictional income at the corporate rate; and (2) the Commission conclusion SFPP should be granted a tax allowance based on the 42.7% corporate interest in the SFPP limited partnership. *Id.* at 1288. The court concludes that, consistent with ratemaking principles and governing law, SFPP is entitled to no allowance for income taxes SFPP did not itself pay.⁴⁷ *Id.* at 1288. Notably, the court criticizes the Commission’s “reasoning” to the contrary at some length, finding the Commission order on review merely recites separately unassailable premises to reach a conclusion that does not follow from them. *Id.* at 1288-90 (emphasis marks in original). The court also criticizes in this regard the Commission’s reliance on *FPC v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) (*Hope*), ultimately holding *Hope* supports a conclusion “where there is no tax generated by the regulated entity, either

⁴⁷ The court indicates this conclusion is based “on the record before [it]” (*Id.*), a point the Commission emphasizes in the *Policy Statement*.

standing alone or as part of a consolidated corporate group, the regulator cannot create a phantom⁴⁸ tax in order to create an allowance to pass through to the ratepayer.” 374 F.3d at 1291.

114. I previously noted the *Policy Statement*, June 1 Order and December 16 Order all were issued consequent to the *BP West Coast* remand—and in full accordance with it in the Commission’s view. I also noted that while SFPP relies on its compliance with the *Policy Statement*, June 1 Order and December 16 Order to support an income tax allowance here, it is entitled to do so only insofar as those issuances are consistent with *BP West Coast*. What remains is to determine whether the *Policy Statement*, June 1 Order and December 16 Order are consistent with the *BP West Coast* remand order.

115. The *Policy Statement* expressly acknowledges at the outset that *BP West Coast* concludes an income tax allowance may recover “only the costs of the regulated entity...”⁴⁹ *Policy Statement* at P 3. The *Policy Statement* also expressly acknowledges that *BP West Coast* rejects the proposition that a regulated utility partnership may be granted an income tax allowance to encourage capital flow to public utility industries regulated by the Commission. *Id.* at P 5. The *Policy Statement* summarizes the court’s reasoning on this point as “[t]hus, if a partnership paid no income taxes, or had no potential income tax liability, no cost was incurred and therefore an income tax allowance would reimburse the entity for a phantom cost.” *Id.* These preliminary statements are fully consistent with *BP West Coast*.

116. The *Policy Statement* explains that while the *BP West Coast* remand order addressed only the Commission’s Order No. 435 Opinions, it was apparent the order had implications for other proceedings and regulated utilities as well. *Id.* at P 6. In light of these broader implications, the Commission sought public comment concerning whether *BP West Coast* applied only to the specific facts of the Order No. 435 proceedings or extended to other capital structures involving partnerships and other forms of pass-through ownership. *Id.* The Commission specifically asked if *BP West Coast* precluded

⁴⁸ This characterization apparently was coined by the Administrative Law Judge who issued the Initial Decision with which the Commission order on review disagreed regarding SFPP’s tax allowance. *See* 374 F.3d at 1287. In my view, however, the term “phantom” implies at least some appearance of reality. A limited partnership does not exhibit the slightest appearance of actual income taxation at the partnership level. Accordingly, I adopt the Court of Appeals’ alternate characterization of income taxation at the partnership level as being “fictitious.” *Id.* at 1293.

⁴⁹ The *Policy Statement* immediately thereafter characterizes *BP West Coast* as also concluding that “taxes are but one cost paid by a corporate partner as part of its cost of doing business.” *Id.* (citing *BP West Coast*, 374 F.3d at 1288). This characterization does not appear to be entirely accurate.

an income tax allowance under a number of partnership permutations, and whether such preclusion would result in inadequate infrastructure investment incentives. *Id.* Each of the 42 sets of comments received advocated one of four general positions. *Id.* at P 7. Although none argued to preserve the *Lakehead/Lakehead II* policy, three favored preserving certain existing income tax allowances; three favored an allowance for partnerships wholly owned by taxpaying corporations filing consolidated returns; 24 endorsed a tax allowance for all entities (to assure tax factors would not control investment vehicle selection); and 10 opposed any tax allowance for non-tax-paying entities such as MLPs. *Id.* The group of 10 opposing any tax allowance for non-tax-paying entities cited *BP West Coast* to support its position. *Id.* at P 20. The group of 24 endorsing a tax allowance for all entities argued the *BP West Coast* court did not have before it the realities of partnership taxation and therefore did not consider them in reaching its tax allowance conclusions. *Id.* at P 21.

117. Based on the comments provided, the *Policy Statement* concludes an income tax allowance should be granted to:

all entities or individuals owning public utility assets, provided that an entity or individual has an actual or potential income tax liability to be paid on that income from those assets. Thus a tax-paying corporation, a partnership, a limited liability corporation, or other pass-through entity would be permitted an income tax allowance on the income imputed to the corporation, or to the partners or the members of pass-through entities, provided that the corporation or the partners or the members have an actual or potential income tax liability on that public utility income.

Id. at P 32.

118. The *Policy Statement* continues:

Given this important qualification, any pass-through entity seeking an income tax allowance in a specific rate proceeding must establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income. To the extent that any of the partners or members do not have such an actual or potential income tax obligation, the amount of any income tax allowance will be reduced accordingly to reflect the weighted income tax liability of the entity's partners or members.⁵⁰

⁵⁰ The *Policy Statement* here adds a footnote characterizing this as a "[t]echnically complex issue that would be addressed in individual rate proceedings. . . ." *Policy Statement* at n. 27. As discussed *infra*, the December 16 Order addresses the issue in the context of SFPP's East and West Line rate proceedings.

Id.

119. In reaching the preceding conclusion, the *Policy Statement* expressly reverses the income tax allowance policy established in *Lakehead/Lakehead II*, explaining that “*Lakehead* mistakenly focused on who pays the taxes rather than on the more fundamental cost allocation principle of what costs, including tax costs, are attributable to regulated service, and therefore properly included in a regulated cost of service.” *Id.* at P 33 (footnote omitted). The *Policy Statement* expressly dismisses any assertion that its newly articulated/explained income tax allowance policy is premised on fictitious taxes in violation of the *BP West Coast* remand order. According to the *Policy Statement*, the comments received demonstrate the remand order’s fictitious tax “assumption was incorrect” because “[w]hile the pass-through entity does not itself pay income taxes, the owners of a pass-through entity pay income taxes on the utility income generated by the assets they own via the device of the pass-through entity.” *Id.* (footnote omitted). The *Policy Statement* also notes that numerical examples reflected in the comments “establish that the return to the owners of pass-through entities will be reduced below that of a corporation investing in the same asset if such entities are not afforded an income tax allowance on their public utility income.”⁵¹ *Id.*

120. The *Policy Statement*’s plain language compels me to conclude it suffers many of the same deficiencies criticized by the court in the *BP West Coast* remand order. Most notably, it completely disregards the court’s central holding: an income tax allowance may be included in a utility’s cost of service only insofar as it reflects an actual/potential cost to the utility. See *BP West Coast*, 374 F.3d at 1288; 1291-92. As previously noted, “cost” is a term of art in utility ratemaking. Costs are expenses paid by the utility itself at the utility level. Income taxes or income tax liability legitimately may be characterized as costs only insofar as the utility bears the ultimate responsibility to pay them. The *BP West Coast* remand is clearly rooted in this proposition insofar as the income tax allowance is concerned. The *Policy Statement* attempts to finesse its failure to accede to it—and to the corollary conclusion that deviating from it imputes fictitious taxes to the utility—by asserting “[w]hile the pass-through entity does not itself pay income taxes, the owners of a pass-through entity pay income taxes on the utility income generated by the assets they own via the device of the pass-through entity.” *Policy Statement* at P 33 (footnote omitted). This assertion serves the *Policy Statement* no better than it served SFPP’s interpretation of the *City of Charlottesville* “actual or estimated taxes paid or incurred” standard, examined *supra* at P 111. The common flaw is the *presupposition* that every dollar of income tax liability attributable to utility income ultimately will be paid by someone at some time. As previously illustrated, this result does not necessarily follow, and the complex partnership structures erected by MLPs like SFPP/KMEP are

⁵¹ The *Policy Statement* here adds a footnote emphasizing that the comment record in the *Policy Statement* docket suggests there is a substantial amount of existing investment at issue. *Id.* at n. 30.

specifically designed to virtually ensure it will not. The *Policy Statement*'s inconsistency with the remand order on this central point, then, is two-fold: (1) it permits an income tax allowance at a non-utility level; and (2) it does not ensure the allowance reflects actual and equivalent income tax payments at some point in time.

121. The *Policy Statement* attempts to legitimize its deviation from *BP West Coast* in this regard by first casting doubt on the court's understanding of partnership taxation, then relying on its own record to impliedly conclude the court's "assumption was incorrect" insofar as what expenses properly may be included in a regulated cost of service is concerned.⁵² *Policy Statement* at PP 33-34. Tellingly, the *Policy Statement* expressly concludes "*Lakehead* mistakenly focused on who pays the taxes rather than on the more fundamental cost allocation principle of what costs, including tax costs, are attributable to regulated service, and therefore properly included in the cost of service." *Id.* at P 33. This conclusion is inconsistent with *BP West Coast* in two fundamental respects. First, *BP West Coast* itself focuses on who has ultimate liability to pay the tax on regulated utility income—its central holding is that the utility itself must be liable to pay the tax in order to receive a rate allowance for that purpose. Second, the *Policy Statement* quote conflates expenses with costs. *BP West Coast*'s fundamental proposition is that expenses constitute costs for utility ratemaking purposes only if they ultimately are paid at the utility level.

122. The *Policy Statement* deviates from *BP West Coast* in other respects as well. It focuses in substantial portion on protecting existing infrastructure investment and encouraging additional investment. *Id.* at PP 8-10, 12-14, 24-28, 30 (summarizing comments); 33, 36-37 (discussion). Principal among the Commission's concerns is the disincentive to partnership—particularly MLP—investment/ownership structures. The *Policy Statement* emphasizes that failing to grant the same tax allowance to both

⁵² The *Policy Statement* directs its critique to comments relying on *BP West Coast* and the ostensible inadequacy of the record before the court. *Id.* at PP 13, 21, 33-34. My review of *BP West Coast*, however, reveals no support for either conclusion. The remand order's income tax allowance discussion confirms throughout that the court had a clear understanding of both partnership taxation and the types of expenses that properly may be included in a utility's regulated cost of service. I note, moreover, that the record in the *Policy Statement* docket consists exclusively of public comments. *Id.* at P 42. And while I decline to offer an opinion with respect to the evidentiary weight such comments should carry, I observe that they were not subjected to rebuttal or cross-examination in the *Policy Statement* proceeding. Whatever their persuasiveness/evidentiary weight, they cannot legitimize a policy patently inconsistent with a decision rendered by the U.S. Court of Appeals on the record before it. The Commission may disagree with the court. Its disagreement may even be well-founded. But that does not grant it the authority to ignore the court's conclusions/directives and proceed to the contrary.

partnerships and corporations reduces the overall partnership return below that of a similarly situated corporation, the implication apparently being that such disparate treatment either will discourage investment or is in some way unjust, unreasonable or unduly discriminatory. Whether this structural concern is valid or not,⁵³ it is inconsistent with *BP West Coast* because the *Policy Statement* discusses it at a *second-tier* ownership level instead of at the first-tier regulated utility level *BP West Coast* requires. The *Policy Statement* is here premised on an assumption that because *BP West Coast* supports an income tax allowance for first-tier corporate utilities/consolidated group subsidiaries, it similarly supports an income tax allowance for first-tier partnership utilities if those utilities are owned by corporate partners. Proceeding from this faulty assumption, the *Policy Statement* concludes there is no logical reason to restrict the pass-through allowance to corporate partners. Instead, it should be apportioned *pro rata* among all owners—i.e. to any entity or individual having an actual or potential income tax liability attributable to regulated utility income. The flaw in this reasoning is the premise. *BP West Coast* restricts the income tax allowance benchmark to the utility level. The utility may include an income tax allowance in rates only if the utility itself has actual/potential income tax liability. A corporate utility/consolidated group subsidiary satisfies this requirement. A utility operating as a tax pass-through entity does not. Why? Because while a corporate utility's income is taxed at the utility or consolidated group level, and therefore constitutes a real cost to the utility, the pass-through entity's income is flowed to its owners untaxed, and consequently does not represent a real cost at the utility level. Quoting *BP West Coast* slightly out of context, in this instance the *Policy Statement*:

may well be correct that if such an allowance were allowable at all, it should have been allowed for the imputed taxes potentially incurred by all [owners] who realized taxable income from the untaxed profits of the limited partnership of the pipeline. For the reasons set forth above, we hold that the first step of this analysis is erroneous—that is, we hold that no such allowance should be included.

374 F.3d at 1291.

123. The *Policy Statement*'s emphasis on the concern that failing to grant the same tax allowance to both partnerships and corporations reduces the overall partnership return below that of similarly situated corporations highlights other inconsistencies as well. Chief among these is the remand order's admonition that it is not the "business of the Commission to create a tax liability when neither an actual or estimated tax is ever going to be paid or incurred on the income of the utility. . ." *Id.* at 1292. The *Policy Statement* addresses this criticism as follows: "Because public utility income of pass-through

⁵³ I recognize the Commission and the venture capital community have crucial substantive interests in the broader objectives of encouraging, rewarding and protecting investment in essential energy infrastructure.

entities is attributed directly to the owners of such entities and the owners have an actual or potential income tax liability on that income, the Commission concludes that its rationale here does not violate the court's concern that the Commission has created a tax allowance to compensate for an income tax cost that is not actually paid by the regulated utility." *Policy Statement* at P 34. To adopt the court's observation elsewhere in *BP West Coast*, the *Policy Statement* "is once again simply declaring" that pass-through entity owners have an actual or potential income tax liability on the public utility income, and "[t]o rephrase a proposition is not the same as supplying supporting reasoning." 374 F.3d at 1290.

124. In addition, the *Policy Statement*'s corporation/partnership disparity concern focuses on overall return rather than *rate* of return inasmuch as the income tax allowance is implicated. *Hope* stands for the ratemaking fundamental that a utility must have the opportunity to earn its allowed equity return. Simplistically stated, that return consists of rate base multiplied by rate of return, plus costs. The income tax allowance never influences rate base or rate of return, and only influences overall return insofar as it represents a legitimate cost to the utility. Granting a fictitious income tax allowance to a utility therefore permits it to exceed—by the tax allowance amount—its allowed return. It follows that if partnerships somehow constitute disadvantaged energy infrastructure investment vehicles vis-à-vis corporations, the appropriate regulatory solution lies in their allowed *rates* of return rather than in their overall returns.⁵⁴

125. It also follows that any partnership charging rates subsuming an income tax allowance has, from rate inception, reaped a windfall at ratepayer expense. This inevitably implies refunds are due. But while it strains credibility to presume

⁵⁴ Or in restructuring the utility as a corporation. As the court similarly observed in *BP West Coast*, the corporation/partnership income tax allowance disparity is a product of the business form selected, "not of the regulated or unregulated nature of the pipeline or any comparable investment or of the risks involved therein." 374 F.3d at 1291. Presumably, pipelines like SFPP changed from corporate to partnership structure in the first place because a partnership structure was more attractive. If, solely by virtue of eliminating an illegitimate income tax allowance, the partnership structure is rendered less attractive than a corporate one, the rational pipeline response would be to switch back to a corporate structure. If that switch still would provide inadequate investment incentive to achieve Commission objectives, the indicated regulatory solution would seem to be to increase partnership rates of return to levels capable of attracting the desired investment. In contrast to indirectly inflating the return rate through an illegitimate income tax allowance, this solution should fall squarely within the Commission's legitimate authority/discretion and be wholly consistent with *BP West Coast*. As I read it, *BP West Coast* in no way prohibits the Commission from encouraging, rewarding or protecting infrastructure investment by legitimate means (e.g., increased rates of return)—only from doing so through illegitimate ones.

sophisticated entities like SFPP/KMEP have failed to recognize their partnership income tax allowances constitute windfalls, I do not see how they fairly may be held accountable for acting in full accordance with Commission policy. That opinion aside, matters before me are confined to SFPP's 2005 North Line rate filing. It has been necessary for me to examine *Policy Statement* consistency with *BP West Coast* for the sole purpose of determining whether SFPP is entitled to rely on the *Policy Statement* to claim an income tax allowance *in this case*.⁵⁵ The *Policy Statement* was issued during the course of this proceeding, and I pointedly have underscored the Commission's commitment to basing final determinations on the policy in effect when a pertinent regulatory decision is made and applying that decision to the time frame to which a particular case applies. Accordingly, no refunds would be implicated here even if *BP West Coast* prohibits SFPP from including an income tax allowance in its North Line rates pursuant to the 2005 *Policy Statement*.

126. My final observation concerning the *Policy Statement* is that it seems internally inconsistent as well. It specifies that "any pass-through entity seeking an income tax allowance in a specific rate proceeding must establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income." *Policy Statement* at P 32. This language imposes the burden of proof on the pass-through entity (i.e. rate applicant), as it should. Immediately thereafter, however, the *Policy Statement* indicates "[t]o the extent that any of the partners or members do not have such an actual or potential income tax obligation, the amount of any income tax allowance will be reduced accordingly to reflect the weighted income tax liability of the entity's partners or members." *Id.* (emphasis added) (footnote omitted). This language suggests the *Policy Statement* presumes from the outset that 100% of the pass-through public utility income is taxable to partners/members, thereby standing the burden of proof on its head by eliminating the pass-through entity's threshold obligation to make an affirmative case for partner/member tax liability.⁵⁶ The *Policy Statement* does not expressly acknowledge this presumption. Neither does it provide any guidance with respect to how the technically complex issue of developing a pass-through entity's marginal tax rate should

⁵⁵ I do not suggest that my analysis has no implications for the *Policy Statement* in general. BP/EM have indicated they consider this proceeding to be the vehicle through which the entire income tax allowance policy issue ultimately will be resolved—presumably before the Commission and Court of Appeals.

⁵⁶ As previously noted, the omitted footnote characterizes this as a "[t]echnically complex issue that would be addressed in individual rate proceedings. . . ." *Policy Statement* at n. 27.

be addressed in individual rate proceedings⁵⁷—which requires a discussion of the December 16 Order at this point.⁵⁸

127. Before engaging in that discussion, however, I am compelled to find and conclude the *Policy Statement* is fatally inconsistent with *BP West Coast*. The fundamental inconsistency lies in the fact that the *Policy Statement* completely disregards the court’s central tenet that an income tax allowance may be included in a utility’s cost of service only insofar as it reflects an actual/potential cost to the utility. SFPP exhibits no actual/potential liability to pay tax on any income attributable to its regulated utility operations. Accordingly, *BP West Coast* precludes SFPP from reflecting an income tax allowance in its North Line rates irrespective of whether SFPP has satisfied the *Policy Statement*. I therefore find and conclude *as a matter of law* that SFPP is precluded from reflecting any income tax allowance in North Line rates.⁵⁹

⁵⁷ The *Policy Statement* elsewhere indicates that “any pass-through entity desiring an income tax allowance on utility operating income must be prepared to establish the tax status of its owners, or if there is more than one level of pass-through entities, where the ultimate tax liability lies and the character of the tax incurred.” *Id.* at P 42.

⁵⁸ The June 1 Order concluded SFPP would be entitled to a full income tax allowance in Docket No. OR96-2, *et al.* and Docket No. OR96-2, *et al.* if SFPP could establish that it satisfied the *Policy Statement*. The December 16 Order examines that question.

⁵⁹ This ruling logically obviates the need to address subsequent income tax allowance topics. I do so in the alternative to provide the Commission with analysis it may require in the event it rejects my primary ruling.

* * *

Returning to the ADIT ruling deferred at Paragraph 65, I also find and conclude at this point in the analysis that SFPP’s entire ADIT account balance should be credited as a negative to income and as an offset to income tax liability because the account is 100% over-funded. How that should be accomplished is discussed under Issues D-2-a and D-2-b, *infra*.

b. To The Extent SFPP Is Entitled To An Income Tax Allowance, What Is The Appropriate Methodology For Developing An Income Tax Allowance For SFPP In Designing A Test Year North Line Rate?

Participant Positions

SFPP

128. SFPP maintains the appropriate methodology for it to use in developing an income tax allowance is specified in the December 16 Order. SFPP states the order directed it to separate its respective unit-holders into six broad categories: (1) Subchapter C corporations; (2) individuals; (3) mutual funds; (4) pension funds, IRAs, KEOGH plans and other entities that customarily do not pay income taxes but would be expected to have taxpaying owners/beneficiaries; (5) pension funds, IRAs, KEOGH plans and other entities that customarily do not pay income taxes but might be required to pay taxes on SFPP/KMEP income deemed "unrelated business taxable income" (UBIT); and (6) institutions or exempt entities such as municipalities, having no obligation to pay out/declare income. The order further directed it to provide supporting detail on the unit-holders within each category and to categorize pass-through entities such as partnerships based on the entity ultimately subject to an actual or potential income tax liability. It was then required to identify the unit-holder percentage falling into each category, calculate the percentage of partnership income imputed to each group, and use those percentages to develop a weighted tax allowance.

129. SFPP also argues that the stand-alone principle and tax normalization procedure it followed in the North Line filing accurately reflects the methodology specified in the December 16 Order. Under SFPP's approach, the income tax allowance is equal to the tax SFPP, on a stand-alone basis, would pay on its allowed equity return. SFPP emphasizes the December 16 Order directs it to develop the income tax allowance at the partnership/entity level rather than at the partner/individual level advocated by opposing participants, emphasizing further that the order directs it to then calculate the percentage of partners in each of the six specified categories as well as the percentage of taxable partnership income allocated to each category. SFPP contends the December 16 Order also specifies how to calculate the appropriate tax rate for each type of partner and how to weight each type's tax rate to derive the weighted average rate. Following this procedure produces the weighted income tax rate of 37.92% reflected in SFPP's rebuttal testimony.⁶⁰

⁶⁰ SFPP acknowledges it normally would be defending the allowance reflected in the April 28, 2005 North Line rate filing and supporting case-in-chief, but the circumstance that the *Policy Statement*, June 1 Order and December 16 Order all were issued during the course of this proceeding compelled it to change positions on rebuttal

Trial Staff

130. Trial Staff vigorously disputes that SFPP is entitled to seek an income tax allowance in accordance with the *Policy Statement*, June 1 Order and December 16 Order in this proceeding. Trial Staff contends the December 16 Order was explicitly confined to its underlying dockets, and it therefore must be presumed the Commission did not intend the order to have broader applicability—particularly to a case with an imminent hearing commencement date.⁶¹ In addition, Trial Staff complains it would be fundamentally unfair to participants opposing an income tax allowance in this proceeding to mechanically apply the December 16 Order under these circumstances. Trial Staff instead emphasizes the *Policy Statement*'s "actual or potential tax liability" requirement, focusing on the level of actual income eligible for taxation from KMEP to each of its limited partners. This methodology yields a weighted federal income tax rate of 1.23%.⁶²

131. Trial Staff underscores the fact that SFPP's interpretation of the December 16 Order imposes rebuttable presumptions concerning marginal income tax rates that shift the burden of proof from SFPP—the rate applicant—to its opponents. It is manifestly unfair in Trial Staff's view to impose this new burden on income tax allowance opponents after their affirmative cases already had been filed. Equally important in Trial Staff's view is SFPP's interpretation of the December 16 Order forecloses the question of whether SFPP is entitled to any income tax allowance at all because taxable income is "imputed" to partner groups without requiring proof that those groups actually received taxable regulated income from SFPP. Trial Staff stresses the hearing order in this proceeding set *all* issues raised by the North Line rate filing for hearing, and those issues necessarily include a threshold question of whether SFPP partners satisfy the *Policy Statement* requirement of "actual or potential tax liability." In addition, Trial Staff distinguishes the December 16 Order on the basis that the East Line/West Line rates involved in the underlying dockets were established as early as 1992, when the law governing the merits of the income tax allowance component of cost of service differed from current law. Trial Staff further distinguishes the December 16 Order on the bases

(filed January 5, 2006) to reflect an income tax allowance conforming to the *Policy Statement*, June 1 Order and December 16 Order. SFPP IB at 33-34.

⁶¹ The hearing commencement date was January 24, 2006.

⁶² This figure was derived using the 2004 tax year. See Ex. S-4 at 79 [PROTECTED]; Ex. S-7A [PROTECTED]. Although Trial Staff apparently did not compute a composite income tax rate reflecting a state marginal tax rate component, it advocates using a similar methodology for that purpose instead of simply applying the 8.84% California corporate rate SFPP uses. Trial Staff IB at 23-24; Trial Staff RB at 29 and n. 99.

that: (1) the evidentiary records in most, if not all, of the underlying dockets were closed prior to *Policy Statement* issuance, so the order established rebuttable presumptions to accommodate this unique circumstance/facilitate calculating allowances that already had been approved on the merits in the various underlying dockets; and (2) the state income tax portion of the composite tax rate would likely differ here because while the East and West Lines implicate Arizona and New Mexico tax rates, the North Line filing implicates California tax rates.

BP/EM

132. BP/EM criticize SFPP's mechanical reliance on the December 16 Order, summarizing the appropriate income tax allowance methodology in this proceeding as a five part process. First, the amount of North Line taxable income must be determined. This is achieved on BP/EM's account by identifying and subtracting all non-ADIT-related offsets and deductions to "taxable allowed return on equity." Second, full test year tax depreciation must be offset against taxable income rather than being booked to the ADIT account. Third, a composite federal/state income tax rate must be determined. BP/EM characterize this as a function of interrelationship between taxable income and tax rates, contending that the *Policy Statement* yields a *de minimis* rate if fairly applied.⁶³ Fourth, the "Net to Tax Multiplier" should be eliminated because the calculation awards an incremental income tax allowance on the income tax allowance itself. Fifth, any remaining income tax allowance must be offset by credits from the ADIT account because that account is already over-funded.

CCV

133. CCV argue the December 16 Order must be applied in conjunction with the *Policy Statement* and the June 1 Order to derive the appropriate SFPP income tax allowance. According to CCV, this requires SFPP's ownership percentages to be traced back through its intermediate parent (Kinder Morgan OLP-D), and its ultimate parent (KMEP), to the owners of KMEP's limited partnership units. CCV generally rely on a 2004 SFPP ownership study for this purpose, but depart from the study insofar as it excludes i-share interests accounting for approximately 26% of SFPP's partner ownership and 25% of its total capital investment.⁶⁴ CCV assign a zero percent tax rate to i-share interests because they are ownership vehicles "not entitled to allocations of income, gain, loss, deductions

⁶³ BP/EM maintain the state rate component should be zero because Nevada imposes no income tax.

⁶⁴ CCV highlight the fact that SFPP includes i-share capital in its return on equity calculation, but excludes i-share ownership interests from its weighted federal income tax calculation.

or cash distributions until such time as KMEP is liquidated.”⁶⁵ In addition, CCV assign a zero percent tax rate to all other non-corporate unit-holders based on what CCV characterize as SFPP’s complete failure to provide any evidence regarding their income tax liabilities. CCV accept SFPP’s proposed 40.3% composite federal/state income tax rate for corporate unit-holders (i.e. KMI and its subsidiaries),⁶⁶ resulting in a blended income tax rate of 4.50% based on their weighted ownership interests. CCV maintain its methodology is not inconsistent with the December 16 Order because the order must be construed in conjunction with the *Policy Statement* and June 1 Order that preceded it. Construing the December 16 Order in isolation as support for using taxable income for weighting purposes, as SFPP does, has nonsensical consequences on CCV’s account.

Tesoro

134. Tesoro supports CCV’s position, emphasizing that CCV’s approach properly interprets the December 16 Order by focusing on ownership weights rather than taxable income weights. Tesoro argued in the alternative under Issue D-2-a that the *Policy Statement* entitles SFPP to an allowance only insofar as it demonstrates actual or potential tax liability on income earned, adding the *Policy Statement* indicates this should be achieved through a “blended rate that reflects the owning interest.” As previously outlined, CCV quantify that rate at 4.50% based on ownership weights.⁶⁷

Discussion/Analysis

135. The December 16 Order expressly purports to supplement the *Policy Statement* insofar as the methodology for developing the marginal tax rate for pass-through entities is concerned.⁶⁸ Accordingly, I am compelled to reject Trial Staff’s threshold contentions that (i) the December 16 Order was explicitly confined to its underlying dockets and (ii)

⁶⁵ CCV IB at 22 citing Ex. CCV-1 at 33 [PROTECTED]; Tr. 1706. CCV also claim SFPP conceded on the record that i-shares have no foreseeable actual or potential tax liability. CCV IB at 22 (citing Tr. 1706).

⁶⁶ Ex. CCV-1 at 33 [PROTECTED].

⁶⁷ Tesoro also states it supports the income tax rate calculation presented by BP/EM, presumably referring to BP/EM’s five part methodology.

⁶⁸ The December 16 Order strongly suggests it is not confined to the captioned dockets, SFPP’s East and West Lines or SFPP in general. See December 16 Order at PP 3, 21-23, 29-34. This lends additional support to my prior ruling that it would be inappropriate to disregard the *Policy Statement*, the June 1 Order or the December 16 Order for purposes of this proceeding. See P 62, *supra*.

the Commission did not intend the order to have any broader applicability to SFPP. I instead find and conclude the December 16 Order is applicable—if not controlling—here to the extent it is consistent with the *Policy Statement*. The qualifier should assuage Trial Staff's legitimate concern that it would be inappropriate to mechanically apply the December 16 Order without considering the concomitant *Policy Statement* requirement that SFPP demonstrate actual or potential income tax liabilities for the public utility income KMEP limited partners earn through their derivative interests in SFPP.⁶⁹

136. The December 16 Order generally concludes that any flow-through entity “partner...required to file a Form 1040 or Form 1120 return that includes a partnership income or loss . . . has an actual or potential income tax liability for the partnership income.” December 16 Order at P 28 (footnote omitted).⁷⁰ The order then addresses this standard's relationship to the weighted tax rate, multiple levels of pass-through entities, and the tax benefit allocation among partners. It first cites the Commission's long-held presumption that a Subchapter C corporation owning a regulated utility interest is taxed at the maximum corporate rate of 35%, adopting on this basis a rebuttable presumption that SFPP/KMEP corporate partners pay the maximum marginal tax rate of 35% for purposes of calculating SFPP's income tax allowance. *Id.* at P 30. Turning to the “more difficult” task of determining the marginal tax rates for partners other than Schedule C corporations, the order notes that while such partners “may have a wide range of tax brackets, and in theory any SFPP limited partner or KMEP unit holder could fall into these different brackets . . . it would be very difficult for a regulated pass-through entity to obtain actual tax data on the marginal tax rates of the entity filing the return.” *Id.* at P 31. To address this difficulty, the Commission takes “administrative notice” of two IRS

⁶⁹ Although I am sympathetic to Trial Staff's corollary complaint concerning the unfairness of imposing rebuttable marginal income tax rate presumptions on income tax allowance opponents after their affirmative cases had been filed in this proceeding, the December 16 Order—not SFPP—is the source of any such unfairness. And as previously noted, neither Trial Staff nor any other participant requested leave to supplement the record in this proceeding to address the December 16 Order's implications during the more than five week interim between its issuance and hearing commencement, and the hearing had been underway for an additional two weeks before Trial Staff questioned the order's relevance/applicability. *See* Tr. 1168-69. Trial Staff clearly could have been more proactive in this regard. I therefore find and conclude any claim of unfairness based on the December 16 Order's timing must be rejected.

⁷⁰ The omitted footnote confirms “the Commission is not requiring that the regulated entity have actual income that would be taxable to its partners in the relevant test year. . . .” *Id.* at n. 45.

publications,⁷¹ relying on the publications' individual income tax data compilations indicating 74.7% of total 1994 federal income taxes and 79.5% of total 1999 federal income taxes were paid by Form 1040 taxpayers in the 28% bracket or higher to adopt a rebuttable presumption of a 28% marginal tax rate for all entities not filing a Form 1120 corporate return. *Id.* The order characterizes this as a "conservative estimate of the marginal tax bracket of individuals holding SFPP or KMEP interests, either directly or indirectly, given that the complainants argue that KMEP serves mostly as a tax shelter for wealthy individuals." *Id.* at P 32. It concludes "[t]hus, it is likely that the use of the 28 percent bracket actually understates the marginal tax rate of most individuals who have invested in SFPP or KMEP partnership interests." *Id.* The order also applies the 28% presumption to entities/individuals with UBIT. *Id.* Summarizing, the December 16 Order states: "Thus, unless a party provides evidence to the contrary, the marginal tax bracket for partners that are Schedule C corporations or LLCs filing Form 1120 return of [sic] 35 percent, for partners that are tax payers other than a Schedule C corporation the marginal tax bracket is 28 percent, and for municipalities and other exempt entities the relevant marginal tax bracket is zero." *Id.* (footnote omitted).

137. Turning to multi-level ownership structures, the December 16 Order observes "it is not unusual for a partnership or LLC to be owned by another partnership or LLC, and for that entity in turn to be owned by Form 1040 or 1120 partners." *Id.* at P 33. It then states "[t]here is no objection to such arrangements as long a [sic] partner that is subject to an actual or potential income tax level can be identified during the test year at issue in a particular proceeding." *Id.* The order specifies "it is the obligation of the regulated entity to identify who has the ultimate responsibility for income that is subject to an actual or potential income tax liability." *Id.*

138. The December 16 Order notes that one of *BP West Coast's* criticisms of the *Lakehead/Lakehead II* income tax allowance policy was it did not achieve its goal of precluding an allowance for non-corporate partners because those partners still shared ratably in the partial corporate partner allowance according to their limited partnership interests rather than their ultimate income tax liabilities. *Id.* at P 34. The order states "this issue can be resolved in the instant case by using the weighted marginal tax bracket of the different unit holders to determine the tax allowance. This reflects the cost to the partnership of the marginal tax brackets of the partners, thus assuring that *ratepayers* are not charged more than the income tax cost imputed to the partnership." *Id.* at P 34 (emphasis in original). The order continues, "[t]his is the same methodology the Commission uses when computing weighted cost of capital which reflects the fact that debt and equity instruments are imputed different costs . . ." concluding "[t]he same logic applies to the determination of the income tax allowance." *Id.*

⁷¹ Individual Income Tax Rates and Tax Shares, 1994; Individual Income Tax Rates and Tax Shares, 1999.

139. The December 16 Order ultimately defers deciding whether SFPP satisfies the *Policy Statement*, instead requiring SFPP to provide additional information because the *Policy Statement* changed the applicable legal standard after the records closed in all of the underlying dockets at issue. *Id.* at P 44. Specifically, the order directs SFPP to separate its respective unit-holders into six broad categories and to include supporting detail on the unit-holders within each of these categories: (1) Subchapter C corporations; (2) individuals; (3) mutual funds; (4) pension funds, IRAs, KEOGH plans and other entities that customarily do not pay income taxes but would be expected to have taxpaying owners/beneficiaries; (5) pension funds, IRAs, KEOGH plans and other entities that customarily do not pay income taxes but might be required to pay taxes on SFPP/KMEP income deemed UBIT; and (6) any institutions or exempt entities such as municipalities, having no obligation to pay out/declare income. *Id.* at P 45. The order further directs SFPP to provide supporting detail on the unit-holders within each category and to categorize pass-through entities such as partnerships based on the entity ultimately subject to an actual or potential income tax liability. *Id.* Finally, the order requires SFPP to identify the unit-holder percentage falling into each category, calculate the percentage of partnership income imputed to each group, and use those percentages to develop a weighted tax allowance.⁷² *Id.* at PP 45-46.

140. SFPP relies on compliance with the December 16 Order to claim the weighted income tax allowance of 37.92% reflected in its rebuttal testimony. Accordingly, the issues here are: (1) whether SFPP is entitled to rely on compliance with the December 16 Order; (2) if so, whether SFPP has satisfied the December 16 Order in this case; and (3) if not, what are the implications of SFPP's failure to satisfy the December 16 Order?

141. I previously ruled the December 16 Order is applicable, if not controlling, in this proceeding to the extent it is consistent with the *Policy Statement*.⁷³ The December 16 Order expressly supplements the *Policy Statement* insofar as the methodology for developing SFPP's marginal tax rate is concerned, and it would be non-sensical to apply the *Policy Statement*/December 16 Order to SFPP's East and West Lines but not to its North Line. The issue here is the SFPP/KMEP marginal income tax rate. That rate is not line-specific; it should be uniform for all SFPP pipelines. I therefore find and conclude SFPP is entitled to rely on compliance with the December 16 Order to prove it is entitled

⁷² The order states "the Commission recognizes [the percentage of taxable partnership income imputed to each group] may not be the same as the percentage of the actual units held by each group depending on how expenses, deductions and income are allocated among the partners." *Id.* at P 46.

⁷³ I see no need to belabor the point that I consider the *Policy Statement* to be patently inconsistent with the *BP West Coast* remand order in certain fundamental respects, except to underscore the fact that the December 16 Order necessarily exhibits the same flaw insofar as it adopts/expands upon those inconsistencies.

to an income tax allowance in this case—provided the December 16 Order is consistent with the *Policy Statement*.

142. The *Policy Statement* concludes an income tax allowance should be granted to:

all entities or individuals owning public utility assets, *provided that an entity or individual has an actual or potential income tax liability to be paid on that income from those assets*. Thus a tax-paying corporation, a partnership, a limited liability corporation, or other pass-through entity would be permitted an income tax allowance on the income imputed to the corporation, or to the partners or the members of pass-through entities, provided that the corporation or the partners or the members, [sic] have an actual or potential income tax liability on that public utility income. Given this important qualification, *any pass-through entity seeking an income tax allowance in a specific rate proceeding must establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income*.

Policy Statement at P 32 (emphasis added). This language clearly imposes an *affirmative* burden of proof on any pass-through entity seeking an income tax allowance in a specific rate proceeding: the entity must establish the actual or potential income tax liability on public utility income for each partner or member interest reflected in the claimed allowance. Unbundled, the *Policy Statement* burden of proof imposes at least two discrete obligations. First, the pass-through entity must establish the fact and magnitude of each partner/member's actual or potential income tax liability. Second, the entity must conclusively link that liability to its public utility income from regulated service. The December 16 Order deviates from these requirements.

143. The December 16 Order summarily concludes any flow-through entity “partner...required to file a Form 1040 or Form 1120 return that includes a partnership income or loss . . . has an actual or potential income tax liability for the partnership income.” December 16 Order at P 28 (footnote omitted). Proceeding from this conclusion, the order adopts rebuttable presumptions that: (1) SFPP/KMEP corporate (Form 1120) partners pay the maximum marginal income tax rate of 35%; and (2) all SFPP/KMEP entities not filing a Form 1120 corporate return pay income taxes at a 28% marginal tax rate. *Id.* at PP 30-31. These presumptions are problematic for a number of reasons. Most important, they reverse the *Policy Statement* burden of proof. The *Policy Statement* imposes the burden of proof on the pass-through entity seeking an income tax allowance. This not only accords with the fundamental ratemaking tenet that the rate proponent bears an affirmative burden to prove its case, it also reflects the circumstance that the rate proponent is in a privileged position insofar as the pertinent information is concerned. As the *Policy Statement* recognizes: “This is a fact specific issue for which the relevant data is uniquely within the control of the regulated entity.” *Policy Statement*

at P 42. It follows that the rebuttable presumptions adopted in the December 16 Order not only improperly reverse the burden of proof, but at the same time make it virtually impossible for tax allowance opponents to rebut the presumptions because they do not have the requisite data.⁷⁴

144. The December 16 Order's inconsistency with the *Policy Statement* is further confirmed by briefly revisiting *City of Charlottesville*. SFPP is no doubt correct that the *Policy Statement* derives its "actual or potential income tax liability" standard from the *City of Charlottesville* principle that an income tax allowance may reflect any "actual or estimated taxes paid or incurred." SFPP—and the December 16 Order—apparently concentrate on the standard's "estimated" and "incurred" components to conclude it covers *theoretical* as well as actual tax liability. The more logically-consistent interpretation is that *City of Charlottesville* was concerned with ensuring a tax allowance for both current and future *actual* tax liabilities—that is, that the standard's "estimated" and "incurred" components were intended to cover tax payments (i.e. costs) actually made, but at some future point in time.⁷⁵ In contrast to SFPP's reading (see discussion at P 111, *supra*), this interpretation squares with the *City of Charlottesville* distinction between governmental entities having no actual or potential income tax liability because they are legally exempt from paying income taxes and non-exempt entities/individuals. The former would never be required to pay income taxes; the latter might or might not. Again, the standard is keyed to whether income taxes ultimately will be *paid*. Abstract or theoretical tax liabilities do not in themselves satisfy this key requirement. That is why the *Policy Statement* necessarily imposes the burden of proof on "any pass-through entity seeking an income tax allowance in a specific rate proceeding [to] establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income." *Policy Statement* at P 32. The December 16 Order's presumptions eviscerate and reverse this burden by (i) uncritically presupposing every dollar of tax liability attributable to regulated utility income ultimately/necessarily will be

⁷⁴ Although each presumption is procedurally troubling in that it reverses the burden of proof, the 35% corporate rate presumption seems less so on substantive grounds than the 28% non-corporate rate presumption because the corporate rate would not vary from one Subchapter C corporation to another. Any corporate allowance nevertheless would have to be discounted to reflect the circumstance that non-corporate partners share ratably in the corporate allowance according to their limited partnership interests.

⁷⁵ The December 16 Order implicitly acknowledges this point when it defends the conclusion that offsets for deductions, losses or other subtractions are irrelevant as being "consistent with the philosophy in *City of Charlottesville* that the actual or potential tax liability test does not require that actual cash tax payments be paid by an entity on regulated income *in a particular fiscal year*." December 16 Order at P 28 (emphasis added).

paid by someone at some time and (ii) imposing a burden to demonstrate the contrary on tax allowance opponents.

145. The December 16 Order's reliance on the 1994 and 1999 IRS publications is problematic as well. First, the order takes "administrative notice" of these taxpayer data compilations to support its 28% marginal tax rate presumption for all entities not filing a Form 1120 corporate return. December 16 Order at P 31. Research reveals scant reference to—and no discrete definition of—administrative notice. I therefore proceed from the premise the December 16 Order uses the term in lieu of either "judicial notice" or "official notice"—most likely the latter since Commission regulations expressly provide the Commission⁷⁶ may take official notice "of any matter that may be judicially noticed by the courts of the United States or of any matter about which the Commission, by reason of its functions, is expert." 18 C.F.R §385.508 (d) (1) (2006). Individual income tax rates obviously do not fall within the category of matters about which the Commission is expert by reason of its functions. As a consequence, the Commission may take official notice of them only insofar as they may be judicially noticed. Judicially-noticeable facts fall into one of two categories: adjudicative facts or legislative facts. Adjudicative facts relate directly to the immediate parties to a specific proceeding; legislative facts are established truths of universal applicability that cannot reasonably be questioned and are not party/case-specific. *See generally* Richard J. Pierce, Jr. ADMINISTRATIVE LAW TREATISE (4th ed. 2002) §§ 10.5-10.6. The individual income tax data on which the 28% presumption is based indisputably falls into the legislative fact category. They are raw data compilations covering the universe of taxpayers filing Form 1040 returns for the years 1994 and 1999. The validity of the data itself cannot reasonably be questioned and it clearly is neither specific to the December 16 Order's underlying dockets nor to the parties involved in those dockets.⁷⁷ And therein lies the problem. In extrapolating from the general (legislative fact data) to the particular (adjudicatory fact presumption), the December 16 Order misuses judicial notice by conflating legislative facts with adjudicatory ones. There simply is no way to determine from the compiled data whether any individual KMEP partner actually fell within the 28% bracket in 1994 or 1999,⁷⁸ let alone in the relevant base/test periods.⁷⁹ Neither is

⁷⁶ 18 C.F.R §385.508 (d) (1) (2006) references "[a] presiding officer." The regulations define "presiding officer" to include "one or more Members of the Commission." 18 C.F.R §385.102 (e) (1) (2006).

⁷⁷ The same obviously holds true for the instant proceeding.

⁷⁸ The data confirms the *maximum probability* of this being the case was only 74.7% in 1994 and 79.5% in 1999. Moreover, the December 16 Order itself concedes such partners "may have a wide range of tax brackets, and in theory any SFPP limited partner or KMEP unit holder could fall into these different brackets. December 16 Order at P 31.

146. The preceding analysis compels me to find and conclude SFPP is not entitled to rely on compliance with the December 16 Order to justify its income tax allowance claim. Accordingly, I need not address whether SFPP has satisfied the December 16 Order in this case, or if not, what that failure implies—except to find and conclude: (1) SFPP has provided inadequate evidence in this proceeding to satisfy the December 16 Order's requirements in any meaningful way;⁸² and (2) that failure implies either that SFPP is entitled to no more than a 4.50% income tax allowance based on SFPP's proposed 40.3% composite federal/state income tax rate for its corporate unit-holders alone,⁸³ or SFPP must be required to make a compliance filing in this docket similar to the one required in the dockets underlying the December 16 Order.⁸⁴ See December 16 Order at PP 44-47.

c. Whether SFPP's Proposed Income Tax Allowance For Designing Its North Line Rate Is Justified and Appropriate? If Not, What Is The Appropriate Income Tax Allowance For Designing SFPP's Test Year North Line Rate?

147. This issue is resolved in accordance with Issues D-1-a and D-1-b.

16 Order's suggestion that the methodology for deriving a utility's imputed cost of capital is analogous to the order's methodology for imputing the 28% non-corporate income tax rate is specious.

⁸² See generally Ex. SFN-43. In addition, I find and conclude SFPP failed to comply with the December 16 Order in developing the weighted tax rate underlying the rebuttal case income tax allowance claim. The *Policy Statement*, December 16 Order and the evidentiary record in this proceeding indicate SFPP should have developed the weighted tax rate using actual ownership interests rather than allocated taxable income. See, e.g., *Policy Statement* at P 42; December 16 Order at P 28; Ex. CCV-1 at 29-32 [PROTECTED]; Tr. 1799-1804.

⁸³ KMI and its subsidiaries, based on their 35% maximum corporate income tax rates. I am unable to determine from the record whether this figure discounts for the circumstance non-corporate partners share ratably in any partial corporate partner allowance according to their limited partnership interests.

⁸⁴ Although I do not endorse the compliance filing alternative in this instance, requiring SFPP to make a compliance filing in meaningful accordance with the December 16 Order would not be inconsistent with the order.

CCV

152. CCV challenge SFPP's over-funded ADIT amortization proposals as completely unsupported by the record in this proceeding. CCV similarly criticize SFPP's reliance on a future compliance filing to satisfy a burden of proof it failed to satisfy here— particularly since such a filing would not be subject to discovery or cross-examination. In addition, CCV vigorously oppose adjusting the ADIT account retroactively to 1989 in accordance with whatever income tax allowance SFPP is granted in this proceeding. CCV maintain Commission policy precludes SFPP from modifying the North Line ADIT balance prior to the date of its 2005 North Line rate application in this proceeding. And since SFPP no longer incurs/is subject to deferred taxes, CCV support the BP/EM position that the entire ADIT account balance should be returned to ratepayers because it constitutes excess ratepayer-supplied capital.

Discussion/Analysis

153. I agree that ADIT must be consistent with whatever income tax allowance is granted—both prospectively and retroactively to 1989. The ADIT account accumulates actual dollars for SFPP through the income tax component embedded in North Line rates. The rationale underlying this accumulation is that once SFPP has exhausted its accelerated tax depreciation, it must satisfy any annual income tax liabilities by drawing down the accumulated ADIT account—ultimately to zero at the end of the pipeline's longer book depreciation period. If the account is over-funded, the excess must somehow be returned to the ratepayers who provided it. This requires both quantifying the over-funded amount and determining the proper mechanism through which to return it.

154. Although SFPP itself has neither incurred nor been subject to deferred income taxes since 1989, the *Policy Statement/December 16 Order* permit it to impute income tax liability to corporate partners at a 35% rate and to non-corporate partners at a 28% rate. This almost certainly means the ADIT account has been over-funded in significant degree since 1989 because (i) the account over-collected in its earlier years in anticipation of under-collecting SFPP's presumed 35% marginal corporate income tax liability in later ones and (ii) SFPP's imputed post-1989 income tax liability under the December 16 Order is necessarily less than the amount actually collected after 1989 to cover SFPP's presumed 35% marginal corporate tax liability due to the SFPP weighted rate's overwhelmingly predominant 28% non-corporate partner tax liability component. See generallly Ex. SFN-43 at 20. The December 16 Order's imputed 35% corporate partner

much of the necessary post-1989 information for purposes of its February 28, 2006 compliance filing. As previously stated, any compliance filing in accordance with the December 16 Order also must afford opposing participants a meaningful opportunity to challenge SFPP's ADIT-related information.⁸⁸

b. Whether Full Tax Depreciation Must Be Taken In The Test Year As An Offset To SFPP's Income Tax Allowance, If Any, Rather Than "Booked" To An ADIT Account?

Participant Positions

SFPP

156. SFPP asserts this issue contemplates a change to its ADIT calculation methodology, which SFPP maintains is both an established approach and consistent with Commission precedent. SFPP argues that any participant proposing to change an established methodology bears a burden to prove not only that the methodology is unreasonable, but also that its proposed alternative is just and reasonable. SFPP claims there is no record support for either conclusion.

Trial Staff

157. Trial Staff addresses this topic only to the extent SFPP is not entitled to an income tax allowance.

BP/EM

158. BP/EM contend full tax depreciation must be taken in the test year for two reasons. Because there is no tax at the partnership level: (1) all tax depreciation necessarily is flowed-through to partners in the tax year rather than being held in any kind of reserve account; and (2) there consequently can be no deferred income taxes. It follows there can be no ADIT account, which BP/EM submit is confirmed by the fact that SFPP's annual report, Form 6, reflects zero ADIT. BP/EM emphasize SFPP nevertheless has collected ratepayer/consumer dollars and "booked" those dollars into an ADIT account for the entire duration of its existence in partnership form. In BP/EM's view, this is inappropriate and SFPP rates should reflect full tax depreciation.

⁸⁸ Again, I see no reason to extend the timeframes specified in footnotes 15 and 16 on account of the additional ADIT issue.

determine the percentage of income allocated to the various categories of partners, and then develop a weighted average of the corresponding marginal income tax rates” because those percentages are used to calculate a weighted federal and state income tax rate which, in turn, is used to calculate the net-to-tax multiplier used to calculate the income tax allowance. SFPP maintains no step beyond development of the income percentages allocated to SFPP partner categories involves SFPP’s taxable income.

Trial Staff

161. First characterizing the term “taxable income” as a misnomer for SFPP except at the partner level, Trial Staff argues that if an income tax allowance is to be granted in this case, it is necessary to determine SFPP’s tax year 2004 regulated ordinary business income as a step in developing the allowance. Trial Staff summarizes the relevant inquiry under the *Policy Statement* as whether an owner of an interest in the regulated partnership has an “actual or potential income tax liability on the public utility income earned through the interest.” In Trial Staff’s view, common sense indicates the first step in determining such owners’ income tax liabilities is to determine what amount of public utility income is eligible to become taxable income to the owners. Trial Staff disputes whether SFPP actually traced its 2004 regulated ordinary business income through its chain of ownership to KMEP’s limited partners, however, arguing SFPP did not demonstrate it had the accounting capability to differentiate SFPP income from other commingled and unregulated OLP-D/KMEP income. Instead, Trial Staff emphasizes, SFPP simply allocated income among various categories of KMEP partners/taxpayers. Trial Staff underscores that SFPP acknowledged the difficulty of tracing SFPP’s regulated income on the record at hearing, a difficulty Trial Staff attributes to a complicated-by-design business organizational structure. Trial Staff concludes SFPP failed to satisfy the burden to prove its owners’ actual or potential income tax liabilities here because it could not factually trace SFPP’s regulated income to them.

BP/EM

162. BP/EM maintain it is essential to determine SFPP’s taxable income if an income tax allowance is to be granted. BP/EM also maintain the amount reported to the IRS on Form 1065 is inadequate to this end.

Discussion/Analysis

163. All participants agree it is necessary to determine the amount of income on which any income tax allowance is based. I concur. An income tax allowance presupposes an income tax liability, which in turn is a function of an underlying income. Whether the income tax allowance reflects a true cost to the utility itself,⁹⁰ or a pass-through liability

⁹⁰ I have determined this is not the case with respect to SFPP.

to its owners, the underlying cost/liability must be quantified in some manner that is neither arbitrary nor capricious. A true cost is readily quantifiable, and is by definition appropriately allocated to the utility that pays it. Pass-through liabilities, in contrast, demonstrate no such certainty *in themselves*. It follows that such liabilities not only must be reasonably quantified, but rationally allocated/distributed as well.

164. Trial Staff's concern over referencing SFPP's "taxable income" reflects crucial insight. Speaking in such imprecise shorthand confuses the simple circumstance that SFPP has no taxable income. It is a partnership and as such pays no income taxes; it therefore has no taxable income. It has regulated ordinary business income—100% of which is passed-through to owners at multiple levels. Those owners may or may not have actual or potential income tax liability for the public utility income earned through their interests. Any that do properly may be said to have taxable income derived through their ownership interest(s) in SFPP, but not a share of "SFPP taxable income." The material underlying income figure for *Policy Statement* purposes, then, is not necessarily the total regulated ordinary business income SFPP passes through to its owners. It is instead the amalgamated amount of SFPP-derived regulated ordinary business income for which SFPP can demonstrate its owners have actual or potential income tax liabilities.

165. The *Policy Statement* addresses the underlying income determination only by implication. It contemplates that any pass-through entity's income tax allowance will be determined in accordance with the entity owners' total actual or potential income tax liabilities on regulated public utility income. Quoting the *Policy Statement*:

any pass-through entity seeking an income tax allowance in a specific rate proceeding must establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income. To the extent that any of the partners or members do not have such an actual or potential income tax obligation, the amount of any income tax allowance will be reduced accordingly. . . .⁹¹

⁹¹ I cite this language for the sole purpose of illustrating the *Policy Statement* requires each pass-through owner contributing to the utility's total income tax allowance to demonstrate the fact and magnitude of its proportionate income tax obligation for the pass-through entity's total public utility income. As previously noted, in my view the second sentence of the cited language suggests a presumption with respect to the total pass-through owner income tax liability which is both impermissible in that it implicitly reverses the threshold burden of proof, and inconsistent with the immediately preceding *Policy Statement* mandate that the pass-through entity must affirmatively establish its partner/members' actual or potential income tax obligations on the pass-through entity's public utility income.

Policy Statement at P 32. *BP West Coast* concerns notwithstanding, I find and conclude this standard facially satisfies the requirement that Commission policy be established in a manner which is neither arbitrary nor capricious. It is at least rational to assume that somewhere up the ownership chain SFPP/KMEP partners/members ultimately receive some indeterminate amount of SFPP-derived regulated utility income and also incur some degree of actual or potential tax liability for it.⁹² It does not necessarily follow, however, that every (or any particular) partner/member actually receives such income. Neither is it self-evident how much SFPP-derived income in fact reaches any particular partner/member. These uncertainties must be eliminated and conclusively quantified in order to derive the composite taxable income figure material to the tax allowance.

166. A conclusion the *Policy Statement* was crafted with consideration to the preceding uncertainties is supported by the fact that it expressly defers to individual rate proceedings the “technically complex” task of establishing the fact and magnitude of each individual actual or potential partner/member income tax liability supporting the pass-through entity’s total income tax allowance claim. *Id.* and n. 27. Although the *Policy Statement* begs the question of precisely how these demonstrations must be made in the context of individual rate proceedings, the logical implication is that they must be factual/evidentiary. What other reason could there be to defer them to individual rate proceedings?

167. Conversely, there is no logical basis on which to *presume* in any individual rate proceeding that every flow-through entity “partner...required to file a Form 1040 or Form 1120 return that includes a partnership income or loss . . . has an actual or potential income tax liability for the partnership income.” December 16 Order at P 28 (footnote omitted). Nor is there any logical basis on which to *presume* in such evidentiary proceedings either a 28% tax rate for all Form 1040 filers or that SFPP/KMEP income allocations reflect actual SFPP-derived partner/member incomes and income tax

⁹² I note here that whether such owners have taxable income-reducing offsets (e.g., unrelated losses, credits, 743(b) depreciation, etc.) should be immaterial to their actual or potential tax liability on SFPP income—so long as that liability can be established/quantified before the offsets are applied. I do not see how this situation differs from the long-accepted corporate utility practice of reducing otherwise taxable income through non-cost offsets, thereby reducing the utility’s ultimate income tax *payment* in a particular year as distinguished from the pre-offset tax *liability* on which its income tax allowance was based. Moreover, it smacks of confiscation to require SFPP/KMEP pass-through partners/members essentially to subsidize SFPP rates by reducing the partner/members’ tax liabilities for SFPP-derived income—hence, the tax allowance reflected in rates—by the value(s) of whatever non-utility-related offsets, credits or deductions the partner/members otherwise might have.

liabilities. *Compare Policy Statement* at P 42 with December 16 Order at PP 32, 43-46. These presumptions reverse the burden of proof which the *Policy Statement* rationally imposes on the pass-through entity seeking an income tax allowance. They also disregard the ratemaking axiom that rate proponents bear the affirmative burden to prove their cases, as well as the circumstance that the rate proponents have a virtual monopoly on the requisite evidence.⁹³ Most important, the December 16 Order presumptions directly contravene the *Policy Statement*'s evidentiary requirement that "any pass-through entity seeking an income tax allowance in a specific rate proceeding must establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income." *Policy Statement* at P 32. As previously illustrated, the *Policy Statement* requires the pass-through entity seeking a tax allowance to make this factual demonstration in the context of an evidentiary rate proceeding. The December 16 Order arbitrarily supplants this requirement with evidentiary *presumptions* concerning the existence, magnitudes and distributions of pass-through entity partner/member tax obligations for the entity's public utility income. These presumptions impute a composite taxable income figure by extension. And irrespective of whether the presumptions may be deemed to have the minimum required rational bases—which I previously concluded they do not—they clearly had no legitimate factual bases in the underlying records. See December 16 Order at PP 31-32. Accordingly, I find and conclude that while the general standard for demonstrating SFPP-derived taxable income articulated in the *Policy Statement* is rational, the same does not hold true for the supplemental guidance provided in the December 16 Order.

168. What remains is to determine whether SFPP has in this proceeding factually established the income material to its tax allowance claim in accordance with the *Policy Statement*—that is, whether SFPP has demonstrated the total of its pass-through owners' individual actual or potential income tax liabilities on SFPP-derived regulated public utility income. The answer clearly is no. The *Policy Statement* required SFPP factually to demonstrate the actual or potential income tax liability on SFPP-derived income for each partner/member ownership interest subsumed in the claimed allowance. It therefore was incumbent on SFPP (i) to establish the fact and magnitude of each discrete partner/member's actual or potential income tax liability and (ii) to conclusively match that liability to SFPP-derived public utility income from regulated service. *Accord Trans-Elect*, 113 FERC ¶ 61,162. SFPP did neither. Instead, it relied exclusively on the net income figure reflected on line 1 of its 2004 Form 1065 partnership return and simply allocated/imputed that amount among the various partner/unit-holder categories specified in the December 16 Order. See Ex. SFN-36 at 6; Ex. SFN-41; Ex. SFN-41-A [ALL PROTECTED]. See also December 16 Order at PP 44-46. All the net income figure reflects, however, is the total income SFPP initially sent up the partnership chain. There

⁹³ To reiterate, the *Policy Statement* characterizes this evidence as "uniquely within the control of the regulated entity." *Policy Statement* at P 42.

is no evidence in the record before me that SFPP or any other Kinder Morgan entity has the accounting capability to trace SFPP-derived income up that chain to “where the ultimate tax liability lies,” let alone to establish the ultimate “character of the tax incurred” as the *Policy Statement* requires. *Policy Statement* at P 42. SFPP expressly concedes as much. See Tr. 1190-93.

169. The preceding analysis compels me to find and conclude that although SFPP was required to establish the composite partner/member taxable income figure material to its tax allowance claim through demonstrative evidence, it has completely failed to do so in this proceeding. This ruling notwithstanding, SFPP clearly relied on the December 16 Order and arguably complied with it in substantial degree. Here again, it would be unduly harsh to penalize SFPP for good faith reliance on the SFPP-specific guidance reflected in the December 16 Order irrespective of whether that guidance comported with the *Policy Statement*. SFPP therefore should be granted a supplemental opportunity to factually establish the composite partner/member taxable income figure material to a tax allowance claim in accordance with the *Policy Statement* in the context of a compliance filing. Opposing participants also should be granted a meaningful opportunity to challenge that filing.

a. How To Determine The “Taxable Income” Of SFPP For Purposes Of Determining The Component For An Income Tax Allowance?

170. This issue is resolved in accordance with Issue D-3.

4. Is It Necessary To Determine The “Taxable Income” Of The Relevant Partners For Purposes Of Determining An Income Tax Allowance? If So, How Should It Be Determined?

171. This issue is resolved in accordance with Issue D-3.

a. How To Determine The “Taxable Income” Of The Relevant Partners For Purposes Of The Component On Income Taxes, Including The Reclassification Of Categories Of Partners, The Question Of Whether Allocations Of Income To The KMEP General Partner Should Be Excluded Because It Is A Management Fee, And The Question Of Whether Passive Loss Carryforwards, 743-B Depreciation, And Tax Credits Can Be Ignored In The Calculations, Each Of Which Operates To Lower The Amount Of “Taxable Income” Flowed Through From The KMEP Partnership?

172. This issue is resolved in accordance with Issue D-3.

5. How Should The "Tax Rate" Applicable To The Relevant Partners Be Determined?

173. This issue is resolved in accordance with Issue D-3.

a. How To Determine The "Tax Rate" For The Relevant Partners, Including The Question Of "Stand Alone" Versus Consideration Of Assumed Outside Income And Including The Question Of Whether Presumptions Of Tax Rates Are "Arbitrary And Capricious"?

174. This issue is resolved in accordance with Issue D-3.

b. Should It Be Presumed That The Tax Rate On Individuals For Income Received From SFPP Partnership Affiliates Is 28% When The Maximum Tax Rate On Qualified Dividends Is 15%?

175. This issue is resolved in accordance with Issue D-3.

E. What Is the Appropriate Level of Operation and Maintenance Expenses in this Case?

1. Whether SFPP's Allocation of General And Administrative (i.e., Overhead) Expense In Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Allocation Of General And Administrative Expense For Designing SFPP's Test Year North Line Rate?

Participant Positions

SFPP

176. SFPP summarizes the participant disputes under this issue as: (1) whether SFPP's use of targeted allocations within the so-called "Massachusetts" formula is reasonable; (2) whether to include all KMEP subsidiaries in the allocation; and (3) how to determine the overhead expenses to be allocated after resolving the first two questions; and (4) whether and how PAA should be included in the allocation.

177. SFPP states KMEP uses the Massachusetts formula to allocate overhead expenses incurred on behalf of its general partner (KMGP) among KMEP's subsidiaries, including SFPP. SFPP describes the Massachusetts formula as equally weighting gross revenues, labor costs and gross plant to allocate overhead costs for ratemaking purposes to properly

reflect the parent relationship, adding that the allocation should reflect the relative focus a parent company gives to each subsidiary. KMEP overhead expenses arise from two sources according to SFPP—KMEP’s reimbursement to its parent (KMI) for certain corporate-type services reflected in a “KMI Cross-Charge” and costs incurred by entities to which KMGP has delegated management responsibility (KMGP Services—a KMGP subsidiary and KM Services—a KMR subsidiary). To determine the 2004 overhead expenses to be allocated, the \$170.5 million total corporate overhead reflected on KMEP’s Form 10-K must be adjusted twice. First, overhead costs identified with specific operations or entities must be directly assigned to them rather than allocated through the Massachusetts formula. Second, since each KMEP entity capitalizes a portion of its allocated KMEP overhead for financial reporting purposes, KMEP must consolidate those amounts and add the total to the overhead it reports in its Consolidated Statement of Income to reconcile with overhead allocated through the Massachusetts formula. These two adjustments increase the allocation total to \$178.5 million.

178. KMEP makes two more adjustments when applying the Massachusetts formula to allocate the \$178.5 million figure. It first excludes certain subsidiaries whose inclusion KMEP deems contrary to the formula’s objective due to a lack of KMEP management involvement. KMEP then identifies certain cost categories which it matches to four specific subsidiary groups (“tiers”), allocating these cost categories on group-specific bases rather than individually across the board. In SFPP/KMEP’s view, this “targeted tier” allocation better satisfies the Commission preference for direct cost assignment prior to resorting to socialized allocation among all subsidiaries. SFPP/KMEP characterize “targeted tier” allocation as a “refine[ment]” to the Massachusetts formula that more closely aligns cost allocation with cost incurrence. They also maintain it is appropriate to increase the gross property amounts associated with six KMEP subsidiaries—including SFPP—to reflect PAA associated with those entities, thereby modifying the indicated overhead cost allocation percentages for all KMEP subsidiaries under the Massachusetts formula.

Trial Staff

179. Trial Staff argues SFPP’s four tier overhead cost allocation scheme is inconsistent with the Massachusetts formula, and SFPP has not established the propriety of its formula deviations/modifications. It levies the same criticism on SFPP’s inclusion of PAA in the underlying gross plant factors, which Trial Staff maintains both overstates and distorts the appropriate overhead cost allocation under the Massachusetts formula. Trial Staff criticizes SFPP for including PAA in its carrier/non-carrier overhead cost allocation under the so-called “Kansas/Nebraska” formula on similar grounds. In addition, it disputes whether SFPP established the propriety of excluding nineteen⁹⁴ subsidiaries

⁹⁴ SFPP initially proposed to exclude nineteen subsidiaries, but reduced that number to seventeen at hearing. See Tr. 1602-03.

from the overhead cost allocation pool. Finally, Trial Staff contends SFPP did not convincingly demonstrate it did not double-count certain overhead costs, noting that some such costs appear to be both capitalized and expensed in developing the North Line rate.

CCV

180. CCV once again take issue with SFPP’s ostensible failure to “open fully” in its initial brief, arguing SFPP should be deemed to have conceded any CCV testimony or hearing position(s) on this topic not addressed there. Turning to substance, CCV first argue SFPP’s exclusion of any KMEP subsidiary from the Massachusetts formula overhead cost allocation pool unreasonably shifts overhead costs to the remaining entities—including SFPP—and lacks any legitimate foundation. CCV contend SFPP presented no credible evidence to support excluding such subsidiaries, and could neither cite nor explain any analysis, process or documentation providing the bases for the exclusions—save three operating agreements applying to only five of the seventeen excluded entities. On CCV’s account, even these few operating agreements do not avail SFPP because the agreements themselves confirm KMEP continues to exercise management responsibility and oversight in each case.

181. CCV challenge SFPP’s four tier Massachusetts formula modification on substantially the same grounds. They charge in addition that SFPP’s Massachusetts formula application methodology vacillates from year-to-year/proceeding-to-proceeding depending on SFPP’s primary objective at the time, citing various Commission and CPUC proceedings and SFPP’s disparate applications of the formula in those proceedings. This charge aside, CCV characterize the four tier method as arbitrary, self-serving and internally inconsistent, extensively citing the record in this proceeding to support the characterizations.

Tesoro

182. Tesoro states it has three major points of disagreement with SFPP regarding its overhead cost allocation under the Massachusetts formula: (1) whether to include all KMEP subsidiaries in the formula; (2) whether SFPP’s four tier formula modification is acceptable; and (3) whether PAA should be excluded in performing the allocation. Tesoro submits that Commission precedent, including SFPP-specific decisions, is directly dispositive in Tesoro’s favor on the first and third points, and there is absolutely no basis to accept SFPP’s four tier Massachusetts formula modification. Tesoro cites *Williams Natural Gas*, 85 FERC ¶ 61,285 at 62,137 (1998) (*Williams*) for the proposition that even minor benefits derived from a parent entity require a subsidiary’s inclusion in the Massachusetts formula calculus. Tesoro maintains each KMEP subsidiary excluded by

SFPP satisfies this criterion and, consequently, the exclusions were impermissible. Tesoro next emphasizes SFPP was unable to state the four tier modification’s analytic basis, or to explain how SFPP determined which subsidiaries should be grouped together and why. It also echoes CCV’s charge that SFPP’s Massachusetts formula application methodology varies dramatically from proceeding-to-proceeding to demonstrate the current iteration’s arbitrariness. Last, Tesoro contends Commission precedent is conclusive that PAA must be excluded in performing the Massachusetts formula allocation in order to reflect the correct amount of gross property plant and equipment of KMEP’s regulated subsidiaries.

Discussion/Analysis⁹⁵

183. The Massachusetts formula originates with *Distrigas of Massachusetts Corp.*, 34 FERC ¶ 63,034 (1986), *aff’d in part and modified in part on other grounds*, 41 FERC ¶ 61,205 (1987) (*Distrigas*). Essentially, it is the mechanism established by the Commission for a parent entity to equitably allocate residual (i.e. non-directly assignable) costs incurred to provide generalized benefits to its subsidiaries among those subsidiaries. The allocation test is whether the subsidiary receives a benefit from the parent cost center(s). If so, it receives an allocation; if not, it does not. It follows that excluding any subsidiary from the allocation pool increases the amount allocated to every subsidiary remaining in the pool. Since *Distrigas* permits any amount allocated to a subsidiary pipeline under the Massachusetts formula to be included in the pipeline’s rates, excluding other subsidiaries from the parent’s allocation pool increases the pipeline rate.⁹⁶ Accordingly, the Commission requires even marginal beneficiaries to be included in the allocation pool. *See Williams*, 85 FERC at 62,137.

184. The preceding summary reflects the Massachusetts formula endorsed by the Commission. It is incumbent on any rate applicant deviating from or proposing to modify that formula affirmatively to demonstrate its deviation/modification is just and reasonable. SFPP proposes to deviate from the Massachusetts formula by excluding seventeen KMEP subsidiaries from the cost allocation pool. It also proposes to modify the formula by establishing a four-tiered cost allocation scheme instead of the

⁹⁵ I have adequately addressed CCV’s objection to SFPP’s alleged failure to “open fully” in its initial brief under Issue C-3.

⁹⁶ Excluding seventeen subsidiaries from KMEP’s overhead cost allocation pool, as SFPP proposes, requires allocating an additional \$29.1 million among the remaining subsidiaries. Ex. Ex. SFN-33 at 5-12 [PROTECTED]; Ex. CCV-1 at 44-46 [PROTECTED]. A substantial portion of this sum would be allocated to SFPP, with a derivative amount reflected in the North Line rate. *See* Ex. SFN-29, Schedule 18 [PROTECTED]; Ex. SFN-30 at 5 [PROTECTED].

undifferentiated one established in *Distrigas*. It follows that SFPP bears an affirmative burden to prove that each of these proposals is just and reasonable. *See, e.g., Olympic Pipe Line Co.*, 100 FERC ¶ 63,005 at P 21, *aff'd*, 101 FERC ¶ 61,245 (2002). The record before me, however, is conclusive SFPP has failed to do so on both counts.⁹⁷

185. SFPP has demonstrated no legitimate basis to exclude any KMEP subsidiary from the Massachusetts formula calculus. Its sole justification lies in a single witness's assertions that (i) KMEP management has no involvement in the operation of the excluded subsidiary asset (ii) KMEP has only a percentage equity ownership and does not operate the excluded subsidiary asset, or (iii) KMEP has no equity ownership of the excluded subsidiary asset but is paid a fee to operate it. Ex. SFN-3 at 10-11; Ex. SFN-33 at 6 [PROTECTED]. These assertions' inappropriately narrow focus on operational control aside, the witness demonstrated no knowledge whatsoever with respect to their analytic underpinning(s). Tr. 1572-73, 1575-76. In fact, the assertions find their only evidentiary support in three operating agreements covering five of the seventeen excluded subsidiaries. Ex. SFN-3 at 11-12; Ex. SFN-7; Ex. SFN-8; Ex. SFN-9. On cross-examination, however, the sponsoring witness conceded he knew little about those agreements. Tr. 1573, 1607. He also acknowledged that KMEP provides various management/accounting services to all seventeen excluded subsidiaries—including the five covered by the operating agreements. Tr. 1608-14, 1625. *Accord* Ex. CCV-1 at 43 [PROTECTED]. *Also see generally* Ex. CCV-25 [PROTECTED]. Moreover, the operating agreements expressly reserve to the designated "Owner" managerial oversight and authority with respect to transportation contract administration, permanent capacity assignments, all contracts exceeding one year, as well as operating and capital expenditure budgets. Ex. SFN-7 at 7-10; Ex. SFN-8 at 8-10; Ex. SFN-9 at 7-9; Tr. 1616-25, 1630-32. Although none of the designated owners is KMEP, the record confirms the reserved managerial oversight and authority must reside with KMEP/KMR⁹⁸ because none of the entities designated as "Owner" in the agreements has any employees. Tr. 1620-22, 1625, 1632. In sum, I find and conclude SFPP has failed to satisfy its burden of

⁹⁷ The December 16 Order/rehearing order are similarly conclusive that PAA must be excluded in performing the Massachusetts formula allocation in order to reflect the correct value for gross property plant and equipment. December 16 Order at P 85 and n. 114; Order on Rehearing, 114 FERC ¶ 61,136 at P 17 and n. 22. The same holds true for including PAA in the carrier/non-carrier overhead cost allocation under the Kansas/Nebraska formula. December 16 Order at P 89. Although SFPP's PAA position may have some merit insofar as non-jurisdictional entities are concerned (*see* Order on Rehearing, 114 FERC ¶ 61,136 at P 17), that possibility cannot be addressed here because the record contains no relevant evidence.

⁹⁸ KMEP delegates its management functions to KMR—which may in turn delegate them to certain KMR subsidiaries. Tr. 1617-19.

proof insofar as the seventeen excluded subsidiaries are concerned.⁹⁹ SFPP must include the seventeen excluded subsidiaries in its Massachusetts formula calculus. *Accord* December 16 Order at P 85.

186. SFPP has similarly failed to satisfy its burden of proof insofar as it proposes a four tier modification to the Massachusetts formula. Here again, SFPP's sole justification lies in a single witness's¹⁰⁰ assertion that a four tier scheme better satisfies the Commission preference for direct cost assignment by more closely aligning cost allocation with cost incurrence. I observe as a threshold matter that although SFPP's desire to advance Commission objectives by devising/implementing methodological enhancements is laudable in the abstract, there is no evidence any enhancement is necessary in this regard. My review of Commission opinions discussing *Distrigas* and the Massachusetts formula reveals no indication that the formula's undifferentiated approach is in any way inadequate. Moreover, the record reflects no evidence SFPP's four tier approach better aligns cost allocation with cost incurrence. To the contrary, the record confirms that the approach's sponsoring witness: (1) had no role in either its development or any underlying analyses; (2) did not supervise those activities; and (3) could not explain the criteria for developing, differentiating among, or assigning subsidiaries to the four tiers. Tr. 1567-72; 1574-76. The record also contains evidence that KMEP may not have the ability accurately to segregate overhead costs by individual entity or business unit. *See, e.g.,* Ex. CCV-25 at 14 [PROTECTED]; Ex. CCV-70 at 15. It also suggests a number of entities were improperly categorized here in any event. *See* Ex. CCV-1 at 48-49 [PROTECTED]. For all these reasons, I am compelled to find and conclude SFPP has failed to satisfy its burden of proof insofar as it proposes to use a modified four tier Massachusetts formula. SFPP must allocate overhead costs in accordance with the undifferentiated approach adopted in *Distrigas*.

187. In general, I find and conclude the appropriate Massachusetts formula overhead cost allocation is reflected in Exhibit CCV-1 at 51-53 & Table 13 [PROTECTED]. I do not accept the "capitalized overhead" adjustment recommended at pages 46-47 of that exhibit. CCV-1 at 46-47 [PROTECTED]. The record confirms KMEP does not allocate capitalized overhead through the Massachusetts formula. Tr. 1590-96 [Tr. 1591-96 PROTECTED].

⁹⁹ I reject any SFPP suggestion that some of these subsidiaries should be excluded in any event because they do not meet the "marginal benefit" threshold referenced in *Williams*. The appropriate way to allocate overhead costs under the Massachusetts formula is to reflect the relative focus KMEP gives to each individual subsidiary, not to transfer the costs associated with comparatively minor attention levels to others. To this end, I endorse the allocations reflected in Exhibit CCV-26 at 1-2 [PROTECTED].

¹⁰⁰ The witness proposing the seventeen subsidiary exclusions.

2. Whether SFPP's Proposed Depreciation Expense For Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Depreciation Expense For Designing SFPP's Test Year North Line Rate?

188. This issue is uncontested. I therefore accept the amortization and depreciation expense reflected in Exhibit SFN-28 at 34.

3. Whether SFPP's Proposed Investment And Operating Expense Allocation Factors for Designing Its North Line Rate Are Justified and Appropriate? If Not, What Is The Appropriate Investment And Operating Expense Allocation Factors For Designing SFPP's Test Year North Line Rate?

189. This issue is resolved in accordance with Issue E-1 and footnote 97.

4. Whether SFPP's Development And Allocation Of Environmental Remediation Expense In Designing Its North Line Rate Are Justified And Appropriate? If Not, What Is The Appropriate Development And Allocation Of Environmental Remediation Expenses For Designing SFPP's Test Year North Line Rate?

Participant Positions

SFPP

190. SFPP proposes a normalizing adjustment to its environmental remediation expense to address the circumstance that such costs vary considerably from year to year. The adjustment reflects SFPP's average annual environmental remediation expense over the five year period from 2000 to 2004, and increases the base period North Line environmental remediation expense from \$1,008,000 to \$1,412,000. In SFPP's view, the adjustment results in a more representative amount being reflected in rates than would strict adherence to base/test period principles.

Trial Staff

191. Trial Staff criticizes SFPP's approach as ignoring the Commission's "known and measurable" change(s) standard and not being reflective of actual and current experience. It argues the appropriate methodology to determine North Line environmental remediation expense is to average actual 2004 costs with eight months of annualized

actual cost data from 2005. Trial Staff contends this produces a \$1,612,000¹⁰¹ annual North Line environmental remediation expense.

CCV

192. CCV accept SFPP's \$1,008,000 base period environmental remediation expense figure, but oppose any normalizing adjustment. CCV maintain the adjustment violates base/test period principles because it considers costs falling far outside the base period. They also cite lower environmental remediation expense figures from the first eight months of 2005, as well as 2006-2007 projections, to criticize any upward adjustment to the base period expense, claiming those figures support a downward adjustment if anything.

Tesoro

193. Tesoro stresses that normalizing adjustments only may be applied to non-recurring costs. Since SFPP treats environmental remediation expense as a recurring item, its normalization approach is invalid—a situation which is compounded on Tesoro's account by the fact that five year averaging necessarily includes pre-base period costs in the test period amount. Tesoro adds that replacing/rerouting the Concord-Sacramento segment should cause base period North Line environmental remediation expenses to decline on a permanent basis rather than increase as the normalization adjustment implies. It relies on eight months of annualized 2005 data indicating a \$109,000 decline in base period expense to support this position, endorsing an \$899,000 test period test period environmental remediation expense for the North Line.

Discussion/Analysis

194. Excepting Trial Staff, all participants accept \$1,008,000 as the appropriate base period North Line environmental remediation expense. Where they disagree is whether and how that expense should be adjusted to reflect test period changes.

195. I reject the SFPP proposal to increase the figure to \$1,412,000 to reflect the North Line's average annual environmental remediation expense over the five year period from 2000 to 2004. This proposal is patently inconsistent with the base/test period principles

¹⁰¹ Ex. S-4 at 110, 112 [PROTECTED]. I cannot ascertain this figure's provenance. SFPP's base period environmental remediation expense is \$1,008,000, and it proposes to normalize that amount to a test period figure totaling \$1,412,000. See Ex. SFN-28 at 30.

reflected at 18 C.F.R. § 346.2 (a) (i), (ii) (2006) in a number of respects.¹⁰² It normalizes recurring costs, egregiously exceeds the specified base/test periods and is backward-looking instead of prospective. It does not reflect reasonably known and measurable changes and fails to demonstrate good cause to deviate from the presumptive nine month test period limitation. In addition, the record confirms the \$1,412,000 figure results primarily from aberrational expenses in 2001. *See* Ex. SFN-28 at 30. SFPP therefore has failed to demonstrate any upward adjustment to the \$1,008,000 base period environmental remediation expense is appropriate.

196. Tesoro, conversely, has failed to demonstrate any downward adjustment is appropriate. Relying on eight months of annualized 2005 environmental remediation cost data is inconsistent with the test period principles specified at 18 C.F.R. § 346.2 (a) (ii) (2006). In addition, it seems disingenuous for Tesoro to emphasize SFPP's continuing inability to stem the need for North Line environmental remediation despite replacing/relocating the Concord-Sacramento segment in order to question the prudence of SFPP's underlying capital investment (*see, e.g.,* Ex. TES-28; Ex. TES-29; Ex. TES-37; Tr. 652-62), but to argue here that SFPP successfully has reduced its North Line environmental remediation costs by an indicated \$109,000 per year.

197. I find the just and reasonable North Line environmental remediation expense in this proceeding to be the unadjusted base period amount of \$1,008,000.

5. Whether SFPP's Development And Allocation Of Litigation Expense In Designing Its North Line Rate Are Justified And Appropriate? If Not, What Is The Appropriate Development And Allocation Of Litigation Expense For Designing SFPP's Test Year North Line Rate?

Participant Positions

SFPP

198. SFPP contends it has demonstrated in this proceeding that it is subject to rigorous regulatory litigation and that it has incurred significant expenses related to that litigation. It therefore proposes to include \$540,000 in the North Line cost of service, which amount SFPP maintains accounts for actual past period litigation costs and reflects the portion of those costs properly attributable to the North Line. SFPP does not support recovering its litigation costs through a surcharge as other participants advocate. It nevertheless submits if litigation costs must be recovered in this docket through the same type of five

¹⁰² It also is inconsistent with SFPP's general insistence on strict adherence to base/test period principles elsewhere.

year surcharge approved in other SFPP proceedings, the appropriate annual North Line surcharge would be \$1,027,000.

Trial Staff

199. Trial Staff challenges SFPP's litigation expense development/allocation methodology. It states SFPP proposes a \$129,000 adjustment to its \$2,786,000 base year figure for a litigation expense in this proceeding totaling \$2,916,000. It represents that SFPP allocates litigation expense equally among its four pipelines if SFPP believes its entire system is affected, arguing instead that relative throughput volumetric allocations are the appropriate way to reflect SFPP's system-wide litigation costs/benefits and putting the North Line share of those costs at 8.89%. Trial Staff opposes any allocation whatsoever for litigation expenses connected to SFPP proceedings not specifically addressing or affecting the North Line. In Trial Staff's view, it is impossible to develop a normalized litigation cost to include in the North Line cost of service due to the multi-faceted nature of the various on-going rate proceedings, adding that SFPP's proposed normalization also violates base/test period principles because it relates back over 13 years. Finally, Trial Staff opposes indefinitely embedding litigation costs in the North Line rate, recommending instead that the costs be amortized over a five year period.

CCV

200. CCV emphasize the December 16 Order allocates litigation costs attributable to all SFPP lines on a volumetric basis. They advocate applying the same procedure here to set the North Line share of those costs at 8.89%. CCV oppose any North Line allocation whatsoever for litigation expenses exclusively attributable to other lines, arguing this exclusion would be consistent with the December 16 Order as well and noting SFPP seeks full litigation cost recovery in those dockets. According to CCV, this methodology produces a test period North Line litigation expense totaling \$192,000.

Tesoro

201. Tesoro cites various Commission decisions as support for allocating litigation costs attributable to all SFPP lines on a volumetric basis, deriving a North Line share for those costs of 8.89%. Tesoro opposes any North Line allocation for litigation expenses exclusively attributable to other lines based on the December 16 Order. Applying this methodology, Tesoro maintains, produces a test period North Line litigation expense totaling \$399,000.

Discussion/Analysis

202. Like seemingly every other SFPP proceeding, this case has been an expensive one. The record puts SFPP's actual litigation costs in this docket from May to November 2005

alone at \$1.2 million. Ex. SFN-50. It credibly estimates SFPP's total cost for the entire proceeding to approach \$5 million. *Id.* This cost magnitude indisputably is due in substantial degree to opposing parties including and litigating a number of issues here in test case detail rather than in any conceivable proportion to the modest overall rate impact the underlying filing will produce. That is their right and prerogative. But, having elected to take SFPP so thoroughly to task here, opposing parties cannot legitimately complain about SFPP recovering the litigation costs it was compelled to incur—whether through the surcharge they advocate or embedded in rates as SFPP requests. The question is not whether SFPP is entitled to recover the entire regulatory litigation expense associated with this docket; it clearly is entitled to do so. *See, e.g., BP West Coast, 374 F.3d at 1293 (citing Iroquois Gas Transmission System v. FERC, 145 F.3d 398 (D.C. Cir. 1998))*. The question is how much of the litigation expense associated with this proceeding SFPP is entitled to recover through the North Line rate.

203. Were this an ordinary rate case, there is little question SFPP would be permitted to embed North Line base/test period regulatory litigation expense in the pipeline's cost of service and recover it on an annual basis as a recurring item. *See, e.g., Amerada Hess Corp., 71 FERC ¶ 61,040 at 61,169-71 (1995)*. As noted, however, this proceeding's ostensible importance has been elevated far above that of an ordinary rate case. That elevation merely exacerbates the circumstance that this docket is but the latest¹⁰³ of many in which virtually identical issues common to all SFPP pipelines have been exhaustively litigated, appealed, re-litigated, etc.—with no end in sight. Indeed, the myriad SFPP litigations have become so intertwined and inextricable from one another that the Commission has been compelled to resort to allocating SFPP litigation expenses on a volumetric basis through a surcharge mechanism in a number of cases. Trial Staff, CCV and Tesoro advocate the same procedure here. SFPP opposes it.

204. The December 16 Order seems to construe Opinion No. 435 and Opinion No. 435-A as precluding SFPP from embedding any regulatory litigation expense whatsoever in its cost of service rates, instead requiring SFPP to recover such expenses only through volumetric surcharges amortized over five years. *See* December 16 Order at PP 90-93 (citing 86 FERC at 61,105-06; 91 FERC at 61,512-13). I do not interpret the orders that way. Opinion No. 435-A expressly acknowledges that “[l]itigation related to the pipeline's cost of service and the structure of its tariff are part of its normal, ongoing operations, and such costs are recoverable as part of the pipeline's cost of service.” 91 FERC at 61,512 (citation omitted). Further, Opinion No. 435 and Opinion No. 435-A were complicated by both non-regulatory litigation costs and a significant “repairs” issue—neither of which is pertinent here. More important, Opinion No. 435 and Opinion No. 435-A had to address over five years worth of additional litigation costs SFPP had incurred litigating the underlying dockets in the intervening period between 1994 and

¹⁰³ Even this characterization no longer applies, as recently-instituted Docket No. OR03-5-001 demonstrates.

1999/2000. As I read the opinions, the amortized surcharge was intended to recover those extraordinary/non-recurring costs (offset by reparations) only, with no restriction on SFPP's ability to include recurring regulatory litigation expenses in future cost of service or to recover those expenses on a prospective basis through rates. See 86 FERC at 61,105; 91 FERC at 61,512. Accord Opinion 435-B, 96 FERC at 62,074-75. I therefore see no Opinion No. 435 *et al.* rationale for compelling SFPP to recover any indicated test period regulatory litigation expenses properly attributable to the North Line through an amortized surcharge. Instead, I find and conclude SFPP is legally entitled to embed those expenses in the North Line cost of service and recover them through the North Line rate.¹⁰⁴

205. I also find and conclude there is inadequate basis to allocate any indicated test period regulatory litigation expenses on a volumetric basis in this docket. First, the record indicates doing so would violate *Hope* because it would deprive SFPP of any opportunity to recover a significant portion of those costs. The record confirms that accepting the 8.89% volumetric allocation indicated for the North Line (Ex. SFN-50) and advocated by Trial Staff (Ex. S-4 at 115 [PROTECTED]), CCV (Ex. CCV-57) and Tesoro (Ex. TES-15 [PROTECTED]) enables SFPP to recover a maximum total regulatory litigation expense of only \$1,996,000 amortized over five years—and nothing thereafter. Ex. SFN-49 at 5-6; Ex. TES-15 [PROTECTED]. But the record strongly suggests SFPP's actual regulatory litigation expense in this docket will be markedly higher (*see* Ex. SFN-50), and I find that suggestion reasonable based both on the litigation expense figures cited in the December 16 Order¹⁰⁵ and the vigor demonstrated by opposing parties in the proceeding conducted before me. Opinion No. 435-A is instructive on the latter topic, concluding:

there appears to be no necessary connection between relative historical throughput and the relative volume of litigation generated by a particular group of shippers. It is quite possible that one group would have substantially less throughput, yet generate the greater portion of a given litigation based on the complexity of the issues and how aggressively the issues are pursued.

¹⁰⁴ Since the parties have elected to make this North Line proceeding a test case in a number of respects—thereby guaranteeing protracted litigation on rehearing and at the Court of Appeals—they cannot plausibly argue the regulatory litigation expenses related to the North Line cost of service/tariff structure proposed in this docket will be anything but recurring for years to come.

¹⁰⁵ See December 16 Order at P 93.

91 FERC at 61,513. The various issues North Line shippers have elected to litigate in test case detail in this docket are exceedingly complex, and characterizing shippers as "aggressive" discredits their efforts here. Finally, in contrast to the proceedings underlying the December 16 Order, it is clearly possible for SFPP to develop a normalized test period regulatory litigation expense in this docket, as the direct case in support of the North Line rate filing demonstrates. Ex. SFN-26 at 9-14; Ex. SFN-28 at 33. I therefore accept as just and reasonable the method by which SFPP developed its North Line normalized test period regulatory litigation expense, except insofar as it incorporates litigation expenses exclusively attributable to other lines. Those expenses should be excluded and full cost recovery sought in the relevant dockets. *Accord* December 16 Order at P 96.

6. Whether SFPP's Proposed Fuel And Power Cost For Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Fuel And Power Cost For Designing SFPP's Test Year North Line Rate?

Participant Positions

206. SFPP proposes a \$345,000 test period adjustment to reflect lower power and drag reducing agent (DRA) costs attributable to replacing the 14" Concord-Sacramento segment with a 20" pipe and certain mainline pump upgrades. Trial Staff agrees this adjustment was appropriate, but contends SFPP should have made an additional test period adjustment to reflect an incentive payment of over \$1 million it received for reducing North Line power consumption by replacing the 14" segment. Trial Staff submits SFPP should reduce the North Line cost of service by this additional amount. Tesoro maintains SFPP achieved approximately \$735,000 in test period cost savings by replacing the 14" segment with 20" pipe, attributing the savings to lower power and DRA costs, as well as the elimination of its Elmira pump station. SFPP responds that Trial Staff's proposed incentive payment adjustment is inappropriate because SFPP received the payment three months outside the test period and it was a non-recurring item. SFPP dismisses Tesoro's \$735,000 test period cost savings estimate as based on outdated 2000/2001 data, underscoring that SFPP presented actual 2005 data confirming the \$345,000 figure's accuracy.

Discussion/Analysis

207. I accept SFPP's proposed \$345,000 test period adjustment. The record establishes SFPP based that figure on actual 2004 data and confirmed its accuracy with annualized 2005 data. Ex. SFN-26 at 14-15; Ex. SFN-28 at 31; Ex. SFN-49 at 22. The record also confirms Tesoro's \$735,000 estimate is based on outdated information. *Compare* Ex. TES-17 with Ex. SFN-49 at 21-22. I reject Trial Staff's proposed incentive payment adjustment because it is inconsistent with the base/test period principles reflected at 18

C.F.R. § 346.2 (a) (i), (ii) (2006). The payment was a one-time item and fell three months outside the applicable test period. Trial Staff made no attempt to demonstrate good cause to deviate from the indicated test period insofar as the incentive payment is concerned.

F. What is the Appropriate Throughput Volume in this Case?

- 1. Whether SFPP's Proposed Throughput Volume Level For Designing Its North Line Rate Is Justified And Appropriate? If Not, What Is The Appropriate Throughput Volume Level For Designing SFPP's Test Year North Line Rate?**

Participant Positions

SFPP

208. SFPP proposes to use a base period 2004 throughput volume of 13,865,807 barrels to calculate the North Line rate. SFPP maintains it had no basis to know actual throughput would deviate from 2004 volumes when it filed the North Line tariff in April 2005. It states actual North Line interstate deliveries have remained largely flat from 2000-2005 despite a 2.4% annual population growth in Reno and Sparks, Nevada during that period, contending this circumstance illustrates the unreliability of basing test period adjustments on population growth projections. SFPP also challenges the validity of using April-September 2005 average daily volumes to project an annual volume figure because April-September is peak travel season and North Line volumes are always greater during that period than in other months. In fact, according to SFPP, actual North Line interstate throughput was slightly lower in 2005 than it was in 2004. SFPP dismisses any suggestion that operational problems or pro-rationing artificially suppressed actual North Line throughput. It contends the pipeline did not experience an unusual number of outages in 2005 and any pro-rationing is attributable to shipper over-nominations rather than the pipeline's inability to transport actual volume tenders.

Trial Staff

209. Trial Staff argues SFPP's reliance on base period North Line throughput ignores significant known and measurable changes requiring an upward test period adjustment. Trial Staff asserts there is significant evidence North Line interstate transportation demand increased over the final six months of the test period. It emphasizes the pipeline was "frozen" in May and July 2005 because nominations had reached or exceeded total capacity and that the pipeline's Roseville-Reno segment was in pro-ration in August and September 2005 for the same reason. Trial Staff maintains these nomination increases demonstrate a known and measurable increase in interstate transportation demand that requires North Line throughput volume to be adjusted upward for ratemaking purposes.

It relies on economic growth projections within the North Line service territory to corroborate this conclusion, claiming in addition that actual North Line test period throughput was constrained by service interruptions that should not occur in the future. On these bases Trial Staff advocates annualizing the last six months of test period throughput data to derive the appropriate ratemaking volume. Applying this methodology results in an annualized North Line throughput totaling 14,036,098 barrels.

CCV

210. CCV stress SFPP's anticipated need to expand North Line capacity in the future as the rationale to increase the base period throughput volume. They cite annual population growth in a number of areas within the North Line service territory, as well as SFPP's \$95 million investment in the expanded Concord-Sacramento segment, to support an inference that greater volumes will flow over the North Line than base period throughput indicates. This would generate an SFPP windfall at current shipper expense according to CCV. They therefore suggest basing North Line rates on the pipeline's post-expansion capacity rather than pre-expansion throughput in order to shift some expansion-related risk away from pre-expansion shippers. Notwithstanding this suggestion, CCV calculate the just and reasonable North Line rate using the base period throughput volume.

Tesoro

211. Tesoro proposes a test period throughput volume of 14,120,038 barrels. It bases this proposal primarily on population growth and throughput studies/projections, underscoring SFPP was aware of these studies/projections before it filed the North Line tariff. Tesoro challenges SFPP's contention the pipeline's 2005 actual test period throughput was not suppressed by unusually frequent peak-season outages, as well as its focus on nominations rather than tenders, asserting that nominations constitute an appropriate demand indicator.

Discussion/Analysis

212. SFPP acknowledges that anticipated increased demand was a contributing factor in its decision to increase the Concord-Sacramento segment capacity from 14" to 20". Ex. SFN-1 at 4-5. The record, moreover, strongly suggests North Line interstate transportation capacity eventually will be expanded to accommodate population growth at various locations served by the pipeline. *Id.* at 5, 7. These circumstances, however, are immaterial to the issue at hand. First, I rejected under Issue A any contention the 20" replacement segment satisfies the "used and useful" standard due to anticipated increases in interstate demand or a reduced probability that intrastate over-subscription prospectively might result in interstate pro-ration, finding instead these are speculative future events and consequently provide no present use or usefulness to interstate shippers. Similar reasoning applies here—but this time in SFPP's favor. Although SFPP

ultimately may elect/be compelled to expand the North Line segments east of Sacramento, it has yet to do so and there is no record evidence as to when such expansion might occur. It therefore would be entirely speculative to inflate North Line base period interstate throughput volumes based on economic/population growth projections. There is no necessary correlation between the two, and the record indicates North Line interstate throughput has not increased commensurate to actual population growth within its interstate service territory—if at all. *See* Ex. SFN-31 at 2, 4; Ex. SFN-49 at 41; Ex. SFN-54 [PROTECTED]; Tr. 770-71. Second, I excluded under Issue A the costs associated with the 6” of Concord-Sacramento expansion capacity from North Line interstate rates on the basis that anticipated future demand did not satisfy the “[*currently*] used and useful” requirement. Opposing participants cannot equitably receive the rate benefit of that exclusion and simultaneously be permitted to claim the 6” of excluded capacity supports inflating base period North Line interstate throughput, thereby securing the additional per barrel rate benefit the inflation implies. Moreover, the 6” capacity exclusion assuages any concern SFPP might reap a windfall at current interstate shipper expense, so there is no merit to the suggestion North Line interstate rates should be based on the pipeline’s post-expansion capacity rather than its throughput.¹⁰⁶ Excluding the 6” capacity expansion eliminates any possibility expansion-related risk will be imposed on interstate shippers—at least until SFPP expands North Line capacity east of Sacramento.

213. I am compelled to reject the Trial Staff, CCV and Tesoro suggestions that the new Concord-Sacramento replacement segment will increase interstate throughput because it will cause fewer service interruptions/pro-rations than the old 14” segment. Once again, the reasoning is sensible but the conclusion does not necessarily follow and runs contrary to the record evidence. *Compare* Ex. TES-31 with Ex. TES-32 and *compare* Ex. TES-34 with Ex. TES-35. *See also* Ex. TES-37. This circumstance may be unflattering to SFPP, but it militates against inflating North Line base period interstate throughput volumes based on fewer anticipated service interruptions/pro-rations. The circumstances the pipeline was “frozen” in May and July 2005 and pro-rated in August and September 2005 because nominations reached or exceeded total pipeline capacity are similarly unavailing to Trial Staff, CCV and Tesoro in this regard. Nominations do not correlate to actual shipments, and there is no evidence SFPP ever failed to accommodate any actual North Line interstate tender(s). *See* Tr. 638-41, 644-49. Additionally, extrapolating a test period throughput volume by annualizing the last six months of test period data (i.e. April-September 2005 throughput), as Trial Staff and Tesoro propose, necessarily overstates actual throughput because North Line volumes are always greater during that period than in other months. Ex. SFN-31 at 2; Ex. SFN-54 [PROTECTED].

¹⁰⁶ Replacing the 14” pipe with 20” pipe did not increase post-expansion interstate capacity in any event because no North Line segment east of Sacramento is more than a 12” in diameter.

214. The foregoing analysis demonstrates there is no legitimate basis to make any test period adjustment to the 2004 North Line interstate base period throughput volume of 13,865,807 barrels, except in accordance with the findings/conclusions under Issue F-2, *infra*. I therefore find and conclude that volume is justified and appropriate for ratemaking purposes in this proceeding.

2. Whether adjustments are appropriate to the factors used to separate SFPP’s North Line jurisdictional costs from non-jurisdictional costs?

Participant Positions

215. SFPP uses 2004 base period volumes to calculate the factors applied to separate jurisdictional costs from non-jurisdictional costs in its “Route Directory.” Trial Staff proposes to adjust the Route Directory (i) to reflect its proposed test period throughput volume adjustment, (ii) to include “Richmond Station and Pipelines” category intrastate volumes and (iii) to reflect intrastate volumes associated with a new West Sacramento Airport connection. The first adjustment is mooted under Issue F-1, *supra*. SFPP concedes the second adjustment’s reasonableness,¹⁰⁷ but disputes the appropriateness of reflecting the airport volumes. SFPP maintains it had no reasonable basis to know/measure the volumes that might be delivered to the airport when it filed the North Line tariff in April 2005.

Discussion/Analysis

216. I find and conclude the West Sacramento Airport connection should be reflected in the Route Directory. Although the connection did not become operational until September 15, 2005 (Ex. S-20), that date falls within the test period. Moreover, SFPP concedes it contracted for the connection prior to the April 2005 North Line tariff filing. Ex. SFN-31 at 6; Ex. SFN-49 at 42. I therefore find good cause in this limited instance to deviate from the prescribed test period in accordance with 18 C.F.R. §346 (a) (ii) (2006) and rely on the post-test period data reflected in Exhibit S-8 at 17-19, Exhibit S-21 and Exhibit S-22 [ALL PROTECTED] to determine the appropriate volumes and jurisdictional/non-jurisdictional apportionment percentages.

G. What is the Just And Reasonable North Line Rate in this Case?

217. This issue is generally resolved in accordance with all other findings and conclusions reflected in this Initial Decision.

¹⁰⁷ See Ex. SFN-49 at 45-47. I accept that concession.

1. Whether SFPP Has Shown A Substantial Divergence Between Its North Line Costs And The Current Ceiling Rate Revenue Which Precludes The Pipeline From Charging A Just And Reasonable Rate?

218. All participants link the answer to this issue to the findings and conclusions reached under the amalgam of other issues and do not address it on a discrete basis. This issue therefore is generally resolved in the affirmative in accordance with all other findings and conclusions reflected in this Initial Decision.

2. Whether The Voluntary Filing Of A Rate Increase By SFPP Operates To Terminate "Grandfathered" Status Under The Energy Policy Act Of 1992, With The Result That The North Line Rate May Be Rolled-Back Below The Previously Existing Rate Including Any Previously Existing "Grandfathered" Rate Level?

Participant Positions

SFPP

219. SFPP asserts the Commission determined in *ARCO Products v. SFPP, L.P.*, 106 FERC ¶ 61,300 at PP 59-62, *reh'g denied*, 111 FERC ¶ 61,334 (2004) (*ARCO*) that the North Line interstate rate in effect prior to the April 2005 tariff filing in this docket was grandfathered. It disputes any claim the April 2005 filing waived/extinguished that protection or allows the Commission to set a North Line interstate rate in this proceeding that falls below the prior grandfathered rate of \$1.19/barrel. In addition, SFPP maintains the Energy Policy Act of 1992 (EPAcT) confirms Congressional intent that rate filings should not affect the grandfather protection established in EPAcT. It vigorously disputes any claim the Commission has not previously addressed this issue, citing Order No. 561-A¹⁰⁸ to demonstrate the contrary.

BP/EM

220. BP/EM devote considerable attention to this issue, which they characterize as another "of first impression." Reducing their position to bare bones, BP/EM contend: (1) the presiding judge and Commission have authority to reduce North Line interstate rates below the \$1.19/ barrel index-adjusted 2004 rate, as well as the initially-grandfathered \$1.10/barrel rate; (2) EPAcT does not preclude reducing the 2004 rate—or any other index-adjusted rate—because that/those rate(s) was/were not in effect in 1992 and therefore is/are not grandfathered under EPAcT; and (3) SFPP's voluntary rate filing

¹⁰⁸ *Revisions to Oil Pipeline Regulations Pursuant to the Energy Policy Act of 1992*, Order No. 561-A, FERC Stats. & Regs. ¶ 31,000 (1994).

in this docket removes the \$1.10/barrel rate's grandfather protection and, as a consequence, that rate no longer establishes a minimum North Line interstate rate. BP/EM cite *Chevron U.S.A. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843-44 (1984) (*Chevron*) and *United States v. Mead Corp.*, 533 U.S. 218 (2001) (*Mead*) to support a two-prong argument that (i) the Commission must comply with the unambiguous Congressional intent reflected in EAct (*Chevron*) and (ii) the Commission cannot exercise any interpretive authority concerning EAct because the statute expressly grants no such authority (*Mead*). They conclude proper application of *Chevron/Mead* doctrine to EAct restricts any post-1992 grandfather protection to ICC § 13 *complaint* filings and does not cover protests because only "complaint" is referenced there, underscoring that the statute elsewhere references "protest, investigation or complaint."¹⁰⁹

CCV

221. CCV submit the presiding judge is free to prescribe a North Line rate at any just and reasonable level supported by substantial evidence. In CCV's view, this necessarily includes a rate below any previously-existing rate ostensibly grandfathered under EAct. They note the Commission set the North Line tariff filing for investigation and hearing pursuant to ICA §§ 13(1) and 15(1), the latter of which grants the Commission broad power and authority to determine and prescribe just and reasonable rates. CCV contend as a consequence that no prior or existing rate constitutes a "rate floor" if the Commission determines it is unjust or unreasonable. Since the instant proceeding was not initiated by shippers, as contemplated in ICA §13, EAct is simply inapplicable here on CCV's account. It does not limit Commission power and authority under ICA § 15(1) to prescribe just and reasonable rates at whatever level is supported by the record.

Discussion/Analysis

222. This issue is moot. I have predominately upheld SFPP's North Line interstate tariff filing—albeit with important exceptions. Although my various rulings make it impossible for me to determine with precision what the indicated North Line interstate rate is, I cannot imagine how those rulings could possibly suppress it below the prior index-adjusted rate of \$1.19/barrel, let alone below the ostensibly grandfathered rate of \$1.10/barrel.

223. As framed by SFPP and BP/EM, this issue also is purely a question of law. Although I am flattered by the parties' repeated confidence in my ability to resolve test case issues/matters of first impression in such a limited context—which I have attempted

¹⁰⁹ BP/EM indicate they intend to make an even more comprehensive case on this issue in pending Docket No. OR03-5-001, referenced *supra* at footnote 102. See BP/EM IB at 52.

to do to the extent required to decide this case—I decline to accommodate SFPP and BP/EM in this instance, providing their position summaries solely in the interest of completeness and for Commission/Court of Appeals convenience. CCV has adequately and accurately described the Commission’s authority in this proceeding and I see no reason or need to add anything further.

3. What Is The Just And Reasonable Rate That SFPP Should Be Allowed To Charge On The North Line?

224. This issue is generally resolved in accordance with all other findings and conclusions reflected in this Initial Decision.

4. Are Interstate North Line Shippers To Receive Refunds, With Interest, And, If So, What Level?

225. This issue is generally resolved in the negative in accordance with all other findings and conclusions reflected in this Initial Decision.

III. MATTERS NOT DISCUSSED

226. This Initial Decision’s failure to discuss any matter raised by the participants, or any portion of the record, does not indicate it has not been considered. Rather, any such matter(s) or portion(s) of the record has/have been determined to be irrelevant, immaterial or meritless. Arguments made on brief which were otherwise unsupported by record evidence or legal precedent have been accorded no weight.

IV. ORDER

227. Wherefore, it is ordered, subject to review by the Commission on exceptions or on its own motion, as provided by Commission Rules of Practice and Procedure, that within thirty (30) days of the issuance of the final Commission order in this proceeding, SFPP shall comply with the findings and conclusions reflected in this Initial Decision, as adopted or modified by the Commission.

H. Peter Young
Presiding Administrative Law Judge

rate should approximate SFPP's pre-1989 marginal corporate income tax rate,⁸⁵ and so should have a relatively minor/constant impact on post-1989 ADIT over-funding. The imputed 28% non-corporate partner rate, in contrast, not only implies a significant ADIT differential, but also apparently varies annually to an appreciable degree in accordance with SFPP/KMEP income allocations. *See* Ex. SFN-43 at 19-20; Tr. 1319; 1325-27. This rate would have a more profound impact on post-1989 ADIT over-funding. Unfortunately, the record in this proceeding is devoid of any quantitative evidence concerning these impacts. Whatever they may be, I find and conclude any ADIT account over-funding must be flowed-back through ratepayer offsets/credits to whatever income tax allowance the Commission may grant SFPP. Consistent with the Opinion No. 435 principle that "Commission practice is to base its decision on the policy in effect in the year a regulatory decision is made, and then apply that decision to the time frame to which the case applies" (86 FERC at 61,093-94), these and any other ADIT adjustments must be made prospectively, beginning on the June 1, 2005 rate effective date. It follows that SFPP's ADIT retroactive adjustment/amortization proposals must be rejected.

155. I once again note the December 16 Order was issued just weeks prior to hearing commencement in this docket, and that no participant requested leave to supplement the record here to address the December 16 Order's relevance to this proceeding prior to hearing commencement. And once again, these are problematic circumstances for everyone involved. None of (i) SFPP's North Line tariff filing (ii) its direct case in support of that filing or (iii) its rebuttal case addressed to the December 16 Order satisfies the order insofar as income tax allowance impacts on ADIT are implicated.⁸⁶ This is understandable to some degree since the December 16 Order itself found it necessary to require SFPP to provide significant additional or reformatted information to address the income tax allowance policy changes articulated in the *Policy Statement* and December 16 Order by means of a February 28, 2006 compliance filing in Docket No. OR92-8, *et al.* and Docket No. OR96-2, *et al.*⁸⁷ *See* December 16 Order at PP 44-47. Consistent with my rulings under Issue B-6, I find and conclude SFPP should be required to quantify the income tax allowance implications for the ADIT account here in the context of the compliance filing initially required under Issue A. This solution accords with the procedure adopted in the December 16 Order, and SFPP already should have compiled

⁸⁵ The match is not perfect due to under-funded deferred taxes prior to 1974 and a 1987 federal income tax rate change. Tr. 1328.

⁸⁶ I say "implicated" because neither the *Policy Statement* nor the December 16 Order specifically discusses ADIT consequences.

⁸⁷ It is unknown whether/to what degree the February 28, 2006 compliance filing addressed ADIT, and in any event that filing neither pertains to the North Line nor legitimately may be considered a part of the evidentiary record in this docket.

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

SFPP, L.P.

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§
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Docket No. IS05-230-000

**BRIEF OF TESORO REFINING AND MARKETING COMPANY ON
EXCEPTIONS TO INITIAL DECISION**

October 25, 2006

PUBLIC VERSION

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In accordance with Rule 711 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.711, Tesoro Refining and Marketing Company ("Tesoro") submits this Brief on Exceptions to the Initial Decision ("ID") issued by Presiding Administrative Law Judge H. Peter Young ("ALJ") on September 25, 2006. Judge Young's Decision is reported at 116 FERC ¶ 63,059 (2006).

As we discuss below, the hearing record and evidence evaluated by the ALJ clearly demonstrates that SFPP has been charging Tesoro and other shippers on its North Line excessive rates and that refunds must be awarded pursuant to the Interstate Commerce Act and the Commission's Regulations.

STATEMENT OF THE CASE

This case involves the rates that SFPP, L.P. (SFPP) may properly charge shippers on its interstate pipeline from Concord, CA to Reno/Fallon, NV for the shipment of petroleum products. This route is known as the "North Line"¹ and has been the subject of a number of previous Commission proceedings.²

Up until 2001, SFPP's North Line consisted of a 14-inch diameter pipeline. SFPP replaced the portion of its line that ran from Concord to Sacramento with a 20-inch pipe, that became operational in December 2004. On April 28, 2005, SFPP filed FERC No. 111 which it claimed was designed to increase North Line rates in order to recover the costs of the 20-inch line.³ SFPP filed this rate increase under Section 342.4(a) of the Commission's Regulations which permits a pipeline to seek

¹ ID at ¶ 1.

² See Docket No. OR96-2, *et al.*; *Arco Products Co. v. SFPP, L.P.*, 82 FERC ¶ 61,043 (1998); Docket No. OR96-2, *et al.*; Docket No. OR92-8, *et al.*; *SFPP, L.P.*, 91 FERC ¶ 61,142 (2000); *ARCO Products Co. v. SFPP, L.P.*, 92 FERC ¶ 61,244 (2000); Docket No. OR03-5-000; Docket No. OR03-5-001; and *Chevron Products Co. v. SFPP, L.P.*, 114 FERC ¶ 61,133 (2006).

³ ID at ¶ 1-2.

rate increases in excess of indexed rates only when there is such a “substantial divergence between the actual costs experienced by the carrier and the rate resulting from the application of the index such that the rate at the ceiling level would preclude the carrier from being able to charge a just and reasonable rate.”⁴

SFPP’s indexed rate for the 2004 calendar year is \$1.1934.⁵ This rate is indexed to \$1.2367 per barrel for 2005. The rate increase SFPP proposed to implement was \$1.3934.⁶ As stated in *ARCO Products v. SFPP, L.P.*,⁷ the “grandfathered rate” for the SFPP North Line under Section 1803(a) of the Energy Policy Act of 1992 is \$1.10 per barrel.⁸

A number of shippers on the North Line, including Tesoro, protested SFPP’s April 28, 2005 rate increases. In their protests, these shippers maintained that a proper cost of service analysis for the North Line would indicate that (i) no rate increase above the SFPP’s current \$1.1934 rate was justified;⁹ (ii) SFPP was not adversely affected by any substantial divergence between the indexed rates that SFPP was permitted to charge and the costs that SFPP was incurring;¹⁰ and (iii) SFPP’s current \$1.1934 rate was so substantially in excess of its actual costs that SFPP’s \$1.1934 rate was unjust and unreasonable within the meaning of Section 342.2(c)(1) of the Commission’s Regulations.¹¹

⁴ 18 C.F.R. § 342.4(a) (2005).

⁵ SFPP FERC Tariff No. 111, Schedule 1, Rate Table.

⁶ *Id.*

⁷ *ARCO Products v. SFPP, L.P.*, 106 FERC ¶ 61,300; *Reh’g denied*, 111 FERC ¶ 61,334 (2004). As stated in *ARCO*, the SFPP North Line rate is grandfathered. The grandfathered rate is \$1.10 per barrel.

⁸ 106 FERC ¶ 61,300 at PP 59-60.

⁹ Protest and Motion for Intervention of Tesoro Refining and Marketing Company, Docket No. IS05-230-000, at 3-4, 14 (June 1, 2005).

¹⁰ *Id.* at 14.

¹¹ *Id.* at 14.

On the basis of this position, the shippers requested the Commission to suspend SFPP's rate increases, establish an investigation and hearing into the rate increases, roll-back SFPP current rates to just and reasonable levels and order refunds of all excessive rates paid by shippers.¹²

On May 31, 2005, the Commission issued an order finding that "there is insufficient data at this time to resolve these disputes."¹³ The Commission set the matter for hearing.¹⁴

The hearing ordered by the Commission was conducted from January 24, 2006 to February 16, 2006.

On September 25, 2006, Judge Young issued his initial decision. In the ID, Judge Young reviewed each of the cost of service issues raised by the parties. He found that substantial reductions must be made to the cost elements that SFPP had included in its cost of service. The ID finds, for example, that only 70% of the costs incurred by SFPP in constructing the 20-inch line from Concord to Sacramento may be included in the interstate rate base as "used and useful" in interstate commerce.¹⁵ Judge Young further found that SFPP was not entitled to any income tax allowance;¹⁶ that no increase should be permitted in SFPP's base period environmental costs;¹⁷ and that SFPP's capital structure should be adjusted so that it includes considerably more debt (and less equity) than SFPP proposed.¹⁸ The ID further finds that SFPP's return on equity and long term debt cost should be reduced

¹² *Id.* at 15-16.

¹³ *SFPP, L.P.*, 111 FERC ¶61,299, at P 25 (2005).

¹⁴ *Id.* at P 25.

¹⁵ ID at ¶ 34.

¹⁶ ID at ¶ 109.

¹⁷ ID at ¶ 197.

¹⁸ ID at ¶ 82, 87-88.

below the amounts SFPP claimed in its cost of service.¹⁹ The ID also reduces the amount SFPP is entitled to receive in depreciation,²⁰ overhead allocations,²¹ and amortization of property balances.²²

Tesoro agrees with Judge Young's findings with respect to the North Line's status as "used and useful" to interstate service, the appropriate rate base for designing the North Line rate, the appropriate capital structure, that Purchase Accounting Adjustments (PAA) should be excluded, the cost of debt, the income tax allowance, the allocation of general and administrative expenses, the depreciation expense, the appropriate investment and operating expense allocation factors, and the appropriate fuel and power costs.

However, as we discuss in greater detail below, we respectfully disagree and take exception to Judge Young's findings with respect to the appropriate amount of SFPP's litigation expenses, environmental expenses, return on equity, and throughput.

We also take strong exception to Judge Young's conclusion that shippers are not entitled to refunds and that SFPP is entitled to continue to charge \$1.3934 per barrel for the shipment of petroleum products. As we explain in detail below, SFPP, as a matter of law, must make refunds of at least \$0.20 per barrel to shippers and, at a minimum, is not entitled to charge any amount in excess of its indexed rate of \$1.1934. In fact, based on Judge Young's findings alone, SFPP should be required to reduce its rate to no more than its grandfathered rate of \$1.10 per barrel and should make refunds in the amount of \$0.2934 per barrel.

¹⁹ ID at ¶ 99.

²⁰ ID at ¶ 39.

²¹ ID at ¶ 187.

²² ID at ¶ 53.

SUMMARY OF TESORO BRIEF ON EXCEPTIONS

The Initial Decision finds that shippers are not entitled to refunds. That finding is not only incorrect on the basis of the evidence in the record, it is also completely inconsistent with the findings reached in the ID with respect to SFPP's cost of service elements.

The process of evaluating SFPP's correct cost of service began with SFPP's own statement of its costs. That material is presented in SFPP's Cost of Service Schedules, attached to SFPP FERC Tariff No. 111. Revisions were then made by the ALJ to that cost of service on the basis of his application of Commission rulings to the evidence presented in the case. As indicated above, the ALJ made adjustments to SFPP's rate base, income tax allowance, operating expenses, depreciation expense, amortization of AFUDC, and amortization of deferred return.

Taking into account SFPP's cost of service and making the adjustments that the ID states must be made to SFPP's cost of service in order to conform to legal requirements, SFPP's cost of service indicates recoverable costs of \$15,222,000. This data translates into a rate of \$1.098 per barrel. Since SFPP had increased its rates from \$1.1934 to \$1.3934 in 2005, the full amount of that increase should be refunded to shippers according to rulings made by the ALJ in the ID. Accordingly, it was incorrect for the ID to state that shippers are not entitled to refunds.

The rulings made by the ALJ in the ID also necessarily mean that there was no substantial disparity between the costs incurred by SFPP and the rates that were necessary to constitute just and reasonable rates. The pre-existing rates afforded SFPP a full just and reasonable recovery. In fact, they afforded SFPP an excessive recovery.

In addition to the cost of service adjustments made by the ALJ in the ID, the following additional cost of service adjustments should be made:

(1) Legal Expenses. SFPP's legal expenses should not be embedded in the rate base as contemplated by the ID. Instead, in accordance with established Commission precedent, SFPP's legal costs should be allocated on a volumetric basis over applicable portions of the SFPP pipeline system, and collected through a surcharge over a five year period. In addition, the surcharge should be offset in the latter part of the five year period by the amount that SFPP collected in excess of rates ultimately set by the Commission from shippers that did not challenge the rates and are therefore not entitled to refunds or reparations. These adjustments would result in a further reduction of the rate that should be charged.

(2) Environmental Expenses. SFPP's environmental expenses should be \$109,000 less in the test period than in the base period. SFPP stated that the construction of the 20-inch pipeline replacement for the previous 14-inch pipeline would result in fewer environmental expenses. Moreover, SFPP's actual experience for the eight month portion of the test period in 2005, is on average lower than in the base period. Accordingly, SFPP's test period environmental remediation expense for the North Line should be stated at \$899,000, rather than the \$1,008,000 stated in the ID.

(3) Return on Equity: Tesoro maintains that the ID incorrectly calculates SFPP's return on equity because it incorrectly determines that Master Limited Partnerships (MLP) can be included in a proxy group used to determine SFPP's equity return. The ID also erroneously considers the distributions of the MLP proxy

group, which includes a return *of* capital, to be equivalent to dividends, which represent a return *on* capital.

(4) Throughput: The ID finds that there will be substantial increased intrastate traffic in the test year for the route from Concord, CA to the Sacramento Airport. However, the ID fails to make the adjustment to the route directory for intrastate and interstate traffic to reflect this increased traffic. By including 70% of the capital cost of the North Line expansion in the rate base, the ID accounts for Tesoro's arguments that the interstate throughput of the North Line will increase in the future. However, if the ID's findings with respect to the rate base are not accepted, then adjustments should be made to throughput on the basis of SFPP's own studies that show that throughput will increase substantially in the near future.

As we demonstrate below, making these additional four adjustments to the cost of service results in a rate for the North Line of \$1.053 per barrel, or \$0.34 per barrel less than SFPP's rate increase and \$0.14 per barrel less than SFPP's existing ceiling rate at the time of its cost of service filing.

Since it is the Commission's statutory responsibility to prescribe just and reasonable rates when presented with the facts, the Commission should, we respectfully submit, determine the North Line rate to be no more than the grandfathered rate of \$1.10 per barrel.

Each of these points is developed more fully below.

LIST OF EXCEPTIONS AND SPECIFICATION OF ERROR IN LAW OR FACT

The following is a list of Tesoro's Exceptions to the Initial Decision and the error in law or fact leading to the exception:

\$1.10. Since that rate is also less than the \$1.1934 rate that SFPP claims it is entitled to charge on the basis of the Commission's indexation rules, SFPP is not adversely affected by a substantial disparity between the costs it is incurring and its indexed rates. The ID erroneously failed to reach this conclusion.

(3) The ID Erroneously Fails to Prescribe a Rate of No More Than \$1.10 for Shipments of Petroleum Products on the SFPP North Line. Based on the findings reached in the ID as to SFPP's cost of service, the ID should have prescribed a rate of no more than \$1.10 a barrel for service on the North Line.

(4) The ID Erroneously Includes SFPP's Legal Costs in the Carrier's Rate Base and Permits Those Costs to Be Recovered From North Line Shippers. The ID erroneously permits SFPP's legal costs in pursuing regulatory litigation to be embedded in its rate base. The ID also fails to allocate legal costs on a volumetric basis to all of the pipelines in the overall SFPP pipeline system. These findings are erroneous as a matter of law because they are contrary to binding Commission precedent.²⁶

(5) The ID Erroneously Fails to Reduce SFPP's Environmental Costs in the Test Period. SFPP's actual average environmental costs in the last eight months of the test period were significantly lower than its costs in the base period. In fact, SFPP stated as justification for the construction of a new 20-inch line that the North Line would incur lower environmental costs. Under those circumstances, the ID should have established SFPP's environmental costs at a lower level than environmental costs in the base period. The ID's failure to do so was erroneous as a matter of fact and law.

²⁶ *SFPP, L.P.*, 111 FERC ¶ 61,334, P 44; *SFPP, L.P.*, 108 FERC ¶ 63,036, P 423.

(6) The ID Erroneously Establishes SFPP's Return on Equity at an Inappropriately High Level. The ID erroneously uses a proxy group that is composed exclusively of Master Limited Partnerships to determine the return on equity of SFPP. The ID also erroneously uses the return of capital of those MLP's to determine the dividend yield of SFPP for the purposes of a Discounted Cash Flow analysis. By doing so, the ID fails to implement the decision of the Commission in *High Island Offshore System, L.L.C.*,²⁷ and is therefore erroneous as a matter of law.

(7) The ID Erroneously Fails to Reflect Increased Intrastate Traffic in the Test Period Between Concord, CA and the Sacramento, CA Airport or Anticipated Interstate Throughput Increases in Determining the Revenue Requirement of the North Line. The ID correctly finds on the basis of the evidence that there will be a significant increase in the traffic on the SFPP North Line in the test period between Concord, CA and the Sacramento, CA airport. However, the ID fails to reflect that increased traffic in the revenues that will be earned on the North Line in the SFPP intrastate/interstate route directory, and ultimately in the rates that should be charged in the interstate portion of the North Line. In addition, if the ALJ's finding with respect to SFPP's rate base is not accepted, then further adjustments should be made to the throughput of the North Line in the test period to give proper credence to SFPP's own studies that show that throughput on two interstate portions of the North Line will increase substantially.

(8) The ID Erroneously Fails to Determine That the Maximum Possible Rate That SFPP Can Properly Charge for North Line Traffic is \$1.10 Per Barrel, and Further Fails to Prescribe That \$1.10 Rate. The adjustments that should as a

²⁷ 110 FERC ¶ 61,043 (*HIOS*), *reh'g denied*, 112 FERC ¶ 61,050 (2005).

matter of fact and law be made to the SFPP cost of service to reflect correct legal expenses, environmental costs, and return on equity leads to a rate of \$1.053. Consequently, as a matter of fact and law, SFPP's rate for shipment on the North Line should be established at no more than \$1.10, which is SFPP's "grandfathered" rate under Section 1803(a) of the Energy Policy Act of 1992 (EPAAct).

ARGUMENT IN SUPPORT OF TESORO'S POSITION

A. The Initial Decision Erroneously Found That Shippers on the SFPP North Line Were Not Entitled to Refunds.

Under the Commission's rules, the maximum rate an interstate oil pipeline can charge is determined by a trended original cost methodology.²⁸ Under this methodology, the pipeline's rate base and allowed rate of return are determined.²⁹ Then the operating and capital costs that the pipeline has incurred are similarly determined.³⁰ A comparison is then made of the pipeline's likely operating and capital costs in the test period and the probable throughput of the pipeline in that test period.³¹ A simple arithmetic comparison between the two figures then leads to the maximum permissible rate the pipeline can charge.³²

The ID that was issued in this case does determine the costs that the SFPP North Line will incur in the test period as well as its probable throughput. As we demonstrate below, those findings lead to the conclusion that SFPP's cost of service in the test period will be \$15,222,000. According to the ID, SFPP's throughput will

²⁸ 18 C.F.R. § 342.4.

²⁹ 18 C.F.R. § 346.2.

³⁰ *Id.*

³¹ *Id.*

³² *Id.*

be 13,865,807 barrels.³³ Accordingly, SFPP's rate through a simple arithmetic process should be no higher than \$1.098, or the grandfathered rate of \$1.10. In contrast, the rate that SFPP has been charging shippers is \$1.3934, or \$0.2934 higher. Clearly, under the Commission's precedents refunds of \$0.2934 per barrel should be ordered.³⁴ Yet the ID inexplicably finds that no refunds are due to shippers. This finding is clearly erroneous and we respectfully urge that it be overruled.

This conclusion follows from the following adjustments that the ID made to SFPP's cost of service:

(1) Rate Base. The ID determines that only 70% of the cost of the North Line expansion should be included in SFPP's rate base in determining the pipeline's cost of service.³⁵ As a result of this reduction, the rate base that SFPP proposed is reduced, which in turn reduces the allowed return and depreciation that SFPP may properly recover in the test period.

(2) Depreciation. The ID found that a depreciation amount consisting of \$440,000 relating to 1983 should be removed in computing the starting rate base amortization rate. This adjustment too reduces the cost of service.

(3) Amortization Rate. The ID also found that SFPP's test period amortization rate should be based on 2004 property balances as opposed to 2003 property balances.³⁶ This finding reduces the test period amortization rate from 3.31% to 2.75% and causes a small reduction in the cost of service.

³³ ID at ¶ 214.
³⁴ 49 App. U.S.C. § 15(7) (1988).
³⁵ ID at ¶ 34.
³⁶ ID at ¶ 53.

(4) Capital Structure. With respect to capital structure, the ID determined that: (i) Purchase Accounting Adjustments (PAA) must be accounted for in the capital structure;³⁷ (ii) SFPP's actual capital structure and not a hypothetical capital structure must be used for cost of service purposes;³⁸ (iii) SFPP's cost of debt must include commercial paper that SFPP has treated as long term capital debt;³⁹ and (iv) SFPP's return on equity must be established in accordance with Staff recommendations and not the 13.04% return that SFPP included in its cost of service.⁴⁰

The adjustments that the ID made lead to a test period capital structure of approximately 65% debt and 35% equity.⁴¹ In addition, according to the rulings made in the ID, SFPP's cost of debt, which includes commercial paper but does not include special purpose debt, amounts to approximately 6.02%.⁴² The nominal cost of equity determined by the ID is 12.27%.⁴³ Consequently, the weighted average cost of capital that should, according to the ID, be used to compute SFPP's test period return should be 7.29% rather than the 8.63% used by SFPP.⁴⁴ These adjustments reduce SFPP's allowed return by almost \$1 million.⁴⁵

(5) Operating Expenses. With respect to operating expenses, the ID finds that: (i) SFPP incorrectly applied the Massachusetts formula for allocating overhead and an allocation methodology advocated by CCV Witness Matthew O'Laughlin

³⁷ ID at ¶ 82.

³⁸ ID at ¶ 82.

³⁹ ID at ¶ 87-88.

⁴⁰ ID at ¶ 99.

⁴¹ Workpapers, NL Application Model (2004)_ALJ Revisions, Tab "F1" (Attached as Exhibit A).

⁴² *Id.* at Tab "C".

⁴³ *Id.* at Tab "F1".

⁴⁴ *Id.* at Tab "C".

⁴⁵ *Id.* at Tab "A".

should be used instead;⁴⁶ and (ii) test period environmental expenses should be kept constant at base period levels, rather than increased as SFPP specified in its cost of service.⁴⁷

Applying the determinations made in the ID reduces SFPP's overhead allocation by \$1.3 million to account for SFPP's erroneous application of the Massachusetts formula; and reduces SFPP's test year environmental expenses by \$404,000.⁴⁸ In addition, in accordance with SFPP's own statement, SFPP's fuel and power costs have been reduced by \$345,000 as originally included in the cost of service.⁴⁹

(6) Income Tax. The ID also finds that SFPP is not entitled to an income tax allowance.⁵⁰ This adjustment reduces SFPP's cost of service by approximately \$2.6 million.⁵¹

(7) Throughput. The ID also finds that SFPP's test period throughput should be adjusted to include substantial shipments of petroleum products on the intrastate service from Concord to the Sacramento Airport.⁵² The test period volume that SFPP originally included in its cost of service was 13,866,000 barrels. However, the ID's finding has the effect of reducing very slightly costs allocated to North Line interstate service as well as slightly reducing the amount of power cost savings and environmental costs allocated to interstate service.

⁴⁶ ID at ¶ 187.

⁴⁷ ID at ¶ 197.

⁴⁸ ID at ¶ 197.

⁴⁹ ID at ¶ 207.

⁵⁰ ID at ¶ 127.

⁵¹ Workpapers, NL Application Model (2004)_ALJ Revisions, Tab "COS".

⁵² ID at ¶ 216.

The adjustments that the ID requires to be made in SFPP's cost of service are summarized in Table No. 1 below.

Table 1

Paragraph of ID	ALJ Finding/Conclusion
34	Carrier Property: Expansion cost from 14" to 20" should be only allocated by 70% to cost of service; costs of relocation are allocated 100% for North Line
39	1983 depreciation erroneously included in remaining life calculation, ALJ recommends removal per Staff method
53	Accepts Staff's test period amortization rate which uses 2004 property balances (as opposed to SFPP using 2003 balances)
82	PAAs must be accounted for in capital structure and use of actual capital structure not hypothetical is recommended
87-88	Cost of debt must include commercial paper as it is treated as long term, but not special purpose bonds
99	Accepts Staff's test period return on equity
109	As a matter of law, SFPP is not entitled to an income tax allowance
187	Accepts CCV witness MA method per Ex. CCV-1, Table 13 for allocating overhead
197	Test period environmental expenses held constant at base period environmental expenses
214-216	Test period throughput and route directory should include Sacramento Airport connection for intrastate volumes

A full statement of the cost of service that the ID requires is attached to this Brief on Exceptions as Exhibit A. For the convenience of the Commission we have also attached a CD containing the material stated in Exhibit A.

As Exhibit A indicates, the changes to SFPP's cost of service that the ID requires leads to a cost of service for the test period of \$15,222,000. That cost of service is 27% less than the cost of service filed by SFPP. Applying the North Line interstate throughput of 13,866,000 barrels recommended by the ID yields a rate of \$1.098 per barrel, which is almost \$0.10 less than SFPP's 2004 ceiling rate of \$1.1934.

As we point out below, we believe that SFPP should be required to refund to shippers the difference between its grandfathered rate of \$1.10 and the \$1.3934 rate it has been charging shippers. However, at a bare minimum, the findings reached by the ID would require that SFPP refund the difference between its 2004 indexed rate of \$1.19 cents a barrel and the \$1.3934 rate it has been charging.

The ID's finding that SFPP does not have to provide any refunds to shippers is clearly erroneous and should, we respectfully suggest, be reversed.

B. The Initial Decision Is Clearly Erroneous in Failing to Find That There Is No Substantial Disparity Between SFPP's Indexed Rates and the Costs It Is Incurring.

Under the Commission's regulations, an oil pipeline is not permitted to use a cost of service methodology to increase its rates unless it demonstrates that there is a substantial disparity between the rate it is permitted to charge on the basis of the Commission's indexation rules and the actual costs it has incurred.⁵³

In this case, there is certainly no adverse impact to SFPP as a result of a substantial disparity between SFPP's costs and its indexed rates. In fact, SFPP's allowable costs, according to the ID, should lead to a rate that is \$0.0954 *below* its indexed ceiling rates.

Therefore, at a bare minimum, the ID should have held that SFPP failed to meet the requirements of Section 342.4(a) of the Commission's regulations by showing that there is a substantial disparity between its actual allowable costs and its indexed rates.⁵⁴ The ID should therefore have held that SFPP cannot charge any

⁵³ 18 C.F.R. § 342.4(a).

⁵⁴ In fact, Tesoro believes that SFPP should not be permitted to charge any rate in excess of its grandfathered rate of \$1.10 per barrel.

amount greater than its indexed costs of \$1.1934. The failure of the ID to do so is clearly erroneous.

C. The Initial Decision Is Clearly Erroneous in Failing to Prescribe a Rate of No More Than \$1.1934 Per Barrel.

The fact that SFPP cannot justify a rate that is greater than its indexed rates on the basis of its allowable costs as well as the fact that SFPP has failed to demonstrate that it is adversely affected by a substantial disparity between its indexed rates and its allowable costs necessarily means that SFPP cannot lawfully charge any rate that is higher than its indexed rate. That indexed rate was \$1.1934 in 2004. This rate is indexed to \$1.2367 for 2005 and \$1.3128 for 2006. The failure of the ID to prescribe a maximum possible rate of \$1.1934 for the period in question is therefore a reversible error.⁵⁶

D. The Initial Decision Erroneously Includes SFPP's Litigation Costs in Its Rate Base and Fails to Allocate Those Litigation Costs on a Volumetric Basis to All SFPP Pipelines.

From May to November of 2005, SFPP's litigation expenses in this Docket were \$1.2 million, and SFPP estimates that its total litigation cost for this entire proceeding will be nearly \$5 million.⁵⁶ That is certainly an extraordinarily high amount, particularly since the findings reached in the ID suggest that none of these expenses should have been incurred, since SFPP cannot possibly justify any rate higher than its index ceiling rate. Despite these facts, the ID not only permits SFPP to recover all of its litigation costs, but also permits it to include its litigation costs

⁵⁶ The argument that the maximum rate for the SFPP North Line should be \$1.1934 is being made in the alternative. As we emphasize elsewhere in this Brief, we believe that the maximum rate for the North Line is SFPP's \$1.10 grandfathered rate.

⁵⁶ ID at 202, citing SFN-50.

as a permanent cost element in its rate base. We respectfully suggest that these findings are erroneous and should be reversed.

The ID essentially adopts SFPP's presentation of litigation costs.⁵⁷ However, SFPP's approach consists of a highly speculative and subjective calculation that departs entirely from Commission precedent. SFPP's witness, Thomas A. Turner, testified that in calculating the litigation costs that should be allocated to the North Line in the test period, he first determined all of the regulatory litigation costs that SFPP has been incurring for all the lines in its pipeline system. Mr. Turner then devised an average of those costs by dividing the expenses incurred for each line by the period of time that litigation has been conducted for that line. Then, on the basis of his subjective judgment, Mr. Turner determined the percentage of the litigation expenses for each line should be allocated to the North Line.⁵⁸

It is important to emphasize that Mr. Turner did not use any objective or quantitative methodology in allocating litigation costs to the North Line. It is also important to note that Mr. Turner has, himself, admitted that none of the test period litigation costs that he assigned to the North Line were actually incurred in the nine-month period after the base year.⁵⁹ Mr. Turner simply made his own intuitive judgment as to the appropriate allocation of litigation expenses that would be incurred in the future for the North, East and West lines and then assigned that intuitive cost estimate to the North Line.⁶⁰ This is the allocation methodology that

⁵⁷ ID at ¶ 205.

⁵⁸ SFN-26, pp. 9-14; 5-4, p. 113, ln. 20-p. 114, ln 2.

⁵⁹ Tr. at 933, lines 18-21.

⁶⁰ In SFPP's rebuttal testimony, Mr. Turner alters his methodology somewhat. However, this altered methodology is still highly subjective and in any event was not adopted by the ALJ in the ID. We therefore do not think it necessary to discuss the SFPP rebuttal testimony on legal expenses.

the ID adopts. Moreover, the ID embeds SFPP'S litigation costs in its rate base and therefore permits litigation costs to be incurred for the entire life of the pipeline.

The ID's treatment of litigation costs is wrong for a number of reasons.

First, it relies on inherently subjective judgments. It is impossible to fathom the basis upon which Mr. Turner allocated litigation costs for the West Line and the South Line to the North Line. It is clearly arbitrary and capricious and therefore contrary to law for an administrative agency to reach a decision on the basis of entirely subjective factors that cannot be replicated or explained in a rational manner. The Supreme Court has ruled that "not only must an agency's decreed result be within the scope of its lawful authority, but the process by which it reaches that result must be logical and rational."⁶¹ It is even more objectionable for an agency to simply adopt another person's entirely subjective judgment.

Furthermore, by adopting Mr. Turner's subjective allocation of litigation expenses and embedding those costs in the North Line's rate base, the ID contravenes binding Commission precedent.

In *SFPP, L.P.*,⁶² the Commission specifically discussed the proper treatment of the litigation costs SFPP was incurring. The Commission held that to avoid inherently subjective judgments, litigation costs that should properly be shared by a number of different pipelines should be allocated on the basis of the percentage volume of each of the lines. The Commission stated as follows:

Given this and the continued participation by West Line shippers on those issues during the Opinion No. 435 orders litigation, allocation of legal costs on

⁶¹ *Allentown Mack Sales and Serv., Inc. v. National Labor Relations Board*, 522 U.S. 359, 374 (1998).

⁶² 111 FERC ¶ 61,334 (2005).

the basis of volumes is appropriate and the result that is most adequately grounded in the record.⁶³

This ruling was confirmed by the December 16 Order, in which the Commission stated that it would “allocate the regulatory costs based on the relative volumes of four lines...”⁶⁴

Regarding costs associated with the Sepulveda Line, the Commission stated that the Sepulveda “proceeding is separate and unique and any regulatory costs incurred in that proceeding should be allocated to it alone. Similarly...all litigation concerning the Watson Station charges has been consolidated in a single proceeding and all costs related to that proceeding should be separated.”⁶⁵

The Commission has also rejected the “normalization” approach used by SFPP Witness Turner and adopted in the ID. To the contrary, the Commission has expressly stated that litigation costs should not be embedded or become a permanent part of a carrier’s rate base. Instead, litigation costs should be amortized over a five-year period and collected through a temporary five-year surcharge. According to the Commission, regulatory litigation costs are “to be amortized over five years ... starting with calendar-year 1999 and continuing through calendar-year 2003.”⁶⁶

The Commission further stated that it would “follow the approach used in the Opinion No. 435 Orders...”⁶⁷ According to the December 16 Order, Opinion No. 435 authorized SFPP to “recover [regulatory] costs through a surcharge amortized over 5

⁶³ 111 FERC ¶ 61,334, P 44 (2005).

⁶⁴ 113 FERC ¶ 61,277, P 95 (2005).

⁶⁵ *Id.* at P 96.

⁶⁶ *SFPP, L.P.*, 108 FERC ¶ 63,036, P 423 (2004).

⁶⁷ 113 FERC ¶ 61,277, P 93 (2005); *See* 113 FERC ¶ 61,277, PP 90-93.

years.⁶⁸ The December 16 Order stated that Order No. 435 specifically prohibited SFPP from embedding regulatory expenses in rates.⁶⁹

Using these principles, Shipper and Staff cost of service witnesses provided separate estimates of the proper test period litigation expenses of SFPP. These cost estimates range from \$191,000 to \$399,000 and are each based upon a methodology that is consistent with prior Commission rulings.⁷⁰ Each of these estimates is significantly less than the test period litigation expense provided by Mr. Turner in his direct testimony of \$540,000.⁷¹ Accordingly, SFPP's appropriate litigation expense for test year purposes should not exceed \$399,000. Indeed, one exhibit that revised Mr. Turner's original litigation expense calculation determined that on a volumetric basis, litigation costs would only be \$192,000.⁷²

In addition to reducing SFPP's test year litigation expenses to a range of \$192,000 to \$399,000 and directing that those expenses should be collected through a surcharge, Tesoro also requests that any litigation expense surcharge be offset for later years by the amount that SFPP has collected in excess of rates ultimately set by the Commission from shippers that did not challenge the rates and are therefore not entitled to reparations. This approach was implemented by the Commission in an earlier SFPP proceeding, and affirmed by the Court of Appeals for the District of

⁶⁸ 113 FERC ¶ 61,277, P 90 (2005).

⁶⁹ *Id.*

⁷⁰ Mr. Ashton's estimate of \$399,000 at Exh. No. TES-1 at 60, line 9 and Exh. No. TES-16, line 19; Mr. O'Loughlin's estimate of \$198,300 at Exh. No. CCV-1 at 61, line 5; and Mr. Crowley's estimate of \$191,000 at Exh. No. S-5 at 37, Workpaper 12, line 15.

⁷¹ Exh. No. SFN-28 at 33, Workpaper 12, line 18.

⁷² Tr. at 941, lines 1-10; Exh. No. CCV-57, line 18.

Columbia Circuit in *BP West Coast Products, LLC v. FERC*.⁷³ In *BP West Coast Products*, the court stated that because SFPP had:

reaped a windfall by charging rates in excess of those ultimately deemed just and reasonable in the same past years for which it was claiming supplemental expenses above those it would prospectively incur as part of its cost of service, it should be required to first fund its litigation expenses out of that pool before it could begin charging those costs to its customers anew.⁷⁴

In natural gas cases, the Commission has recognized the appropriateness of providing an additional benefit to a party that has shouldered the burden of litigation. In *Williams Natural Gas Company, et al.*,⁷⁵ the Commission found an indemnity provision limited to active participants “who have carried the burden of this litigation” to be not unreasonable.⁷⁶ Therefore, to the extent that the Commission is able to do so, we respectfully request that any refunds or reparations be structured so that SFPP’s legal expenses are offset from the amount otherwise due to shippers who did not bear the expenses of this litigation.

E. The Initial Decision Erroneously Establishes SFPP’s Environmental Remediation Expenses for the Test Period at \$1,008,000 Rather than the Correct Amount of \$899,000.

As the ID correctly states, the shippers and Staff accepted SFPP’s statement that its base period environmental costs were \$1,008,000. The disagreement between the parties occurs with respect to how base period expenses should be adjusted in the test period.

⁷³ *BP West Coast Products, LLC v. Federal Energy Regulatory Commission, et al.*, 362 U.S. App. D.C. 438, 1294 (2004).

⁷⁴ 362 U.S. App. D.C., 438, 1294.

⁷⁵ 54 FERC ¶ 61,134 (1991).

⁷⁶ *Id.* at P 61,448. For the principle that a settlement with special provisions applicable only to active parties is not unduly discriminatory see also, *United Municipal Distribution Group v. FERC*, 732 F.2d 202, 212 (D.C. Cir. 1984) and *Town of Norwood v. FERC*, 202 F.3d 392, 402 (1st Cir. 2000).

SFPP maintained that its environmental remediation expenses in the 2000 to 2004 period should be “normalized,” with the normalized average used in the test period. This methodology would result in an increase of environmental costs in the test period, even though SFPP’s actual average costs in the later portion of the test period were considerable *below* the base period.

The ALJ quite correctly rejected SFPP’s approach, holding that it:

egregiously exceeds the specified base/test periods and is backward-looking instead of prospective. It does not reflect reasonably known and measurable changes and fails to demonstrate good cause to deviate from the presumptive nine month test period limitation.⁷⁷

However, we believe that the ALJ erred in simply establishing SFPP’s environmental costs for the test period at base period levels, rather than reducing those costs in the test period as the evidence strongly suggests.

The principal reason put forward by SFPP for constructing the 20-inch pipeline that is the basis of this rate case is that the new pipeline would reduce SFPP’s environmental remediation costs. According to the testimony of James B. Kehlet, SFPP Vice-President, Marketing West, Kinder Morgan Energy Partners, L.P., the new pipeline is designed to result in a “higher quality of service with less environmental risk.”⁷⁸ Based on this assessment, Mr. Kehlet further testified that SFPP’s North Line environmental costs should decline as a result of the re-routing and expansion of the pipeline.⁷⁹

⁷⁷ ID at ¶ 195.

⁷⁸ Exh. No. SFN-1 at 7, lines 1-2.

⁷⁹ Tr. at 619, line 25 to 620, line 4; Tr. At 621, lines 16-23; Tr. At 627, lines 16-22.

Mr. Kehlet's expectation has, moreover, been substantiated by the evidence. SFPP's average environmental costs in the first eight months of 2005 (i.e., the test period) were substantially less than its average base period costs.⁸⁰

We therefore urge the Commission to establish SFPP's test period environmental costs at the annualized level of the first eight months of 2005, i.e., the test period for this case. That amount is \$899,000.⁸¹

It would certainly seem that unless shippers pay lower environmental costs for the use of the SFPP pipeline in the future, the underlying rationale for the construction of the new 20-inch line in the first place would be severely undercut.

F. The Initial Decision Erroneously Establishes SFPP's Nominal Return on Equity for the Test Period at 12.27% Rather than the Correct Amount of 9.91%.

Each of the participants in this proceeding submitted extensive evidence regarding the return on equity that should be employed in this case. All of the parties agree that a return on equity should be determined on the basis of the Discounted Cash Flow (DCF) methodology outlined by the Commission in *Williston Basin Interstate Pipeline Company*.⁸² The parties also agreed that in this case the DCF methodology should be applied to a proxy group rather than to the returns of SFPP itself. The principal difference between the shippers on the one hand and Staff and SFPP on the other involves the use of Master Limited Partnerships in the proxy group, without making substantial adjustments to reflect the fact that MLPs distribute capital itself rather than simply provide a return on capital.

⁸⁰ Exh. No. CCV-60.

⁸¹ Exh. No. TES-14.

⁸² 91 FERC ¶ 63,005 (2000) and *Williston Basin Interstate Pipeline Company*, 95 FERC ¶ 63,008 (2001).

To a certain extent the difference between the parties reflects different viewpoints expressed by the Commission itself. In *High Island Offshore Systems, LLC*⁸³ (*HIOS*) the Commission said that the use of MLPs in a proxy group is inconsistent with the DCF. According to the *HIOS* decision, since the distributions of MLPs are distributions of capital rather than distributions on capital, MLPs are fundamentally different entities from the entities contemplated by the DCF methodology. The Commission therefore held in *HIOS* that it “will not consider including an MLP in the proxy group unless the record demonstrates that the distribution used as the ‘dividend’ includes only a payment of earnings and not a return of investment.”⁸⁴

It is clear that the proxy groups used by SFPP and Staff in this case do include companies that distribute capital rather than returns on capital. In fact, the ALJ points out that the record of this case “strongly suggests [that] distributions subsume at least some return of capital component.”⁸⁵ He further commented that as a result, “. . . using them as dividend surrogates in the DCF formula violates *HIOS*.”⁸⁶

However, in the December 16 Decision, the Commission did use MLPs in the proxy group used to determine SFPP’s return on equity. The Commissions stated that it did so because “there is no practical alternative to treating distributions as the equivalent of dividends and using distributions in the conventional discounted cash flow (DCF) formula.”⁸⁷

⁸³ 110 FERC ¶ 61,043, *reh’g denied*, 112 FERC ¶ 61,050 (2005).

⁸⁴ ID at 97, *quoting* 110 FERC ¶ 61,043 at P 126.

⁸⁵ ID at 98.

⁸⁶ ID at 98.

⁸⁷ 113 FERC ¶ 61,277 at P 77, n. 104.

Although it is difficult to reconcile the *HIOS* and December 16 Decisions, we would suggest that the approach advocated by Tesoro Witness Peter K. Ashton in this case does so. Mr. Ashton's approach also addresses the ID's finding that "there still remains no practical alternative to treating distributions as the equivalent of dividends in the DCF formula."⁸⁸

The approach used by Mr. Ashton involves using the MLPs that the Commission included in the proxy group in the December 16 Decision but computing a proxy dividend yield for these companies by using earnings data rather than cash distributions.⁸⁹ CCV Witness Matthew P. O'Loughlin also employed this method as a possible alternative, testifying,

I offer a second alternative check in my testimony on the return on equity, and I do that by taking the growth rate in earnings, as Professor Williamson has done, and I combine that with the yield which is a proxy dividend yield. The way I get at the proxy dividend yield is to take the MLP's distributions and take only the proportion of those distributions that are represented by net income, and in essence, I assume that 100 percent of that net income is paid out as a dividend, and I calculate a dividend yield. I combine that with the growth rate in earnings, and I come up with a return on equity estimate. Using the median from that second methodology, I find that that is generally consistent with using the low end of the range of a standard MLP methodology.⁹⁰

The use of this methodology is the "practical alternative" that the Commission sought to achieve in its December 16 Decision and the ALJ attempted to find in this case. It is consistent with the DCF methodology that is dependent on earnings as opposed to return of capital and provides a fair and reasonable return to SFPP.

⁸⁸ ID at ¶ 99.
⁸⁹ Exh. No. TES-1 at 33, lines 10-18.
⁹⁰ Tr. at 1798, line 14 to 1799, line 2.

As the Record in this proceeding indicates, the use of Mr. Ashton's recommended methodology results in a nominal rate of return for SFPP of 9.91% as opposed to the 12.27% adopted by the ID.⁹¹

The advantage of using Mr. Ashton's approach is underscored by the deficiencies in the approach adopted in the ID. That approach is based largely on the testimony of Staff Witness Sam S. Wang who used MLPs in his proxy group and regarded the cash distributions of MLPs as equivalent to dividends.

Mr. Wang acknowledges that "[i]f the Commission was to decide that the cash distributions from SFPP to its partners were returns of capital, I would expect that the Commission would then not consider the MLPs I used to be suitable proxy companies for SFPP in this proceeding."⁹² However, Mr. Wang then mistakenly goes on to conclude that the distributions of MLPs are not in fact distributions of capital.

For example, Mr. Wang appears somewhat confused by the definition of the term "dividends" as used by the Commission in the DCF methodology. The Commission clearly states in the *HIOS* proceeding:

Partnerships make distributions to their partners, rather than pay dividends to stockholders. Those distributions may include payment to the partners of a share of the *partnership's earnings; to that extent the distribution is comparable to corporate dividend payments.* However, the distributions may

⁹¹ Mr. Ashton employed the Commission's DCF methodology, and included the five MLPs selected by SFPP witness J. Peter Williamson. However to account for the return of capital issue, Mr. Ashton relied upon a proxy dividend yield, which employed earnings per share as a proxy dividend in the constant growth dividend model. (Exh. No. TES-1 at 33, lines 10-18). Mr. Ashton compiled earnings per share data for each proxy group company, and determined the proxy dividend yield by dividing the proxy dividends by a six-month average share price (Exh. No. TES-8). Mr. Ashton subsequently determined the short-term growth factor using IBES earnings estimate data and the long-term growth factor using GDP forecasts from three sources: the Energy Information Administration (EIA), Global Insight (GI) and the Social Security Administration (SSA) (Exh. No. TES-9).

⁹² Exh. No. S-1 at 51, lines 9-11.

also include a return of a portion of the partners' original investment, unlike a corporate dividend.⁸³

Yet, when presented with evidence that the distributions of MLPs were returns of capital rather than returns on capital,⁸⁴ Mr. Wang claimed that the term "dividends" in the DCF methodology meant cash distributions, independent of income, stating, "[d]ividends are income for the shareholder, but I did not calculate income for the DCF model. There's no requirement to calculate income for the DCF model."⁸⁵ Mr. Wang's statement concerning the relationship between dividends in the DCF methodology and income is misguided, and reflects a misunderstanding of the nature of corporate dividends. Mr. Wang consistently failed to recognize that even though corporate dividends are paid in cash, they are derived only from current or retained earnings. In fact, Mr. Wang contradicted himself on the issue. For example, during cross-examination, Mr. Wang defined the term "return of capital" as "a distribution of cash resulting from depreciation, tax savings, the sale of capital assets or securities, or any other transaction unrelated to retained earnings."⁸⁶ Yet when confronted with evidence that the distributions of MLPs are "unrelated to retained earnings," Mr. Wang refused to recognize the distinction, insisting that MLPs paid dividends.⁸⁷

The position taken by Mr. Wang is further weakened by his erroneous assumption that the DCF methodology views growth in cash distributions as equivalent to growth in earnings. During cross-examination, Mr. Wang stated, "I believe the assumption of the Commission's DCF model as I used it over here is that

⁸³ 110 FERC ¶ 61,043 at P 126 (emphasis added).
⁸⁴ Tr. at 1955, lines 2-14, Exh. Nos. BPX-65, BPX-66 and BPX-67.
⁸⁵ Tr. at 1977, lines 1-3.
⁸⁶ Tr. at 1966, lines 19-22.
⁸⁷ Tr. at 1977, lines 1-3.

they are the same, the growth in earnings corresponds to the growth in cash distribution."⁹⁸ In fact, however, cash distributions can and do grow at a rate considerably greater than earnings as this reflects a return of capital in addition to the return of capital derived from earnings. Thus, on the one hand, Mr. Wang failed to recognize the relationship between corporate dividends and earnings and why cash distributions exceed earnings, and on the other hand, he argues for equivalency between earnings from which dividends are paid and cash distributions. It is only dividends that are paid out of earnings that is the appropriate measure to use in the DCF model and Mr. Wang is simply wrong in trying to equate dividends with distributions.

This fundamental defect in Mr. Wang's methodology, which was unfortunately adopted by the ID, should lead to the rejection of the return on equity calculated in the ID.

Although we urge the Commission to adopt the methodology recommended by Mr. Ashton as outlined above for calculating SFPP's return on equity, there are two other alternative methodologies which we believe are also consistent with the Commission's *HIOS* and December 16 Decisions.

1. In his testimony Mr. O'Loughlin outlined a procedure outlined in the *Sepulveda*⁹⁹ and OR96-2 initial decisions, which used a proxy group of MLPs, and substituted distribution yields for dividend yields, but selected the lower end of the range of returns, as opposed to the normally selected median

⁹⁸ Tr. at 2000, lines 20-23.

⁹⁹ Initial Decision Finding *Sepulveda* Replacement Rate Unjust and Unreasonable, 112 FERC ¶ 63,020 (2005).

value.¹⁰⁰ Tesoro witness Ashton also offered this methodology as a possible solution to resolving the issue of cash distributions including a return of capital.¹⁰¹

2. In his direct testimony, Mr. Wang developed an alternative proxy group that did not include MLPs.¹⁰²

Either of these alternatives is preferable to the clearly defective use of the median range of MLPs in determining SFPP's equity return.

G. In the Event the ALJ's Findings With Respect to Rate Base Are Not Accepted, Then Throughput of the North Line Should Be Increased Above the Level Specified in the Initial Decision

The ID recognizes that there will be increased intrastate traffic on the North Line from Concord to Sacramento.¹⁰³ However, the ID also finds that throughput on the interstate portions of the North Line will be the same in the test period as in the base period.¹⁰⁴

We respectfully disagree and believe that the clear weight of the evidence indicates that there will be a substantial increase in interstate throughput in the test period. That evidence consists of SFPP's own statements as well as reports from independent consultants that anticipate an expansion in throughput volume on the North Line.¹⁰⁵ However, we do not press this point if the Commission accepts the ALJ's finding with respect to SFPP's rate base for the North Line. As we pointed out above, the ALJ found that 70% of the cost of the North Line expansion should be

¹⁰⁰ Exh. No. CCV-1 at 11, line 16 to 12, line 12; Tr. at 1797, line 24 to 1798, line 13.

¹⁰¹ Exh. No. TES-1 at 40, lines 4-10.

¹⁰² Exh. No. S-1 at 51, lines 5-13.

¹⁰³ ID at ¶ 212.

¹⁰⁴ ID at ¶ 214.

¹⁰⁵ Exh. No. TES-1 at 12, line 5 to 15, line 13.

allocated to the rate base. This finding was based in part on the conclusion that the expanded capacity which the 20-inch line envisioned as compared to the 14-inch line should not be paid by interstate shippers. We agree with this finding and urge the Commission to adopt it.

However, if the Commission does not do so, then the throughput of the North Line should be increased. In the remaining portion of this section, we discuss the reasons why throughput should be adjusted if the Commission does not accept the ALJ's recommendation on rate base.

In his direct testimony, SFPP Witness Kehlet stated that "SFPP expects that throughput on the North Line will increase over the long term,"¹⁰⁶ and that one of the benefits to shippers of the expansion of the North Line is the ability to increase throughput.¹⁰⁷ He also testified that population growth rates in the Reno and other nearby areas are expected to increase by 1.5-2.0% per year, and thus one must plan for anticipated increases in throughput.¹⁰⁸

In his testimony, Tesoro Witness Ashton described the evidence from SFPP indicating that both SFPP as well as various third parties anticipate an expansion in throughput volume.¹⁰⁹ Mr. Ashton therefore recommended a test period increase in throughput over the base year.¹¹⁰ Mr. Ashton's recommended increase in throughput is also supported by the testimony of Staff Witness Bonnie J. Pride. Ms. Pride testified that "there is sufficient evidence to warrant certain upward adjustments to 2004 base year volumes to reflect the throughput in the reasonably

¹⁰⁶ Exh. No. SFN-1 at 7, line 15.
¹⁰⁷ Exh. No. SFN-1 at 6, lines 8-19.
¹⁰⁸ Exh. No. SFN-1 at 5, lines 1-4.
¹⁰⁹ Exh. No. TES-1 at 12, line 5 to 15, line 13.
¹¹⁰ Exh. No. TES-1 at 15, lines 9-13; Exh. No. TES-3.

foreseeable future.”¹¹¹ She cites much of the same evidence to support her opinion that Mr. Ashton used.¹¹² In addition, Ms. Pride indicates that there was evidence that demand had increased significantly in recent months during the test period. She cites, for example, evidence that the interstate portion of the North Line was “frozen” i.e., nominations equaled capacity, and then later in the summer of 2005, the pipeline was prorated because nominations exceeded capacity.¹¹³

During the course of the hearing, SFPP witnesses claimed that test period throughput volumes should be reported at the same level as base period volumes because actual throughput volume on the interstate portion of the line did not increase in 2005, a fact explicitly recognized and considered by Mr. Ashton.¹¹⁴ However, SFPP’s analysis of throughput fails to consider the demand that existed for transportation service and the factors that prevented shippers from shipping at full capacity in 2005. That evidence should be considered to establish a reasonable estimate of test period throughput volumes.

It is certainly significant in this respect that the SFPP pipeline was prorated in 2005, but not in 2004. As Mr. Ashton explained in his testimony, this evidence of prorating is critical because it shows that there was an increase in the demand on the North Line in 2005 relative to 2004. Mr. Ashton testified:

[W]hat you're interested in in terms of looking at the future and looking at whether base period volumes should be altered is in fact whether shippers are demanding additional capacity on the line, so the fact that line was at capacity or being prorated, particularly during the summer months in 2005, particularly given that it was not -- it is my understanding was not prorated at all during 2004 is relevant to me as an economist looking at the available capacity and the actual demand for capacity on the line and the fact that

¹¹¹ Exh. No. S-8 at 7, lines 8-10.

¹¹² Exh. No. S-8 at 9, line 9 to 10, line 21.

¹¹³ Exh. No. SFN-8 at 7, line 17 to 8, line 19; Exh. No. TES-23; Exh. No. TES-24.

¹¹⁴ Exh. No. TES-1 at 15, lines 16-22.

demand clearly was increasing during 2005 relative to 2004 substantiates the use of a higher throughput volume in the test period.¹¹⁵

Mr. Ashton also testified that during the summer of 2005 when the North Line was being prorated, there were numerous shutdowns on the line. The evidence shows that the shutdowns were more numerous during 2005 than 2004.¹¹⁶ This evidence responds to SFPP's claim that throughput on the line is not likely to increase in the test period because actual shipments in 2005 were below the capacity of the line.¹¹⁷ The fact is that it was SFPP's own mismanagement and resulting shutdowns of the line that prevented shippers from being able to use the line during peak demand season at its peak capacity. The evidence shows that during the months of January through September, in 2005 the interstate portion of the line was shut down 14 days, whereas in 2004 it was only shut down 12 days.¹¹⁸ In view of the fact that the line was being prorated during 2005 and not 2004 and was subject to more shut-downs, it is certainly more probable than not that throughput volume will be higher in the test year to reflect the increase in demand and capacity resulting from the expansion of the line.

Accordingly, a test period throughput should be established at least at 14,120,038 barrels if the Commission does not accept the ID's finding regarding the North Line rate base.¹¹⁹

¹¹⁵ Tr. at 1913, lines 8-19.

¹¹⁶ Exh. No. TES-26; Exh. No. TES-33; Exh. No. TES-34; Exh. No. TES-35.

¹¹⁷ Tr. At 629, lines 1-18

¹¹⁸ Tr. at 684, lines 1-9; Tr. at 685, line 6 to 686, line 5; Exh. No. TES 34; Exh. No. TES-35.

¹¹⁹ This figure represents an increase in throughput volume for the test period of approximately 1.8%. This figure is calculated using a consensus of various throughput studies to compute a simple average of the conclusions reached in these studies in order to determine a one-year rate of growth in throughput. (See TES 1 at p. 12-15, Exhibit No. PKA-3).

H. The Initial Decision Should Be Modified So As To Prescribe a New Rate and Award Refunds to Shippers on the Basis of the Exceptions Discussed Above.

In a previous portion of this brief on exceptions, we indicated the rate that would result from simply implementing the determinations reached by the ALJ as regarding SFPP's cost of service. That rate is \$1.098. However, that rate would be reduced even further if the Commission accepts Tesoro's position with respect to the exceptions discussed in this Brief.

We are attaching as Exhibit B to this Brief the cost of service filed by SFPP in this proceeding as adjusted to reflect both the determinations reached in the ID as well as the exceptions to the ID discussed by Tesoro in this Brief. As Exhibit B indicates, the maximum rate that SFPP would be permitted to charge its shippers based on the ID findings and Tesoro's exceptions is \$1.053. Table 2 below summarizes the calculation of this \$1.053 amount.

Table 2:

Revised Cost of Service - SFPP North Line Interstate Service Based on ALJ's Findings and Conclusions and Tesoro's Exceptions	
<u>Description</u>	<u>Test Period</u>
Overall Return on Rate Base	\$3,528
Income Tax Allowance	\$0
Operating Expenses Excl. Depreciation	\$8,786
Depreciation Expense	\$2,000
Amortization of AFUDC	\$21
Amortization of Deferred Return	\$263
Total Cost of Service	\$14,598
Barrel Throughput	13,866
Rate	\$1.053

Since SFPP charged its shippers \$1.3934, and not \$1.053, SFPP should clearly be ordered by the Commission to make substantial refunds to its shippers.

For the reasons we discussed at length above, those refunds should be the difference between the grandfathered rate of \$1.10 and the \$1.3934 rate that SFPP has been charging.

In addition, the Commission should prescribe \$1.10 as the maximum rate that SFPP can charge shippers on the North Line.

POLICY CONSIDERATIONS WARRANTING FULL COMMISSION REVIEW

When an interstate oil pipeline rate is protested and subject to a Commission investigation, it is the statutory responsibility of the Commission to determine whether the rate is just and reasonable.¹²⁰ It is similarly the Commission's statutory responsibility to prescribe the just and reasonable rate if it finds that the carrier's rate is excessive.¹²¹ These just and reasonable rate requirements are an integral part of the public transportation policy of the United States. They are designed "to set enforceable rates that would permit the carriers to earn a fair return, while protecting the shippers and the public from economic harm."¹²² The Commission cannot authorize even a slight deviation from the just and reasonable standard because not even a little unlawfulness is permitted.¹²³

The Initial Decision issued by the ALJ in this case complies with the just and reasonable requirement in many respects. However, with regard to the issues outlined in Tesoro's exceptions, the ALJ departed from this requirement. That departure should be corrected by the Commission prior to the inevitable judicial

¹²⁰ 49 USC App U.S.C. § 15(7) (1988).

¹²¹ *Id.*

¹²² *Farmers Union Central Exchange v. FERC*, 734 F.2d 1486, 1504 (D.C. Cir. 1984).

¹²³ *Id.* at 1508 citing (*Consumers Federation of America*, 515 F.2d at 358 n. 64 quoting *FPC v. Texaco Inc.*, 417 U.S. 380, 399).

review of this case. Furthermore, it is the clear public policy of the United States that refunds be ordered when a carrier charges a rate that has been found to be unjust or unreasonable and the rate has been protested by shippers.¹²⁴ In order to achieve compliance with that statutory requirement, it is essential that refunds be ordered in this case.

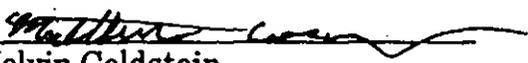
CONCLUSION

For the foregoing reasons, the Initial Decision should be modified in the manner discussed above. In addition, SFPP should be ordered to refund to its shippers the amount of \$0.2934 per barrel, which represents the difference between a maxim permissible rate of \$1.10 and the \$1.3934 rate SFPP has been charging. In addition, the current maximum permissible rate of SFPP for the North Line should be prescribed as \$1.10 per barrel

¹²⁴ 49 App. U.S.C. § 15(7) (1988).

Date: October 25, 2006

Respectfully submitted,


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CERTIFICATE OF SERVICE

Pursuant to Rule 2010 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission, 18 C.F.R. § 385.2010, I hereby certify that I have served, by electronic mail and first class mail, both Confidential and Public copies of the *Brief of Tesoro Refining and Marketing on Exceptions to Initial Decision* on all parties on the official service list compiled by the Secretary in the proceeding.

Dated at Washington, D.C. this 25 day of October, 2006.


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EXHIBIT A

Public Version

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SFPP, L.P.
North Line Interstate

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SFPP, L.P.
North Line Interstate
Cost of Service Summary Schedule
(All numbers in Thousands)

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Test Period</u>
1	Cost of Service	Statement A, Line 7	\$15,222
2	Barrel Throughput	Schedule 19	13,866
3	Barrel-Miles Throughput	Schedule 19	2,856,356
4	Resulting Revenues Under Proposed Rates	Schedule 19	\$19,321
5	Resulting Revenues Under Current Ceiling Rates	Schedule 19	\$16,547
	Rate		

Tab A

SFPP, L.P.
 North Line Interstate Cost of Service
 (\$000's)

Statement A

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Base Period</u>	<u>Test Period</u>
1	Overall Return on Rate Base	Statement C, Line 16	\$3,347	\$3,901
2	Income Tax Allowance	Statement D, Line 13	\$0	\$0
3	Operating Expenses Excl. Depreciation	Statement B, Line 21	\$9,262	\$9,037
4	Depreciation Expense	Statement B, Line 13	\$1,711	\$2,000
5	Amortization of AFUDC	Statement F2, Lines (3 + 8)	\$23	\$22
6	Amortization of Deferred Return	Statement E2, Line 14	<u>\$263</u>	<u>\$263</u>
7	Total Cost of Service	Sum Lines (1 through 6)	<u>\$14,606</u>	<u>\$15,222</u>

Tab B

SFPP, L.P.
 North Line Interstate Operating Expenses
 (\$000's)

Statement B

Line No.	FERC Acct	Description	Source	Base Period	Test Period Adjustments [1]	Test Period Amount
<u>OPERATIONS AND MAINTENANCE</u>						
1	300	Salaries and Wages	Schedule 18		\$22	\$1,011
2	310	Materials and Supplies	Schedule 18			\$216
3	320	Outside Services	Schedule 18		\$0	\$1,665
4	330	Operating Fuel and Power	Schedule 18		(\$345)	\$3,581
5	340	Oil Losses and Shortages	Schedule 18			(\$161)
6	350	Rentals	Schedule 18		(\$32)	\$446
7	390	Other Expenses	Schedule 18			\$0
8		Total Operations Expense	Lines (1 through 7)		(\$355)	\$6,757
<u>GENERAL</u>						
9	500	Salaries and Wages	Schedule 18			\$0
10	510	Materials and Supplies	Schedule 18			\$0
11	520	Outside Services	Schedule 18		\$129	\$1,624
12	530	Rentals	Schedule 18			\$0
13	540	Depreciation and Amortization	Schedule 1B, Line 9		\$289	\$2,000
14	550	Employee Benefits	Schedule 18			\$0
15	560	Insurance	Schedule 18			\$0
16	570	Casualty and Other Losses	Schedule 18			\$0
17	580	Pipeline Taxes	Schedule 18			\$619
18	590	Other Expenses	Schedule 18			\$36
19		Total General Expense	Lines (9 through 18)		\$419	\$4,279
20		Total Operating Expenses	Lines (8 + 19)	\$10,972	\$64	\$11,036
21		Total Operating Exp. Excl. D&A	Lines (20 - 13)	\$9,262	(\$225)	\$9,037

[1] Test Period Adjustments:

- 300 Adjustment to annualize Kinder Morgan's 2004 merit program
- 320 Adjustment to normalize 2000-2004 environmental remediation expense
- 330 Adjustment to annualize electric power savings associated with North Line expansion
- 350 Adjustment to reflect lower right-of-way costs for the new 20-inch v. the old 14-inch
- 520 Adjustment to normalize FERC litigation expense
- 540 Adjustment to reflect full year depreciation on 2004 capital additions offset by test period retirements

Tab C

SFPP, L.P.

Statement C

North Line Interstate Overall Return on Rate Base
(\$000's)

Line No.	Description	Source	Base Period	Test Period
1	Net Trended Original Cost Rate Base [1]	Statement E1, Line 16	\$41,889	\$53,523
2	Net Deferred Return [1]	Statement E1, Line 14	\$5,917	\$6,052
3	Subtotal	Lines (1 - 2)	\$35,972	\$47,471
4	Debt Ratio	1.0 - Ln 5	58.02%	64.91%
5	Equity Ratio	Workpaper 5, Line 10	41.98%	35.09%
6	Adjusted Debt Portion of Subtotal	Lines (3 * 4)	\$20,872	\$30,812
7	Equity Portion of Subtotal	Lines (3 * 5)	\$15,100	\$16,659
8	Net Deferred Return	Line 2	\$5,917	\$6,052
9	Adjusted Equity Portion of Subtotal	Lines (7 + 8)	\$21,017	\$22,711
10	Adjusted Debt Ratio	Lines (6 / 1)	49.83%	57.57%
11	Adjusted Equity Ratio	Lines (9 / 1)	50.17%	42.43%
12	Cost of Debt	Workpaper 6, Line (a)	6.19%	6.02%
13	Equity Rate of Return (Real)	Docket No. IS05-191-000	9.78%	9.01%
14	Weighted Cost of Capital	Lines ((10 * 12) + (11 * 13))	7.99%	7.29%
15	Net Trended Original Cost Rate Base	Line 1	\$41,889	\$53,523
16	Overall Return on Rate Base	Lines (14 * 15)	\$3,347	\$3,901
17	Weighted Cost of Debt	Lines (10 * 12)	3.08%	3.47%
18	Net Trended Original Cost Rate Base	Line 1	\$41,889	\$53,523
19	Interest Expense	Lines (17 * 18)	\$1,292	\$1,855

[1] Base Period represents average and Test Period represents end-of-year

Tab D

SFPP, L.P.
 North Line Interstate Income Tax Allowance
 (\$000's)

Statement D

Line No.	Description	Source	Base Period	Test Period
1	Overall Return on Rate Base	Statement C, Line 16	\$3,347	\$3,901
2	Interest Expense	Statement C, Line 19	<u>\$1,292</u>	<u>\$1,855</u>
3	Return on Equity	Lines (1 - 2)	\$2,055	\$2,046
4	Amortization of Deferred Return	Statement E2, Line 14	\$263	\$263
5	Depreciation of ITC Basis Reduction	Workpaper 4, Line 10	\$14	\$14
6	Amortization of Equity AFUDC	Statement F2, Line 3	\$25	\$23
7	Amortization of Tax Rate Adjustments	Workpaper 4, Line 9	<u>\$20</u>	<u>\$20</u>
8	Taxable Allowed Return	Lines (3 + 4 + 5 + 6 - 7)	\$2,337	\$2,326
9	Composite Income Tax Rate	Schedule 8	0.00%	0.00%
10	Net-to-Tax Multiplier	Line 9 / (1 - Line 9)	<u>0.00%</u>	<u>0.00%</u>
11	Income Tax Allowance - Unadjusted	Lines (8 * 10)	\$0	\$0
12	Amortization of Tax Rate Adjustments	Line 7	<u>\$0</u>	<u>\$0</u>
13	Income Tax Allowance	Lines (11 - 12)	<u>\$0</u>	<u>\$0</u>

SPPF, L.P.

North Line Interstate Rate Base
(2000's)Statement E1
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Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<u>Total Carrier Property in Service</u>													
1	Carrier Property in Service	Schedule 1B, Line 6	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727
2	Accumulated AFUDC	Statement F1, Line 14	\$0	\$23	\$53	\$239	\$547	\$597	\$609	\$627	\$642	\$654	\$674
3	Total Carrier Property in Service	Lines (1 + 2)	\$16,612	\$17,210	\$18,049	\$22,723	\$30,650	\$32,825	\$33,460	\$34,361	\$36,071	\$36,839	\$38,401
<u>Total Accumulated Depreciation</u>													
4	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14	\$5,477	\$5,918	\$6,303	\$6,020	\$6,114	\$6,855	\$7,685	\$8,490	\$9,485	\$10,487	\$11,533
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	\$0	\$1	\$2	\$6	\$17	\$33	\$52	\$71	\$91	\$113	\$135
6	Total Accumulated Depreciation	Lines (4 + 5)	\$5,477	\$5,918	\$6,305	\$6,025	\$6,131	\$6,888	\$7,736	\$8,561	\$9,576	\$10,599	\$11,667
7	Net Carrier Property in Service	Lines (3 - 6)	\$11,136	\$11,291	\$11,744	\$16,697	\$24,519	\$25,937	\$25,723	\$25,800	\$26,495	\$26,240	\$26,734
<u>Working Capital</u>													
8	Oil Inventory	Workpaper 7, Line 6	\$11	\$8	\$6	\$4	\$5	\$4	\$3	\$1	\$1	\$1	\$1
9	Materials and Supplies	Workpaper 7, Line 7	\$81	\$75	\$61	\$74	\$88	\$103	\$96	\$93	\$85	\$78	\$75
10	Prepayments	Workpaper 7, Line 8	\$115	\$105	\$106	\$104	\$119	\$124	\$124	\$128	\$169	\$169	\$183
11	Total Working Capital	Lines (8 + 9 + 10)	\$206	\$187	\$172	\$182	\$212	\$241	\$232	\$292	\$255	\$247	\$258
12	Accumulated Deferred Income Taxes	Workpaper 4, Line 5	\$1,825	\$2,364	\$2,962	\$3,776	\$4,200	\$4,638	\$5,036	\$5,364	\$5,360	\$5,322	\$5,284
13	Original Cost Rate Base	Lines (7 + 11 - 12)	\$9,517	\$9,114	\$8,954	\$13,104	\$20,530	\$21,540	\$20,919	\$20,728	\$21,390	\$21,165	\$21,708
14	Net Deferred Return	Statement E2, Line 17	\$0	\$341	\$658	\$735	\$1,162	\$1,713	\$2,311	\$3,102	\$3,451	\$3,776	\$4,065
15	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$5,013	\$4,812	\$4,610	\$4,409	\$4,207	\$4,006	\$3,804	\$3,603	\$3,401	\$3,199	\$2,998
16	Net Trued Original Cost Rate Base	Lines (13 + 14 + 15)	\$14,530	\$14,267	\$14,223	\$18,247	\$25,900	\$27,258	\$27,034	\$27,432	\$28,243	\$28,141	\$28,771

SPPP, L.P.
North Line Interstate Rate Base
(\$000's)

Statement E1
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Line No.	Description	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
<u>Total Carrier Property in Service</u>														
1	Carrier Property in Service	Schedule 1B, Line 6	\$38,783	\$39,082	\$39,972	\$41,635	\$42,434	\$44,276	\$45,559	\$46,396	\$47,050	\$49,606	\$75,375	\$73,851
2	Accumulated AFUDC	Statement F1, Line 14	\$699	\$709	\$730	\$763	\$733	\$741	\$737	\$748	\$758	\$794	\$859	\$794
3	Total Carrier Property in Service	Lines (1 + 2)	\$39,482	\$39,791	\$40,702	\$42,398	\$43,166	\$45,017	\$46,296	\$47,144	\$47,808	\$50,400	\$76,234	\$74,645
<u>Total Accumulated Depreciation</u>														
4	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14	\$12,670	\$13,693	\$14,216	\$15,367	\$16,830	\$17,722	\$18,482	\$19,664	\$20,849	\$21,871	\$23,531	\$22,298
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	\$158	\$182	\$207	\$231	\$252	\$272	\$292	\$312	\$333	\$355	\$378	\$376
6	Total Accumulated Depreciation	Lines (4 + 5)	\$12,827	\$13,875	\$14,423	\$15,598	\$17,081	\$17,994	\$18,774	\$19,976	\$21,182	\$22,226	\$23,909	\$22,675
7	Net Carrier Property in Service	Lines (3 - 6)	\$26,655	\$25,915	\$26,279	\$26,801	\$26,085	\$27,024	\$27,522	\$27,168	\$26,626	\$28,174	\$52,325	\$51,970
<u>Working Capital</u>														
8	Oil Inventory	Workpaper 7, Line 6	\$1	\$1	\$7	\$21	\$30	\$12	\$11	\$2	\$0	\$0	\$0	\$0
9	Materials and Supplies	Workpaper 7, Line 7	\$74	\$75	\$68	\$68	\$42	\$43	\$47	\$52	\$69	\$79	\$117	\$117
10	Prepayments	Workpaper 7, Line 8	\$148	\$196	\$177	\$183	\$14	\$130	\$127	\$117	\$118	\$120	\$131	\$131
11	Total Working Capital	Lines (8 + 9 + 10)	\$223	\$271	\$253	\$272	\$87	\$185	\$185	\$170	\$187	\$199	\$249	\$249
12	Accumulated Deferred Income Taxes	Workpaper 4, Line 5	\$5,257	\$5,195	\$5,148	\$5,159	\$5,189	\$5,213	\$5,250	\$5,317	\$5,308	\$5,237	\$5,529	\$5,529
13	Original Cost Rate Base	Lines (7 + 11 - 12)	\$21,621	\$20,992	\$21,383	\$21,914	\$20,982	\$21,996	\$22,457	\$22,021	\$21,504	\$23,136	\$47,044	\$46,690
14	Net Deferred Return	Statement E2, Line 17	\$4,336	\$4,574	\$4,913	\$4,991	\$5,049	\$5,256	\$5,575	\$5,596	\$5,737	\$5,783	\$6,052	\$6,052
15	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$2,796	\$2,595	\$2,393	\$2,192	\$1,990	\$1,789	\$1,587	\$1,386	\$1,184	\$983	\$781	\$781
16	Net Trended Original Cost Rate Base	Lines (13 + 14 + 15)	\$28,754	\$28,161	\$28,690	\$29,097	\$28,022	\$29,040	\$29,620	\$29,003	\$28,425	\$29,901	\$53,878	\$53,523

SFTT, L.P.
North Line Interstate Deferred Return Calculation
(2000's)

Statement E2
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Line No.	Description	Source	1981	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1	Carrier Property in Service	Statement E1, Line 1	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727	\$38,783	\$39,082	\$39,972	\$41,635
2	Net Carrier Property Additions	Lines (1 - Prior 1)		\$574	\$810	\$4,487	\$7,619	\$2,126	\$622	\$883	\$1,695	\$756	\$1,542	\$1,056	\$299	\$890	\$1,663
3	Equity Ratio	Workpaper 5, Line 10		39.26%	39.26%	39.26%	39.26%	39.26%	43.47%	44.80%	45.47%	44.01%	42.82%	44.79%	43.21%	42.55%	43.49%
4	Equity Portion of Carrier Property Additions	Lines (2 * 3)		\$225	\$318	\$1,762	\$2,991	\$835	\$270	\$396	\$771	\$333	\$660	\$473	\$129	\$379	\$723
5	Carrier Property in Trending Base	Lines (4 + Prior 5) [1]	\$6,522	\$6,748	\$7,066	\$8,828	\$11,819	\$12,654	\$12,924	\$13,320	\$14,091	\$14,423	\$15,084	\$15,557	\$15,686	\$16,065	\$16,788
6	Ratio of Carrier Property in Trending Base	Lines (5 / 1)	39.26%	39.26%	39.26%	39.26%	39.26%	39.26%	39.34%	39.49%	39.77%	39.86%	39.98%	40.11%	40.14%	40.19%	40.32%
7	Original Cost Rate Base	Statement E1, Line 13	\$9,517	\$9,114	\$8,954	\$13,104	\$20,530	\$21,540	\$20,919	\$20,728	\$21,390	\$21,165	\$21,708	\$21,621	\$20,992	\$21,383	\$21,914
8	Original Cost RB Included in Trending Base	Lines (6 * 7)	\$3,737	\$3,578	\$3,516	\$5,145	\$8,061	\$8,457	\$8,230	\$8,184	\$8,507	\$8,436	\$8,679	\$8,673	\$8,425	\$8,594	\$8,836
9	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$5,013	\$4,812	\$4,610	\$4,409	\$4,207	\$4,006	\$3,804	\$3,603	\$3,401	\$3,199	\$2,998	\$2,796	\$2,595	\$2,393	\$2,192
10	Accumulated Net Deferred Return	Line 17		\$341	\$658	\$735	\$1,162	\$1,713	\$2,311	\$3,102	\$3,451	\$3,776	\$4,065	\$4,336	\$4,574	\$4,913	\$4,991
11	Trending Base	Lines (8 + 9 + 10)	\$8,750	\$8,731	\$8,784	\$10,288	\$13,430	\$14,176	\$14,345	\$14,889	\$15,360	\$15,412	\$15,742	\$15,805	\$15,594	\$15,900	\$16,019
12	Inflation Factor	Schedule 10		3.95%	3.80%	1.10%	4.43%	4.42%	4.65%	6.11%	3.08%	2.90%	2.75%	2.67%	2.54%	3.32%	1.70%
13	Deferred Return	Lines (Prior 11 * 12)		\$346	\$332	\$97	\$456	\$594	\$659	\$876	\$456	\$445	\$424	\$420	\$401	\$518	\$270
14	Amortization of Deferred Return	Workpaper 2, Line 24		\$5	\$14	\$20	\$28	\$43	\$62	\$85	\$106	\$121	\$135	\$149	\$163	\$179	\$192
15	Accumulated Deferred Return	Cumulative Line 13		\$346	\$677	\$774	\$1,230	\$1,823	\$2,483	\$3,359	\$3,815	\$4,260	\$4,684	\$5,104	\$5,506	\$6,023	\$6,294
16	Accumulated Amortization of Deferred Return	Cumulative Line 14		\$5	\$19	\$39	\$67	\$110	\$172	\$257	\$363	\$484	\$619	\$768	\$931	\$1,110	\$1,302
17	Net Deferred Return	Lines (15 - 16)		\$341	\$658	\$735	\$1,162	\$1,713	\$2,311	\$3,102	\$3,451	\$3,776	\$4,065	\$4,336	\$4,574	\$4,913	\$4,991

[1] The 1983 amount reflects Line 1 * Workpaper 3, Line 14

SFPF, L.P.
 North Line Interstate Deferred Return Calculation
 (\$000's)

Statement E2
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Line No.	Description	Source	1991	1992	2000	2001	2002	2003	2004	Test Period
1	Carrier Property in Service	Statement E1, Line 1	\$42,434	\$44,276	\$45,559	\$46,396	\$47,050	\$49,606	\$75,375	\$75,851
2	Net Carrier Property Additions	Lines (1 - Prior 1)	\$798	\$1,843	\$1,283	\$837	\$654	\$2,556	\$25,769	\$24,245
3	Equity Ratio	Workpaper 5, Line 10	43.56%	46.54%	56.78%	54.18%	44.28%	41.13%	41.98%	35.09%
4	Equity Portion of Carrier Property Additions	Lines (2 * 3)	\$348	\$857	\$729	\$453	\$289	\$1,051	\$10,817	\$8,508
5	Carrier Property in Tranding Base	Lines (4 + Prior 5) (1)	\$17,136	\$17,993	\$18,722	\$19,175	\$19,465	\$20,516	\$31,333	\$29,024
6	Ratio of Carrier Property in Tranding Base	Lines (5 / 1)	40.38%	40.64%	41.09%	41.33%	41.37%	41.36%	41.57%	39.30%
7	Original Cost Rate Base	Statement E1, Line 13	\$20,982	\$21,996	\$22,457	\$22,021	\$21,504	\$23,136	\$47,044	\$46,690
8	Original Cost RB Included in Tranding Base	Lines (6 * 7)	\$3,473	\$3,939	\$9,228	\$9,101	\$8,896	\$9,568	\$19,556	\$18,349
9	Net Sterling Rate Base Write-Up	Workpaper 3, Line 20	\$1,990	\$1,789	\$1,587	\$1,386	\$1,184	\$983	\$781	\$781
10	Accumulated Net Deferred Return	Line 17	\$5,049	\$5,256	\$5,575	\$5,596	\$5,737	\$5,783	\$6,052	\$6,052
11	Tranding Base	Lines (8 + 9 + 10)	\$15,513	\$15,983	\$16,391	\$16,083	\$15,817	\$16,334	\$26,389	\$25,183
12	Inflation Factor	Schedule 10	1.61%	2.68%	3.39%	1.55%	2.38%	1.88%	3.26%	3.26%
13	Deferred Return	Lines (Prior 11 * 12)	\$258	\$416	\$542	\$254	\$383	\$297	\$532	\$532
14	Amortization of Deferred Return	Workpaper 2, Line 24	\$200	\$209	\$222	\$233	\$242	\$251	\$263	\$263
15	Accumulated Deferred Return	Cumulative Line 13	\$6,552	\$6,967	\$7,509	\$7,763	\$8,146	\$8,443	\$8,976	\$8,976
16	Accumulated Amortization of Deferred Return	Cumulative Line 14	\$1,502	\$1,712	\$1,934	\$2,167	\$2,409	\$2,661	\$2,924	\$2,924
17	Net Deferred Return	Lines (15 - 16)	\$5,049	\$5,256	\$5,575	\$5,596	\$5,737	\$5,783	\$6,052	\$6,052

(1) The 1983 amount reflects Line 1 * Workpaper 3, Line 14.

SFPF, L.P.
 North Line Interstate AFUDC Calculation
 (\$000's)

Statement F1
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Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Equity Ratio	Workpaper 5, Line 10	39.26%	39.26%	39.26%	39.26%	39.26%	43.47%	44.80%	45.47%	44.01%	42.82%	44.79%
2	Debt Ratio	1.0 - Line 1	60.74%	60.74%	60.74%	60.74%	60.74%	56.53%	55.20%	54.53%	55.99%	57.18%	55.21%
3	Nominal Equity Rate of Return	Comparable Values	15.68%	15.53%	12.83%	16.16%	16.15%	16.38%	17.84%	14.79%	14.63%	14.48%	14.40%
4	Cost of Debt	Schedule 9	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.42%
5	CPIS Additions	Schedule 1B, Line 3	\$638	\$869	\$5,564	\$8,257	\$2,234	\$737	\$993	\$1,723	\$872	\$1,652	\$1,132
6	AFUDC - Base %	Exh. No. 357 (RLZ-45)	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%
7	AFUDC Base CPIS Additions	Lines (5 * 6)	\$187	\$255	\$1,630	\$2,419	\$654	\$216	\$291	\$505	\$256	\$484	\$332
8	Equity Portion of AFUDC	Lines (1 * 3 * 7)	\$12	\$16	\$82	\$154	\$41	\$15	\$23	\$34	\$16	\$30	\$21
9	Accumulated Equity AFUDC	Cumulative Line 8	\$12	\$27	\$109	\$263	\$304	\$320	\$343	\$377	\$393	\$423	\$445
10	Debt Portion of AFUDC	Lines (2 * 4 * 7)	\$12	\$16	\$104	\$154	\$42	\$13	\$17	\$29	\$15	\$29	\$19
11	Interest During Construction Booked	Schedule 5	\$0	\$2	\$0	\$0	\$34	\$16	\$22	\$48	\$19	\$40	\$16
12	Net Debt Portion of AFUDC	Line (10 - 11)	\$12	\$14	\$104	\$154	\$8	(\$3)	(\$5)	(\$19)	(\$4)	(\$11)	\$3
13	Accumulated Debt AFUDC	Cumulative Line 10	\$12	\$26	\$130	\$284	\$292	\$289	\$285	\$265	\$261	\$251	\$254
14	Total Accumulated AFUDC	Lines (9 + 13)	\$23	\$53	\$239	\$547	\$597	\$609	\$627	\$642	\$654	\$674	\$699

SFPP, L.P.
 North Line Interstate AFUDC Calculation
 (\$000's)

Statement F1
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Line No.	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Equity Ratio	Worksheet 5, Line 10	43.21%	42.55%	43.49%	43.56%	46.54%	56.78%	54.18%	44.28%	41.13%	41.98%	35.09%
2	Debt Ratio	1.0 - Line 1	56.79%	57.45%	56.51%	56.44%	53.46%	43.22%	45.82%	55.72%	58.87%	58.02%	64.91%
3	Nominal Equity Rate of Return	Comparable Values	14.41%	13.63%	12.64%	12.72%	15.37%	15.55%	12.23%	15.86%	12.95%	13.04%	12.27%
4	Cost of Debt	Schedule 9	10.23%	9.96%	9.64%	7.79%	6.95%	7.34%	7.23%	7.08%	6.77%	6.19%	6.02%
5	CPIS Additions	Schedule 1B, Line 3	\$602	\$1,236	\$1,755	\$858	\$2,068	\$1,674	\$862	\$668	\$2,684	\$25,820	\$25,820
6	AFUDC - Base %	Exh. No. 357 (RLZ-45)	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%
7	AFUDC Base CPIS Additions	Lines (5 * 6)	\$176	\$362	\$514	\$251	\$606	\$491	\$252	\$196	\$786	\$7,565	\$7,565
8	Equity Portion of AFUDC	Lines (1 * 3 * 7)	\$11	\$21	\$28	\$14	\$43	\$43	\$17	\$14	\$42	\$414	\$326
9	Accumulated Equity AFUDC	Cumulative Line 8	\$456	\$477	\$505	\$519	\$562	\$605	\$622	\$636	\$678	\$1,092	\$1,004
10	Debt Portion of AFUDC	Lines (2 * 4 * 7)	\$10	\$21	\$28	\$11	\$23	\$16	\$8	\$8	\$31	\$272	\$296
11	Interest During Construction Booked	Schedule 5	\$11	\$21	\$23	\$55	\$57	\$63	\$14	\$12	\$37	\$621	\$621
12	Net Debt Portion of AFUDC	Line (10 - 11)	(\$1)	(\$0)	\$5	(\$44)	(\$35)	(\$48)	(\$5)	(\$4)	(\$5)	(\$349)	(\$326)
13	Accumulated Debt AFUDC	Cumulative Line 10	\$253	\$253	\$258	\$214	\$179	\$131	\$126	\$122	\$116	(\$233)	(\$209)
14	Total Accumulated AFUDC	Lines (9 + 13)	\$709	\$730	\$763	\$733	\$741	\$737	\$748	\$758	\$794	\$859	\$794

SFPF, L.P.
 North Line Interstate AFUDC Amortization
 (\$000's)

Statement F2
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Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Accumulated Equity AFUDC	Statement F1, Line 9	\$12	\$27	\$109	\$263	\$304	\$320	\$343	\$377	\$393	\$423	\$445
2	Amortization Rate	Workpaper 1, Line 9	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%
3	Amortization of Equity AFUDC	Avg. Line 1 * Line 2	\$0	\$1	\$2	\$5	\$8	\$10	\$10	\$11	\$13	\$13	\$15
4	Accumulated Amortization of Equity AFUDC	Cumulative Line 3	\$0	\$1	\$3	\$8	\$16	\$26	\$36	\$47	\$60	\$74	\$88
5	Net Equity AFUDC	Lines (1 - 4)	\$11	\$26	\$106	\$255	\$288	\$294	\$307	\$329	\$333	\$350	\$356
6	Accumulated Debt AFUDC	Statement F1, Line 13	12	26	130	284	292	289	285	265	261	251	254
7	Amortization Rate	Line 2	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%
8	Amortization of Debt AFUDC	Avg. Line 6 * Line 7	\$0	\$1	\$2	\$6	\$8	\$9	\$9	\$9	\$9	\$8	\$9
9	Accumulated Amortization of Debt AFUDC	Cumulative Line 8	\$0	\$1	\$3	\$9	\$17	\$26	\$35	\$44	\$52	\$61	\$69
10	Net Debt AFUDC	Lines (6 - 9)	\$12	\$25	\$127	\$276	\$275	\$263	\$250	\$222	\$209	\$190	\$185
11	Total Accumulated AFUDC Amortization	Lines (4 + 9)	\$1	\$2	\$6	\$17	\$33	\$52	\$71	\$91	\$113	\$135	\$158

SFPP, L.P.
 North Line Interstate AFUDC Amortization
 (\$000's)

Statement F2
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Line No.	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Accumulated Equity AFUDC	Statement F1, Line 9	\$456	\$477	\$505	\$519	\$562	\$605	\$622	\$636	\$678	\$1,092	\$1,004
2	Amortization Rate	Workpaper 1, Line 9	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%
3	Amortization of Equity AFUDC	Avg. Line 1 * Line 2	\$16	\$16	\$16	\$14	\$15	\$16	\$17	\$17	\$18	\$25	\$23
4	Accumulated Amortization of Equity AFUDC	Cumulative Line 3	\$104	\$120	\$136	\$150	\$165	\$181	\$197	\$215	\$233	\$258	\$256
5	Net Equity AFUDC	Lines (1 - 4)	\$351	\$357	\$369	\$369	\$398	\$425	\$425	\$421	\$445	\$834	\$747
6	Accumulated Debt AFUDC	Statement F1, Line 13	253	253	258	214	179	131	126	122	116	(233)	(209)
7	Amortization Rate	Line 2	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%
8	Amortization of Debt AFUDC	Avg. Line 6 * Line 7	\$9	\$8	\$8	\$7	\$5	\$4	\$4	\$3	\$3	(\$2)	(\$1)
9	Accumulated Amortization of Debt AFUDC	Cumulative Line 8	\$78	\$87	\$95	\$102	\$107	\$111	\$115	\$118	\$122	\$120	\$120
10	Net Debt AFUDC	Lines (6 - 9)	\$175	\$166	\$163	\$112	\$72	\$20	\$11	\$4	(\$5)	(\$353)	(\$329)
11	Total Accumulated AFUDC Amortization	Lines (4 + 9)	\$182	\$207	\$231	\$252	\$272	\$292	\$312	\$333	\$355	\$378	\$376

Tab G

SFPP, L.P.
 North Line Interstate Operating Revenues
 (\$000's)

Statement G

Line No.	Description	Source	Amount [1]
1	Revenues Under Presently Effective Rates	Schedule 19	\$16,547
2	Revenues Under Proposed Rates	Schedule 19	\$19,321
3	Revenues Under Ceiling Rates	Schedule 19	\$16,547

[1] All revenues above based on Base Period actual volumes

Sch 1

SFPP, L.P.
North Line Interstate
Schedule 1 - Rate Table

<u>Origin</u>	<u>Destination</u>	<u>Product</u>	<u>Current Tariff Rate</u>	<u>Proposed Increase</u>	<u>Proposed Tariff Rate</u>
Richmond/Concord, CA	Reno/Sparks, NV	All	\$1.1934	\$0.2000	\$1.3934

SFPF, L.P.
North Line Amortization Rate Workpaper
(\$000's)

Workpaper 1
Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
1	Carrier Property in Service	Statement E1, Line 1	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727
2	Land	Schedule 1A, Line 2	\$187	\$194	\$203	\$199	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,924
3	Depreciable Carrier Property in Service	Lines (1 - 2)	\$16,425	\$16,992	\$17,793	\$22,285	\$28,203	\$30,329	\$30,951	\$31,834	\$33,530	\$34,285	\$35,803
4	Accumulated Depreciation of Carrier Property	Statement E1, Line 4	\$5,477	\$5,918	\$6,303	\$6,020	\$6,114	\$6,855	\$7,685	\$8,490	\$9,485	\$10,487	\$11,533
5	Net Depreciable Carrier Property in Service	Lines (3 - 4)	\$10,949	\$11,074	\$11,490	\$16,265	\$22,089	\$23,474	\$23,267	\$23,344	\$24,044	\$23,798	\$24,271
6	Carrier Depreciation Expense	Schedule 1B, Line 9	\$440	\$474	\$476	\$564	\$704	\$850	\$936	\$969	\$1,032	\$1,136	\$1,157
7	Remaining Life (End of Year)	Lines (5 + 6) / 6	24.9										
8	Useful Life (Years)	Avg Line 3 / Line 6		35.3	36.5	35.5	35.9	34.4	32.7	32.4	31.7	29.8	30.3
9	Amortization Rate	1.0 / Line 8		2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%

SPPP, L.P.
 North Line Amortization Rate Worksheet
 (\$000's)

Worksheet 1
 Page 2 of 2

Line No.	Description	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Carrier Property in Service	Statement E1, Line 1	\$38,783	\$39,082	\$39,972	\$41,635	\$42,434	\$44,276	\$45,559	\$46,396	\$47,050	\$49,606	\$75,375	\$73,851
2	Land	Schedule 1A, Line 2	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,921
3	Depreciable Carrier Property in Service	Lines (1 - 2)	\$36,860	\$37,158	\$38,048	\$39,712	\$40,510	\$42,352	\$43,636	\$44,473	\$45,126	\$47,682	\$73,451	\$71,930
4	Accumulated Depreciation of Carrier Property	Statement E1, Line 4	\$12,670	\$13,693	\$14,216	\$15,367	\$16,830	\$17,722	\$18,482	\$19,664	\$20,849	\$21,871	\$23,531	\$22,298
5	Net Depreciable Carrier Property in Service	Lines (3 - 4)	\$24,190	\$23,465	\$23,832	\$24,345	\$23,680	\$24,630	\$25,154	\$24,809	\$24,277	\$25,811	\$49,920	\$49,631
6	Carrier Depreciation Expense	Schedule 1B, Line 9	\$1,233	\$1,293	\$1,259	\$1,260	\$1,121	\$1,123	\$1,175	\$1,211	\$1,238	\$1,291	\$1,711	\$2,000
7	Remaining Life (End of Year)	Lines (5 + 6) / 6												
8	Useful Life (Years)	Avg Line 3 / Line 6	29.5	28.6	29.9	30.9	35.8	36.9	36.6	36.4	36.2	36.0	35.4	36.3
9	Amortization Rate	1.0 / Line 8	3.39%	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%

SFPF, L.P.
 North Line Deferred Return Amortization Worksheet
 (2000's)

Worksheet 2
 Page 1 of 2

Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1	Deferred Return	Statement E2, Line 13	\$346	\$332	\$97	\$456	\$594	\$659	\$876	\$456	\$445	\$424	\$420	\$401	\$518	\$270	\$258	\$416	\$542
2	Amortization Rate	Worksheet 1, Line 9	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%
3	Amortization of 1984 Deferred Return	1984 Lines (1 * 2) [1]	\$5	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
4	Amortization of 1985 Deferred Return	1985 Lines (1 * 2) [1]		\$5	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9
5	Amortization of 1986 Deferred Return	1986 Lines (1 * 2) [1]			\$1	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
6	Amortization of 1987 Deferred Return	1987 Lines (1 * 2) [1]				\$6	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13
7	Amortization of 1988 Deferred Return	1988 Lines (1 * 2) [1]					\$9	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17
8	Amortization of 1989 Deferred Return	1989 Lines (1 * 2) [1]						\$10	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
9	Amortization of 1990 Deferred Return	1990 Lines (1 * 2) [1]							\$14	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27
10	Amortization of 1991 Deferred Return	1991 Lines (1 * 2) [1]								\$7	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14
11	Amortization of 1992 Deferred Return	1992 Lines (1 * 2) [1]									\$7	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
12	Amortization of 1993 Deferred Return	1993 Lines (1 * 2) [1]										\$7	\$14	\$14	\$14	\$14	\$14	\$14	\$14
13	Amortization of 1994 Deferred Return	1994 Lines (1 * 2) [1]											\$7	\$14	\$14	\$14	\$14	\$14	\$14
14	Amortization of 1995 Deferred Return	1995 Lines (1 * 2) [1]												\$7	\$14	\$14	\$14	\$14	\$14
15	Amortization of 1996 Deferred Return	1996 Lines (1 * 2) [1]													\$9	\$17	\$17	\$17	\$17
16	Amortization of 1997 Deferred Return	1997 Lines (1 * 2) [1]														\$4	\$9	\$9	\$9
17	Amortization of 1998 Deferred Return	1998 Lines (1 * 2) [1]															\$4	\$7	\$7
18	Amortization of 1999 Deferred Return	1999 Lines (1 * 2) [1]																\$6	\$11
19	Amortization of 2000 Deferred Return	2000 Lines (1 * 2) [1]																	\$7
20	Amortization of 2001 Deferred Return	2001 Lines (1 * 2) [1]																	
21	Amortization of 2002 Deferred Return	2002 Lines (1 * 2) [1]																	
22	Amortization of 2003 Deferred Return	2003 Lines (1 * 2) [1]																	
23	Amortization of 2004 Deferred Return	2004 Lines (1 * 2) [1]																	
24	Total Amortization of Deferred Return	Sum Lines 3-23	\$5	\$14	\$20	\$28	\$43	\$62	\$85	\$106	\$121	\$135	\$149	\$163	\$179	\$192	\$200	\$209	\$222

[1] Half-Year Convention

SFPF, L.P.
 North Line Starting Rate Base Worksheet
 (\$000's)

Worksheet 3
 Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1	Carrier Property in Service	Schedule 1A, Line 1	\$16,612														
2	Land	Schedule 1A, Line 2	\$187														
3	Right of Way ("ROW")	Schedule 1A, Line 3	\$745														
4	Carrier Property excluding Land and ROW	Lines (1 - 2 - 3)	\$16,180														
5	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14	\$5,477														
6	Accumulated Depreciation of ROW	Schedule 1A, Line 4	\$138														
7	Accumulated Depreciation excluding ROW	Lines (5 - 6)	\$5,318														
8	Carrier Property - Percent Depreciated	Lines (7 / 4)	32.87%														
9	Cost of Reproduction New ("CRN")	Schedule 6	\$35,200														
10	CRN Depreciation	Lines (8 * 9)	\$11,570														
11	Net CRN	Lines (9 - 10)	\$23,630														
12	Net Carrier Property excluding Land and ROW	Lines (4 - 7)	\$10,862														
13	SRB Write-Up at 100% Equity	Lines (11 - 12)	\$12,768														
14	Equity Ratio at June 30, 1985	Worksheet 5, Line 10	32.24%														
15	Equity Portion of SRB Write-Up	Lines (13 * 14)	\$5,013														
16	Remaining Life (Years)	Worksheet 1, Line 7	24.9														
17	Amortization of SRB Write-Up	Lines (15 / 16)	\$202														
18	Amortization of SRB Write-Up	Line 17	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202
19	Accumulated Amortization of SRB Write-Up	Prior Line 19 + Line 18	\$202	\$403	\$605	\$806	\$1,008	\$1,209	\$1,411	\$1,612	\$1,814	\$2,015	\$2,217	\$2,418	\$2,620	\$2,821	\$3,021
20	Net Starting Rate Base Write-Up	Lines (15 - 19)	\$5,013	\$4,812	\$4,610	\$4,409	\$4,207	\$4,006	\$3,804	\$3,603	\$3,401	\$3,199	\$2,998	\$2,796	\$2,595	\$2,393	\$2,192

SFPF, L.P.
North Line Starting Rate Base Worksheet
(\$000's)

Worksheet 3
Page 2 of 2

Line No.	Description	Source	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Carrier Property in Service	Schedule 1A, Line 1								
2	Land	Schedule 1A, Line 2								
3	Right of Way ("ROW")	Schedule 1A, Line 3								
4	Carrier Property excluding Land and ROW	Lines (1 - 2 - 3)								
5	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14								
6	Accumulated Depreciation of ROW	Schedule 1A, Line 4								
7	Accumulated Depreciation excluding ROW	Lines (5 - 6)								
8	Carrier Property - Percent Depreciated	Lines (7 / 4)								
9	Cost of Reproduction New ("CRN")	Schedule 6								
10	CRN Depreciation	Lines (8 * 9)								
11	Net CRN	Lines (9 - 10)								
12	Net Carrier Property excluding Land and ROW	Lines (4 - 7)								
13	SRB Write-Up at 100% Equity	Lines (11 - 12)								
14	Equity Ratio at June 30, 1985	Worksheet 3, Line 10								
15	Equity Portion of SRB Write-Up	Lines (13 * 14)								
16	Remaining Life (Years)	Worksheet 1, Line 7								
17	Amortization of SRB Write-Up	Lines (15 / 16)								
18	Amortization of SRB Write-Up	Line 17	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202
19	Accumulated Amortization of SRB Write-Up	Prior Line 19 + Line 18	\$3,023	\$3,224	\$3,426	\$3,627	\$3,829	\$4,031	\$4,232	\$4,232
20	Net Starting Rate Base Write-Up	Lines (15 - 19)	\$1,990	\$1,789	\$1,587	\$1,386	\$1,184	\$983	\$781	\$781

ADIT

Page 1

SFPP, L.P.
 North Line Accumulated Deferred Income Taxes
 (\$000's)

Workpaper 4
 Page 1 of 2

Line No.	Description	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<u>ADIT Balance:</u>												
1	Unadjusted ADIT	\$2,496	\$2,976	\$3,517	\$4,227	\$4,608	\$5,060	\$5,472	\$5,811	\$5,822	\$5,800	\$5,780
2	Unamortized Pre-1974 Unfunded ADIT	(\$671)	(\$612)	(\$555)	(\$451)	(\$382)	(\$333)	(\$284)	(\$233)	(\$186)	(\$140)	(\$118)
3	Amortized FAS 96/109 Adjustment					(\$26)	(\$89)	(\$152)	(\$214)	(\$277)	(\$339)	(\$383)
4	Amortized Pre-1993 Unfunded ADIT											\$5
5	Adjusted ADIT	\$1,825	\$2,364	\$2,962	\$3,776	\$4,200	\$4,638	\$5,036	\$5,364	\$5,360	\$5,322	\$5,284
<u>Amortization of ADIT Adjustments:</u>												
6	Pre-1974 Unfunded ADIT								\$47	\$47	\$45	\$21
7	FAS 96/109 Adjustment								(\$63)	(\$63)	(\$63)	(\$45)
8	Pre-1993 Unfunded ADIT								\$0	\$0	\$0	\$5
9	Total Amortization								(\$16)	(\$16)	(\$18)	(\$19)
10	Depreciation of ITC Basis Reduction								\$15	\$15	\$16	\$16

ADIT

Page 2

SFPP, L.P.
North Line Accumulated Deferred Income Taxes
(\$000's)

Workpaper 4
Page 2 of 2

Line No.	Description	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
<u>ADIT Balance:</u>													
1	Unadjusted ADIT	\$5,772	\$5,726	\$5,685	\$5,714	\$5,763	\$5,802	\$5,842	\$5,928	\$5,939	\$5,885	\$6,196	\$6,196
2	Unamortized Pre-1974 Unfunded ADIT	(\$106)	(\$95)	(\$85)	(\$76)	(\$66)	(\$57)	(\$43)	(\$36)	(\$29)	(\$23)	(\$16)	(\$16)
3	Amortized FAS 96/109 Adjustment	(\$420)	(\$452)	(\$471)	(\$503)	(\$536)	(\$565)	(\$586)	(\$616)	(\$647)	(\$675)	(\$704)	(\$704)
4	Amortized Pre-1993 Unfunded ADIT	\$11	\$16	\$19	\$24	\$28	\$33	\$37	\$41	\$46	\$50	\$54	\$54
5	Adjusted ADIT	\$5,257	\$5,195	\$5,148	\$5,159	\$5,189	\$5,213	\$5,250	\$5,317	\$5,308	\$5,237	\$5,529	\$5,529
<u>Amortization of ADIT Adjustments:</u>													
6	Pre-1974 Unfunded ADIT	\$12	\$11	\$10	\$9	\$9	\$9	\$8	\$7	\$7	\$7	\$6	\$6
7	FAS 96/109 Adjustment	(\$38)	(\$37)	(\$34)	(\$33)	(\$33)	(\$32)	(\$32)	(\$31)	(\$31)	(\$31)	(\$30)	(\$30)
8	Pre-1993 Unfunded ADIT	\$6	\$6	\$5	\$5	\$5	\$5	\$5	\$4	\$4	\$4	\$4	\$4
9	Total Amortization	(\$20)	(\$20)	(\$19)	(\$19)	(\$19)	(\$19)	(\$19)	(\$20)	(\$20)	(\$20)	(\$20)	(\$20)
10	Depreciation of ITC Basis Reduction	\$16	\$16	\$15	\$13	\$13	\$13	\$14	\$14	\$14	\$14	\$14	\$14

SFPP, L.P.
North Line Capital Structure Percentages
(\$Millions)

Workpaper 5
Page 1 of 2

Line No.	Description	June 30, 1985 1/	Dec. 31, 1984 1/	Dec. 31, 1985 1/	Dec. 31, 1986 1/	Dec. 31, 1987 1/	Dec. 31, 1988 1/	Dec. 31, 1989 2/	Dec. 31, 1990 2/	Dec. 31, 1991 2/	Dec. 31, 1992 2/	Dec. 31, 1993 2/
<u>Capitalization:</u>												
1	Long-Term Debt	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355
2	Stockholders' Equity Including Preferred Stock	\$229	\$229	\$229	\$229	\$229	\$229	\$273	\$288	\$296	\$279	\$266
3	Total Capitalization	\$584	\$584	\$584	\$584	\$584	\$584	\$628	\$643	\$651	\$634	\$621
4	Current Portion of Long-Term Debt											
5	% Expected to be Financed with New Debt											
<u>Revised Capitalization:</u>												
6	Long-Term Debt											
7	Stockholders' Equity Including Preferred Stock											
8	Total Capitalization											
<u>Capital Structure Percentages:</u>												
9	Percentage Debt in Capital Structure	60.74%	60.74%	60.74%	60.74%	60.74%	60.74%	56.53%	55.20%	54.53%	55.99%	57.18%
10	Percentage Equity in Capital Structure	39.26%	39.26%	39.26%	39.26%	39.26%	39.26%	43.47%	44.80%	45.47%	44.01%	42.82%
11	Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

1/ Op. No. 435-A, 91 FERC ¶ 61,135, at p. 61,506 (2000).

2/ SFPP, L.P. annual reports.

3/ Kinder Morgan Energy Partners, L.P. annual reports.

4/ Reflects management strategy

SFPP, L.P.
 North Line Capital Structure Percentages
 (\$Millions)

Workpaper 5
 Page 2 of 2

Line No.	Description	Dec. 31, 1994 2/	Dec. 31, 1995 2/	Dec. 31, 1996 2/	Dec. 31, 1997 2/	Dec. 31, 1998 3/	Dec. 31, 1999 3/	Dec. 31, 2000 3/	Dec. 31, 2001 3/	Dec. 31, 2002 3/	Dec. 31, 2003 3/	Dec. 31, 2004 3/	Test Period 4/
Capitalization:													
1	Long-Term Debt	\$355	\$355	\$355	\$355	\$355							
2	Stockholders' Equity Including Preferred Stock	\$288	\$270	\$263	\$273	\$274							
3	Total Capitalization	\$643	\$625	\$618	\$628	\$629							
4	Current Portion of Long-Term Debt												
5	% Expected to be Financed with New Debt												
Revised Capitalization:													
6	Long-Term Debt												
7	Stockholders' Equity Including Preferred Stock												
8	Total Capitalization												
Capital Structure Percentages:													
9	Percentage Debt in Capital Structure	55.21%	56.79%	57.45%	56.51%	56.44%							
10	Percentage Equity in Capital Structure	44.79%	43.21%	42.55%	43.49%	43.56%							
11	Total	100.00%	100.00%	100.00%	100.00%	100.00%							

1/ Op. No. 435-A, 91 FERC ¶ 61,135, at p. 61,506 (2000).
 2/ SFPP, L.P. annual reports.
 3/ Kinder Morgan Energy Partners, L.P. annual reports.
 4/ Reflects management strategy

SFPP, L.P.
North Line Weighted Average Cost of Debt Workpaper
For the Period Ending December 31, 2003 & 2004
(SMillions)

<u>Source</u>	<u>Debt Description</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Outstanding at 12/31/04</u>	<u>Weighted Interest Rate</u>
(a)	Senior Notes	3/15/05	8.000%	\$200.0	0.35%
(a)	Senior Notes	8/15/07	5.350%	\$249.9	0.29%
(a)	Senior Notes	2/1/09	6.300%	\$249.7	0.34%
(a)	Senior Notes	11/1/10	7.500%	\$249.1	0.40%
(a)	Senior Notes	3/15/11	6.750%	\$698.7	1.02%
(a)	Senior Notes	3/15/12	7.125%	\$448.5	0.69%
(a)	Senior Notes	12/15/13	5.000%	\$497.2	0.54%
(a)	Senior Notes	11/15/14	5.125%	\$499.6	0.55%
(a)	Senior Notes	3/15/31	7.400%	\$299.3	0.48%
(a)	Senior Notes	3/15/32	7.750%	\$298.6	0.50%
(a)	Senior Notes	8/15/33	7.300%	\$499.0	0.79%
(a)	Central Florida Pipeline	7/23/08	7.840%	\$20.0	0.03%
(a)	Commercial Paper	1 - 30 Days; Fin	2.286%	\$416.9	0.21%
(a)	Liquids Perth Amboy Bonds	1/15/18			
(a)	Kinder Morgan River (Global Material Services LLC) Terminals	1/1/10			
(b)	International Marine Terminals Bonds	3/15/06			
(b)	Cora Revenue Bonds - KM Operating L.P. "B" Debt	4/1/24			
(b)					0.00%
(b)					0.00%
(b)					0.00%
(b)					0.00%
	Total Long Term Debt - Excluding Mkt Value of Interest Rate Swaps			\$4,626.5	
	Total and Weighted Average Cost of Debt - Excluding Mkt Value of Interest Rate Swaps				6.19%

Sources: (a) KMEP 2004 10-K, (b) SFPPNL 01755 - SFPP Res. to Tesoro DR. No. 5 - Confidential

KMEP
Weighted Average Cost of Debt
For the Period Ending June 30, 2005
(SMillions)

<u>Source</u>	<u>Debt Description</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Outstanding at 12/31/04</u>	<u>Weighted Interest Rate</u>
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Debt

(c)	Senior Notes	3/15/35	5.800%	\$498.7	0.56%
(c)	Cortez Capital Corp. Senior D Note	5/15/13	7.140%	\$37.5	0.05%
(a)	Senior Notes	8/15/07	5.350%	\$249.9	0.26%
(a)	Senior Notes	2/1/09	6.300%	\$249.7	0.30%
(a)	Senior Notes	11/1/10	7.500%	\$249.1	0.36%
(a)	Senior Notes	3/15/11	6.750%	\$698.7	0.91%
(a)	Senior Notes	3/15/12	7.125%	\$448.5	0.62%
(a)	Senior Notes	12/15/13	5.000%	\$497.2	0.48%
(a)	Senior Notes	11/15/14	5.125%	\$499.6	0.49%
(a)	Senior Notes	3/15/31	7.400%	\$299.3	0.43%
(a)	Senior Notes	3/15/32	7.750%	\$298.6	0.45%
(a)	Senior Notes	8/15/33	7.300%	\$499.0	0.70%
(a)	Central Florida Pipeline	7/23/08	7.840%	\$20.0	0.03%
					0.00%
(c)	Commercial Papers	1 - 30 Days; Fin	3.149%	\$643.0	0.39%
(b)	Liquids Perth Amboy Bonds	1/15/18			
(b)	Kinder Morgan River (Global Material Services LLC) Terminals	1/1/10			
(b)	International Marine Terminals Bonds	3/15/25			
	Total Long Term Debt - Excluding Mkt Value of Interest Rate Swaps			\$5,188.8	
	Total and Weighted Average Cost of Debt				<u>6.02%</u>

Sources: (a) KMEP 2004 10-K , (b) SFPPNL 01755 - SFPP Res. to Tesoro DR. No. 5 -

Work Cap

SPTT, L.P.
North Line Working Capital Worksheet
(\$000's)

Line No.	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
13-Mo Avg. Working Capital:												
1	Oil Inventory	\$129	\$105	\$93	\$61	\$66	\$63	\$44	\$17	\$13	\$13	\$13
2	Materials and Supplies	\$960	\$992	\$1,010	\$1,108	\$1,184	\$1,512	\$1,645	\$1,612	\$1,470	\$1,389	\$1,325
3	Prepayments	\$1,359	\$1,394	\$1,751	\$1,564	\$1,591	\$1,974	\$2,313	\$3,434	\$2,925	\$3,022	\$3,256
4	Total	\$2,448	\$2,491	\$2,854	\$2,733	\$2,841	\$3,549	\$4,002	\$5,063	\$4,409	\$4,424	\$4,595
North Line CPIS % to												
5	Total Company	8.44%	7.52%	6.03%	6.67%	7.46%	6.79%	5.80%	5.76%	5.78%	5.59%	5.62%
North Line Working Capital:												
6	Oil Inventory	\$11	\$8	\$6	\$4	\$5	\$4	\$3	\$1	\$1	\$1	\$1
7	Materials and Supplies	\$81	\$75	\$61	\$74	\$88	\$103	\$96	\$93	\$85	\$78	\$75
8	Prepayments	\$115	\$105	\$106	\$104	\$119	\$134	\$134	\$198	\$169	\$169	\$183
9	Total	\$206	\$187	\$172	\$182	\$212	\$241	\$232	\$292	\$255	\$247	\$258

SFPF, L.P.
North Line Working Capital Workpaper
(\$000's)

Workpaper 7
Page 2 of 2

Line No.	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
<u>13-Mo Avg. Working Capital:</u>													
1	Oil Inventory	Schedule 7	\$13	\$20	\$131	\$383	\$545	\$224	\$200	\$31	\$0	\$0	\$0
2	Materials and Supplies	Schedule 7	\$1,312	\$1,348	\$1,241	\$1,216	\$761	\$790	\$903	\$1,001	\$1,335	\$1,549	\$1,597
3	Prepayments	Schedule 7	\$2,626	\$3,531	\$3,209	\$3,270	\$2,51	\$2,413	\$2,416	\$2,274	\$2,306	\$2,344	\$1,784
4	Total	Lines (1 + 2 + 3)	\$3,950	\$4,899	\$4,580	\$4,870	\$1,557	\$3,427	\$3,519	\$3,305	\$3,641	\$3,893	\$3,382
<u>North Line CPIS % to</u>													
5	Total Company	Schedule 7	5.65%	5.54%	5.52%	5.59%	5.56%	5.41%	5.26%	5.15%	5.14%	5.11%	7.36%
<u>North Line Working Capital:</u>													
6	Oil Inventory	Lines (1 * 5)	\$1	\$1	\$7	\$21	\$30	\$12	\$11	\$2	\$0	\$0	\$0
7	Materials and Supplies	Lines (2 * 5)	\$74	\$75	\$68	\$68	\$42	\$43	\$47	\$52	\$69	\$79	\$117
8	Prepayments	Lines (3 * 5)	\$148	\$196	\$177	\$183	\$14	\$130	\$127	\$117	\$118	\$120	\$131
9	Total	Lines (6 + 7 + 8)	\$223	\$271	\$253	\$272	\$87	\$185	\$185	\$170	\$187	\$199	\$249

TY Labor

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 300 – Salaries and Wages Merit Increase
 (\$000's)

Workpaper 8

Line No.	Description	Source	Amount
1	Base Period Salaries & Wages	Statement B, Line 1	\$989
<u>Annualization of Base Period Merit Program: 1/</u>			
2	Percentage Factor effective for Base Period	(100% * 9 mo) + (103% * 3 mo)	12.09
3	Percentage Factor annualized for Base Period	(103% * 12 mo)	<u>12.36</u>
4	Annualized Base Period Percentage	Lines (3 / 2)	<u>102.2%</u>
5	Adjusted Base Period Salaries & Wages	Lines (1 * 4)	<u>\$1,011</u>
6	Test Period Adjustment	Lines (5 - 1)	<u>\$22</u>

1/ KMEP's 2004 merit program took effect October 1, 2004.

TY Environ

Workpaper 9

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 320 - Environmental Remediation Expense
 (\$000's)

Project Code		Location	Project Name	2000	2001	2002	2003	2004	Carrier Percent	N. Line Percent	North Line Amt		
Old	New	Code									2004	5-Yr Avg.	TY Adj.
RE8337	81303	9012	Colfax - stopple T	\$45	\$77	\$98	\$65	\$93	100%	100.00%	\$93	\$76	(\$18)
RE8362	NA	9012	Donner Pass	\$0	\$0	\$0	(\$3)	\$0	100%	100.00%	\$0	(\$1)	(\$1)
ER0428	80286	9025	Waterfront Pacheco	\$0	\$0	\$516	\$0	\$19	100%	33.20%	\$6	\$36	\$29
RE2383	81317	9025	East Yolo	\$0	\$0	\$110	\$0	\$44	100%	33.20%	\$15	\$10	(\$4)
RE8374	NA	9032	Pac. Refining (flange)	\$5	\$31	\$0	\$0	\$0	100%	10.62%	\$0	\$1	\$1
RE2387	81318	9244	Peabody Road	\$0	\$0	\$13	\$87	\$65	100%	33.20%	\$21	\$11	(\$11)
RE8368	81424	9245	Elmira - Fox Road	\$715	\$1,059	\$578	\$497	\$570	100%	33.20%	\$189	\$227	\$38
RE8365	81425	9245	Elmira - A Street	\$1,589	\$4,145	\$568	\$636	\$373	100%	33.20%	\$124	\$485	\$362
RE8110	81194	9744	Concord Term.	\$444	\$469	\$543	\$426	\$659	100%	10.62%	\$70	\$54	(\$16)
RE2386	81321	9764	Elmira Booster	\$0	\$0	\$56	\$21	\$1	100%	33.20%	\$0	\$5	\$5
RE8108	81193	9894	Reno/Sparks	\$1,250	\$1,622	\$1,284	\$2,246	\$1,321	20%	100.00%	\$264	\$309	\$45
RE8230	81178	9895	Richmond Sump I	\$0	\$0	\$0	\$13	\$32	100%	2.63%	\$1	\$0	(\$1)
RE8104	81310	9898	Rockdin Stat.	\$84	\$132	\$235	\$193	\$198	100%	54.79%	\$108	\$92	(\$16)
RE8215	81198	9903	West Sac.	\$25	\$130	\$402	\$198	\$210	100%	54.79%	\$115	\$106	(\$9)
				\$4,158	\$7,666	\$4,404	\$4,379	\$3,585			\$1,007	\$1,411	

TY Op Savings

Worksheet 10

SFPF, L.P.
 North Line Test Period Adjustment Worksheet
 FERC Account 330 - Electric Power Operational Savings
 (\$000's)

Line No.	Description	Volume (a) Co Records	Discharge Pressure (b) Co Records	Vol / Press Weight (c) (a) * (b)	Weight% (d) (c) / Total	Concord Elec. Power (e)	North Line Interest % (f) Co Records	North Line Amount (g) (e) * (f)
1	Concord Station Major Power Exp. (2004 Actual)					\$4,392.6		
<u>Allocation of Concord Power for Deliveries to:</u>								
2	Fresno	20,576.9	850	17,490,332	14.7%	\$647.0		
3	Sacramento (14 inch)	41,765.2	800	33,412,174	28.1%	\$1,235.9		
4	San Jose	34,004.7	1,150	39,105,436	32.9%	\$1,446.5		
5	Stockton/Bradshaw	31,017.1	900	27,915,390	23.5%	\$1,032.6		
6	Travis	2,071.8	400	828,738	0.7%	\$30.7		
7	Subtotal	<u>129,435.7</u>		<u>118,752,069</u>	<u>100.0%</u>	<u>\$4,392.6</u>		
<u>Power Cost Equivalent to Elmira (20 v 14 inch):</u>								
8	Cost Equiv. Factor 20 inch (Miles of new 20")			68.7 Miles	(14^2 / 20^2)	49.00%		
9	Cost Equiv. Factor 14 inch (Miles of Remaining 14")			1.5 Miles		100.00%		
10	Total Mileage from Concord to Sacramento			<u>70.2 Miles</u>				
11	Weighted Avg. Cost Equiv. Factor					50.09%		
12	Mileage from Concord to Elmira (14 inch)			<u>29.0 Miles</u>				
13	Distance Factor (Lines 10 / 12)					<u>2.42</u>		
14	New Pipeline Power Cost - Concord-to-Sacramento (Lines 3 * 11 * 13)					\$1,499.2	10.62%	\$159.2
15	Remove Elmira Station Power Exp. (2004 Actual)					(\$1,123.7)	33.20%	(\$373.1)
16	Remove Sacramento (14 inch) portion of Concord Power					(\$1,235.9)	10.62%	(\$131.3)
17	Net Operational Savings (Lines 14 + 15 + 16)					<u>(\$860.5)</u>		<u>(\$345.1)</u>

2004 volumes:

Fresno N	19,302.4
Lemoore	1,274.4
Travis AFB	2,071.8
Beale AFB	125.0
Chico	10,299.4
Fallon	634.1
Nev ANG	47.3
Reno	13,184.4
Roseville	1,017.8
Sacramento	16,457.3
San Jose	34,004.7
Bradshaw	10,951.5
Stockton	20,065.6

Fuel & Power Expense (2004):

Facility Electricity (Major Power)	9764	330	720	\$	966.6
Drag Reducing Agent (Major Power)	9764	330	725	\$	157.1
Facility Electricity (Major Power)	9744	330	720	\$	4,392.6

TY ROW

Workpaper 11

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 350 – Pipeline Right-of-Way Expense
 (\$000's)

Location Code	Description	Miles	Miles% of Total	Total ROW Allocation	North Line Interstate%	North Line Amount
9008	L.S. 8: Richmond Station - Concord Station 8"	22.90	0.82%	\$66.2	10.70%	\$7.1
9011	L.S. 11: Roseville Station - Colfax Station	33.67	1.21%	\$97.3	100.00%	\$97.3
9012	L.S. 12: Colfax Station - CA/NV Border	71.95	2.58%	\$208.0	100.00%	\$208.0
9013	L.S. 13: CA/NV Border - Reno Terminal	15.21	0.54%	\$44.0	100.00%	\$44.0
9020	L.S. 20: Sacramento Station - Roseville Station 12"	23.61	0.85%	\$68.2	54.79%	\$37.4
9027	L.S. 27: Martinez Station - Concord Station	5.31	0.19%	\$15.3	10.70%	\$1.6
9032	L.S. 32: Pacific Refinery - Rodeo Jct.	1.59	0.06%	\$4.6	10.70%	\$0.5
9033	L.S. 33: Concord Station From L.S. 103	4.56	0.16%	\$13.2	10.70%	\$1.4
9068	L.S. 68: Amorco Station - Martinez Station	0.89	0.03%	\$2.6	10.70%	\$0.3
9069	L.S. 69: Chevron #1 - Richmond P/S for Concord	1.29	0.05%	\$3.7	10.70%	\$0.4
9071	L.S. 71: Tosco/Unocal Terminal - Richmond Station	2.12	0.08%	\$6.1	6.67%	\$0.4
9073	L.S. 73: UDS - Concord Station	2.17	0.08%	\$6.3	10.70%	\$0.7
9075	L.S. 75: Shore - Richmond Station	1.86	0.07%	\$5.4	2.63%	\$0.1
9076	L.S. 76: Shore - L.S. 75	0.82	0.03%	\$2.4	2.63%	\$0.1
9088	L.S. 88: Amorco Station - L.S. 103	0.26	0.01%	\$0.8	10.70%	\$0.1
9089	L.S. 89: Amorco Station - Tosco (Richmond)	0.39	0.01%	\$1.1	6.67%	\$0.1
9103	L.S. 103: Exxon - L.S. 33	3.21	0.11%	\$9.3	10.70%	\$1.0
9211	L.S. 72A: Rodeo Jct. - Martinez Station	13.12	0.47%	\$37.9	10.70%	\$4.1
9244	L.S. 25: Concord Station - Sacramento 14" (BD)	61.16	2.19%	\$176.8	33.20%	\$58.7
	Remaining allocable line sections (non-North Line)	<u>2,525.57</u>	<u>90.47%</u>	<u>\$7,300.7</u>	<u>0.00%</u>	<u>\$0.0</u>
	Total 2004 Base Period	<u>2,791.66</u>		<u>\$8,069.9</u>		<u>\$463.2</u>
9130	L.S. 130: ROW expense for new 20-inch line			\$81.5	33.20%	\$27.1
9244	Less: 2004 allocated ROW on L.S. 25			<u>(\$176.8)</u>	33.20%	<u>(\$58.7)</u>
	Test Period Adjustment			<u>(\$95.3)</u>		<u>(\$31.6)</u>

TY Litigation

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 520 – FERC Litigation Expense
 (\$000's)

Workpaper 12

Line No.	Year	OR92-8	OR96-2	OR98-11 IS98-1	Other FERC	Total
1	1992	\$407				\$407
2	1993	\$2,006				\$2,006
3	1994	\$2,914				\$2,914
4	1995	\$3,393				\$3,393
5	1996	\$5,997		\$110		\$6,106
6	1997	\$2,356	\$108	\$645		\$3,110
7	1998	\$660	\$95	\$392		\$1,147
8	1999	\$464	\$157	\$1,628		\$2,249
9	2000	\$189	\$2,172	\$836		\$3,197
10	2001	\$349	\$6,049	\$261	\$6	\$6,666
11	2002	\$783	\$3,435	\$0		\$4,218
12	2003	\$1,002	\$890	\$50	\$1	\$1,942
13	2004	\$501	\$1,211	\$746	\$58	\$2,516
14	Total	\$21,021	\$14,118	\$4,668	\$65	\$39,871
15	NL Percentage	0.00%	25.00%	12.50%	25.00%	
16	NL Base Period	\$0	\$303	\$93	\$15	\$410
17	Case Total Avg.	\$1,617	\$1,765	\$519	\$22	\$3,067
18	NL Test Period	\$0	\$441	\$93	\$5	\$540 [1]
19	Test Period Adj.	\$0	\$139	\$0	(\$9)	\$129

[1] Percentages on line 15 multiplied by line 17 for OR96-2 (annual average) and line 13 for OR98-11 (pre-2004 OR98-11 costs focused primarily on issues exclusive to Sepulveda)

TY Depr

Workpaper 13

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 540 - Depreciation and Amortization Expense
 (\$000's)

FERC Acct	Description	CPIS at 12/31/03 (a) 1/	2004 Additions (b)	Test Period Retirements (c) 2/	Depr. Rate (d)	Base Period Depr. Exp. (e)=(a)+(b/2)*(d)	Test Period Depr. Exp. (f)=(a+b+c)*(d)	Test Period Adjustment (g)=(f)-(e)
151	Land	\$1,924	\$0	(\$2)				
152	Right of Way	\$596	\$2,416	(\$1)	2.60%	\$47	\$78	\$31
153	Line Pipe	\$5,235	\$3,130	(\$386)	2.22%	\$151	\$177	\$26
154	Line Pipe Fittings	\$815	\$1,470	(\$60)	2.60%	\$40	\$58	\$18
155	Pipeline Construction	\$16,483	\$17,172	(\$662)	2.50%	\$627	\$825	\$198
156	Buildings	\$1,444	\$16	(\$29)	3.25%	\$47	\$47	(\$1)
158	Pumping Equipment	\$2,005	\$131	(\$87)	2.95%	\$61	\$60	(\$1)
160	Other Station Equipment	\$13,346	\$1,352	(\$295)	2.55%	\$358	\$367	\$10
161	Oil Tanks	\$3,173	\$0		3.20%	\$102	\$102	\$0
162	Delivery Facilities	\$403	\$0		3.10%	\$12	\$12	\$0
163	Communication Systems	\$262		(\$2)	3.65%	\$10	\$10	(\$0)
164	Office Furniture and Equipment	\$812	\$62		14.00%	\$118	\$122	\$4
165	Vehicles and Other Work Equipment	\$886	\$71		9.35%	\$86	\$89	\$3
166	Other Property	\$0			2.66%	\$0	\$0	\$0
	Total	\$47,384	\$25,820	(\$1,524)		\$1,659	\$1,948	\$289

1/ Excludes capitalized software

2/ Retirement of Concord to Sacramento 14-inch pipeline and the Elmira pump station

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EXHIBIT B

Public Version

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SFPP, L.P.
North Line Interstate

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COS

SFPP, L.P.
 North Line Interstate
 Cost of Service Summary Schedule
 (All numbers in Thousands)

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Test Period</u>
1	Cost of Service	Statement A, Line 7	\$14,598
2	Barrel Throughput	Schedule 19	13,866
3	Barrel-Miles Throughput	Schedule 19	2,856,356
4	Resulting Revenues Under Proposed Rates	Schedule 19	\$19,321
5	Resulting Revenues Under Current Ceiling Rates	Schedule 19	\$16,547

Rate



TAB A

SFPP, L.P.
 North Line Interstate Cost of Service
 (\$000's)

Statement A

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Base Period</u>	<u>Test Period</u>
1	Overall Return on Rate Base	Statement C, Line 16	\$3,347	\$3,528
2	Income Tax Allowance	Statement D, Line 13	\$0	\$0
3	Operating Expenses Excl. Depreciation	Statement B, Line 21	\$9,262	\$8,786
4	Depreciation Expense	Statement B, Line 13	\$1,711	\$2,000
5	Amortization of AFUDC	Statement F2, Lines (3 + 8)	\$23	\$21
6	Amortization of Deferred Return	Statement E2, Line 14	\$263	\$263
7	Total Cost of Service	Sum Lines (1 through 6)	<u>\$14,606</u>	<u>\$14,598</u>

TAB B

Statement B

SFPP, L.P.
North Line Interstate Operating Expenses
(\$000's)

Line No.	FERC Acct	Description	Source	Base Period	Test Period Adjustments [1]	Test Period Amount
OPERATIONS AND MAINTENANCE						
1	300	Salaries and Wages	Schedule 18		\$22	\$1,011
2	310	Materials and Supplies	Schedule 18			\$216
3	320	Outside Services	Schedule 18			\$1,556
4	330	Operating Fuel and Power	Schedule 18		(\$345)	\$3,581
5	340	Oil Losses and Shortages	Schedule 18			(\$161)
6	350	Rentals	Schedule 18		(\$32)	\$446
7	390	Other Expenses	Schedule 18			\$0
8		Total Operations Expense	Lines (1 through 7)		(\$464)	\$6,648
GENERAL						
9	500	Salaries and Wages	Schedule 18			\$0
10	510	Materials and Supplies	Schedule 18			\$0
11	520	Outside Services	Schedule 18			\$1,483
12	530	Rentals	Schedule 18			\$0
13	540	Depreciation and Amortization	Schedule 1B, Line 9		\$289	\$2,000
14	550	Employee Benefits	Schedule 18			\$0
15	560	Insurance	Schedule 18			\$0
16	570	Casualty and Other Losses	Schedule 18			\$0
17	580	Pipeline Taxes	Schedule 18			\$619
18	590	Other Expenses	Schedule 18			\$36
19		Total General Expense	Lines (9 through 18)		\$277	\$4,138
20		Total Operating Expenses	Lines (8 + 19)	\$10,972	(\$186)	\$10,786
21		Total Operating Exp. Excl. D&A	Lines (20 - 13)	\$9,262	(\$476)	\$8,786

[1] Test Period Adjustments:

- 300 Adjustment to annualize Kinder Morgan's 2004 merit program
- 320 Adjustment to normalize 2000-2004 environmental remediation expense
- 330 Adjustment to annualize electric power savings associated with North Line expansion
- 350 Adjustment to reflect lower right-of-way costs for the new 20-inch v. the old 14-inch
- 520 Adjustment to normalize FERC litigation expense
- 540 Adjustment to reflect full year depreciation on 2004 capital additions offset by test period retirements

TAB C

SFPP, L.P.

Statement C

North Line Interstate Overall Return on Rate Base

(\$000's)

Line No.	Description	Source	Base Period	Test Period
1	Net Trended Original Cost Rate Base [1]	Statement E1, Line 16	\$41,889	\$53,480
2	Net Deferred Return [1]	Statement E1, Line 14	\$5,917	\$6,052
3	Subtotal	Lines (1 - 2)	\$35,972	\$47,428
4	Debt Ratio	1.0 - Ln 5	58.02%	64.91%
5	Equity Ratio	Workpaper 5, Line 10	41.98%	35.09%
6	Adjusted Debt Portion of Subtotal	Lines (3 * 4)	\$20,872	\$30,784
7	Equity Portion of Subtotal	Lines (3 * 5)	\$15,100	\$16,644
8	Net Deferred Return	Line 2	\$5,917	\$6,052
9	Adjusted Equity Portion of Subtotal	Lines (7 + 8)	\$21,017	\$22,696
10	Adjusted Debt Ratio	Lines (6 / 1)	49.83%	57.56%
11	Adjusted Equity Ratio	Lines (9 / 1)	50.17%	42.44%
12	Cost of Debt	Workpaper 6, Line (a)	6.19%	6.02%
13	Equity Rate of Return (Real)	Docket No. IS05-191-000	9.78%	7.38%
14	Weighted Cost of Capital	Lines ((10 * 12) + (11 * 13))	7.99%	6.60%
15	Net Trended Original Cost Rate Base	Line 1	\$41,889	\$53,480
16	Overall Return on Rate Base	Lines (14 * 15)	\$3,347	\$3,528
17	Weighted Cost of Debt	Lines (10 * 12)	3.08%	3.47%
18	Net Trended Original Cost Rate Base	Line 1	\$41,889	\$53,480
19	Interest Expense	Lines (17 * 18)	\$1,292	\$1,853

TAB D

SFPP, L.P.
 North Line Interstate Income Tax Allowance
 (\$000's)

Statement D

Line No.	Description	Source	Base Period	Test Period
1	Overall Return on Rate Base	Statement C, Line 16	\$3,347	\$3,528
2	Interest Expense	Statement C, Line 19	\$1,292	\$1,853
3	Return on Equity	Lines (1 - 2)	\$2,055	\$1,675
4	Amortization of Deferred Return	Statement E2, Line 14	\$263	\$263
5	Depreciation of ITC Basis Reduction	Workpaper 4, Line 10	\$14	\$14
6	Amortization of Equity AFUDC	Statement F2, Line 3	\$25	\$23
7	Amortization of Tax Rate Adjustments	Workpaper 4, Line 9	\$20	\$20
8	Taxable Allowed Return	Lines (3 + 4 + 5 + 6 - 7)	\$2,337	\$1,954
9	Composite Income Tax Rate	Schedule 8	0.00%	0.00%
10	Net-to-Tax Multiplier	Line 9 / (1 - Line 9)	0.00%	0.00%
11	Income Tax Allowance - Unadjusted	Lines (8 * 10)	\$0	\$0
12	Amortization of Tax Rate Adjustments	Line 7	\$0	\$0
13	Income Tax Allowance	Lines (11 - 12)	\$0	\$0

SFPF, L.P.

North Line Interstate Rate Base
(000's)

Statement E1
Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<u>Total Carrier Property in Service</u>													
1	Carrier Property in Service	Schedule 1B, Line 6	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727
2	Accumulated AFUDC	Statement F1, Line 14	\$0	\$23	\$53	\$239	\$547	\$597	\$609	\$627	\$642	\$654	\$674
3	Total Carrier Property in Service	Lines (1 + 2)	\$16,612	\$17,210	\$18,049	\$22,723	\$30,650	\$32,825	\$33,460	\$34,361	\$36,071	\$36,839	\$38,401
<u>Total Accumulated Depreciation</u>													
4	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14	\$5,477	\$5,918	\$6,303	\$6,020	\$6,114	\$6,855	\$7,685	\$8,490	\$9,485	\$10,487	\$11,533
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	\$0	\$1	\$2	\$6	\$17	\$33	\$52	\$71	\$91	\$113	\$135
6	Total Accumulated Depreciation	Lines (4 + 5)	\$5,477	\$5,918	\$6,305	\$6,025	\$6,131	\$6,888	\$7,736	\$8,561	\$9,576	\$10,599	\$11,667
7	Net Carrier Property in Service	Lines (3 - 6)	\$11,136	\$11,291	\$11,744	\$16,697	\$24,519	\$25,937	\$25,723	\$25,800	\$26,495	\$26,240	\$26,734
<u>Working Capital</u>													
8	Oil Inventory	Workpaper 7, Line 6	\$11	\$8	\$6	\$4	\$5	\$4	\$3	\$1	\$1	\$1	\$1
9	Materials and Supplies	Workpaper 7, Line 7	\$81	\$75	\$61	\$74	\$88	\$103	\$96	\$93	\$85	\$78	\$75
10	Prepayments	Workpaper 7, Line 8	\$115	\$105	\$106	\$104	\$119	\$134	\$134	\$198	\$169	\$169	\$183
11	Total Working Capital	Lines (8 + 9 + 10)	\$206	\$187	\$172	\$182	\$212	\$241	\$232	\$292	\$255	\$247	\$258
12	Accumulated Deferred Income Taxes	Workpaper 4, Line 5	\$1,825	\$2,364	\$2,962	\$3,776	\$4,200	\$4,638	\$5,036	\$5,364	\$5,360	\$5,322	\$5,284
13	Original Cost Rate Base	Lines (7 + 11 - 12)	\$9,517	\$9,114	\$8,954	\$13,104	\$20,530	\$21,540	\$20,919	\$20,728	\$21,390	\$21,165	\$21,708
14	Net Deferred Return	Statement E2, Line 17	\$0	\$341	\$658	\$735	\$1,162	\$1,713	\$2,311	\$3,102	\$3,451	\$3,776	\$4,065
15	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$5,013	\$4,812	\$4,610	\$4,409	\$4,207	\$4,006	\$3,804	\$3,603	\$3,401	\$3,199	\$2,998
16	Net Traded Original Cost Rate Base	Lines (13 + 14 + 15)	\$14,530	\$14,267	\$14,223	\$18,247	\$25,900	\$27,258	\$27,034	\$27,432	\$28,243	\$28,141	\$28,771

SUPP, L.P.
North Line Interstate Rate Base
(000's)

Statement E1
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Line No.	Description	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
Total Carrier Property in Service														
1	Carrier Property in Service	Schedule 1B, Line 6	\$38,783	\$39,082	\$39,972	\$41,635	\$42,434	\$44,276	\$45,559	\$46,396	\$47,050	\$49,606	\$75,375	\$73,851
2	Accumulated AFUDC	Statement F1, Line 14	\$699	\$709	\$730	\$763	\$733	\$741	\$737	\$748	\$758	\$794	\$859	\$751
3	Total Carrier Property in Service	Lines (1 + 2)	\$39,482	\$39,791	\$40,702	\$42,398	\$43,166	\$45,017	\$46,296	\$47,144	\$47,808	\$50,400	\$76,234	\$74,602
Total Accumulated Depreciation														
4	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14	\$12,670	\$13,693	\$14,216	\$15,367	\$16,830	\$17,722	\$18,482	\$19,664	\$20,849	\$21,871	\$23,531	\$22,298
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	\$158	\$182	\$207	\$231	\$252	\$272	\$292	\$312	\$333	\$355	\$378	\$376
6	Total Accumulated Depreciation	Lines (4 + 5)	\$12,827	\$13,875	\$14,423	\$15,598	\$17,081	\$17,994	\$18,774	\$19,976	\$21,182	\$22,226	\$23,909	\$22,674
7	Net Carrier Property In Service	Lines (3 - 6)	\$26,655	\$25,915	\$26,279	\$26,801	\$26,085	\$27,024	\$27,522	\$27,168	\$26,626	\$28,174	\$52,325	\$51,928
Working Capital														
8	Oil Inventory	Workpaper 7, Line 6	\$1	\$1	\$7	\$21	\$30	\$12	\$11	\$2	\$0	\$0	\$0	\$0
9	Materials and Supplies	Workpaper 7, Line 7	\$74	\$75	\$68	\$68	\$42	\$43	\$47	\$52	\$69	\$79	\$117	\$117
10	Prepayments	Workpaper 7, Line 8	\$148	\$196	\$177	\$183	\$14	\$130	\$127	\$117	\$118	\$120	\$131	\$131
11	Total Working Capital	Lines (8 + 9 + 10)	\$223	\$271	\$253	\$272	\$87	\$185	\$185	\$170	\$187	\$199	\$249	\$249
12	Accumulated Deferred Income Taxes	Workpaper 4, Line 5	\$5,257	\$5,195	\$5,148	\$5,159	\$5,189	\$5,213	\$5,250	\$5,317	\$5,308	\$5,237	\$5,529	\$5,529
13	Original Cost Rate Base	Lines (7 + 11 - 12)	\$21,621	\$20,992	\$21,383	\$21,914	\$20,982	\$21,996	\$22,457	\$22,021	\$21,504	\$23,136	\$47,044	\$46,647
14	Net Deferred Return	Statement E2, Line 17	\$4,336	\$4,574	\$4,913	\$4,991	\$5,049	\$5,256	\$5,575	\$5,596	\$5,737	\$5,783	\$6,052	\$6,052
15	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$2,796	\$2,595	\$2,393	\$2,192	\$1,990	\$1,789	\$1,587	\$1,386	\$1,184	\$983	\$781	\$781
16	Net Tranded Original Cost Rate Base	Lines (13 + 14 + 15)	\$28,754	\$28,161	\$28,690	\$29,097	\$28,022	\$29,040	\$29,620	\$29,003	\$28,425	\$29,901	\$53,878	\$53,480

SPTF, L.P.
North Line Interstate Deferred Return Calculation
(2000's)

Statement E2
Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1	Carrier Property in Service	Statement E1, Line 1	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727	\$38,783	\$39,082	\$39,972	\$41,635
2	Net Carrier Property Additions	Lines (1 - Prior 1)		\$574	\$810	\$4,487	\$7,619	\$2,126	\$622	\$883	\$1,695	\$756	\$1,542	\$1,056	\$299	\$890	\$1,663
3	Equity Ratio	Worksheet 5, Line 10		39.26%	39.26%	39.26%	39.26%	39.26%	43.47%	44.80%	45.47%	44.01%	42.82%	44.79%	43.21%	42.55%	43.49%
4	Equity Portion of Carrier Property Additions	Lines (2 * 3)		\$225	\$318	\$1,762	\$2,991	\$835	\$270	\$396	\$771	\$333	\$660	\$473	\$129	\$379	\$723
5	Carrier Property in Trending Base	Lines (4 + Prior 5) [1]	\$6,522	\$6,748	\$7,066	\$8,828	\$11,819	\$12,654	\$12,924	\$13,320	\$14,091	\$14,423	\$15,084	\$15,557	\$15,686	\$16,065	\$16,788
6	Rate of Carrier Property in Trending Base	Lines (5 / 1)	39.26%	39.26%	39.26%	39.26%	39.26%	39.26%	39.34%	39.49%	39.77%	39.86%	39.98%	40.11%	40.14%	40.19%	40.32%
7	Original Cost Rate Base	Statement E1, Line 13	\$9,517	\$9,114	\$8,954	\$13,104	\$20,530	\$21,540	\$20,919	\$20,728	\$21,390	\$21,165	\$21,708	\$21,621	\$20,992	\$21,383	\$21,914
8	Original Cost RB Included in Trending Base	Lines (6 * 7)	\$3,737	\$3,578	\$3,516	\$5,145	\$8,061	\$8,457	\$8,230	\$8,184	\$8,507	\$8,436	\$8,679	\$8,673	\$8,425	\$8,594	\$8,836
9	Net Starting Rate Base Write-Up	Worksheet 3, Line 20	\$5,013	\$4,812	\$4,610	\$4,409	\$4,207	\$4,006	\$3,804	\$3,603	\$3,401	\$3,199	\$2,998	\$2,796	\$2,595	\$2,393	\$2,192
10	Accumulated Net Deferred Return	Line 17		\$341	\$658	\$735	\$1,162	\$1,713	\$2,311	\$3,102	\$3,451	\$3,776	\$4,065	\$4,336	\$4,574	\$4,913	\$4,991
11	Trending Base	Lines (8 + 9 + 10)	\$8,750	\$8,731	\$8,784	\$10,288	\$13,430	\$14,176	\$14,345	\$14,889	\$15,360	\$15,412	\$15,742	\$15,805	\$15,594	\$15,900	\$16,019
12	Inflation Factor	Schedule 10		3.95%	3.80%	1.10%	4.43%	4.42%	4.65%	6.11%	3.06%	2.90%	2.75%	2.67%	2.54%	3.32%	1.70%
13	Deferred Return	Lines (Prior 11 * 12)		\$346	\$332	\$97	\$456	\$594	\$659	\$876	\$456	\$445	\$424	\$420	\$401	\$518	\$270
14	Amortization of Deferred Return	Worksheet 2, Line 24		\$5	\$14	\$20	\$28	\$43	\$62	\$85	\$106	\$121	\$135	\$149	\$163	\$179	\$192
15	Accumulated Deferred Return	Cumulative Line 13		\$346	\$677	\$774	\$1,230	\$1,823	\$2,483	\$3,359	\$3,815	\$4,260	\$4,684	\$5,104	\$5,506	\$6,023	\$6,294
16	Accumulated Amortization of Deferred Return	Cumulative Line 14		\$5	\$19	\$39	\$67	\$110	\$172	\$257	\$363	\$484	\$619	\$768	\$931	\$1,110	\$1,302
17	Net Deferred Return	Lines (15 - 16)		\$341	\$658	\$735	\$1,162	\$1,713	\$2,311	\$3,102	\$3,451	\$3,776	\$4,065	\$4,336	\$4,574	\$4,913	\$4,991

[1] The 1983 amount reflects Line 1 * Worksheet 3, Line 14.

SFFP, L.P.
North Line Interstate Deferred Return Calculation
(2000's)

Statement E2
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Line No.	Description	Source	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Carrier Property at Service	Statement E1, Line 1	\$42,434	\$44,276	\$45,559	\$46,396	\$47,050	\$49,606	\$75,375	\$73,851
2	Net Carrier Property Additions	Lines (1 - Prior 1)	\$798	\$1,843	\$1,283	\$837	\$654	\$2,556	\$25,769	\$24,245
3	Equity Ratio	Workpaper 5, Line 10	43.56%	46.54%	56.78%	54.18%	44.28%	41.13%	41.98%	35.09%
4	Equity Portion of Carrier Property Additions	Lines (2 * 3)	\$348	\$857	\$729	\$453	\$289	\$1,051	\$10,817	\$8,508
5	Carrier Property in Trending Base	Lines (4 + Prior 5) [1]	\$17,136	\$17,993	\$18,722	\$19,175	\$19,465	\$20,516	\$31,333	\$29,024
6	Ratio of Carrier Property in Trending Base	Lines (5 / 1)	40.38%	40.64%	41.09%	41.33%	41.37%	41.36%	41.57%	39.30%
7	Original Cost Rate Base	Statement E1, Line 13	\$20,982	\$21,996	\$22,457	\$22,021	\$21,504	\$23,136	\$47,044	\$46,647
8	Original Cost RB Included in Trending Base	Lines (6 * 7)	\$8,473	\$8,939	\$9,228	\$9,101	\$8,896	\$9,568	\$19,556	\$18,333
9	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$1,990	\$1,789	\$1,587	\$1,386	\$1,184	\$983	\$781	\$781
10	Accumulated Net Deferred Return	Line 17	\$5,049	\$5,256	\$5,575	\$5,596	\$5,737	\$5,783	\$6,052	\$6,052
11	Trending Base	Lines (8 + 9 + 10)	\$15,513	\$15,983	\$16,391	\$16,083	\$15,817	\$16,334	\$26,389	\$25,166
12	Inflation Factor	Schedule 10	1.61%	2.68%	3.39%	1.55%	2.38%	1.88%	3.26%	3.26%
13	Deferred Return	Lines (Prior 11 * 12)	\$258	\$416	\$542	\$254	\$383	\$297	\$532	\$532
14	Amortization of Deferred Return	Workpaper 2, Line 24	\$200	\$209	\$222	\$233	\$242	\$251	\$263	\$263
15	Accumulated Deferred Return	Cumulative Line 13	\$6,552	\$6,967	\$7,509	\$7,763	\$8,146	\$8,443	\$8,976	\$8,976
16	Accumulated Amortization of Deferred Return	Cumulative Line 14	\$1,502	\$1,712	\$1,934	\$2,167	\$2,409	\$2,661	\$2,924	\$2,924
17	Net Deferred Return	Lines (15 - 16)	\$5,049	\$5,256	\$5,575	\$5,596	\$5,737	\$5,783	\$6,052	\$6,052

[1] The 1983 amount reflects Line 1 * Workpaper 3, Line 14.

SFPF, L.P.
 North Line Interstate AFUDC Calculation
 (\$000's)

Statement F1
 Page 1 of 2

Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Equity Ratio	Workpaper 5, Line 10	39.26%	39.26%	39.26%	39.26%	39.26%	43.47%	44.80%	45.47%	44.01%	42.82%	44.79%
2	Debt Ratio	1.0 - Line 1	60.74%	60.74%	60.74%	60.74%	60.74%	56.53%	55.20%	54.53%	55.99%	57.18%	55.21%
3	Nominal Equity Rate of Return	Comparable Values	15.68%	15.53%	12.83%	16.16%	16.15%	16.38%	17.84%	14.79%	14.63%	14.48%	14.40%
4	Cost of Debt	Schedule 9	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.42%
5	CPIS Additions	Schedule 1B, Line 3	\$638	\$869	\$5,564	\$8,257	\$2,234	\$737	\$993	\$1,723	\$872	\$1,652	\$1,132
6	AFUDC - Base %	Exh. No. 357 (RLZ-45)	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%
7	AFUDC Base CPIS Additions	Lines (5 * 6)	\$187	\$255	\$1,630	\$2,419	\$654	\$216	\$291	\$505	\$256	\$484	\$332
8	Equity Portion of AFUDC	Lines (1 * 3 * 7)	\$12	\$16	\$82	\$154	\$41	\$15	\$23	\$34	\$16	\$30	\$21
9	Accumulated Equity AFUDC	Cumulative Line 8	\$12	\$27	\$109	\$263	\$304	\$320	\$343	\$377	\$393	\$423	\$445
10	Debt Portion of AFUDC	Lines (2 * 4 * 7)	\$12	\$16	\$104	\$154	\$42	\$13	\$17	\$29	\$15	\$29	\$19
11	Interest During Construction Booked	Schedule 5	\$0	\$2	\$0	\$0	\$34	\$16	\$22	\$48	\$19	\$40	\$16
12	Net Debt Portion of AFUDC	Line (10 - 11)	\$12	\$14	\$104	\$154	\$8	(\$3)	(\$5)	(\$19)	(\$4)	(\$11)	\$3
13	Accumulated Debt AFUDC	Cumulative Line 10	\$12	\$26	\$130	\$284	\$292	\$289	\$285	\$265	\$261	\$251	\$254
14	Total Accumulated AFUDC	Lines (9 + 13)	\$23	\$53	\$239	\$547	\$597	\$609	\$627	\$642	\$654	\$674	\$699

SFPF, L.P.
 North Line Interstate AFUDC Calculation
 (\$000's)

Statement F1
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Line No.	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Equity Ratio	Worksheet 5, Line 10	43.21%	42.55%	43.49%	43.56%	46.54%	56.78%	54.18%	44.28%	41.13%	41.98%	35.09%
2	Debt Ratio	1.0 - Line 1	56.79%	57.45%	56.51%	56.44%	53.46%	43.22%	45.82%	55.72%	58.87%	58.02%	64.91%
3	Nominal Equity Rate of Return	Comparable Values	14.41%	13.63%	12.64%	12.72%	15.37%	15.55%	12.23%	15.86%	12.95%	13.04%	10.64%
4	Cost of Debt	Schedule 9	10.23%	9.96%	9.64%	7.79%	6.95%	7.34%	7.23%	7.08%	6.77%	6.19%	6.02%
5	CPIS Additions	Schedule 1B, Line 3	\$602	\$1,236	\$1,755	\$858	\$2,068	\$1,674	\$862	\$668	\$2,684	\$25,820	\$25,820
6	AFUDC - Base %	Exh. No. 357 (RLZ-45)	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%
7	AFUDC Base CPIS Additions	Lines (5 * 6)	\$176	\$362	\$514	\$251	\$606	\$491	\$252	\$196	\$786	\$7,565	\$7,565
8	Equity Portion of AFUDC	Lines (1 * 3 * 7)	\$11	\$21	\$28	\$14	\$43	\$43	\$17	\$14	\$42	\$414	\$282
9	Accumulated Equity AFUDC	Cumulative Line 8	\$456	\$477	\$505	\$519	\$562	\$605	\$622	\$636	\$678	\$1,092	\$960
10	Debt Portion of AFUDC	Lines (2 * 4 * 7)	\$10	\$21	\$28	\$11	\$23	\$16	\$8	\$8	\$31	\$272	\$296
11	Interest During Construction Booked	Schedule 5	\$11	\$21	\$23	\$55	\$57	\$63	\$14	\$12	\$37	\$621	\$621
12	Net Debt Portion of AFUDC	Line (10 - 11)	(\$1)	(\$0)	\$5	(\$44)	(\$35)	(\$48)	(\$5)	(\$4)	(\$5)	(\$349)	(\$326)
13	Accumulated Debt AFUDC	Cumulative Line 10	\$253	\$253	\$258	\$214	\$179	\$131	\$126	\$122	\$116	(\$233)	(\$209)
14	Total Accumulated AFUDC	Lines (9 + 13)	\$709	\$730	\$763	\$733	\$741	\$737	\$748	\$758	\$794	\$859	\$751

SFPP, L.P.
 North Line Interstate AFUDC Amortization
 (\$000's)

Statement F2
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Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Accumulated Equity AFUDC	Statement F1, Line 9	\$12	\$27	\$109	\$263	\$304	\$320	\$343	\$377	\$393	\$423	\$445
2	Amortization Rate	Workpaper 1, Line 9	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%
3	Amortization of Equity AFUDC	Avg. Line 1 * Line 2	\$0	\$1	\$2	\$5	\$8	\$10	\$10	\$11	\$13	\$13	\$15
4	Accumulated Amortization of Equity AFUDC	Cumulative Line 3	\$0	\$1	\$3	\$8	\$16	\$26	\$36	\$47	\$60	\$74	\$88
5	Net Equity AFUDC	Lines (1 - 4)	\$11	\$26	\$106	\$255	\$288	\$294	\$307	\$329	\$333	\$350	\$356
6	Accumulated Debt AFUDC	Statement F1, Line 13	12	26	130	284	292	289	285	265	261	251	254
7	Amortization Rate	Line 2	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%
8	Amortization of Debt AFUDC	Avg. Line 6 * Line 7	\$0	\$1	\$2	\$6	\$8	\$9	\$9	\$9	\$9	\$8	\$9
9	Accumulated Amortization of Debt AFUDC	Cumulative Line 8	\$0	\$1	\$3	\$9	\$17	\$26	\$35	\$44	\$52	\$61	\$69
10	Net Debt AFUDC	Lines (6 - 9)	\$12	\$25	\$127	\$276	\$275	\$263	\$250	\$222	\$209	\$190	\$185
11	Total Accumulated AFUDC Amortization	Lines (4 + 9)	\$1	\$2	\$6	\$17	\$33	\$52	\$71	\$91	\$113	\$135	\$158

SFPF, L.P.
 North Line Interstate AFUDC Amortization
 (\$000's)

Statement F2
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Line No.	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Accumulated Equity AFUDC	Statement F1, Line 9	\$456	\$477	\$505	\$519	\$562	\$605	\$622	\$636	\$678	\$1,092	\$960
2	Amortization Rate	Workpaper 1, Line 9	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%
3	Amortization of Equity AFUDC	Avg. Line 1 * Line 2	\$16	\$16	\$16	\$14	\$15	\$16	\$17	\$17	\$18	\$25	\$23
4	Accumulated Amortization of Equity AFUDC	Cumulative Line 3	\$104	\$120	\$136	\$150	\$165	\$181	\$197	\$215	\$233	\$258	\$256
5	Net Equity AFUDC	Lines (1 - 4)	\$351	\$357	\$369	\$369	\$398	\$425	\$425	\$421	\$445	\$834	\$705
6	Accumulated Debt AFUDC	Statement F1, Line 13	253	253	258	214	179	131	126	122	116	(233)	(209)
7	Amortization Rate	Line 2	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%
8	Amortization of Debt AFUDC	Avg. Line 6 * Line 7	\$9	\$8	\$8	\$7	\$5	\$4	\$4	\$3	\$3	(\$2)	(\$1)
9	Accumulated Amortization of Debt AFUDC	Cumulative Line 8	\$78	\$87	\$95	\$102	\$107	\$111	\$115	\$118	\$122	\$120	\$120
10	Net Debt AFUDC	Lines (6 - 9)	\$175	\$166	\$163	\$112	\$72	\$20	\$11	\$4	(\$5)	(\$53)	(\$329)
11	Total Accumulated AFUDC Amortization	Lines (4 + 9)	\$182	\$207	\$231	\$252	\$272	\$292	\$312	\$333	\$355	\$378	\$376

TAB G

SFPP, L.P.
 North Line Interstate Operating Revenues
 (\$000's)

Statement G

Line No.	Description	Source	Amount [1]
1	Revenues Under Presently Effective Rates	Schedule 19	\$16,547
2	Revenues Under Proposed Rates	Schedule 19	\$19,321
3	Revenues Under Ceiling Rates	Schedule 19	\$16,547

[1] All revenues above based on Base Period actual volumes

SCH 1

SFPP, L.P.
North Line Interstate
Schedule 1 - Rate Table

<u>Origin</u>	<u>Destination</u>	<u>Product</u>	<u>Current Tariff Rate</u>	<u>Proposed Increase</u>	<u>Proposed Tariff Rate</u>
Richmond/Concord, CA	Reno/Sparks, NV	All	\$1.1934	\$0.2000	\$1.3934

AMORT RATE

SFTF, L.P.
North Line Amortization Rate Workpaper
(000's)

Workpaper 1
Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
1	Carrier Property in Service	Statement E1, Line 1	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727
2	Land	Schedule 1A, Line 2	\$187	\$194	\$203	\$199	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,924
3	Depreciable Carrier Property in Service	Lines (1 - 2)	\$16,425	\$16,992	\$17,793	\$22,285	\$28,203	\$30,329	\$30,951	\$31,834	\$33,530	\$34,285	\$35,803
4	Accumulated Depreciation of Carrier Property	Statement E1, Line 4	\$5,477	\$5,918	\$6,303	\$6,020	\$6,114	\$6,855	\$7,685	\$8,490	\$9,485	\$10,487	\$11,533
5	Net Depreciable Carrier Property in Service	Lines (3 - 4)	\$10,949	\$11,074	\$11,490	\$16,265	\$22,089	\$23,474	\$23,267	\$23,344	\$24,044	\$23,798	\$24,271
6	Carrier Depreciation Expense	Schedule 1B, Line 9	\$440	\$474	\$476	\$564	\$704	\$850	\$936	\$969	\$1,032	\$1,136	\$1,157
7	Remaining Life (End of Year)	Lines (5 + 6) / 6	24.9										
8	Useful Life (Years)	Avg Line 3 / Line 6		35.3	36.5	35.5	35.9	34.4	32.7	32.4	31.7	29.8	30.3
9	Amortization Rate	1.0 / Line 8		2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%

AMORT RATE

SFPF, L.P.
 North Line Amortization Rate Workpaper
 (\$900's)

Workpaper 1
 Page 2 of 2

Line No.	Description	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Carrier Property in Service	Statement E1, Line 1	\$38,783	\$39,082	\$39,972	\$41,635	\$42,434	\$44,276	\$45,559	\$46,396	\$47,050	\$49,606	\$75,375	\$73,851
2	Land	Schedule 1A, Line 2	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,921
3	Depreciable Carrier Property in Service	Lines (1 - 2)	\$36,860	\$37,158	\$38,048	\$39,712	\$40,510	\$42,352	\$43,636	\$44,473	\$45,126	\$47,682	\$73,451	\$71,930
4	Accumulated Depreciation of Carrier Property	Statement E1, Line 4	\$12,670	\$13,693	\$14,216	\$15,367	\$16,830	\$17,722	\$18,482	\$19,664	\$20,849	\$21,871	\$23,531	\$22,298
5	Net Depreciable Carrier Property in Service	Lines (3 - 4)	\$24,190	\$23,465	\$23,832	\$24,345	\$23,680	\$24,630	\$25,154	\$24,809	\$24,277	\$25,811	\$49,920	\$49,631
6	Carrier Depreciation Expense	Schedule 1B, Line 9	\$1,233	\$1,293	\$1,259	\$1,260	\$1,121	\$1,123	\$1,175	\$1,211	\$1,238	\$1,291	\$1,711	\$2,000
7	Remaining Life (End of Year)	Lines (5 + 6) / 6												
8	Useful Life (Years)	Avg Line 3 / Line 6	29.5	28.6	29.9	30.9	35.8	36.9	36.6	36.4	36.2	36.0	35.4	36.3
9	Amortization Rate	1.0 / Line 8	3.39%	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%

SFPF, L.P.
North Line Deferred Return Amortization Worksheet
(\$000's)

Worksheet 2
Page 1 of 2

Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1	Deferred Return	Statement E2, Line 13	\$346	\$332	\$97	\$456	\$594	\$659	\$876	\$456	\$445	\$424	\$420	\$401	\$518	\$270	\$258	\$416	\$542
2	Amortization Rate	Worksheet 1, Line 9	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%
3	Amortization of 1984 Deferred Return	1984 Lines (1 * 2) [1]	\$5	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
4	Amortization of 1985 Deferred Return	1985 Lines (1 * 2) [1]		\$5	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9
5	Amortization of 1986 Deferred Return	1986 Lines (1 * 2) [1]			\$1	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
6	Amortization of 1987 Deferred Return	1987 Lines (1 * 2) [1]				\$6	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13
7	Amortization of 1988 Deferred Return	1988 Lines (1 * 2) [1]					\$9	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17
8	Amortization of 1989 Deferred Return	1989 Lines (1 * 2) [1]						\$10	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
9	Amortization of 1990 Deferred Return	1990 Lines (1 * 2) [1]							\$14	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27
10	Amortization of 1991 Deferred Return	1991 Lines (1 * 2) [1]								\$7	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14
11	Amortization of 1992 Deferred Return	1992 Lines (1 * 2) [1]									\$7	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
12	Amortization of 1993 Deferred Return	1993 Lines (1 * 2) [1]										\$7	\$14	\$14	\$14	\$14	\$14	\$14	\$14
13	Amortization of 1994 Deferred Return	1994 Lines (1 * 2) [1]											\$7	\$14	\$14	\$14	\$14	\$14	\$14
14	Amortization of 1995 Deferred Return	1995 Lines (1 * 2) [1]												\$7	\$14	\$14	\$14	\$14	\$14
15	Amortization of 1996 Deferred Return	1996 Lines (1 * 2) [1]													\$9	\$17	\$17	\$17	\$17
16	Amortization of 1997 Deferred Return	1997 Lines (1 * 2) [1]														\$4	\$9	\$9	\$9
17	Amortization of 1998 Deferred Return	1998 Lines (1 * 2) [1]															\$4	\$7	\$7
18	Amortization of 1999 Deferred Return	1999 Lines (1 * 2) [1]																\$6	\$11
19	Amortization of 2000 Deferred Return	2000 Lines (1 * 2) [1]																	\$7
20	Amortization of 2001 Deferred Return	2001 Lines (1 * 2) [1]																	
21	Amortization of 2002 Deferred Return	2002 Lines (1 * 2) [1]																	
22	Amortization of 2003 Deferred Return	2003 Lines (1 * 2) [1]																	
23	Amortization of 2004 Deferred Return	2004 Lines (1 * 2) [1]																	
24	Total Amortization of Deferred Return	Sum Lines 3-23	\$5	\$14	\$20	\$28	\$43	\$62	\$85	\$106	\$121	\$135	\$149	\$163	\$179	\$192	\$200	\$209	\$222

[1] Half-Year Convention

SPTF, L.P.
North Line Deferred Return Amortization Worksheet
(2000's)

Worksheet 2
Page 2 of 2

Line No.	Description	Source	2001	2002	2003	2004	Test Period	Account Amort.	Rem Amort \$/Not < 0	Should = 0
1	Deferred Return	Statement E2, Line 13	\$254	\$383	\$297	\$332	\$532			
2	Amortization Rate	Worksheet 1, Line 9	2.75%	2.76%	2.78%	2.82%	2.75%			
3	Amortization of 1984 Deferred Return	1984 Lines (1 * 2) [1]	\$10	\$10	\$10	\$10	\$10	\$211	\$135	\$0
4	Amortization of 1985 Deferred Return	1985 Lines (1 * 2) [1]	\$9	\$9	\$9	\$9	\$9	\$186	\$145	\$0
5	Amortization of 1986 Deferred Return	1986 Lines (1 * 2) [1]	\$3	\$3	\$3	\$3	\$3	\$53	\$44	\$0
6	Amortization of 1987 Deferred Return	1987 Lines (1 * 2) [1]	\$13	\$13	\$13	\$13	\$13	\$255	\$221	\$0
7	Amortization of 1988 Deferred Return	1988 Lines (1 * 2) [1]	\$17	\$17	\$17	\$17	\$17	\$302	\$292	\$0
8	Amortization of 1989 Deferred Return	1989 Lines (1 * 2) [1]	\$20	\$20	\$20	\$20	\$20	\$332	\$327	\$0
9	Amortization of 1990 Deferred Return	1990 Lines (1 * 2) [1]	\$27	\$27	\$27	\$27	\$27	\$419	\$457	\$0
10	Amortization of 1991 Deferred Return	1991 Lines (1 * 2) [1]	\$14	\$14	\$14	\$14	\$14	\$209	\$247	\$0
11	Amortization of 1992 Deferred Return	1992 Lines (1 * 2) [1]	\$15	\$15	\$15	\$15	\$15	\$201	\$244	\$0
12	Amortization of 1993 Deferred Return	1993 Lines (1 * 2) [1]	\$14	\$14	\$14	\$14	\$14	\$175	\$249	\$0
13	Amortization of 1994 Deferred Return	1994 Lines (1 * 2) [1]	\$14	\$14	\$14	\$14	\$14	\$164	\$256	\$0
14	Amortization of 1995 Deferred Return	1995 Lines (1 * 2) [1]	\$14	\$14	\$14	\$14	\$14	\$147	\$254	\$0
15	Amortization of 1996 Deferred Return	1996 Lines (1 * 2) [1]	\$17	\$17	\$17	\$17	\$17	\$165	\$353	\$0
16	Amortization of 1997 Deferred Return	1997 Lines (1 * 2) [1]	\$9	\$9	\$9	\$9	\$9	\$74	\$196	\$0
17	Amortization of 1998 Deferred Return	1998 Lines (1 * 2) [1]	\$7	\$7	\$7	\$7	\$7	\$54	\$204	\$0
18	Amortization of 1999 Deferred Return	1999 Lines (1 * 2) [1]	\$11	\$11	\$11	\$11	\$11	\$73	\$342	\$0
19	Amortization of 2000 Deferred Return	2000 Lines (1 * 2) [1]	\$15	\$15	\$15	\$15	\$15	\$81	\$460	\$0
20	Amortization of 2001 Deferred Return	2001 Lines (1 * 2) [1]	\$3	\$7	\$7	\$7	\$7	\$31	\$223	\$0
21	Amortization of 2002 Deferred Return	2002 Lines (1 * 2) [1]		\$5	\$11	\$11	\$11	\$37	\$346	\$0
22	Amortization of 2003 Deferred Return	2003 Lines (1 * 2) [1]			\$4	\$8	\$8	\$21	\$277	\$0
23	Amortization of 2004 Deferred Return	2004 Lines (1 * 2) [1]				\$8	\$8	\$13	\$517	\$0
24	Total Amortization of Deferred Return	Sum Lines 3-23	\$233	\$242	\$251	\$263	\$263	\$3,187	\$5,789	\$0

[1] Half-Year Convention

SFPF, L.P.
North Line Starting Rate Base Workpaper
(2000's)

Workpaper 3
Page 1 of 2

Line No.	Description	Source	1982	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1	Carrier Property in Service	Schedule 1A, Line 1	\$16,612														
2	Land	Schedule 1A, Line 2	\$187														
3	Right of Way ("ROW")	Schedule 1A, Line 3	\$245														
4	Carrier Property excluding Land and ROW	Lines (1 - 2 - 3)	\$16,180														
5	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14	\$5,477														
6	Accumulated Depreciation of ROW	Schedule 1A, Line 4	\$158														
7	Accumulated Depreciation excluding ROW	Lines (5 - 6)	\$5,318														
8	Carrier Property - Percent Depreciated	Lines (7 / 4)	32.87%														
9	Cost of Reproduction New ("CRN")	Schedule 6	\$35,200														
10	CRN Depreciation	Lines (8 * 9)	\$11,570														
11	Net CRN	Lines (9 - 10)	\$23,630														
12	Net Carrier Property excluding Land and ROW	Lines (4 - 7)	\$10,862														
13	SRB Write-Up at 100% Equity	Lines (11 - 12)	\$12,768														
14	Equity Ratio at June 30, 1985	Workpaper 5, Line 10	\$2,295														
15	Equity Portion of SRB Write-Up	Lines (13 * 14)	\$5,013														
16	Remaining Life (Years)	Workpaper 1, Line 7	24.9														
17	Amortization of SRB Write-Up	Lines (15 / 16)	\$202														
18	Amortization of SRB Write-Up	Line 17	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202
19	Accumulated Amortization of SRB Write-Up	Prior Line 19 + Line 18	\$202	\$403	\$605	\$806	\$1,008	\$1,209	\$1,411	\$1,612	\$1,814	\$2,015	\$2,217	\$2,418	\$2,620	\$2,821	\$3,021
20	Net Starting Rate Base Write-Up	Lines (15 - 19)	\$5,013	\$4,812	\$4,610	\$4,409	\$4,207	\$4,006	\$3,804	\$3,603	\$3,401	\$3,199	\$2,998	\$2,796	\$2,595	\$2,393	\$2,192

SFPF, L.P.
 North Line Starting Rate Base Workpaper
 (2000's)

Workpaper 3
 Page 2 of 2

Line No.	Description	Source	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Carrier Property in Service	Schedule 1A, Line 1								
2	Land	Schedule 1A, Line 2								
3	Right of Way ("ROW")	Schedule 1A, Line 3								
4	Carrier Property excluding Land and ROW	Lines (1 - 2 - 3)								
5	Accumulated Depreciation of Carrier Property	Schedule 1B, Line 14								
6	Accumulated Depreciation of ROW	Schedule 1A, Line 4								
7	Accumulated Depreciation excluding ROW	Lines (5 - 6)								
8	Carrier Property - Percent Depreciated	Lines (7 / 4)								
9	Cost of Reproduction New ("CRN")	Schedule 6								
10	CRN Depreciation	Lines (8 * 9)								
11	Net CRN	Lines (9 - 10)								
12	Net Carrier Property including Land and ROW	Lines (4 - 7)								
13	SRB Write-Up at 100% Equity	Lines (11 - 12)								
14	Equity Ratio at June 30, 1985	Workpaper 5, Line 10								
15	Equity Portion of SRB Write-Up	Lines (13 * 14)								
16	Remaining Life (Years)	Workpaper 1, Line 7								
17	Amortization of SRB Write-Up	Lines (15 / 16)								
18	Amortization of SRB Write-Up	Line 17	\$202	\$202	\$202	\$202	\$202	\$202	\$202	\$202
19	Accumulated Amortization of SRB Write-Up	Prior Line 19 + Line 18	\$3,023	\$3,224	\$3,426	\$3,627	\$3,829	\$4,031	\$4,232	\$4,232
20	Net Starting Rate Base Write-Up	Lines (15 - 19)	\$1,990	\$1,789	\$1,587	\$1,386	\$1,184	\$983	\$781	\$781

ADIT

Page 1

SFPP, L.P.
 North Line Accumulated Deferred Income Taxes
 (\$000's)

Workpaper 4
 Page 1 of 2

Line No.	Description	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<u>ADIT Balance:</u>												
1	Unadjusted ADIT	\$2,496	\$2,976	\$3,517	\$4,227	\$4,608	\$5,060	\$5,472	\$5,811	\$5,822	\$5,800	\$5,780
2	Unamortized Pre-1974 Unfunded ADIT	(\$671)	(\$612)	(\$555)	(\$451)	(\$382)	(\$333)	(\$284)	(\$233)	(\$186)	(\$140)	(\$118)
3	Amortized FAS 96/109 Adjustment					(\$26)	(\$89)	(\$152)	(\$214)	(\$277)	(\$339)	(\$383)
4	Amortized Pre-1993 Unfunded ADIT											\$5
5	Adjusted ADIT	\$1,825	\$2,364	\$2,962	\$3,776	\$4,200	\$4,638	\$5,036	\$5,364	\$5,360	\$5,322	\$5,284
<u>Amortization of ADIT Adjustments:</u>												
6	Pre-1974 Unfunded ADIT								\$47	\$47	\$45	\$21
7	FAS 96/109 Adjustment								(\$63)	(\$63)	(\$63)	(\$45)
8	Pre-1993 Unfunded ADIT								\$0	\$0	\$0	\$5
9	Total Amortization								(\$16)	(\$16)	(\$18)	(\$19)
10	Depreciation of ITC Basis Reduction								\$15	\$15	\$16	\$16

ADIT

Page 2

SFPF, L.P.
North Line Accumulated Deferred Income Taxes
(\$000's)

Worksheet 4
Page 2 of 2

Line No.	Description	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
<u>ADIT Balance:</u>													
1	Unadjusted ADIT	\$5,772	\$5,726	\$5,685	\$5,714	\$5,763	\$5,802	\$5,842	\$5,928	\$5,939	\$5,885	\$6,196	\$6,196
2	Unamortized Pre-1974 Unfunded ADIT	(\$106)	(\$95)	(\$85)	(\$76)	(\$66)	(\$57)	(\$43)	(\$36)	(\$29)	(\$23)	(\$16)	(\$16)
3	Amortized FAS 96/109 Adjustment	(\$420)	(\$452)	(\$471)	(\$503)	(\$536)	(\$565)	(\$586)	(\$616)	(\$647)	(\$675)	(\$704)	(\$704)
4	Amortized Pre-1993 Unfunded ADIT	\$11	\$16	\$19	\$24	\$28	\$33	\$37	\$41	\$46	\$50	\$54	\$54
5	Adjusted ADIT	\$5,257	\$5,195	\$5,148	\$5,159	\$5,189	\$5,213	\$5,250	\$5,317	\$5,308	\$5,237	\$5,529	\$5,529
<u>Amortization of ADIT Adjustments:</u>													
6	Pre-1974 Unfunded ADIT	\$12	\$11	\$10	\$9	\$9	\$9	\$8	\$7	\$7	\$7	\$6	\$6
7	FAS 96/109 Adjustment	(\$38)	(\$37)	(\$34)	(\$33)	(\$33)	(\$32)	(\$32)	(\$31)	(\$31)	(\$31)	(\$30)	(\$30)
8	Pre-1993 Unfunded ADIT	\$6	\$6	\$5	\$5	\$5	\$5	\$5	\$4	\$4	\$4	\$4	\$4
9	Total Amortization	(\$20)	(\$20)	(\$19)	(\$19)	(\$19)	(\$19)	(\$19)	(\$20)	(\$20)	(\$20)	(\$20)	(\$20)
10	Depreciation of ITC Basis Reduction	\$16	\$16	\$15	\$13	\$13	\$13	\$14	\$14	\$14	\$14	\$14	\$14

SFPP, L.P.
North Line Capital Structure Percentages
(\$Millions)

Workpaper 5
Page 1 of 2

Line No.	Description	June 30, 1985 1/	Dec. 31, 1984 1/	Dec. 31, 1985 1/	Dec. 31, 1986 1/	Dec. 31, 1987 1/	Dec. 31, 1988 1/	Dec. 31, 1989 2/	Dec. 31, 1990 2/	Dec. 31, 1991 2/	Dec. 31, 1992 2/	Dec. 31, 1993 2/
<u>Capitalization:</u>												
1	Long-Term Debt	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355
2	Stockholders' Equity Including Preferred Stock	\$229	\$229	\$229	\$229	\$229	\$229	\$273	\$288	\$296	\$279	\$266
3	Total Capitalization	\$584	\$584	\$584	\$584	\$584	\$584	\$628	\$643	\$651	\$634	\$621
4	Current Portion of Long-Term Debt											
5	% Expected to be Financed with New Debt											
<u>Revised Capitalization:</u>												
6	Long-Term Debt											
7	Stockholders' Equity Including Preferred Stock											
8	Total Capitalization											
<u>Capital Structure Percentages:</u>												
9	Percentage Debt in Capital Structure	60.74%	60.74%	60.74%	60.74%	60.74%	60.74%	56.53%	55.20%	54.53%	55.99%	57.18%
10	Percentage Equity in Capital Structure	39.26%	39.26%	39.26%	39.26%	39.26%	39.26%	43.47%	44.80%	45.47%	44.01%	42.82%
11	Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

1/ Op. No. 435-A, 91 FERC ¶ 61,135, at p. 61,506 (2000).

2/ SFPP, L.P. annual reports.

3/ Kinder Morgan Energy Partners, L.P. annual reports.

4/ Reflects management strategy

SFPP, L.P.
 North Line Capital Structure Percentages
 (\$Millions)

Workpaper 5
 Page 2 of 2

Line No.	Description	Dec. 31, 1994 2/	Dec. 31, 1995 2/	Dec. 31, 1996 2/	Dec. 31, 1997 2/	Dec. 31, 1998 3/	Dec. 31, 1999 3/	Dec. 31, 2000 3/	Dec. 31, 2001 3/	Dec. 31, 2002 3/	Dec. 31, 2003 3/	Dec. 31, 2004 3/	Test Period 4/
<u>Capitalization:</u>													
1	Long-Term Debt	\$355	\$355	\$355	\$355	\$355							
2	Stockholders' Equity Including Preferred Stock	\$288	\$270	\$263	\$273	\$274							
3	Total Capitalization	\$643	\$625	\$618	\$628	\$629							
4	Current Portion of Long-Term Debt												
5	% Expected to be Financed with New Debt												
<u>Revised Capitalization:</u>													
6	Long-Term Debt												
7	Stockholders' Equity Including Preferred Stock												
8	Total Capitalization												
<u>Capital Structure Percentages:</u>													
9	Percentage Debt in Capital Structure	55.21%	56.79%	57.45%	56.51%	56.44%							
10	Percentage Equity in Capital Structure	44.79%	43.21%	42.55%	43.49%	43.56%							
11	Total	100.00%	100.00%	100.00%	100.00%	100.00%							

1/ Op. No. 435-A, 91 FERC ¶ 61,135, at p. 61,506 (2000).
 2/ SFPP, L.P. annual reports.
 3/ Kinder Morgan Energy Partners, L.P. annual reports.
 4/ Reflects management strategy

SFPP, L.P.
North Line Weighted Average Cost of Debt Workpaper
For the Period Ending December 31, 2003 & 2004
(\$Millions)

Workpaper 6

<u>Source</u>	<u>Debt Description</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Outstanding at 12/31/04</u>	<u>Weighted Interest Rate</u>
(a)	Senior Notes	3/15/05	8.000%	\$200.0	0.35%
(a)	Senior Notes	8/15/07	5.350%	\$249.9	0.29%
(a)	Senior Notes	2/1/09	6.300%	\$249.7	0.34%
(a)	Senior Notes	11/1/10	7.500%	\$249.1	0.40%
(a)	Senior Notes	3/15/11	6.750%	\$698.7	1.02%
(a)	Senior Notes	3/15/12	7.125%	\$448.5	0.69%
(a)	Senior Notes	12/15/13	5.000%	\$497.2	0.54%
(a)	Senior Notes	11/15/14	5.125%	\$499.6	0.55%
(a)	Senior Notes	3/15/31	7.400%	\$299.3	0.48%
(a)	Senior Notes	3/15/32	7.750%	\$298.6	0.50%
(a)	Senior Notes	8/15/33	7.300%	\$499.0	0.79%
(a)	Central Florida Pipeline	7/23/08	7.840%	\$20.0	0.03%
(a)	Commercial Paper	1 - 30 Days; Fin	2.286%	\$416.9	0.21%
(a)	Liquids Perth Amboy Bonds	1/15/18			
(a)	Kinder Morgan River (Global Material Services LLC) Terminals	1/1/10			
(b)	International Marine Terminals Bonds	3/15/06			
(b)	Cora Revenue Bonds - KM Operating L.P. "B" Debt	4/1/24			
(b)					0.00%
(b)					0.00%
(b)					0.00%
(b)					0.00%
	Total Long Term Debt - Excluding Mkt Value of Interest Rate Swaps			<u>\$4,626.5</u>	
	Total and Weighted Average Cost of Debt - Excluding Mkt Value of Interest Rate Swaps				<u>6.19%</u>

Sources: (a) KMEP 2004 10-K, (b) SFPPNL 01755 - SFPP Res. to Tesoro DR. No. 5 - Confidential

KMEP
Weighted Average Cost of Debt
For the Period Ending June 30, 2005
(\$Millions)

<u>Source</u>	<u>Debt Description</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Outstanding at 12/31/04</u>	<u>Weighted Interest Rate</u>
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Debt

Page 2

(c)	Senior Notes	3/15/35	5.800%	\$498.7	0.56%
(c)	Cortez Capital Corp. Senior D Note	5/15/13	7.140%	\$37.5	0.05%
(a)	Senior Notes	8/15/07	5.350%	\$249.9	0.26%
(a)	Senior Notes	2/1/09	6.300%	\$249.7	0.30%
(a)	Senior Notes	11/1/10	7.500%	\$249.1	0.36%
(a)	Senior Notes	3/15/11	6.750%	\$698.7	0.91%
(a)	Senior Notes	3/15/12	7.125%	\$448.5	0.62%
(a)	Senior Notes	12/15/13	5.000%	\$497.2	0.48%
(a)	Senior Notes	11/15/14	5.125%	\$499.6	0.49%
(a)	Senior Notes	3/15/31	7.400%	\$299.3	0.43%
(a)	Senior Notes	3/15/32	7.750%	\$298.6	0.45%
(a)	Senior Notes	8/15/33	7.300%	\$499.0	0.70%
(a)	Central Florida Pipeline	7/23/08	7.840%	\$20.0	0.03%
					0.00%
(c)	Commercial Papers	1 - 30 Days; Fin.	3.149%	\$643.0	0.39%
(b)	Liquids Perth Amboy Bonds	1/15/18			
(b)	Kinder Morgan River (Global Material Services LLC) Terminals	1/1/10			
(b)	International Marine Terminals Bonds	3/15/25			
	Total Long Term Debt - Excluding Mkt Value of Interest Rate Swaps			\$5,188.8	
	Total and Weighted Average Cost of Debt				<u>6.02%</u>

Sources: (a) KMEP 2004 10-K , (b) SFPPNL 01755 - SFPP Res. to Tesoro DR. No. 5 - Confidential,

SFPP, L.P.
North Line Working Capital Workpaper
(\$000's)

Workpaper 7
Page 1 of 2

Line No.	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	
<u>13-Mo Avg. Working Capital:</u>													
1	Oil Inventory	Schedule 7	\$129	\$105	\$93	\$61	\$66	\$63	\$44	\$17	\$13	\$13	\$13
2	Materials and Supplies	Schedule 7	\$960	\$992	\$1,010	\$1,108	\$1,184	\$1,512	\$1,645	\$1,612	\$1,470	\$1,389	\$1,325
3	Prepayments	Schedule 7	\$1,359	\$1,394	\$1,751	\$1,564	\$1,591	\$1,974	\$2,313	\$3,434	\$2,925	\$3,022	\$3,256
4	Total	Lines (1 + 2 + 3)	\$2,448	\$2,491	\$2,854	\$2,733	\$2,841	\$3,549	\$4,002	\$5,063	\$4,409	\$4,424	\$4,595
<u>North Line CPIS % to</u>													
5	Total Company	Schedule 7	8.44%	7.52%	6.03%	6.67%	7.46%	6.79%	5.80%	5.76%	5.78%	5.59%	5.62%
<u>North Line Working Capital:</u>													
6	Oil Inventory	Lines (1 * 5)	\$11	\$8	\$6	\$4	\$5	\$4	\$3	\$1	\$1	\$1	\$1
7	Materials and Supplies	Lines (2 * 5)	\$81	\$75	\$61	\$74	\$88	\$103	\$96	\$93	\$85	\$78	\$75
8	Prepayments	Lines (3 * 5)	\$115	\$105	\$106	\$104	\$119	\$134	\$134	\$198	\$169	\$169	\$183
9	Total	Lines (6 + 7 + 8)	\$206	\$187	\$172	\$182	\$212	\$241	\$232	\$292	\$255	\$247	\$258

Worksheet 7
Page 2 of 2

Work Cap

SFPF, L.P.
North Line Working Capital Worksheet
(\$000's)

Line No.	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
<u>12-Mo. Avg. Working Capital:</u>													
1	Oil Inventory	\$13	\$20	\$131	\$383	\$545	\$224	\$200	\$31	\$0	\$0	\$0	\$0
2	Materials and Supplies	\$1,312	\$1,348	\$1,241	\$1,216	\$761	\$790	\$903	\$1,001	\$1,335	\$1,549	\$1,597	\$1,597
3	Prepayments	\$2,626	\$3,531	\$3,209	\$3,270	\$251	\$2,413	\$2,416	\$2,274	\$2,306	\$2,344	\$1,784	\$1,784
4	Total	\$3,950	\$4,899	\$4,580	\$4,870	\$1,557	\$3,427	\$3,519	\$3,305	\$3,641	\$3,893	\$3,382	\$3,382
<u>North Line CPIS % to</u>													
5	Total Company	5.65%	5.54%	5.52%	5.59%	5.56%	5.41%	5.26%	5.15%	5.14%	5.11%	7.36%	7.36%
<u>North Line Working Capital:</u>													
6	Oil Inventory	\$1	\$1	\$7	\$21	\$30	\$12	\$11	\$2	\$0	\$0	\$0	\$0
7	Materials and Supplies	\$74	\$75	\$68	\$68	\$42	\$43	\$47	\$52	\$69	\$79	\$117	\$117
8	Prepayments	\$148	\$196	\$177	\$183	\$14	\$130	\$127	\$117	\$118	\$120	\$131	\$131
9	Total	\$223	\$271	\$253	\$272	\$87	\$185	\$185	\$170	\$187	\$199	\$249	\$249

TY Labor

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 300 – Salaries and Wages Merit Increase
 (\$000's)

Workpaper 8

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>
1	Base Period Salaries & Wages	Statement B, Line 1	\$989
<u>Annualization of Base Period Merit Program: 1/</u>			
2	Percentage Factor effective for Base Period	(100% * 9 mo) + (103% * 3 mo)	12.09
3	Percentage Factor annualized for Base Period	(103% * 12 mo)	12.36
4	Annualized Base Period Percentage	Lines (3 / 2)	<u>102.2%</u>
5	Adjusted Base Period Salaries & Wages	Lines (1 * 4)	<u>\$1,011</u>
6	Test Period Adjustment	Lines (5 - 1)	<u>\$22</u>

1/ KMEP's 2004 merit program took effect October 1, 2004.

TY Eaviron

Workpaper 9

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 320 – Environmental Remediation Expense
 (\$000's)

Project Code		Location	Project Name	2000	2001	2002	2003	2004	Carrier Percent	N. Line Percent	North Line Amt		
Old	New	Code									2004	5-Yr Avg.	TY Adj.
RE8337	81303	9012	Colfax - stopple T	\$45	\$77	\$98	\$65	\$93	100%	100.00%	\$93	\$76	(\$18)
RE8362	NA	9012	Donner Pass	\$0	\$0	\$0	(\$3)	\$0	100%	100.00%	\$0	(\$1)	(\$1)
ER0428	80286	9025	Waterfront Pacheco	\$0	\$0	\$516	\$0	\$19	100%	33.20%	\$6	\$36	\$29
RE2383	81317	9025	East Yolo	\$0	\$0	\$110	\$0	\$44	100%	33.20%	\$15	\$10	(\$4)
RE8374	NA	9032	Pac. Refining (flange)	\$5	\$31	\$0	\$0	\$0	100%	10.62%	\$0	\$1	\$1
RE2387	81318	9244	Peabody Road	\$0	\$0	\$13	\$87	\$65	100%	33.20%	\$21	\$11	(\$11)
RE8368	81424	9245	Elmira - Fox Road	\$715	\$1,059	\$578	\$497	\$570	100%	33.20%	\$189	\$227	\$38
RE8365	81425	9245	Elmira - A Street	\$1,589	\$4,145	\$568	\$636	\$373	100%	33.20%	\$124	\$485	\$362
RE8110	81194	9744	Concord Term.	\$444	\$469	\$543	\$426	\$659	100%	10.62%	\$70	\$54	(\$16)
RE2386	81321	9764	Elmira Booster	\$0	\$0	\$56	\$21	\$1	100%	33.20%	\$0	\$5	\$5
RE8108	81193	9894	Reno/Sparks	\$1,250	\$1,622	\$1,284	\$2,246	\$1,321	20%	100.00%	\$264	\$309	\$45
RE8230	81178	9895	Richmond Sump I	\$0	\$0	\$0	\$13	\$32	100%	2.63%	\$1	\$0	(\$1)
RE8104	81310	9898	Rocklin Stat.	\$84	\$132	\$235	\$193	\$198	100%	54.79%	\$108	\$92	(\$16)
RE8215	81198	9903	West Sac.	\$25	\$130	\$402	\$198	\$210	100%	54.79%	\$115	\$106	(\$9)
				\$4,158	\$7,666	\$4,404	\$4,379	\$3,585			\$1,007	\$1,411	

TY Op Savings

Worksheet 10

SFPF, L.P.
 North Line Test Period Adjustment Worksheet
 FERC Account 330 - Electric Power Operational Savings
 (\$000's)

Line No.	Description	Volume (a) Co. Records	Discharge Pressure (b) Co. Records	Vol / Press Weight (c) (a) * (b)	Weight % (d) (c) / Total	Concord Elec. Power (e)	North Line Increase % (f) Co. Records	North Line Amount (g) (e) * (f)
1	Concord Station Major Power Exp (2004 Actual)					\$4,392.6		
<u>Allocation of Concord Power for Deliveries to:</u>								
2	Fresno	20,576.9	850	17,490,332	14.7%	\$647.0		
3	Sacramento (14 inch)	41,765.2	800	33,412,174	28.1%	\$1,235.9		
4	San Jose	34,004.7	1,150	39,105,436	32.9%	\$1,446.5		
5	Stockton/Bradshaw	31,017.1	900	27,915,390	23.5%	\$1,032.6		
6	Travis	2,071.8	400	828,738	0.7%	\$30.7		
7	Subtotal	<u>129,435.7</u>		<u>118,752,069</u>	<u>100.0%</u>	<u>\$4,392.6</u>		
<u>Power Cost Equivalent to Elmira (20 x 14 inch)</u>								
8	Cost Equiv. Factor 20 inch (Miles of new 20")		68.7 Miles	(14^2 / 20^2)		49.00%		
9	Cost Equiv. Factor 14 inch (Miles of Remaining 14")		1.5 Miles			100.00%		
10	Total Mileage from Concord to Sacramento		<u>70.2 Miles</u>					
11	Weighted Avg. Cost Equiv. Factor					50.09%		
12	Mileage from Concord to Elmira (14 inch)		29.0 Miles					
13	Distance Factor (Lines 10 / 12)					2.42		
14	New Pipeline Power Cost - Concord-to-Sacramento (Lines 3 * 11 * 13)					\$1,499.2	10.62%	\$159.2
15	Remove Elmira Station Power Exp. (2004 Actual)					(\$1,123.7)	33.20%	(\$373.1)
16	Remove Sacramento (14 inch) portion of Concord Power					(\$1,235.9)	10.62%	(\$131.3)
17	Net Operational Savings (Lines 14 + 15 + 16)					<u>(\$360.5)</u>		<u>(\$345.1)</u>

2004 Volume:

Fresno N	19,302.4
Letmore	1,274.4
Travis AFB	2,071.8
Beale AFB	125.0
Chico	10,299.4
Fallon	634.1
Nev ANG	47.3
Reno	13,184.4
Roseville	1,017.8
Sacramento	16,457.3
San Jose	34,004.7
Bradshaw	10,951.5
Stockton	20,065.6

Facility & Power Expenses (2004):

Facility Electricity (Major Power)	9764	330	720	\$ 966.6
Drug Radiating Agent (Major Power)	9764	330	725	\$ 157.1
Facility Electricity (Major Power)	9744	330	720	\$ 4,392.6

TYROW

SFPP, L.P.

Workpaper 11

North Line Test Period Adjustment Workpaper
 FERC Account 350 – Pipeline Right-of-Way Expense
 (\$000's)

Location Code	Description	Miles	Miles% of Total	Total ROW Allocation	North Line Interstate%	North Line Amount
9008	L.S. 8: Richmond Station - Concord Station 8"	22.90	0.82%	\$66.2	10.70%	\$7.1
9011	L.S. 11: Roseville Station - Colfax Station	33.67	1.21%	\$97.3	100.00%	\$97.3
9012	L.S. 12: Colfax Station - CA/NV Border	71.95	2.58%	\$208.0	100.00%	\$208.0
9013	L.S. 13: CA/NV Border - Reno Terminal	15.21	0.54%	\$44.0	100.00%	\$44.0
9020	L.S. 20: Sacramento Station - Roseville Station 12"	23.61	0.85%	\$68.2	54.79%	\$37.4
9027	L.S. 27: Martinez Station - Concord Station	5.31	0.19%	\$15.3	10.70%	\$1.6
9032	L.S. 32: Pacific Refinery - Rodeo Jct.	1.59	0.06%	\$4.6	10.70%	\$0.5
9033	L.S. 33: Concord Station From L.S. 103	4.56	0.16%	\$13.2	10.70%	\$1.4
9068	L.S. 68: Amorco Station - Martinez Station	0.89	0.03%	\$2.6	10.70%	\$0.3
9069	L.S. 69: Chevron #1 - Richmond P/S for Concord	1.29	0.05%	\$3.7	10.70%	\$0.4
9071	L.S. 71: Tosco/Unocal Terminal - Richmond Station	2.12	0.08%	\$6.1	6.67%	\$0.4
9073	L.S. 73: UDS - Concord Station	2.17	0.08%	\$6.3	10.70%	\$0.7
9075	L.S. 75: Shore - Richmond Station	1.86	0.07%	\$5.4	2.63%	\$0.1
9076	L.S. 76: Shore - L.S. 75	0.82	0.03%	\$2.4	2.63%	\$0.1
9088	L.S. 88: Amorco Station - L.S. 103	0.26	0.01%	\$0.8	10.70%	\$0.1
9089	L.S. 89: Amorco Station - Tosco (Richmond)	0.39	0.01%	\$1.1	6.67%	\$0.1
9103	L.S. 103: Exxon - L.S. 33	3.21	0.11%	\$9.3	10.70%	\$1.0
9211	L.S. 72A: Rodeo Jct. - Martinez Station	13.12	0.47%	\$37.9	10.70%	\$4.1
9244	L.S. 25: Concord Station - Sacramento 14" (BD)	61.16	2.19%	\$176.8	33.20%	\$58.7
	Remaining allocable line sections (non-North Line)	<u>2,525.57</u>	90.47%	<u>\$7,300.7</u>	0.00%	<u>\$0.0</u>
	Total 2004 Base Period	<u>2,791.66</u>		<u>\$8,069.9</u>		<u>\$463.2</u>
9130	L.S. 130: ROW expense for new 20-inch line			\$81.5	33.20%	\$27.1
9244	Less: 2004 allocated ROW on L.S. 25			<u>(\$176.8)</u>	33.20%	<u>(\$58.7)</u>
	Test Period Adjustment			<u>(\$95.3)</u>		<u>(\$31.6)</u>

TY Litigation

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 520 -- FERC Litigation Expense
 (\$000's)

Workpaper 12

Line No.	Year	OR92-8	OR96-2	OR98-11 IS98-1	Other FERC	Total
1	1992	\$407				\$407
2	1993	\$2,006				\$2,006
3	1994	\$2,914				\$2,914
4	1995	\$3,393				\$3,393
5	1996	\$5,997		\$110		\$6,106
6	1997	\$2,356	\$108	\$645		\$3,110
7	1998	\$660	\$95	\$392		\$1,147
8	1999	\$464	\$157	\$1,628		\$2,249
9	2000	\$189	\$2,172	\$836		\$3,197
10	2001	\$349	\$6,049	\$261	\$6	\$6,666
11	2002	\$783	\$3,435	\$0		\$4,218
12	2003	\$1,002	\$890	\$50	\$1	\$1,942
13	2004	\$501	\$1,211	\$746	\$58	\$2,516
14	Total	\$21,021	\$14,118	\$4,668	\$65	\$39,871
15	NL Percentage	0.00%	25.00%	12.50%	25.00%	
16	NL Base Period	\$0	\$303	\$93	\$15	\$410
17	Case Total Avg.	\$1,617	\$1,765	\$519	\$22	\$3,067
18	NL Test Period	\$0	\$441	\$93	\$5	\$540 [1]
19	Test Period Adj.	\$0	\$139	\$0	(\$9)	\$129

[1] Percentages on line 15 multiplied by line 17 for OR96-2 (annual average) and line 13 for OR98-11 (pre-2004 OR98-11 costs focused primarily on issues exclusive to Sepulveda)

TY Depr

Workpaper 13

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 540 - Depreciation and Amortization Expense
 (\$000's)

FERC Acct	Description	CPIS at 12/31/03 (a) 1/	2004 Additions (b)	Test Period Retirements (c) 2/	Depr. Rate (d)	Base Period Depr. Exp. (e)-(a)+(b/2)*(d)	Test Period Depr. Exp. (f)-(a+b+c)*(d)	Test Period Adjustment (g)-(f)-(c)
151	Land	\$1,924	\$0	(\$2)	-			
152	Right of Way	\$596	\$2,416	(\$1)	2.60%	\$47	\$78	\$31
153	Line Pipe	\$5,235	\$3,130	(\$386)	2.22%	\$151	\$177	\$26
154	Line Pipe Fittings	\$815	\$1,470	(\$60)	2.60%	\$40	\$58	\$18
155	Pipeline Construction	\$16,483	\$17,172	(\$662)	2.50%	\$627	\$825	\$198
156	Buildings	\$1,444	\$16	(\$29)	3.25%	\$47	\$47	(\$1)
158	Pumping Equipment	\$2,005	\$131	(\$87)	2.95%	\$61	\$60	(\$1)
160	Other Station Equipment	\$13,346	\$1,352	(\$295)	2.55%	\$358	\$367	\$10
161	Oil Tanks	\$3,173	\$0		3.20%	\$102	\$102	\$0
162	Delivery Facilities	\$403	\$0		3.10%	\$12	\$12	\$0
163	Communication Systems	\$262		(\$2)	3.65%	\$10	\$10	(\$0)
164	Office Furniture and Equipment	\$812	\$62		14.00%	\$118	\$122	\$4
165	Vehicles and Other Work Equipment	\$886	\$71		9.35%	\$86	\$89	\$3
166	Other Property	\$0			2.66%	\$0	\$0	\$0
	Total	\$47,384	\$25,820	(\$1,524)		\$1,659	\$1,948	\$289

1/ Excludes capitalized software

2/ Retirement of Concord to Sacramento 14-inch pipeline and the Elmira pump station

CONFIDENTIAL MATERIAL REMOVED

CONFIDENTIAL MATERIAL REMOVED

CONFIDENTIAL MATERIAL REMOVED

**SWORN DECLARATION OF PETER K. ASHTON IN SUPPORT OF COMPLAINT OF
TESORO REFINING AND MARKETING COMPANY AGAINST SFPP, L.P.**

Pursuant to 28 U.S.C. Sec. 1746, Peter K. Ashton hereby states as follows:

1. My name is Peter K. Ashton, and I am the President of Innovation & Information Consultants, Inc. (IIC, Inc.), an economics and management consulting firm located in Concord, Massachusetts. IIC, Inc. performs applied microeconomic analysis of issues pertaining primarily to the energy industries. We have analyzed all facets of the petroleum industry including regulatory issues related to pipeline ratemaking and pipeline operations. I have filed testimony in several rate matters before FERC in which I analyzed rates and developed cost of service models and stand alone cost models. These cases include *Big West Oil Co. and Chevron Products Co. v. Anschutz Ranch East Pipeline, Inc.*, Docket No. OR01-03-000 and OR01-05-000 (consolidated); *Big West Oil Co. and Chevron Products Co. v. Frontier Pipeline Co.*, Docket No. OR01-02-000 and OR01-04-000 (consolidated); *Big West Oil, LLC, Chevron Products Company, and Tesoro Refining and Marketing Company v. Express Pipeline LLC and Platte Pipe Line Company*, Docket No. OR02-5-000; *Big West Oil, LLC, Chevron Products Company, Sinclair Oil Corporation and Tesoro Refining and Marketing Company v. Express Pipeline LLC*, Docket No. OR02-8-000; *Big West Oil, LLC, Chevron Products Company, and Tesoro Refining and Marketing Company v. Platte Pipe Line Company*, Docket No. IS02-384-000; *Sinclair Oil Corporation v. BP Pipelines (N.A.), Inc.*, Docket No. OR02-6-02; and most recently in *SFPP, L.P.*, Docket No. IS05-230-000.
2. I have also worked on and filed testimony before FERC and other regulatory bodies including the California Public Utilities Commission ("CPUC") on matters such as

market-based rates, terms of access, and the need for quality banks. I have also testified on issues relating to pipeline operations and functions in *The People of the State of California, et al. v. Chevron Corp., et al.*

3. I have assisted various shippers in other matters before FERC, including the Commission's review and analysis of the Form 6 reporting requirements (*Revision to and Electronic Filing of the FERC Form 6 and Related Uniform Systems of Accounts*, Docket No. RM99-10-000) and the five-year review of the rate indexation rules (*Five Year Review of Oil Pipeline Pricing Index*, Docket No. RM00-11-000 and Docket No. RM05-22-000). In addition, I have been retained in several matters before regulatory agencies to develop and analyze cost allocation methodologies for various transportation companies and regulated utilities. Attachment 1 to my declaration is a copy of my curriculum vitae, which provides more information on my qualifications.
4. I have been asked by counsel for Tesoro Refining and Marketing Company (Tesoro) to develop a cost of service analysis for interstate service on SFPP's North Line for the period December 2004 to November 2006 that is consistent with the findings of an Initial Decision that Administrative Law Judge H. Peter Young issued on September 25, 2006 in FERC Docket No. IS05-230. This docket involves a protest of a proposed increase in the rate on the North Line. In addition to developing a cost of service for the North Line that reflects the determinations made by Judge Young, I have also computed a second cost of service for the North Line based on further refinements to the SFPP cost of service, which I believe more accurately reflect SFPP's true cost of service for interstate service on the North Line. Based on these two cost of service analyses, I have concluded that SFPP has been overcharging interstate shippers on the North Line by a significant

amount and that reparations computed according to Commission precedent of \$731,771.67 are due to Tesoro. I have computed these damages based on the interstate volumes shipped by Tesoro and the results of my cost of service analyses. In the remaining portion of this declaration, I describe in detail the cost of service analyses I have performed and then present my computation of reparations on the basis of that analysis.

Cost of Service Analysis Based on the Initial Decision of Administrative Law Judge H.

Peter Young in IS05-230

5. The starting point for my analysis is the cost of service model used by SFPP to defend its proposed rate increase on the North Line in IS05-230. As I indicated above, Judge Young in his initial decision in that case found a number of flaws with SFPP's cost of service analysis, which, when corrected, had the effect of reducing SFPP's actual cost of service. In the Initial Decision, Judge Young found that the rate base that SFPP was using was overstated, that SFPP overstated its operating expenses, that SFPP used an inappropriate and incorrect capital structure, that SFPP's capital structure should include more debt and less equity than SFPP had proposed, that both SFPP's debt and equity costs were too high, and that SFPP is not be entitled to an income tax allowance. I describe below the adjustments I have made to SFPP's North Line cost of service to reflect the changes in SFPP's cost of service that Judge Young found should be made.
6. SFPP's test period rate base included all of the North Line expansion costs that were allocated to interstate service. Judge Young held that interstate shippers should not pay for the portion of those costs that reflected the expansion of the line from 14" to 20" which he found to amount to approximately 30% of the total cost of expansion.

Therefore, I have attempted to include only approximately 70% of the expansion costs in the cost of service that I have formulated to implement Judge Young's findings. SFPP's investment cost database, however, does not provide a clear breakout of these costs. I have therefore found it necessary to approximate this adjustment by deducting 30% of the costs from one line item ("LS 130") reflecting the cost of new investment in the pipeline between Concord and Sacramento.

7. I have also corrected the SFPP North Line cost of service model to reflect two relatively small errors in amortization rates. The first error involves the rate used for the amortization of the write-up of the starting rate base. SFPP incorrectly computed the amortization period as 25.9 years. The correct period of time for amortization is 24.9 years, as recognized by Judge Young and ultimately acknowledged by SFPP. The second adjustment is to the test period amortization rate, which Judge Young also found should be corrected because SFPP used 2003 data rather than 2004 data.
8. Another adjustment that flows from the rate base and amortization rate adjustments is to the test period depreciation amount. Because SFPP's amortization rate must be changed and the rate base must be reduced, the amount of depreciation expense in SFPP's cost of service must also be reduced.
9. The next element in the cost of service model is the determination of the allowed rate of return. This requires the calculation of a weighted average cost of capital, which includes the capital structure (the proportion of debt and equity), as well as the cost of debt and return on equity. Consistent with Judge Young's decision, I have adjusted each of these items.

10. Consistent with Judge Young's Initial Decision, I have also computed the cost of debt for SFPP's parent, KMEP,¹ by excluding so-called special purpose bonds, but I included KMEP's cost of commercial paper since SFPP treats commercial paper as long term debt. These adjustments produce a cost of debt of 6.02%.
11. For the real return on equity I followed Judge Young's Initial Decision and utilized the return on equity proposed by the FERC Staff in IS05-230, which was 9.01% (12.27% nominal return on equity).
12. Consistent with Commission precedent, I used the actual capital structure of SFPP's parent, Kinder Morgan Energy Partners (KMEP). This results in a capital structure of 64.91% debt and 35.09% equity. In computing this capital structure, I considered KMEP's commercial paper as long term debt but excluded from long term debt so-called special purpose bonds which Judge Young stated should be excluded from KMEP's long term debt. In addition, I have made adjustments for so-called purchase accounting adjustments (PAAs), which reflect the write-up of a company's equity portion of its rate base. For example, when KMEP acquired SFPP in 1998, SFPP wrote up the equity portion of its rate base to reflect the premium over the regulatory return that KMEP paid to acquire SFPP. The result was a write-up in both the carrier property and equity component of SFPP's balance sheet. This write-up overly inflates the equity portion of the capital structure. The Commission has found (and Judge Young concurred) that such write-ups are generally not permitted for regulatory ratemaking purposes and therefore should be removed when computing a company's capital structure.

¹ I used KMEP's debt (and capital structure) because SFPP does not issue its own debt and therefore consistent with Commission precedent one looks to the company's parent to compute the cost of debt and capital structure.

13. As a result of these adjustments, SFPP's allowed rate of return is substantially lower than the rate that SFPP computed. Following the principles in Judge Young's decision, I have determined that the weighted average cost of capital that SFPP can apply to the North Line is of 7.29%. That cost of capital when applied to SFPP's North Line net trended original cost rate base of approximately \$53.5 million leads to a maximum permissible rate of return of approximately \$3.9 million.
14. The next element of the cost of service is the income tax allowance. Consistent with the decision of the United States Court of Appeals for the District of Columbia in *BP West Coast Products*² as well as Judge Young's Initial Decision in Docket No. IS05-230, SFPP is not entitled to any income tax allowance. I did not therefore include any such tax allowance in SFPP's cost of service.
15. Next, I turn to the operating expenses portion of the cost of service. The first adjustment I have made in computing SFPP's North Line operating expenses is the allocation of corporate overhead. First, consistent with Judge Young's Initial Decision, I utilized a single tier Massachusetts method and included all KMEP entities in making an allocation of KMEP's corporate overhead costs. I also made appropriate adjustments for PAAs in the gross carrier property balances used in the Massachusetts method, again consistent with prior Commission precedent as well as Judge Young's Initial Decision. Using this approach, I find that the appropriate amount of corporate overhead that should be allocated to SFPP's North Line interstate service is approximately [Privileged and Confidential material removed].

² *BP West Coast Products LLC v. FERC*, 374 F. 3d 1263 (D.C. Circ. 2004).

16. One other specific expense category that must be adjusted is environmental expenses.

SFPP has overstated its test period environmental expenses. Judge Young found that these expenses are no higher than SFPP's base period environmental expenses of \$1 million. I used that \$1 million in formulating the cost of service for SFPP that is consistent with Judge Young's determinations.

17. Finally, although Judge Young's decision did not alter SFPP's proposed throughput for the North Line, the Initial Decision did state that the impact of a new connection serving interstate service should be accounted for in the so-called "route directory" which is used to allocate costs between interstate and intrastate service. Adding the volumes of this new service to the test period reduces slightly the allocation of certain operating costs to interstate North Line service.

18. After making these adjustments to SFPP's North Line interstate cost of service model, I compute the cost of service as shown in Table 1, below. Applying the principles of Judge Young's Initial Decision in IS05-230, based on its cost of service, the maximum permissible rate that SFPP should be allowed to charge, and is \$1.098 per barrel.³

³ This is derived by taking my computed cost of service in the test period of \$15.222 million and dividing it by the throughput of 13,865,807 barrels, which equals \$1.098.

**Table 1
North Line Cost of Service Based on Judge Young's ID**

Description	Base Period	Test Period
Overall Return on Rate Base	\$3,347	\$3,901
Income Tax Allowance	\$0	\$0
Operating Expenses Excl. Depreciation	\$9,262	\$9,037
Depreciation Expense	\$1,711	\$2,000
Amortization of AFUDC	\$23	\$22
Amortization of Deferred Return	\$263	\$263
Total Cost of Service	\$14,606	\$15,222

Cost of Service Analysis Based on Further Adjustments

19. During the IS05-230 hearing, shippers and staff made various arguments that additional adjustments should be made to the SFPP North Line cost of service. These adjustments include further reductions in SFPP's environmental expenses, reduction in litigation expenses, as well as a reduction in SFPP's allowed return on equity. I discuss each of these in turn and show the impact on the cost of service.

20. Data provided by SFPP indicated that the environmental expenses for the North Line during the first eight months of 2005 had declined relative to 2004. When these data are annualized to provide an estimate of SFPP's actual test period (2005) environmental expenses for the interstate portion of the North Line, SFPP's environmental expenses are approximately \$100,000 lower than the \$1 million figure used in the prior analysis.

21. With respect to SFPP litigation expenses, consistent with prior Commission precedent, I have estimated SFPP's litigation expenses by amortizing them over a five-year period and then allocating them on the basis of throughput volumes. As the Commission has recognized, these expenses should not become a permanent part of the rate base, and therefore, it is appropriate to amortize them over a five-year period. The Commission has also found that where litigation costs should properly be shared by more than one pipeline, these costs should be allocated on the basis of the percentage throughput volume of each of the lines. I have made such an allocation, also recognizing that litigation costs relating to the Sepulveda and Watson proceedings should not be allocated to the North Line, again consistent with prior Commission rulings. This reduces SFPP's North Line litigation costs by approximately \$141,000.

22. Finally, I have adjusted the return on equity to recognize the problem inherent in using Master Limited Partnerships (MLPs) in the proxy group of oil pipeline companies under the Commission's DCF method. In prior decisions,⁴ the Commission has recognized that it is inappropriate to use distributions as a proxy for dividends in the DCF formula because distributions include a return *of* capital as well as a return on the capital investment. The Commission has stated that it "will not consider including an MLP in the proxy group unless the record demonstrates that the distribution used as the 'dividend' includes only a payment of earnings and not a return of investment."⁵

23. Unfortunately, there are no suitable oil pipeline companies that can serve as part of the proxy group except for MLPs. In prior testimony, including in IS05-230, I (and others) have recommended two possible ways to deal with this problem. One approach is to use

⁴ *High Island Offshore Systems*, 110 FERC ¶ 61,043, *reh'g denied*, 112 FERC ¶ 61,050 (2005).

⁵ 110 FERC ¶ 61,043 at P 126.

the earnings of the MLPs as a proxy for dividends since dividends are paid from earnings and thus one would not expect earnings to exceed dividends. A second approach is to use the lower end of the range of the MLP results, which use distributions to adjust for the fact that the DCF formula will lead to an overstatement of the true return on equity by using distributions. For present purposes, I have computed a return on equity using earnings as a proxy for dividends. The resulting nominal return on equity is 9.91% and the real return on equity is 7.38%.

24. Making these additional changes to the SFPP cost of service leads to a reduction in the cost of service of approximately \$625,000, resulting in a cost of service of \$14,598,000 as shown in Table 2.

**Table 2
North Line Cost of Service Based on Further Adjustments**

Description	Base Period	Test Period
Overall Return on Rate Base	\$3,347	\$3,528
Income Tax Allowance	\$0	\$0
Operating Expenses Excl. Depreciation	\$9,262	\$8,786
Depreciation Expense	\$1,711	\$2,000
Amortization of AFUDC	\$23	\$21
Amortization of Deferred Return	\$263	\$263
Total Cost of Service	\$14,606	\$14,598

25. In addition, there is considerable evidence, including statements from SFPP personnel, that throughput on the interstate portion of the North Line will increase over time. Based on various studies including data provided by SFPP, I have estimated that test period

throughput volumes will increase by 1.8%. The use of this data results in a throughput volume of 14,120,038. If we were to use this throughput volume and the cost of service shown in Table 2 to compute a just and reasonable rate for the SFPP North Line, then SFPP's maximum permissible rate would be \$1.053 per barrel.⁶

Reparations

26. *The results of my cost of service analyses indicate that SFPP has significantly overcharged Tesoro for the petroleum products that Tesoro has shipped on the SFPP North Line. I have computed reparations, including interest, which Tesoro is entitled to receive for the illegal charges levied on it by SFPP for interstate shipments between December 2004 and November 2006.*
27. *As stated above, \$1.098 is the maximum rate that SFPP could charge shippers based on the application of the principles in Judge Young's decision to SFPP's cost of service. The maximum rate that I calculated based on Judge Young's decision and Tesoro's objections to that decision is \$1.053. However, in calculating reparations counsel has asked me to use a higher rate of \$1.10 per barrel, which I understand is SFPP's grandfathered rate. Table 3, which I have included as an attachment to my Declaration, states the reparations owed Tesoro for interstate shipments under SFPP's 1992 EPA Act grandfathered rate.*
28. *In computing reparations, I have been provided with the actual rates that SFPP charged Tesoro under the applicable tariffs over the course of the reparations period. These rates are shown in Column B in Table 3. Column C represents the rate that should have been in effect, absent the illegal tariff increases implemented by SFPP. The monthly*

⁶ That is \$14,598,000 divided by 14,120,038 barrels yields a rate of \$1.053 per barrel.

overcharge margin, Column D, is the difference between the SFPP tariff as implemented and the maximum just and reasonable rate that should have been allowed.

29. I was also provided with Tesoro's monthly interstate volumes shipped under the applicable SFPP tariffs. This data is shown in Column E in Table 3. The monthly reparations amount excluding interest, shown in Column F, is calculated by multiplying the monthly overcharge margin (Column D) by the monthly volume (Column E) shipped.

30. In September and October 2006, the filed tariff changed mid-month based on the implementation, and subsequent removal, of a \$0.0075 ultra-low sulfur diesel tariff. For these months, I was provided with the volumes shipped under each applicable tariff, and computed the monthly reparations amount, excluding interest, based on individual tariff overcharge margins. These computations are contained in the Note section below the main table in Table 3. I subsequently aggregated the monthly reparations amounts for September and October 2006, and included these results in the body of the table, respectively.

31. In calculating the interest that Tesoro is entitled to receive, I have employed the average prime rate for each calendar quarter, in accordance with past Commission precedent.⁷ The average prime rate is determined by taking the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin, or in the Federal Reserve's "Selected Interest Rates" (Statistical Release H.15) for the most recent three months preceding the calendar quarter.⁸ Therefore, the monthly interest rate to be applied to the reparations due represents the monthly average of the

⁷ SFPP, L.P., Opinion. No 435-A, 91 FERC ¶ 61, 135 at p. 61, 516.

⁸ 18 C.F.R. § 340.1(c)(2)(i) 2006. The regulations state the interest rate shall be taken from the Federal Reserve's Statistical Release G.13. However, this release was discontinued by the Federal Reserve in 2002, but all applicable rates, including the bank prime rate, are available in Release H.15.

average prime rate for the preceding calendar quarter. The monthly interest rates I used are shown in Column G of the attached tables.⁹

32. I calculated the monthly interest, shown in Column K, based on the assumption that payments made for the prior month's shipments occur mid-month in the following month. For example, the transportation charges associated with shipments in June would be paid on the 15th of July. As such, the interest does not begin accruing until the transportation charges are assumed to have been paid, and are lagged by a half month from the end of month reparations amount.

33. Consistent with Commission regulations, interest is compounded quarterly,¹⁰ and I have included the quarterly amounts in Column L. The final reparations due, including interest, represent the end of month reparations for November 2006, plus the monthly interest accrued in the first two months of the fourth quarter of 2006. This amount is shown in Table 4, and is summarized in the following below:

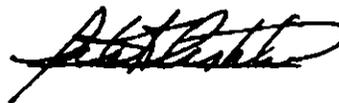
Adjusted Tariff Rate	Reparations Excluding Interest	Interest	Total Reparations
Grandfathered Rate of \$1.10	\$694,520.20	\$37,251.47	\$731,771.67

⁹ The monthly rate is simply the quarterly rate divided by 3.

¹⁰ 18 C.F.R. § 340.1(c)(2)(ii).

I, Peter K. Ashton, hereby state under penalty of perjury that the foregoing is true and correct to the best of my information and belief.

Executed on December 1, 2006.



Peter K. Ashton

Attachment 1

Peter K. Ashton

Peter K. Ashton is a founder of Innovation & Information Consultants, Inc. and serves as its president. Prior to founding Innovation & Information Consultants, Inc., Mr. Ashton was a senior consultant with Putnam, Hayes & Bartlett, Inc. and Charles River Associates Incorporated. He has directed major consulting projects for private clients as well as in the public sector. Mr. Ashton's primary fields of expertise are antitrust and regulatory analyses, valuation of intellectual property, energy economics, and labor market studies. A sample of Mr. Ashton's recent work includes the following:

Expert Testimony and Litigation Support

- Reviewed and analyzed the rates filed by various pipeline companies in several matters before FERC. He has analyzed the cost of service computations of these companies, evaluated rates in comparison with competing carriers, and assessed the impact that rates have on shippers. He has evaluated the market and business environment of pipelines to ascertain the relative riskiness in which such pipelines operate and he has developed financial measures relating to the operating performance of such pipelines. He has employed the Commission's DCF methodology to develop estimates of the required return on equity, evaluated issues related to capital structure, operating expenses and the income tax allowance under 154-B ratemaking principles. Further, he has developed fully-allocated cost procedures for multi-origin/destination pipelines to permit rate analysis along individual origin/destination points.
- Mr. Ashton prepared an expert report and testified regarding the value of crude oil produced in the Gulf of Mexico, and evaluated the cost of transporting this crude oil to onshore marketing points. He evaluated the prices reported by producers of crude oil in this area, and reviewed various transactions relating to this crude oil to determine the market value of this crude oil.
- Mr. Ashton prepared an expert report and testimony on the market value of crude oil produced on federal lands in the United States over the period 1988-1998. He compiled a large database of crude oil transactions that formed the basis for the computation of the arm's length prices for crude oils produced in the Louisiana Gulf, Texas, the Rocky Mountain area and the West Coast. As part of the work he analyzed rates on various crude oil pipelines in each of the affected regions.
- Mr. Ashton provided expert analysis relating to the pricing of gasoline in California and other West Coast markets. He performed various analyses of the relevant markets, pricing trends, reviewed relevant company and third party documents, and assisted counsel in development of the theory of the case. He also assisted other experts in analysis of price and

supply data. More recently, Mr. Ashton has analyzed the pricing of gasoline in the states of Florida and Massachusetts, as well as the Midwest area.

- He has prepared expert reports and testified on numerous occasions in cases involving the computation of lost earnings, lost profits, and other economic losses associated with wrongful death, personal injury and breach of contract claims. Mr. Ashton has also developed various models of earnings capacity in different professions and has performed studies of comparative earnings growth in a variety of professions.
- Mr. Ashton provided expert testimony defining the relevant product and geographic markets for window shade products and also analyzed claims that a distributor and retailer of such products had been charged anticompetitive prices and had been unfairly harmed as a result of violations of California's state antitrust laws. He also developed damage estimates to indicate the dollar value of the harm suffered by the retailer/distributor.
- He provided expert testimony on the damages suffered by the owner of a marina as a result of a gasoline spill. Mr. Ashton's testimony focused on various economic losses including lost profits, loss of goodwill and business interruption losses as well as the general economic conditions facing relevant marina owners at that time.
- Prepared expert testimony before the Maine Public Utilities Commission regarding the ability of a regulated transportation company to set predatory (below-cost) rates in an unregulated business through cross-subsidization. Analyzed the extent to which the regulated utility had market power in the unregulated industry and whether its decision to add additional capacity in the regulated industry would allow it to unfairly expand its business in the unregulated sector.
- Prepared expert testimony before FERC and the California Public Utilities Commission on the filings of several newly-regulated common carrier pipeline companies in California. Mr. Ashton assessed the degree to which the pipeline companies may have been able to exercise market power in setting their rates and compared the carriers' rates to the rates of existing alternative non-regulated carriers and other modes of transportation. Analyzed the rates and critiqued the rate-making methods used by the various pipeline companies.
- Mr. Ashton analyzed the structure and behavior of several major oil companies in the West Coast petroleum industry, focusing on pricing behavior and alleged anticompetitive activities in the crude oil production and refining segments of the business. Mr. Ashton has assessed the degree to which control of the transportation system by the majors has influenced crude oil pricing behavior in this market area. Mr. Ashton has also examined the crude pricing behavior of various refiners, traders, and others during the 1970s, 1980s and 1990s to assess whether posted prices reflected market value and the role played by spot prices in

determining market value. He has also prepared expert analyses regarding the structure of pipeline markets in California and their effect on pricing and on the trend in spot prices.

Public Policy and Tax Issues

- Mr. Ashton has performed a detailed analysis of the impacts of deepwater royalty relief on leasing, exploration and production in the Gulf of Mexico. This study involved the use of econometric models of MMS leasing behavior that analyzed the impacts of competition, royalty relief, changes in technology, movements in oil and gas prices and numerous other factors on lease bonus bids and the number of leases sold. Mr. Ashton also projected future impacts of various royalty relief scenarios on royalty and lease bonus revenue as well as impacts on future exploration, development and production of oil and gas resources in the Gulf of Mexico.
- For the U.S. Small Business Administration, Mr. Ashton directed a study that examined the differential impact of the trend toward electronic commerce and procurement by the federal government. The study concluded that small firms generally are less effective in taking advantage of e-business and e-procurement tools, although small firms are making improvements in their ability to attract business via the web.
- Mr. Ashton is currently analyzing various cost sharing agreements in the pharmaceutical and medical products industries and associated buy-in and buy-out payments for the transfer of intellectual property related to these agreements. Mr. Ashton is valuing the intangible property under these agreements and estimating the reasonably anticipated benefits accruing from such intangibles. He has computed running royalty payments and lump sum payments as compensation for the buy-in and buy-out payments. Mr. Ashton is also reviewing and analyzing the expert reports provided by others on these issues.
- Mr. Ashton directed a study to develop a comprehensive model of the exploration, development and production process of oil and gas resources in the Gulf of Mexico for the Minerals Management Service (MMS). He has developed the economic module that models decision-making behavior with regard to the decision to bring on new resources and determine when it is economic to begin producing from these fields.
- Mr. Ashton completed an expert report valuing various intangible assets transferred by a domestic parent to various foreign corporations for purposes of developing an appropriate arm's length royalty rate consistent with the Section 482 transfer pricing regulations. He examined the relative profitability contributed by these intangible assets domestically and also applied a CPM approach to the application of the intangibles in various foreign markets. He also reviewed and assessed the Section 6662 transfer pricing report of the taxpayer.

- He directed a major study of the transfer pricing program of a major Fortune 500 company and developed alternative benchmarks for determining appropriate transfer prices consistent with Section 482 of the Internal Revenue code. He also analyzed various cost sharing agreements maintained by the company for the allocation of R&D expenses, and the provision of various services provided to foreign subsidiaries.
- He analyzed the fair market value of the worldwide assets of a major multinational company for purposes of determining an appropriate method and basis for allocating interest expense under Section 861 of the IRS regulations. Mr. Ashton has provided expert advice on this issue in several matters, pointing out the need for consistency with the relevant regulations and use of appropriate valuation methods.
- Analyzed the extent to which certain insurance companies were able to pass on an unconstitutional tax to their customers. Mr. Ashton assessed potential market share impacts and the regulatory framework that permitted cost-plus pricing to determine the extent of pass-on. He also utilized tax incidence analysis and econometric studies to derive preliminary estimates of the extent of passthrough of the tax.
- Prepared expert analyses computing an arm's length royalty consistent with Section 482 of the IRS regulations for various intangible assets transferred under a licensing agreement between a domestic parent and a foreign subsidiary. The work involved estimating the value of the technology being transferred and determination of an appropriate royalty rate.
- Analyzed the impact of various tax expenditure programs on small and large firms. Mr. Ashton utilized detailed data from the Treasury to assess the impact on effective tax rates of various programs such as foreign tax credits, low income housing credit, accelerated depreciation, and the business means and entertainment tax deduction.
- Mr. Ashton has analyzed the value of various petroleum companies' upstream oil and gas reserves utilizing a conventional discounted cash flow (DCF) method. As part of this work he has assessed future price forecasts, operating costs, capital costs and abandonment costs of various reserves in a variety of locations throughout the world.

Business Strategy Studies

- For an oil producer, Mr. Ashton evaluated a proposed sliding scale royalty agreement that was pegged to future oil prices. Mr. Ashton analyzed the most likely royalty payment under the proposed scheme given information on projections of crude oil prices, inflation and

production costs over the next ten years. He analyzed alternatives to the proposed royalty schedule and quantified the effect of these alternatives on the estimated royalty payments.

- For an independent crude oil producer, evaluated the various options this producer had to move its crude oil from the field to an ocean terminal in order to be able to qualify for an export license. Mr. Ashton recommended various strategies and performed cost/benefit analyses of each.
- Prepared a detailed study of crude oil marketing in the United States and changes which have occurred in the manner in which crude oil is bought, sold, and traded over the last twenty years. Examined the manner in which crude oil is shipped throughout the country, and the impact of transportation alternatives on marketing options. Also compiled a large database on spot and other relevant crude oil prices and data on quality adjustment factors for use in evaluating various crude oils. Provided supplemental analyses regarding specific market areas in the United States including the Rocky Mountain producing area.
- Mr. Ashton recently completed a forecast of supply and demand factors influencing future oil and gas development and production activity in the Rocky Mountain states. This work included an analysis of the demand and supply for crude oil and refined products in the Rocky Mountain states, including imports of refined products from states outside the area. He also examined the role of Canadian imports into the Rocky Mountain area and projected the demand for such imports over the next 40 years.
- Assisted a major computer manufacturer develop and implement a strategic plan for marketing its computer technology to law firms and other legal entities. This assignment involved developing an overall understanding of the legal marketplace and the demand for automated litigation support equipment as well as planning a strategy to assist in properly positioning the company's products.
- Conducted a detailed study of the business strategies of the leading manufacturers in the motorcycle marketplace to test various hypotheses regarding the dramatic shift in market structure that occurred during the 1980s. Mr. Ashton analyzed trends in market growth, the effects of various government policies, and the effects of various macroeconomic effects on the changes in industry structure.
- Analyzed the fair market value of a large, privately-held corporation with principal operations overseas. Involved assessing the relationship between the host government and the corporation, and providing an estimate of the relative political and environmental stability of conducting business in that country, and its impact on the company's market value.

Mr. Ashton received an A.B. degree in Economics and Political Science from Colby College (*magna cum laude* and *Phi Beta Kappa*) in 1976, and received an M.I.A. degree in International Economics and Business from the School of International Affairs at Columbia University in 1978. Mr. Ashton is a member of the American Economic Association and the Southern Economic Association.

Publications and Speeches (Last 10 Years)

Crude Oil Marketing, prepared for Minerals Management Service, Valuation and Standards Division, July 1997.

"Financial and Economic Indicators of Local Tax Burdens and Incentives to Invest in Various Localities," November 2000.

"Recent Volatility in Gasoline Prices: Is it the Market or the Marketers?" May 2002.

"Cost Sharing Regulations Embodied in the IRS Section 482 Transfer-Pricing Regulations: Recent Experience and Lessons Learned," Internal Revenue Service, CPE Seminars, August 2002.

Modeling Exploration, Development and Production in the Gulf of Mexico, U.S. Department of Interior, Minerals Management Service, Environmental Studies Program, Herndon, VA, OCS Study MMS 2—4-018, March 2004.

The Impact of Tax Expenditure Policies on Incorporated Small Businesses, with Justin White, U.S. Small Business Administration, Office of Advocacy, Washington, D.C., April 2004.

Trends in Electronic Procurement and E-Commerce and Their Impact on Small Business, with Mary Ann Buescher, U.S. Small Business Administration, Office of Advocacy, Washington, D.C., June 2004.

Report on Gasoline Pricing in Florida, with Dr. Keith Leffler, prepared for the Office of the Attorney General, State of Florida, June 2005.

Effects of Royalty Incentives for Gulf of Mexico Oil and Gas Leases, U.S. Department of Interior, Minerals Management Service, Economics Division, Herndon, VA, OCS Study MMS 2004-077, September 2005.

An Empirical Approach to Characterize Rural Small Business Growth and Profitability, with Lee O. Upton and Meghan Overom, U.S. Small Business Administration, Office of Advocacy, Washington, D.C. December 2005.

Testimony (Last 10 Years)

Union Oil Company of California v. Pioneer Oil and Gas et al., Case No. SM92229, Deposition testimony, October 1996; Live testimony, January 1997. Work performed on behalf of McMahon & Spiegel, Los Angeles, CA.

Blind Design, Inc. v. Hunter Douglas, Inc. et al., Case No. 686230, Deposition testimony, February 1997. Work performed on behalf of Sheppard, Mullin, Richter & Hampton, San Diego, CA.

In the Matter of Beacon Oil Company, Contract No. DE-SC01-79-RA-32028, Deposition testimony, February 1997; trial testimony, March 1997. Work performed on behalf of the U.S. Department of Energy.

Brenda Reeves v. George Anderson et al., Case No. CV-95-506, Deposition testimony February 1997. Work performed on behalf of Platz & Thompson, Lewiston, ME.

State of Texas, et al. v. Amoco Production Co. et al., No. 95-08680, Deposition testimony, April 1997. Work performed on behalf of Susman Godfrey, L.L.P.

Timothy Morse v. Frozen at Sea Partners, III et al., Docket No. 96-361-P-H, Deposition testimony, September 1997. Work performed on behalf of Welte & Welte, Camden, ME.

Execu-Tech Business Systems Inc., et al. v. Appleton Papers Inc., et al., Case No. 96-9639, CACE 05, Deposition testimony, September 1997; trial testimony, November-December 1997. Work performed on behalf of Heins, Mills & Olsen, Minneapolis, MN.

Olde Port Mariner Fleet, Inc. Complaint re Casco Bay Island Transit District's Tour and Charter Service, Docket No. 98-161, prepared written direct and rebuttal testimony before the Maine Public Utilities Commission, July and September 1998. Oral testimony, October 1998. Work performed on behalf of Edward F. Bradley, Jr., Portland, ME.

SouthPort Marine v. Boston Towing & Transport and Gulf Oil Corp., deposition and trial testimony, April 1999, work performed on behalf of Welte & Welte, Camden, ME and Flanagan & Hunter, Boston, MA.

Peter R. Bragdon v. Irving J. Morrison, Docket No. CV-98-76, deposition testimony, June 1999, work performed on behalf of Platz & Thompson, P.A., Lewiston, ME.

Northern Utilities, Inc. Petition for Waivers from Chapter 820, Docket No. 99-254, written testimony filed before the Maine Public Utilities Commission, May 2000. Work performed on behalf of Edward F. Bradley, Jr., Portland, ME.

United States ex rel. J. Benjamin Johnson, et al. vs. Shell Oil Company, et al., Case No. 9:96CV66, expert reports and deposition testimony, February, May, and July 2000. Work performed on behalf of the Justice Department, Civil Division, Washington, D.C.

Fidelity Oil Co. vs. Shell Western E&P Inc. and Shell Oil Co., Case No. DV-98-5817, expert report, June 2001, rebuttal report, December 2001. Work performed on behalf of Crowley, Haughey, Hanson, Toole, & Dietrich, P.L.L.P.

Big West Oil Co. v. Frontier Pipeline Company and Express Pipeline Partnership and Chevron Products Company v. Frontier Pipeline Company and Express Pipeline Partnership, Docket Nos. OR01-02-002 and OR01-04-001, prepared direct testimony, November 2001. Worked performed on behalf of Goldstein & Associates, Washington, D.C.

Big West Oil Company v. Anschutz Ranch East Pipeline, Inc. and Express Pipeline Partnership, and Chevron Products Company v. Anschutz Ranch East Pipeline, Inc. and Express Pipeline Partnership, Docket Nos. OR01-03-002 and OR01-05-001, prepared direct testimony, November 2001. Work performed on behalf of Goldstein & Associates, Washington, D.C.

"Gas Prices: How Are They Really Set?" Hearings before the Permanent Subcommittee of Investigations of the Committee on Governmental Affairs, U.S. Senate, May 2, 2002.

Big West Oil, LLC, Chevron Products Company, and Tesoro Refining and Marketing Company v. Express Pipeline LLC and Platte Pipe Line Company, Docket No. OR02-5-000; *Big West Oil, LLC, Chevron Products Company, Sinclair Oil Corporation and Tesoro Refining and Marketing Company v. Express Pipeline LLC*, Docket No. OR02-8-000; *Big West Oil, LLC, Chevron Products Company, and Tesoro Refining and Marketing Company v. Platte Pipe Line Company*, Docket No. IS02-384-000. Prepared direct and answering testimony, March 27, 2003. Worked performed on behalf of Goldstein & Associates, Washington, D.C.

Sinclair Oil Corporation v. BP Pipelines (N.A.), Inc., Docket No. OR02-6-02; Prepared direct testimony, September 2003; rebuttal testimony, March 2004. Work performed on behalf of Goldstein & Associates, Washington, D.C.

Public Hearing on Property Tax Classification, Hearings before Massachusetts Department of Revenue, May 2004, direct testimony on proposed modification to state property tax classification system.

Marc Leslie and Mary Leslie v. Winslow Marine, Inc., Docket No. BATSC-CV-2003-00031; Deposition testimony, February 2005. Work performed on behalf of Tompkins, Clough, Hirshon and Langer, P.A.

Five Year Review of Oil Pipeline Pricing Index, Docket No. RM05-22-000, Declarations filed October 2005, January 2006. Work performed on behalf of Goldstein & Associates, Washington D.C. and Venable LLP, Washington, D.C.

In the matter of *SFPP, L.P.*, Docket No. IS05-230-000, Prepared answering testimony, November 2005; cross examination, February 2006. Work performed on behalf of Goldstein & Associates, Washington D.C.

United States ex. Rel. Bobby Maxwell v. Kerr McGee Corp. et al. C.A. No. 04-1224-PSF. Expert report and deposition testimony, March 2006. Work performed on behalf of Law Offices of Michael Porter, Wheat Ridge, CO.

Attachment 2

[Privileged Information Removed]

ORIGINAL

KINDER MORGAN

ENERGY PARTNERS, L.P.

SFPP, L.P.
Operating Partnership

IS04-323-000

Oil Pipeline Filing
SFPP, L.P.
May 19, 2004

Ms. Magalie R. Salas,
Secretary
Federal Energy Regulatory Commission
888 First Street NE
Washington DC 20426

FILED
OFFICE OF THE
SECRETARY
MAY 20 A 11:26
FEDERAL ENERGY
REGULATORY COMMISSION

Dear Secretary Salas:

In accordance with the requirements of the Interstate Commerce Act (ICA) and the Rules and Regulations of the Federal Energy Regulatory Commission (F.E.R.C.), SFPP, L.P. (SFPP) submits for filing four copies of the following tariffs, effective July 1, 2004:

- F.E.R.C. Tariff No. 104 covers SFPP North Line Interstate movements (Cancels F.E.R.C. Tariff No. 89)
- F.E.R.C. Tariff No. 105 covers SFPP East Line Interstate movements (Cancels F.E.R.C. Tariff No. 90)
- F.E.R.C. Tariff No. 106 covers SFPP West Line Interstate movements (Cancels F.E.R.C. Tariff No. 91)
- F.E.R.C. Tariff No. 107 covers SFPP Oregon Line Interstate movements (Cancels F.E.R.C. Tariff No. 92)
- F.E.R.C. Tariff No. 108 covers SFPP interstate movements from Watson and East Hynes to Calnev Pipe Line, L.L.C. (Cancels F.E.R.C. Tariff No. 93)
- F.E.R.C. Tariff No. 109 covers SFPP interstate movements from Sepulveda Junction to Watson (Cancels F.E.R.C. Tariff No. 94)
- F.E.R.C. Tariff No. 110 - Index of Tariffs (Cancels F.E.R.C. Tariff No. 95)

SFPP is making this filing in compliance with 18 CFR § 342.3, to index the existing rates. All rates in the above submitted tariffs are increased from the prior tariffs. Attached is a summary table of SFPP tariff rates which includes 2003 and 2004 index ceilings, current rates and proposed rates.

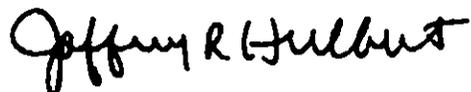
We are also enclosing herewith one additional copy of this transmittal, including all attachments, and respectfully request that it be stamped at the time of filing with the Commission's file stamp and returned for our records.

I hereby certify that copies of these tariffs have been sent via First Class U.S. Postal Service, or other means of transmission agreed upon by the subscriber, to all subscribers on the SFPP, L.P. subscriber list.

In accordance with 18 CFR § 343.3(a), SFPP hereby requests that any protest of the attached tariffs be telefaxed to SFPP in care of Peter M. Dito at (714) 560-4602.

If you have any questions regarding this filing, please contact the undersigned at (714) 560-4640.

Sincerely,



Jeffrey R. Hulbert
Sr. Project Manager
Economics and Regulatory Analysis

cc: David Ulevich
Federal Energy Regulatory Commission
888 First Street NE
Washington DC 20426

F.E.R.C. No. 104

~~Cancel F.E.R.C. No. 89)~~

**FILED
OFFICE OF THE
SECRETARY**

MAY 20 A 11:26

**FEDERAL ENERGY
REGULATORY COMMISSION**

**SFPP, L.P.
LOCAL PIPELINE TARIFF**

**CONTAINING
RATES**

**APPLYING ON THE TRANSPORTATION
OF
PETROLEUM PRODUCTS
BY PIPELINE**

**From Richmond and Concord (Contra Costa County), CA
To Reno/Sparks (Washoe County), NV**

THIS TARIFF APPLIES TO INTERSTATE TRAFFIC ONLY

Rates herein are governed by Rules and Regulations provided in SFPP, L.P.'s Tariff F.E.R.C. No. [W] 103, Supplements thereto and reissues thereof.

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

Issued in compliance with 18 CFR § 342.3.

ISSUED: May 20, 2004

EFFECTIVE: July 1, 2004

Issued By:

**Thomas A. Bannigan, for
SFPP, L.P.
500 Dallas St., Suite 1000
Houston TX 77002**

Compiled By:

**Jeffrey R. Hulbert
1100 Town & Country Road
Orange CA 92868
Voice (714) 560-4640; Fax (714) 560-4602
hulbertj@kindermorgan.com**

SFPP, L.P.
F.E.R.C. No. 104
Page 3 of 4

Notes:	
①	Carrier will make gathering lines available to Shippers for Petroleum Products entering the System at Richmond and Concord, CA.
②	Item 260 "Watson Volume/Pressure Deficiency Charge" does not apply.

Explanation of Reference Marks	
Reference Mark	Explanation
[I]	Increased rate.
[W]	Change in wording.



ORIGINAL

IS05-230-000

2005 APR 28 2:54 PM

SFPP, L.P.
Operating Partnership

April 27, 2005

OIL PIPELINE FILING
SFPP, L.P.

Ms. Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: SFPP, L.P. - North Line Tariff Filing

Dear Ms. Salas:

In compliance with the Interstate Commerce Act and the rules and regulations of the Federal Energy Regulatory Commission, enclosed for filing are three copies of the tariff listed below, which is being filed on behalf of SFPP, L.P. ("SFPP"). The tariff, issued April 28, 2005, will be effective June 1, 2005.

- F.E.R.C. Tariff No. 111 (Cancels F.E.R.C. Tariff No. 104)

The rate contained in the above tariff, for movements on SFPP's North Line from Concord or Richmond, California, to Reno, Nevada, is being increased by twenty cents per barrel.

Schedule One, attached as part of the cost of service schedules supporting the increased rate, lists the current rate, the proposed increase, and proposed rate for the tariff shown above.

A. Reason for this Filing

SFPP is filing this rate increase principally to reflect costs incurred to replace the portion of the North Line that runs from Concord to Sacramento, California. The older portion of that line was originally installed in 1967 and ran through an area that is environmentally sensitive and has become heavily populated. The new pipeline, which cost over \$95 million to construct, became operational in December 2004.

B. Substantial Divergence

SFPP is filing this tariff in accordance with section 342.4(a) of the Commission's regulations, which requires that SFPP demonstrate a substantial divergence between its actual costs and its ceiling rates such that the ceiling rates would preclude SFPP from being able to charge just and reasonable rates. As reflected in the Cost of Service Summary Schedule included with the attached cost of service schedules, SFPP has calculated its cost of service for the test period to be \$20,776,000. Its test period revenue under the current ceiling rate is projected to be approximately \$16,547,000, which would result in an under-recovery of approximately \$4,229,000 or 20.4%. Under the proposed rate, the test period revenue is projected to be approximately \$19,321,000 which would still result in SFPP under-recovering its test period cost of service by approximately \$1,455,000.

C. Cost and Revenue Data

In accordance with 18 C.F.R. §346 of the Commission's regulations, SFPP has attached its cost and revenue data that support the rate increase reflected in the tariff referenced above and its cost of service.

1. *Base and Test Periods.* SFPP used calendar year 2004 as the base period for purposes of identifying its actual cost, throughput, and revenue shown in the attached Statements A-G. SFPP has adjusted the base period data for certain changes in costs that are known and measurable with reasonable accuracy and will become effective by September 30, 2005, consistent with section 346.2(a)(1)(ii) of the Commission's regulations.

2. *Income Tax Allowance.* The Commission is considering in Docket No. PL05-5-000 the income tax allowance to be used by entities such as SFPP to determine their cost of service. SFPP has used a full income tax allowance in the cost of service calculation that supports this filing.

3. *Test Period Adjustments.* SFPP's cost of service calculations reflect the following test year adjustments:

a. *Operating expenses.* SFPP has made four test period adjustments to operating expenses. The amounts for these adjustments are reflected in the Test Period Adjustments column in Statement B. The reasons for the adjustments are shown in a note on Statement B.

b. *Capital structure.* As shown on lines 4-5 of Statement C, SFPP adjusted its capital structure from 55.18% debt / 44.82% equity as of December 31, 2004 to 40% debt / 60% equity. As indicated in note 4 on page 2 of Workpaper 5, the business strategy of SFPP's parent is to maintain a capital structure of approximately 40% debt / 60% equity. From 1997 to 2001, the capital structure was generally consistent with the 40% debt, 60% equity target. (See Workpaper 5, page 2) The equity portion of the capital structure was unusually low as of December 31, 2004. SFPP believes that the

40% debt and 60% equity target more accurately reflects the long-term capital structure of the company.

C. Service

I hereby certify that copies of the tariff and other attachments hereto have been sent to each subscriber on the SFPP subscriber list by first class mail, or by other means of transmission agreed upon by the subscriber.

In accordance with 18 C.F.R. §343.3, please fax any protests filed in connection with this tariff filing to Peter M. Dito at (714) 560-4602.

Should you have any questions, please contact Mr. Dito by telephone at (714) 560-4780 or by E-mail at dito@kindermorgan.com.

We are also enclosing herewith one additional copy of this transmittal, including all attachments, and request that it be stamped at the time of filing with the Commission's file stamp and returned in the enclosed envelope for our records.

Respectfully submitted,



Peter M. Dito
Director, Economics and Regulatory Analysis
1100 Town & Country Road
Orange, CA 92868

cc: Mr. David Ulevich
Federal Energy Regulatory Commission
888 First Street NE
Washington DC 20426

F.E.R.C. No. 111
(Cancels F.E.R.C. No. 104)

SFPP, L.P.
LOCAL PIPELINE TARIFF

CONTAINING
RATES

APPLYING ON THE TRANSPORTATION
OF
PETROLEUM PRODUCTS
BY PIPELINE

From Richmond and Concord (Contra Costa County), CA
To Reno/Sparks (Washoe County), NV

THIS TARIFF APPLIES TO INTERSTATE TRAFFIC ONLY

Rates herein are governed by Rules and Regulations provided in SFPP, L.P.'s Tariff F.E.R.C. No. 103, Supplements thereto and reissues thereof.

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

Issued in compliance with 18 CFR § 342.4(a).

ISSUED: April 28, 2005

EFFECTIVE: June 1, 2005

Issued By:

Thomas A. Bannigan, for
SFPP, L.P.
500 Dallas St., Suite 1000
Houston TX 77002

Compiled By:

Jeffrey R. Hulbert
1100 Town & Country Road
Orange CA 92868
Voice (714) 560-4640; Fax (714) 560-4602
hulbertj@kindermorgan.com

SPPP, L.P.
F.E.R.C. No. 111
Page 3 of 4

Notes:	
①	Carrier will make gathering lines available to Shippers for Petroleum Products entering the System at Richmond and Concord, CA.
②	Item 260 "Watson Volume/Pressure Deficiency Charge" does not apply.

Explanation of Reference Marks	
Reference Mark	Explanation
[1]	Increased rate.

SFFP, L.P. North Line Interstate	
<u>Table of Contents</u>	
Cost of Service Summary Schedule	
Statement A	Total Cost of Service
Statement B	Operation And Maintenance Expense
Statement C	Overall Return on Rate Base
Statement D	Income Taxes
Statement E1	Rate Base
Statement E2	Calculation of Deferred Return
Statement F1	Allowance for Funds Used During Construction ("AFUDC")
Statement F2	Calculation of AFUDC Amortization
Statement G	Revenues
Schedule I	Summary of Proposed Rates and Current Ceiling Rates
<u>Workpapers:</u>	
Workpaper 1	Calculation of Amortization Rates and Useful Remaining Life
Workpaper 2	Calculation of Deferred Return Amortization
Workpaper 3	Calculation of Starting Rate Base and SRB Amortization
Workpaper 4	Summary of Accumulated Deferred Income Taxes
Workpaper 5	Calculation of Debt and Equity Capital Structure Ratios
Workpaper 6	Weighted Average Debt Cost
Workpaper 7	Calculation of Working Capital
Workpaper 8	Test Period Expense Adjustment - Salaries & Wages
Workpaper 9	Test Period Expense Adjustment - Environmental Remediation Exp.
Workpaper 10	Test Period Expense Adjustment - Operating Fuel & Power
Workpaper 11	Test Period Expense Adjustment - Right-of-Way Expense
Workpaper 12	Test Period Expense Adjustment - FERC Litigation Expense
Workpaper 13	Test Period Expense Adjustment - Depreciation Expense

Filed Date: April 28, 2005

Tariff No. :FERC 111

SFPF, L.P.
North Line Interstate
Cost of Service Summary Schedule
(All numbers in Thousands)

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Test Period</u>
1	Cost of Service	Statement A, Line 7	\$20,776
2	Barrel Throughput	Company Records	13,866
3	Barrel-Miles Throughput	Company Records	2,856,356
4	Resulting Revenues Under Proposed Rates	Company Records	\$19,321
5	Resulting Revenues Under Current Ceiling Rates	Company Records	\$16,547

SFPP, L.P.
North Line Interstate Cost of Service
(\$000's)

Statement A

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Base Period</u>	<u>Test Period</u>
1	Overall Return on Rate Base	Statement C, Line 16	\$3,658	\$5,031
2	Income Tax Allowance	Statement D, Line 13	\$1,703	\$2,649
3	Operating Expenses Excl. Depreciation	Statement B, Line 21	\$10,567	\$10,746
4	Depreciation Expense	Statement B, Line 13	\$1,711	\$2,053
5	Amortization of AFUDC	Statement F2, Lines (3 + 8)	\$25	\$32
6	Amortization of Deferred Return	Statement E2, Line 14	<u>\$265</u>	<u>\$265</u>
7	Total Cost of Service	Sum Lines (1 through 6)	<u>\$17,929</u>	<u>\$20,776</u>

SFPP, L.P.
 North Line Interstate Operating Expenses
 (\$000's)

Statement B

Line No.	FERC Acct	Description	Source	Base Period	Test Period Adjustments [1]	Test Period Amount
OPERATIONS AND MAINTENANCE						
1	300	Salaries and Wages	Company Records	\$996	\$22	\$1,018
2	310	Materials and Supplies	Company Records	\$217		\$217
3	320	Outside Services	Company Records	\$1,666	\$404	\$2,070
4	330	Operating Fuel and Power	Company Records	\$3,930	(\$345)	\$3,585
5	340	Oil Losses and Shortages	Company Records	(\$161)		(\$161)
6	350	Rentals	Company Records	\$478	(\$32)	\$446
7	390	Other Expenses	Company Records	\$0		\$0
8		Total Operations Expense	Lines (1 through 7)	\$7,126	\$50	\$7,176
GENERAL						
9	500	Salaries and Wages	Company Records	\$0		\$0
10	510	Materials and Supplies	Company Records	\$0		\$0
11	520	Outside Services	Company Records	\$2,786	\$129	\$2,916
12	530	Rentals	Company Records	\$0		\$0
13	540	Depreciation and Amortization	Company Records	\$1,711	\$342	\$2,053
14	550	Employee Benefits	Company Records	\$0		\$0
15	560	Insurance	Company Records	\$0		\$0
16	570	Casualty and Other Losses	Company Records	\$0		\$0
17	580	Pipeline Taxes	Company Records	\$619		\$619
18	590	Other Expenses	Company Records	\$36		\$36
19		Total General Expense	Lines (9 through 18)	\$5,152	\$472	\$5,623
20		Total Operating Expenses	Lines (8 + 19)	\$12,278	\$521	\$12,799
21		Total Operating Exp. Excl. D&A	Lines (20 - 13)	\$10,567	\$179	\$10,746

[1] Test Period Adjustments:

- 300 Adjustment to annualize Kinder Morgan's 2004 merit program
- 320 Adjustment to normalize 2000-2004 environmental remediation expense
- 330 Adjustment to annualize electric power savings associated with North Line expansion
- 350 Adjustment to reflect lower right-of-way costs for the new 20-inch v. the old 14-inch
- 520 Adjustment to normalize FERC litigation expense
- 540 Adjustment to reflect full year depreciation on 2004 capital additions offset by test period retirements

SFPP, L.P.

Statement C

North Line Interstate Overall Return on Rate Base
(\$000's)

Line No.	Description	Source	Base Period	Test Period
1	Net Trended Original Cost Rate Base [1]	Statement E1, Line 16	\$44,344	\$58,288
2	Net Deferred Return [1]	Statement E1, Line 14	\$5,990	\$6,133
3	Subtotal	Lines (1 - 2)	\$38,355	\$52,155
4	Debt Ratio	1.0 - Ln 5	55.18%	40.00%
5	Equity Ratio	Workpaper 5, Line 10	44.82%	60.00%
6	Adjusted Debt Portion of Subtotal	Lines (3 * 4)	\$21,163	\$20,862
7	Equity Portion of Subtotal	Lines (3 * 5)	\$17,192	\$31,293
8	Net Deferred Return	Line 2	\$5,990	\$6,133
9	Adjusted Equity Portion of Subtotal	Lines (7 + 8)	\$23,182	\$37,426
10	Adjusted Debt Ratio	Lines (6 / 1)	47.72%	35.79%
11	Adjusted Equity Ratio	Lines (9 / 1)	52.28%	64.21%
12	Cost of Debt	Workpaper 6, Line 13	6.57%	6.57%
13	Equity Rate of Return (Real)	Docket No. IS05-191-000	9.78%	9.78%
14	Weighted Cost of Capital	Lines ((10 * 12) + (11 * 13))	8.25%	8.63%
15	Net Trended Original Cost Rate Base	Line 1	\$44,344	\$58,288
16	Overall Return on Rate Base	Lines (14 * 15)	\$3,658	\$5,031
17	Weighted Cost of Debt	Lines (10 * 12)	3.14%	2.35%
18	Net Trended Original Cost Rate Base	Line 1	\$44,344	\$58,288
19	Interest Expense	Lines (17 * 18)	\$1,390	\$1,371

Filed April 28, 2005
FERC No. 111

SFPP, L.P.

Statement D

North Line Interstate Income Tax Allowance
(\$000's)

Line No.	Description	Source	Base Period	Test Period
1	Overall Return on Rate Base	Statement C, Line 16	\$3,658	\$5,031
2	Interest Expense	Statement C, Line 19	<u>\$1,390</u>	<u>\$1,371</u>
3	Return on Equity	Lines (1 - 2)	\$2,267	\$3,660
4	Amortization of Deferred Return	Statement E2, Line 14	\$265	\$265
5	Depreciation of ITC Basis Reduction	Workpaper 4, Line 10	\$14	\$14
6	Amortization of Equity AFUDC	Statement F2, Line 3	\$26	\$35
7	Amortization of Tax Rate Adjustments	Workpaper 4, Line 9	<u>\$20</u>	<u>\$20</u>
8	Taxable Allowed Return	Lines (3 + 4 + 5 + 6 - 7)	\$2,553	\$3,954
9	Composite Income Tax Rate	Company Records	40.30%	40.30%
10	Net-to-Tax Multiplier	Line 9 / (1 - Line 9)	<u>67.50%</u>	<u>67.50%</u>
11	Income Tax Allowance - Unadjusted	Lines (8 * 10)	\$1,723	\$2,669
12	Amortization of Tax Rate Adjustments	Line 7	<u>\$20</u>	<u>\$20</u>
13	Income Tax Allowance	Lines (11 - 12)	<u>\$1,703</u>	<u>\$2,649</u>

SPFP, L.P.
North Line Interstate Rate Base
(0000')

Statement E1
Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total Carrier Property in Service														
1	Carrier Property in Service	Company Records	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727	\$38,783
2	Accumulated AFUDC	Statement F1, Line 14	\$0	\$23	\$33	\$239	\$547	\$597	\$609	\$627	\$642	\$634	\$674	\$699
3	Total Carrier Property in Service	Lines (1 + 2)	\$16,612	\$17,210	\$18,049	\$22,723	\$30,650	\$32,825	\$33,460	\$34,361	\$36,071	\$36,819	\$38,401	\$39,482
Total Accumulated Depreciation														
4	Accumulated Depreciation of Carrier Property	Company Records	\$5,477	\$5,918	\$6,303	\$6,820	\$6,114	\$6,855	\$7,685	\$8,490	\$9,485	\$10,487	\$11,533	\$12,670
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	\$0	\$1	\$2	\$6	\$17	\$33	\$52	\$71	\$91	\$113	\$135	\$158
6	Total Accumulated Depreciation	Lines (4 + 5)	\$5,477	\$5,918	\$6,305	\$6,825	\$6,131	\$6,888	\$7,736	\$8,561	\$9,576	\$10,599	\$11,667	\$12,827
7	Net Carrier Property In Service	Lines (3 - 6)	\$11,136	\$11,291	\$11,744	\$16,697	\$24,519	\$25,937	\$25,723	\$25,800	\$26,495	\$26,240	\$26,734	\$26,655
Working Capital														
8	Oil Inventory	Worksheet 7, Line 6	\$11	\$8	\$6	\$4	\$5	\$4	\$3	\$1	\$1	\$1	\$1	\$1
9	Materials and Supplies	Worksheet 7, Line 7	\$81	\$75	\$61	\$74	\$88	\$103	\$96	\$93	\$85	\$78	\$75	\$74
10	Prepayments	Worksheet 7, Line 8	\$115	\$105	\$106	\$104	\$119	\$124	\$134	\$198	\$189	\$189	\$182	\$148
11	Total Working Capital	Lines (8 + 9 + 10)	\$206	\$187	\$172	\$182	\$212	\$241	\$232	\$292	\$255	\$247	\$256	\$223
12	Accumulated Deferred Income Taxes	Worksheet 4, Line 5	\$1,825	\$2,364	\$2,962	\$3,776	\$4,200	\$4,638	\$5,036	\$5,364	\$5,360	\$5,322	\$5,284	\$5,257
13	Original Cost Rate Base	Lines (7 + 11 - 12)	\$9,517	\$9,114	\$8,954	\$13,104	\$20,590	\$21,540	\$20,919	\$20,728	\$21,390	\$21,165	\$21,708	\$21,621
14	Net Deferred Rates	Statement E2, Line 17	\$0	\$341	\$658	\$735	\$1,164	\$1,716	\$2,315	\$3,189	\$3,461	\$3,787	\$4,878	\$4,351
15	Net Starting Rate Base Write-Up	Worksheet 3, Line 20	\$5,013	\$4,819	\$4,626	\$4,432	\$4,238	\$4,044	\$3,851	\$3,657	\$3,463	\$3,270	\$3,076	\$2,882
16	Net Tended Original Cost Rate Base	Lines (13 + 14 + 15)	\$14,530	\$14,274	\$14,238	\$18,271	\$25,932	\$27,300	\$27,085	\$27,494	\$28,314	\$28,222	\$28,862	\$28,854

SFPP, L.P.
 North Line Interstate Rate Base
 (2000's)

Statement E1
 Page 2 of 2

Line No.	Description	Source	1992	1993	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
Total Carrier Property in Service													
1	Carrier Property in Service	Company Records	\$39,082	\$39,972	\$41,633	\$42,434	\$44,276	\$45,539	\$46,396	\$47,030	\$49,606	\$79,643	\$78,119
2	Accumulated AFUDC	Statement F1, Line 14	\$709	\$730	\$763	\$736	\$733	\$751	\$763	\$773	\$811	\$1,025	\$1,111
3	Total Carrier Property in Service	Lines (1 + 2)	\$39,791	\$40,702	\$42,396	\$43,169	\$45,029	\$46,310	\$47,159	\$47,823	\$50,417	\$80,668	\$79,231
Total Accumulated Depreciation													
4	Accumulated Depreciation of Carrier Property	Company Records	\$13,693	\$14,216	\$15,367	\$16,830	\$17,722	\$18,482	\$19,664	\$20,849	\$21,871	\$23,531	\$22,351
5	Accumulated Amortization of AFUDC	Statement F2, Line 11	\$182	\$207	\$231	\$252	\$272	\$282	\$313	\$334	\$356	\$381	\$388
6	Total Accumulated Depreciation	Lines (4 + 5)	\$13,875	\$14,423	\$15,598	\$17,081	\$17,994	\$18,773	\$19,977	\$21,183	\$22,228	\$23,912	\$22,740
7	Net Carrier Property in Service	Lines (3 - 6)	\$25,915	\$26,279	\$26,801	\$26,088	\$27,036	\$27,536	\$27,182	\$26,640	\$28,189	\$56,756	\$56,491
Working Capital													
8	Oil Inventory	Workpaper 7, Line 6	\$1	\$7	\$21	\$30	\$12	\$11	\$2	\$0	\$0	\$0	\$0
9	Materials and Supplies	Workpaper 7, Line 7	\$73	\$68	\$68	\$42	\$43	\$47	\$52	\$69	\$79	\$117	\$117
10	Prepayments	Workpaper 7, Line 8	\$196	\$177	\$183	\$14	\$130	\$127	\$117	\$118	\$120	\$131	\$131
11	Total Working Capital	Lines (8 + 9 + 10)	\$271	\$253	\$272	\$87	\$185	\$185	\$170	\$187	\$199	\$249	\$249
12	Accumulated Deferred Income Taxes	Workpaper 4, Line 5	\$5,193	\$5,148	\$5,159	\$5,189	\$5,213	\$5,290	\$5,317	\$5,308	\$5,237	\$5,329	\$5,529
13	Original Cost Rate Base	Lines (7 + 11 - 12)	\$20,992	\$21,383	\$21,914	\$20,985	\$22,008	\$22,471	\$22,035	\$21,518	\$23,151	\$51,675	\$51,211
14	Net Deferred Return	Statement E2, Line 17	\$4,991	\$4,933	\$5,012	\$5,071	\$5,283	\$5,616	\$5,642	\$5,793	\$5,847	\$6,133	\$6,133
15	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$2,688	\$2,495	\$2,301	\$2,107	\$1,913	\$1,720	\$1,526	\$1,332	\$1,138	\$945	\$945
16	Net Truncated Original Cost Rate Base	Lines (13 + 14 + 15)	\$28,271	\$28,811	\$29,227	\$28,164	\$29,205	\$29,807	\$29,283	\$28,644	\$30,136	\$58,553	\$58,288

SFFP, I.P.

North Line Interstate AFUDC Calculation
(\$000's)

Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Equity Ratio	Workpaper 5, Line 10	39.26%	39.26%	39.26%	39.26%	39.26%	43.47%	44.80%	45.47%	44.01%	42.82%	44.79%
2	Debt Ratio	1.0 - Line 1	60.74%	60.74%	60.74%	60.74%	60.74%	56.53%	55.20%	54.53%	55.99%	57.18%	55.21%
3	Nominal Equity Rate of Return	Comparable Values	15.68%	15.53%	12.83%	16.16%	16.15%	16.38%	17.84%	14.79%	14.63%	14.48%	14.40%
4	Cost of Debt	Company Records	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.42%
5	CPIS Additions	Company Records	\$638	\$869	\$5,564	\$8,257	\$2,234	\$737	\$993	\$1,723	\$872	\$1,652	\$1,131
6	AFUDC - Base %	Exh. No. 357 (RLZ-45)	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%
7	AFUDC Base CPIS Additions	Lines (5 * 6)	\$187	\$255	\$1,630	\$2,419	\$654	\$216	\$291	\$505	\$256	\$484	\$331
8	Equity Portion of AFUDC	Lines (1 * 3 * 7)	\$12	\$16	\$82	\$154	\$41	\$15	\$23	\$34	\$16	\$30	\$2
9	Accumulated Equity AFUDC	Cumulative Line 8	\$12	\$27	\$109	\$263	\$304	\$320	\$343	\$377	\$393	\$423	\$44
10	Debt Portion of AFUDC	Lines (2 * 4 * 7)	\$12	\$16	\$104	\$154	\$42	\$13	\$17	\$29	\$15	\$29	\$1
11	Interest During Construction Booked	Company Records	\$0	\$2	\$0	\$0	\$34	\$16	\$22	\$48	\$19	\$40	\$1
12	Net Debt Portion of AFUDC	Line (10 - 11)	\$12	\$14	\$104	\$154	\$8	(\$3)	(\$5)	(\$19)	(\$4)	(\$11)	\$
13	Accumulated Debt AFUDC	Cumulative Line 10	\$12	\$26	\$130	\$284	\$292	\$289	\$285	\$265	\$261	\$251	\$25
14	Total Accumulated AFUDC	Lines (9 + 13)	\$23	\$53	\$239	\$547	\$597	\$609	\$627	\$642	\$654	\$674	\$69

SFPF, L.P.
North Line Interstate AFUDC Calculation
(\$000's)

Line No.	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Equity Ratio	Workpaper 5, Line 10	43.21%	42.55%	43.49%	68.99%	63.92%	62.33%	59.18%	47.47%	44.45%	44.82%	60.00%
2	Debt Ratio	1.0 - Line 1	56.79%	57.45%	56.51%	31.01%	36.08%	37.67%	40.82%	52.53%	55.55%	55.18%	40.00%
3	Nominal Equity Rate of Return	Comparable Values	14.41%	13.63%	12.64%	12.72%	15.37%	15.55%	12.23%	15.86%	12.95%	13.04%	13.04%
4	Cost of Debt	Company Records	10.23%	9.96%	9.64%	7.79%	6.95%	7.34%	7.23%	7.08%	6.77%	6.57%	6.57%
5	CPTS Additions	Company Records	\$602	\$1,236	\$1,755	\$838	\$2,068	\$1,674	\$862	\$668	\$2,684	\$30,089	\$30,089
6	AFUDC - Base %	Exh. No. 357 (RLZ-45)	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%	29.3%
7	AFUDC Base CPTS Additions	Lines (5 * 6)	\$176	\$362	\$514	\$251	\$606	\$491	\$252	\$196	\$786	\$8,816	\$8,816
8	Equity Portion of AFUDC	Lines (1 * 3 * 7)	\$11	\$21	\$28	\$22	\$60	\$48	\$18	\$15	\$45	\$515	\$690
9	Accumulated Equity AFUDC	Cumulative Line 8	\$436	\$477	\$505	\$527	\$586	\$634	\$652	\$667	\$712	\$1,228	\$1,402
10	Debt Portion of AFUDC	Lines (2 * 4 * 7)	\$10	\$21	\$28	\$6	\$15	\$14	\$7	\$7	\$30	\$320	\$232
11	Interest During Construction Booked	Company Records	\$11	\$21	\$23	\$55	\$57	\$63	\$14	\$12	\$37	\$621	\$621
12	Net Debt Portion of AFUDC	Line (10 - 11)	(\$1)	(\$0)	\$5	(\$49)	(\$42)	(\$50)	(\$6)	(\$5)	(\$7)	(\$302)	(\$390)
13	Accumulated Debt AFUDC	Cumulative Line 10	\$253	\$253	\$258	\$209	\$167	\$117	\$111	\$106	\$99	(\$203)	(\$291)
14	Total Accumulated AFUDC	Lines (9 + 13)	\$709	\$730	\$763	\$736	\$753	\$751	\$763	\$773	\$811	\$1,025	\$1,111

SFTF, L.P.
 North Line Interstate Deferred Return Calculation
 (\$000's)

Statement E2
 Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Carrier Property in Service	Statement E1, Line 1	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,831	\$33,734	\$35,429	\$36,185	\$37,727	\$38,783
2	Net Carrier Property Additions	Lines (1 - Prior 1)		\$574	\$810	\$4,487	\$7,619	\$2,126	\$622	\$883	\$1,685	\$736	\$1,543	\$1,056
3	Equity Ratio	Worksheet 3, Line 10		39.28%	39.28%	39.28%	39.28%	39.28%	43.47%	44.80%	45.47%	44.81%	42.82%	44.79%
4	Equity Portion of Carrier Property Additions	Lines (2 * 3)		\$225	\$318	\$1,762	\$2,991	\$835	\$270	\$396	\$771	\$333	\$660	\$473
5	Carrier Property in Trending Base	Lines (4 + Prior 5) [1]	\$6,522	\$4,748	\$7,066	\$8,828	\$11,819	\$12,654	\$12,924	\$13,320	\$14,081	\$14,423	\$15,884	\$15,557
6	Rate of Carrier Property in Trending Base	Lines (5 / 1)	39.28%	39.28%	39.28%	39.28%	39.28%	39.28%	39.34%	39.49%	39.77%	39.86%	39.98%	40.11%
7	Original Cost Rate Base	Statement E1, Line 13	\$9,517	\$9,114	\$8,954	\$13,104	\$20,530	\$21,540	\$20,919	\$20,728	\$21,390	\$21,165	\$21,708	\$21,621
8	Original Cost RB Included in Trending Base	Lines (6 * 7)	\$3,737	\$3,378	\$3,516	\$5,145	\$8,061	\$8,457	\$8,230	\$8,184	\$8,507	\$8,436	\$8,679	\$8,673
9	Net Starting Rate Base Write-Up	Worksheet 3, Line 20	\$5,013	\$4,819	\$4,626	\$4,432	\$4,238	\$4,044	\$3,851	\$3,657	\$3,463	\$3,270	\$3,076	\$2,882
10	Accumulated Net Deferred Return	Line 17		\$341	\$658	\$735	\$1,164	\$1,716	\$2,315	\$3,109	\$3,461	\$3,787	\$4,078	\$4,351
11	Trending Base	Lines (8 + 9 + 10)	\$8,750	\$8,739	\$8,800	\$10,312	\$13,463	\$14,217	\$14,396	\$14,951	\$15,431	\$15,493	\$15,833	\$15,906
12	Inflation Factor	CPI-U (Dec-to-Dec)		3.95%	3.80%	1.10%	4.43%	4.42%	4.65%	6.11%	3.06%	2.98%	2.75%	2.67%
13	Deferred Return	Lines (Prior 11 * 12)		\$346	\$332	997	\$457	\$595	\$661	\$880	\$457	\$448	\$426	\$423
14	Amortization of Deferred Return	Worksheet 2, Line 24		\$5	\$14	\$20	\$28	\$43	\$62	\$85	\$106	\$121	\$133	\$150
15	Accumulated Deferred Return	Cumulative Line 13		\$346	\$678	\$774	\$1,231	\$1,826	\$2,487	\$3,367	\$3,823	\$4,272	\$4,698	\$5,121
16	Accumulated Amortization of Deferred Return	Cumulative Line 14		\$5	\$19	\$40	\$68	\$111	\$172	\$258	\$364	\$483	\$620	\$770
17	Net Deferred Return	Lines (15 - 16)		\$341	\$658	\$735	\$1,164	\$1,716	\$2,315	\$3,109	\$3,461	\$3,787	\$4,078	\$4,351

[1] The 1983 amount reflects Line 1 * Worksheet 3, Line 14

SFPF, L.P.
North Line Interstate Deferred Return Calculation
(2000's)

Statement E1
 Page 2 of 2

Line No.	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Carrier Property in Service	Statement E1, Line 1	\$39,082	\$39,972	\$41,635	\$42,434	\$44,276	\$43,559	\$46,396	\$47,000	\$49,606	\$79,643	\$78,119
2	Net Carrier Property Additions	Lines (1 - Prior 1)	\$299	\$890	\$1,663	\$798	\$1,843	\$1,283	\$837	\$634	\$2,536	\$36,038	\$28,514
3	Equity Ratio	Workpaper 5, Line 10	43.21%	42.55%	43.49%	68.99%	63.92%	62.33%	59.18%	47.47%	44.45%	44.82%	60.00%
4	Equity Portion of Carrier Property Additions	Lines (2 * 3)	\$129	\$379	\$723	\$551	\$1,178	\$800	\$495	\$310	\$1,136	\$13,464	\$17,108
5	Carrier Property in Trending Base	Lines (4 + Prior 5) [1]	\$15,686	\$16,063	\$16,788	\$17,139	\$18,516	\$19,316	\$19,811	\$20,122	\$21,238	\$34,722	\$38,366
6	Ratio of Carrier Property in Trending Base	Lines (5 / 1)	40.14%	40.19%	40.32%	40.86%	41.82%	42.48%	42.70%	42.77%	42.89%	43.60%	49.11%
7	Original Cost Rate Base	Statement E1, Line 13	\$20,992	\$21,383	\$21,914	\$20,985	\$22,008	\$22,471	\$22,035	\$21,518	\$23,151	\$51,475	\$51,211
8	Original Cost RB Included in Trending Base	Lines (6 * 7)	\$8,425	\$8,594	\$8,836	\$8,575	\$9,204	\$9,527	\$9,409	\$9,203	\$9,921	\$22,442	\$25,151
9	Net Starting Rate Base Write-Up	Workpaper 3, Line 20	\$2,688	\$2,495	\$2,301	\$2,107	\$1,913	\$1,720	\$1,526	\$1,332	\$1,138	\$945	\$945
10	Accumulated Net Deferred Return	Line 17	\$4,591	\$4,933	\$5,012	\$5,071	\$5,283	\$5,616	\$5,642	\$5,793	\$5,847	\$6,133	\$6,133
11	Trending Base	Lines (8 + 9 + 10)	\$15,705	\$16,021	\$16,149	\$15,753	\$16,481	\$16,863	\$16,577	\$16,328	\$16,906	\$29,519	\$32,228
12	Inflation Factor	CPI-U (Dec-to-Dec)	2.54%	3.32%	1.70%	1.61%	2.68%	3.39%	1.55%	2.38%	1.88%	3.26%	3.26%
13	Deferred Return	Lines (Prior 11 * 12)	\$484	\$521	\$272	\$260	\$422	\$596	\$261	\$385	\$307	\$551	\$551
14	Amortization of Deferred Return	Workpaper 2, Line 24	\$164	\$180	\$193	\$201	\$210	\$224	\$235	\$244	\$253	\$265	\$265
15	Accumulated Deferred Return	Cumulative Line 13	\$5,525	\$6,046	\$6,319	\$6,579	\$7,001	\$7,557	\$7,818	\$8,213	\$8,520	\$9,071	\$9,871
16	Accumulated Amortization of Deferred Return	Cumulative Line 14	\$994	\$1,113	\$1,306	\$1,507	\$1,717	\$1,941	\$2,176	\$2,419	\$2,673	\$2,938	\$2,938
17	Net Deferred Return	Lines (15 - 16)	\$4,591	\$4,933	\$5,012	\$5,071	\$5,283	\$5,616	\$5,642	\$5,793	\$5,847	\$6,133	\$6,133

[1] The 1983 amount reflects Line 1 * Workpaper 3, Line 14.

SPTT, L.P.
 North Line Interstate AFUDC Amortization
 (\$000's)

Statement F2
 Page 1 of 2

Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Accumulated Equity AFUDC	Statement F1, Line 9	\$12	\$27	\$109	\$263	\$304	\$320	\$343	\$377	\$393	\$423	\$445
2	Amortization Rate	Worksheet 1, Line 9	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%
3	Amortization of Equity AFUDC	Avg. Line 1 * Line 2	\$0	\$1	\$2	\$5	\$8	\$10	\$10	\$11	\$13	\$13	\$15
4	Accumulated Amortization of Equity AFUDC	Cumulative Line 3	\$0	\$1	\$3	\$8	\$16	\$26	\$36	\$47	\$60	\$74	\$88
5	Net Equity AFUDC	Lines (1 - 4)	\$11	\$26	\$106	\$255	\$288	\$294	\$307	\$329	\$333	\$390	\$356
6	Accumulated Debt AFUDC	Statement F1, Line 13	12	26	130	284	292	289	285	265	261	251	254
7	Amortization Rate	Line 2	2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%	3.39%
8	Amortization of Debt AFUDC	Avg. Line 6 * Line 7	\$0	\$1	\$2	\$6	\$8	\$9	\$9	\$9	\$9	\$8	\$9
9	Accumulated Amortization of Debt AFUDC	Cumulative Line 8	\$0	\$1	\$3	\$9	\$17	\$26	\$35	\$44	\$52	\$61	\$69
10	Net Debt AFUDC	Lines (6 - 9)	\$12	\$25	\$127	\$276	\$275	\$263	\$250	\$222	\$209	\$190	\$185
11	Total Accumulated AFUDC Amortization	Lines (4 + 9)	\$1	\$2	\$6	\$17	\$33	\$52	\$71	\$91	\$113	\$135	\$158

SPFP, L.P.
 North Line Interstate AFUDC Amortization
 (\$000's)

Statement F2
 Page 2 of 2

Line No	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Accumulated Equity AFUDC	Statement F1, Line 9	\$456	\$477	\$505	\$519	\$562	\$605	\$622	\$636	\$678	\$1,092	\$961
2	Amortization Rate	Workpaper 1, Line 9	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%
3	Amortization of Equity AFUDC	Avg. Line 1 * Line 2	\$16	\$16	\$16	\$14	\$15	\$16	\$17	\$17	\$18	\$25	\$23
4	Accumulated Amortization of Equity AFUDC	Cumulative Line 3	\$164	\$120	\$136	\$150	\$165	\$181	\$197	\$215	\$233	\$258	\$256
5	Net Equity AFUDC	Lines (1 - 4)	\$351	\$357	\$369	\$369	\$398	\$425	\$425	\$421	\$445	\$834	\$705
6	Accumulated Debt AFUDC	Statement F1, Line 13	253	253	258	214	179	131	126	122	116	(233)	(209)
7	Amortization Rate	Line 2	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.82%	2.75%
8	Amortization of Debt AFUDC	Avg. Line 6 * Line 7	\$9	\$8	\$8	\$7	\$5	\$4	\$4	\$3	\$3	(\$2)	(\$1)
9	Accumulated Amortization of Debt AFUDC	Cumulative Line 8	\$78	\$87	\$95	\$102	\$107	\$111	\$115	\$118	\$122	\$120	\$121
10	Net Debt AFUDC	Lines (6 - 9)	\$175	\$166	\$163	\$112	\$72	\$20	\$11	\$4	(\$5)	(\$35)	\$179
11	Total Accumulated AFUDC Amortization	Lines (4 + 9)	\$182	\$207	\$231	\$252	\$272	\$292	\$312	\$333	\$355	\$378	\$377

SFPP, L.P.
North Line Interstate Operating Revenues
(\$000's)

Statement G

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u> [1]
1	Revenues Under Presently Effective Rates	Company Records	\$16,547
2	Revenues Under Proposed Rates	Company Records	\$19,321
3	Revenues Under Ceiling Rates	Company Records	\$16,547

[1] All revenues above based on Base Period actual volumes

SFPP, L.P.
North Line Interstate
Schedule 1 - Rate Table

<u>Origin</u>	<u>Destination</u>	<u>Product</u>	<u>Current Tariff Rate</u>	<u>Proposed Increase</u>	<u>Proposed Tariff Rate</u>
Richmond/Concord, CA	Reno/Sparks, NV	All	\$1.1934	\$0.2000	\$1.3934

Filed April 28, 2005
FERC No. 111

SFP, L.P.
North Line Amortization Rate Worksheet
(\$000's)

Worksheet 1
Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
1	Carrier Property in Service	Statement E1, Line 1	\$16,612	\$17,186	\$17,996	\$22,484	\$30,103	\$32,229	\$32,851	\$33,734	\$35,429	\$36,185	\$37,727
2	Land	Company Records	\$187	\$194	\$203	\$199	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	\$1,924
3	Depreciable Carrier Property in Service	Lines (1 - 2)	\$16,425	\$16,992	\$17,793	\$22,285	\$28,203	\$30,329	\$30,951	\$31,834	\$33,530	\$34,285	\$35,803
4	Acc. Depreciation of Carrier Property	Statement E1, Line 4	\$5,477	\$5,918	\$6,303	\$6,020	\$6,114	\$6,855	\$7,685	\$8,490	\$9,485	\$10,487	\$11,533
5	Net Depreciable Carrier Property in Service	Lines (3 - 4)	\$10,949	\$11,074	\$11,490	\$16,265	\$22,089	\$23,474	\$23,267	\$23,344	\$24,044	\$23,798	\$24,271
6	Carrier Depreciation Expense	Company Records	\$440	\$474	\$476	\$564	\$704	\$850	\$936	\$969	\$1,032	\$1,136	\$1,157
7	Remaining Life (End of Year)	Lines (5 + 6) / 6	25.9										
8	Useful Life (Years)	Avg Line 3 / Line 6		35.3	36.5	35.5	35.9	34.4	32.7	32.4	31.7	29.8	30.3
9	Amortization Rate	10 / Line 8		2.84%	2.74%	2.82%	2.79%	2.90%	3.06%	3.09%	3.16%	3.35%	3.30%

Line No.	Description	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Carrier Property in Service	Statement E1, Line 1	\$38,783	\$39,082	\$39,972	\$41,635	\$42,434	\$44,276	\$45,559	\$46,396	\$47,050	\$49,606	\$79,643	\$78,119
2	Land	Company Records	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,924	\$1,921
3	Depreciable Carrier Property in Service	Lines (1 - 2)	\$36,860	\$37,158	\$38,048	\$39,712	\$40,510	\$42,352	\$43,636	\$44,473	\$45,126	\$47,682	\$77,720	\$76,198
4	Acc. Depreciation of Carrier Property	Statement E1, Line 4	\$12,678	\$13,693	\$14,216	\$15,367	\$16,830	\$17,722	\$18,482	\$19,664	\$20,849	\$21,871	\$23,531	\$22,351
5	Net Depreciable Carrier Property in Service	Lines (3 - 4)	\$24,190	\$23,465	\$23,832	\$24,345	\$23,680	\$24,630	\$25,154	\$24,809	\$24,277	\$25,811	\$54,189	\$53,847
6	Carrier Depreciation Expense	Company Records	\$1,233	\$1,293	\$1,259	\$1,240	\$1,121	\$1,123	\$1,175	\$1,211	\$1,238	\$1,291	\$1,711	\$2,053
7	Remaining Life (End of Year)	Lines (5 + 6) / 6												
8	Useful Life (Years)	Avg Line 3 / Line 6	29.5	28.6	29.9	30.9	35.8	36.9	36.6	36.4	36.2	36.0	36.7	30.2
9	Amortization Rate	1.0 / Line 8	3.39%	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.73%	3.31%

SFPF, L.P.
 North Line Deferred Return Amortization Worksheet
 (2000's)

Line No.	Description	Source	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1	Deferred Return	Statement E2, Line 13	\$346	\$332	\$97	\$457	\$595	\$661	\$888	\$457	\$448	\$426	\$423
2	Amortization Rate	Worksheet 1, Line 9	2.84%	2.74%	2.82%	2.79%	2.90%	3.00%	3.09%	3.16%	3.25%	3.30%	3.39%
3	Amortization of 1984 Deferred Return	1984 Lines (1 * 2) [1]	\$5	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
4	Amortization of 1985 Deferred Return	1985 Lines (1 * 2) [1]		\$5	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9
5	Amortization of 1986 Deferred Return	1986 Lines (1 * 2) [1]			\$1	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
6	Amortization of 1987 Deferred Return	1987 Lines (1 * 2) [1]				\$4	\$13	\$13	\$13	\$13	\$13	\$13	\$13
7	Amortization of 1988 Deferred Return	1988 Lines (1 * 2) [1]					\$9	\$17	\$17	\$17	\$17	\$17	\$17
8	Amortization of 1989 Deferred Return	1989 Lines (1 * 2) [1]						\$10	\$20	\$20	\$20	\$20	\$20
9	Amortization of 1990 Deferred Return	1990 Lines (1 * 2) [1]							\$14	\$27	\$27	\$27	\$27
10	Amortization of 1991 Deferred Return	1991 Lines (1 * 2) [1]								\$7	\$14	\$14	\$14
11	Amortization of 1992 Deferred Return	1992 Lines (1 * 2) [1]									\$7	\$15	\$15
12	Amortization of 1993 Deferred Return	1993 Lines (1 * 2) [1]										\$7	\$14
13	Amortization of 1994 Deferred Return	1994 Lines (1 * 2) [1]											\$7
14	Amortization of 1995 Deferred Return	1995 Lines (1 * 2) [1]											
15	Amortization of 1996 Deferred Return	1996 Lines (1 * 2) [1]											
16	Amortization of 1997 Deferred Return	1997 Lines (1 * 2) [1]											
17	Amortization of 1998 Deferred Return	1998 Lines (1 * 2) [1]											
18	Amortization of 1999 Deferred Return	1999 Lines (1 * 2) [1]											
19	Amortization of 2000 Deferred Return	2000 Lines (1 * 2) [1]											
20	Amortization of 2001 Deferred Return	2001 Lines (1 * 2) [1]											
21	Amortization of 2002 Deferred Return	2002 Lines (1 * 2) [1]											
22	Amortization of 2003 Deferred Return	2003 Lines (1 * 2) [1]											
23	Amortization of 2004 Deferred Return	2004 Lines (1 * 2) [1]											
24	Total Amortization of Deferred Return	Sum Lines 3-23	\$5	\$14	\$20	\$28	\$43	\$62	\$85	\$106	\$121	\$135	\$150

[1] Half-Year Convention

SFPF, L.P.
 North Line Deferred Return Amortization Worksheet
 (2000's)

Line No.	Description	Source	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
1	Deferred Return	Statement E2, Line 13	\$404	\$521	\$272	\$260	\$422	\$556	\$261	\$395	\$307	\$551	\$551
2	Amortization Rate	Worksheet 1, Line 9	3.49%	3.35%	3.24%	2.79%	2.71%	2.73%	2.75%	2.76%	2.78%	2.73%	3.31%
3	Amortization of 1984 Deferred Return	1984 Lines (1 * 2) [1]	\$18	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
4	Amortization of 1985 Deferred Return	1985 Lines (1 * 2) [1]	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9
5	Amortization of 1986 Deferred Return	1986 Lines (1 * 2) [1]	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
6	Amortization of 1987 Deferred Return	1987 Lines (1 * 2) [1]	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13	\$13
7	Amortization of 1988 Deferred Return	1988 Lines (1 * 2) [1]	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17
8	Amortization of 1989 Deferred Return	1989 Lines (1 * 2) [1]	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
9	Amortization of 1990 Deferred Return	1990 Lines (1 * 2) [1]	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27	\$27
10	Amortization of 1991 Deferred Return	1991 Lines (1 * 2) [1]	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14
11	Amortization of 1992 Deferred Return	1992 Lines (1 * 2) [1]	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
12	Amortization of 1993 Deferred Return	1993 Lines (1 * 2) [1]	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14
13	Amortization of 1994 Deferred Return	1994 Lines (1 * 2) [1]	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14
14	Amortization of 1995 Deferred Return	1995 Lines (1 * 2) [1]	\$7	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14	\$14
15	Amortization of 1996 Deferred Return	1996 Lines (1 * 2) [1]		\$9	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17
16	Amortization of 1997 Deferred Return	1997 Lines (1 * 2) [1]			\$4	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9
17	Amortization of 1998 Deferred Return	1998 Lines (1 * 2) [1]				\$4	\$7	\$7	\$7	\$7	\$7	\$7	\$7
18	Amortization of 1999 Deferred Return	1999 Lines (1 * 2) [1]					\$6	\$11	\$11	\$11	\$11	\$11	\$11
19	Amortization of 2000 Deferred Return	2000 Lines (1 * 2) [1]						\$8	\$15	\$15	\$15	\$15	\$15
20	Amortization of 2001 Deferred Return	2001 Lines (1 * 2) [1]							\$4	\$7	\$7	\$7	\$7
21	Amortization of 2002 Deferred Return	2002 Lines (1 * 2) [1]								\$5	\$11	\$11	\$11
22	Amortization of 2003 Deferred Return	2003 Lines (1 * 2) [1]									\$4	\$9	\$9
23	Amortization of 2004 Deferred Return	2004 Lines (1 * 2) [1]										\$8	\$8
24	Total Amortization of Deferred Return	Sum Lines 3-23	\$164	\$180	\$193	\$201	\$210	\$224	\$235	\$244	\$253	\$265	\$265

[1] Half-Year Convention

SFPF, L.P.
 North Line Starting Rate Base Worksheet
 (000%)

Worksheet 3
 Page 1 of 2

Line No.	Description	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
1	Carrier Property in Service	Company Records	\$16,612										
2	Land	Company Records	\$187										
3	Right of Way ("ROW")	Company Records	\$245										
4	Carrier Property including Land and ROW	Lines (1 - 2 - 3)	\$16,180										
5	Accumulated Depreciation of Carrier Property	Company Records	\$5,477										
6	Accumulated Depreciation of ROW	Company Records	\$158										
7	Accumulated Depreciation including ROW	Lines (5 - 6)	\$5,318										
8	Carrier Property - Percent Depreciated	Lines (7 / 4)	32.87%										
9	Cost of Reproduction New ("CRN")	1983 Valuation Report	\$35,200										
10	CRN Depreciation	Lines (8 * 9)	\$11,570										
11	Net CRN	Lines (9 - 10)	\$23,630										
12	Net Carrier Property including Land and ROW	Lines (4 - 7)	\$10,862										
13	SRB Write-Up at 100% Equity	Lines (11 - 12)	\$12,768										
14	Equity Ratio at June 30, 1985	Worksheet 5, Line 10	39.28%										
15	Equity Portion of SRB Write-Up	Lines (13 * 14)	\$5,013										
16	Remaining Life (Years)	Worksheet 1, Line 7	25.9										
17	Amortization of SRB Write-Up	Lines (15 / 16)	\$194										
18	Amortization of SRB Write-Up	Line 17		\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194
19	Accumulated Amortization of SRB Write-Up	Prior Line 19 + Line 18		\$194	\$387	\$581	\$775	\$969	\$1,162	\$1,356	\$1,550	\$1,744	\$1,937
20	Net Starting Rate Base Write-Up	Lines (15 - 19)	\$5,013	\$4,819	\$4,626	\$4,432	\$4,238	\$4,044	\$3,851	\$3,657	\$3,463	\$3,270	\$3,076

8777, L.P.
 North Line Starting Rate Base Worksheet
 (2006's)

Worksheet 3
 Page 2 of 2

Line No.	Description	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Ending
1	Carrier Property in Service	Company Records												
2	Land	Company Records												
3	Right of Way ("ROW")	Company Records												
4	Carrier Property excluding Land and ROW	Lines (1 - 2 - 3)												
5	Accumulated Depreciation of Carrier Property	Company Records												
6	Accumulated Depreciation of ROW	Company Records												
7	Accumulated Depreciation excluding ROW	Lines (5 - 6)												
8	Carrier Property - Potential Depreciated	Lines (7 / 4)												
9	Cost of Reproduction New ("CRN")	1983 Valuation Report												
10	CRN Depreciation	Lines (8 * 9)												
11	Net CRN	Lines (9 - 10)												
12	Net Carrier Property excluding Land and ROW	Lines (4 - 7)												
13	SRB Write-Up at 100% Equity	Lines (11 - 12)												
14	Equity Ratio at June 30, 1983	Worksheet 3, Line 10												
15	Equity Portion of SRB Write-Up	Lines (13 * 14)												
16	Remaining LMI (Years)	Worksheet 1, Line 7												
17	Amortization of SRB Write-Up	Lines (15 / 16)												
18	Amortization of SRB Write-Up	Line 17	\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194	\$194
19	Accumulated Amortization of SRB Write-Up	Prior Line 19 + Line 18	\$2,131	\$2,325	\$2,519	\$2,712	\$2,906	\$3,100	\$3,294	\$3,487	\$3,681	\$3,875	\$4,068	\$4,262
20	Net Starting Rate Base Write-Up	Lines (15 - 19)	\$2,882	\$2,688	\$2,495	\$2,301	\$2,107	\$1,913	\$1,720	\$1,526	\$1,332	\$1,138	\$945	\$745

SFPF, L.P.
 North Line Accumulated Deferred Income Tax
 (000's)

Line No.	Description	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
ADIT Balance:													
1	Unadjusted ADIT	\$5,772	\$5,726	\$5,685	\$5,714	\$5,763	\$5,802	\$5,842	\$5,928	\$5,939	\$5,885	\$6,196	\$6,196
2	Unamortized Pre-1974 Unfunded ADIT	(\$106)	(\$95)	(\$85)	(\$76)	(\$66)	(\$57)	(\$43)	(\$36)	(\$29)	(\$23)	(\$16)	(\$16)
3	Amortized FAS 96/109 Adjustment	(\$420)	(\$452)	(\$471)	(\$503)	(\$536)	(\$565)	(\$586)	(\$616)	(\$647)	(\$675)	(\$704)	(\$704)
4	Amortized Pre-1993 Unfunded ADIT	\$11	\$16	\$19	\$24	\$28	\$33	\$37	\$41	\$46	\$50	\$54	\$54
5	Adjusted ADIT	<u>\$5,257</u>	<u>\$5,195</u>	<u>\$5,148</u>	<u>\$5,159</u>	<u>\$5,189</u>	<u>\$5,213</u>	<u>\$5,250</u>	<u>\$5,317</u>	<u>\$5,308</u>	<u>\$5,237</u>	<u>\$5,529</u>	<u>\$5,529</u>
Amortization of ADIT Adjustments:													
6	Pre-1974 Unfunded ADIT	\$12	\$11	\$10	\$9	\$9	\$9	\$8	\$7	\$7	\$7	\$6	\$6
7	FAS 96/109 Adjustment	(\$30)	(\$37)	(\$34)	(\$33)	(\$33)	(\$32)	(\$32)	(\$31)	(\$31)	(\$31)	(\$30)	(\$30)
8	Pre-1993 Unfunded ADIT	\$6	\$6	\$5	\$5	\$5	\$5	\$5	\$4	\$4	\$4	\$4	\$4
9	Total Amortization	<u>(\$20)</u>	<u>(\$20)</u>	<u>(\$19)</u>	<u>(\$19)</u>	<u>(\$19)</u>	<u>(\$19)</u>	<u>(\$19)</u>	<u>(\$20)</u>	<u>(\$20)</u>	<u>(\$20)</u>	<u>(\$20)</u>	<u>(\$20)</u>
10	Depreciation of ITC Basis Reduction	<u>\$16</u>	<u>\$16</u>	<u>\$15</u>	<u>\$13</u>	<u>\$13</u>	<u>\$13</u>	<u>\$14</u>	<u>\$14</u>	<u>\$14</u>	<u>\$14</u>	<u>\$14</u>	<u>\$14</u>

SFPP, L.P.
North Line Capital Structure Percentages
(\$Millions)

Worksheet 5
 Page 1 of 2

Line No.	Description	June 30, 1983 1/	Dec. 31, 1984 1/	Dec. 31, 1985 1/	Dec. 31, 1986 1/	Dec. 31, 1987 1/	Dec. 31, 1988 1/	Dec. 31, 1989 2/	Dec. 31, 1990 2/	Dec. 31, 1991 2/	Dec. 31, 1992 2/	Dec. 31, 1993 2/
Capitalization:												
1	Long-Term Debt	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355	\$355
2	Stockholders' Equity Including Preferred Stock	\$229	\$229	\$229	\$229	\$229	\$229	\$273	\$288	\$296	\$279	\$266
3	Total Capitalization	<u>\$584</u>	<u>\$584</u>	<u>\$584</u>	<u>\$584</u>	<u>\$584</u>	<u>\$584</u>	<u>\$628</u>	<u>\$643</u>	<u>\$651</u>	<u>\$634</u>	<u>\$621</u>
4	Current Portion of Long-Term Debt											
5	% Expected to Financed with New Debt											
Revised Capitalization:												
6	Long-Term Debt											
7	Stockholders' Equity Including Preferred Stock											
8	Total Capitalization											
Capital Structure Percentages:												
9	Percentage Debt in Capital Structure	60.74%	60.74%	60.74%	60.74%	60.74%	60.74%	56.53%	55.20%	54.53%	55.99%	57.18%
10	Percentage Equity in Capital Structure	<u>39.26%</u>	<u>39.26%</u>	<u>39.26%</u>	<u>39.26%</u>	<u>39.26%</u>	<u>39.26%</u>	<u>43.47%</u>	<u>44.80%</u>	<u>45.47%</u>	<u>44.01%</u>	<u>42.82%</u>
11	Total	<u>100.00%</u>										

1/ Op. No. 433-A, 91 FERC ¶ 61,135, at p. 61,506 (2000).
 2/ SFPP, L.P. annual reports.
 3/ Kinder Morgan Energy Partners, L.P. annual reports.
 4/ Reflects management strategy

SFPF, L.P.
North Line Capital Structure Percentages
(\$Millions)

Line No.	Description	Dec. 31, 1994 2/	Dec. 31, 1995 2/	Dec. 31, 1996 2/	Dec. 31, 1997 2/	Dec. 31, 1998 3/	Dec. 31, 1999 3/	Dec. 31, 2000 3/	Dec. 31, 2001 3/	Dec. 31, 2002 3/	Dec. 31, 2003 3/	Dec. 31, 2004 3/	Test Period 4/
Capitalization:													
1	Long-Term Debt	\$355	\$355	\$355	\$355	\$612	\$989	\$1,255	\$2,232	\$3,826	\$4,438	\$4,853	
2	Stockholders' Equity including Preferred Stock	\$288	\$270	\$263	\$273	\$1,361	\$1,775	\$2,117	\$3,224	\$3,458	\$3,551	\$3,942	
3	Total Capitalization	\$643	\$625	\$618	\$628	\$1,972	\$2,764	\$3,373	\$5,456	\$7,284	\$7,989	\$8,795	
4	Current Portion of Long-Term Debt						\$209	\$649	\$560		\$2		
5	% Expected to be Financed with New Debt						40%	40%	40%		40%		
Revised Capitalization:													
6	Long-Term Debt						\$1,073	\$1,515	\$2,456	\$3,826	\$4,439	\$4,853	
7	Stockholders' Equity including Preferred Stock						\$1,900	\$2,506	\$3,560	\$3,458	\$3,552	\$3,942	
8	Total Capitalization						\$2,973	\$4,021	\$6,016	\$7,284	\$7,991	\$8,795	
Capital Structure Percentages:													
9	Percentage Debt in Capital Structure	55.21%	56.79%	57.49%	56.51%	31.01%	36.08%	37.67%	40.82%	52.53%	55.59%	55.18%	40.00%
10	Percentage Equity in Capital Structure	44.79%	43.21%	42.55%	43.49%	68.99%	63.92%	62.33%	59.18%	47.47%	44.49%	44.82%	60.00%
11	Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

1/ Op. No. 435-A, 91 FERC ¶ 61,135, at p. 61,506 (2000).
 2/ SFPF, L.P. annual reports.
 3/ Kinder Morgan Energy Partners, L.P. annual reports.
 4/ Reflects management strategy

SFPP, L.P.
 North Line Weighted Average Cost of Debt Workpaper
 For the Period Ending December 31, 2003 & 2004
 (\$Millions)

Workpaper 6

Line No.	Debt Description	Due Date	Interest Rate	Outstanding at 12/31/03	Weighted Interest Rate	Outstanding at 12/31/04	Weighted Interest Rate
1	MLP Senior Bonds	3/15/2005	8.000%	\$199.9	0.43%	\$200.0	0.38%
2	MLP Senior Bonds	8/15/2007	5.350%	\$249.9	0.36%	\$249.9	0.32%
3	MLP Senior Bonds	2/1/2009	6.300%	\$249.6	0.42%	\$249.7	0.37%
4	MLP Senior Bonds	11/1/2010	7.500%	\$248.9	0.50%	\$249.1	0.44%
5	MLP Senior Bonds	3/15/2011	6.750%	\$698.5	1.27%	\$698.7	1.12%
6	MLP Senior Bonds	3/15/2012	7.125%	\$448.3	0.86%	\$448.5	0.76%
7	MLP Senior Bonds	12/15/2013	5.000%	\$496.8	0.67%	\$497.2	0.59%
8	MLP Senior Bonds	2014	5.125%			\$499.6	0.61%
9	MLP Senior Bonds	3/15/2031	7.400%	\$299.3	0.60%	\$299.3	0.53%
10	MLP Senior Bonds	3/15/2032	7.750%	\$298.6	0.62%	\$298.6	0.55%
11	MLP Senior Bonds	8/15/2033	7.300%	\$499.0	0.98%	\$499.0	0.87%
12	Central Florida Pipeline		7.840%	\$25.0	0.05%	\$20.0	0.04%
13	Subtotal			<u>\$3,713.8</u>	<u>6.77%</u>	<u>\$4,209.6</u>	<u>6.57%</u>
14	Other Debt			\$602.7		\$512.8	
15	Mkt Value of Swaps			<u>\$121.5</u>		<u>\$130.2</u>	
16	Total Long Term Debt			<u>\$4,438.0</u>		<u>\$4,852.6</u>	

Source: Kinder Morgan Energy Partners, L.P. annual reports

SFPF, L.P.
 North Line Working Capital Workpaper
 (\$000's)

Workpaper 7
 Page 1 of 2

Line No.	Source	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	
13-Mo Avg. Working Capital:													
1	Oil Inventory	FERC Form No. 6's	\$129	\$105	\$93	\$61	\$66	\$63	\$44	\$17	\$13	\$13	\$13
2	Materials and Supplies	FERC Form No. 6's	\$960	\$992	\$1,010	\$1,108	\$1,184	\$1,512	\$1,645	\$1,612	\$1,470	\$1,389	\$1,325
3	Prepayments	FERC Form No. 6's	\$1,359	\$1,394	\$1,751	\$1,564	\$1,591	\$1,974	\$2,313	\$3,434	\$2,925	\$3,022	\$3,256
4	Total	Lines (1 + 2 + 3)	\$2,448	\$2,491	\$2,854	\$2,733	\$2,841	\$3,549	\$4,992	\$5,063	\$4,409	\$4,424	\$4,595
North Line CPIS % to													
5	Total Company	Company Records	8.44%	7.52%	6.03%	6.67%	7.46%	6.79%	5.80%	5.76%	5.78%	5.59%	5.62%
North Line Working Capital:													
6	Oil Inventory	Lines (1 * 5)	\$11	\$8	\$6	\$4	\$5	\$4	\$3	\$1	\$1	\$1	\$1
7	Materials and Supplies	Lines (2 * 5)	\$81	\$75	\$61	\$74	\$88	\$103	\$96	\$93	\$85	\$78	\$75
8	Prepayments	Lines (3 * 5)	\$115	\$105	\$106	\$104	\$119	\$134	\$134	\$198	\$169	\$169	\$183
9	Total	Lines (6 + 7 + 8)	\$206	\$187	\$172	\$182	\$212	\$241	\$232	\$292	\$255	\$247	\$258

Line No.	Source	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Test Period
13-Mo Avg. Working Capital:													
1	Oil Inventory	FERC Form No. 6's	\$13	\$20	\$131	\$383	\$545	\$224	\$200	\$31	\$0	\$0	\$0
2	Materials and Supplies	FERC Form No. 6's	\$1,312	\$1,348	\$1,241	\$1,216	\$761	\$790	\$903	\$1,001	\$1,335	\$1,549	\$1,597
3	Prepayments	FERC Form No. 6's	\$2,626	\$3,531	\$3,209	\$3,270	\$251	\$2,413	\$2,416	\$2,274	\$2,306	\$2,344	\$1,784
4	Total	Lines (1 + 2 + 3)	\$3,950	\$4,899	\$4,580	\$4,870	\$1,557	\$3,427	\$3,519	\$3,305	\$3,641	\$3,893	\$3,382
North Line CPIS % to													
5	Total Company	Company Records	5.63%	5.34%	5.52%	5.59%	5.56%	5.41%	5.26%	5.15%	5.14%	5.11%	7.36%
North Line Working Capital:													
6	Oil Inventory	Lines (1 * 5)	\$1	\$1	\$7	\$21	\$30	\$12	\$11	\$2	\$0	\$0	\$0
7	Materials and Supplies	Lines (2 * 5)	\$74	\$75	\$68	\$68	\$42	\$43	\$47	\$52	\$69	\$79	\$117
8	Prepayments	Lines (3 * 5)	\$148	\$196	\$177	\$183	\$14	\$130	\$127	\$117	\$118	\$120	\$131
9	Total	Lines (6 + 7 + 8)	\$223	\$271	\$253	\$272	\$87	\$185	\$185	\$170	\$187	\$199	\$249

SFPP, L.P.
North Line Test Period Adjustment Workpaper
FERC Account 300 – Salaries and Wages Merit Increase
(\$000's)

Workpaper 8

<u>Line No.</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>
1	Base Period Salaries & Wages	Statement B, Line 1	\$996
<u>Annualization of Base Period Merit Program: 1/</u>			
2	Percentage Factor effective for Base Period	$(100\% \cdot 9 \text{ mo}) + (103\% \cdot 3 \text{ mo})$	12.09
3	Percentage Factor annualized for Base Period	$(103\% \cdot 12 \text{ mo})$	12.36
4	Annualized Base Period Percentage	Lines (3 / 2)	<u>102.2%</u>
5	Adjusted Base Period Salaries & Wages	Lines (1 * 4)	<u>\$1,018</u>
6	Test Period Adjustment	Lines (5 - 1)	<u>\$22</u>

1/ KMEP's 2004 merit program took effect October 1, 2004.

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 320 - Environmental Remediation Expenses
 (\$000's)

Workpaper 9

Project Code		Location Code	Project Name	2000	2001	2002	2003	2004	Carrier Percent	N. Line Percent	North Line Amt		
Old	New										2004	5-Yr.Avg.	TY Adj.
RE8337	81303	9012	Colfax - stoppie T	\$45	\$77	\$98	\$65	\$93	100%	100.00%	\$93	\$76	(\$18)
RE8362	NA	9012	Donner Pass	\$0	\$0	\$0	(\$3)	\$0	100%	100.00%	\$0	(\$1)	(\$1)
ER0428	80286	9025	Waterfront Pacheco	\$0	\$0	\$516	\$0	\$19	100%	33.20%	\$6	\$36	\$29
RE2383	81317	9025	East Yolo	\$0	\$0	\$110	\$0	\$44	100%	33.20%	\$15	\$10	(\$4)
RE8374	NA	9032	Pac. Refining (flange)	\$5	\$31	\$0	\$0	\$0	100%	10.70%	\$0	\$1	\$1
RE2387	81318	9244	Peabody Road	\$0	\$0	\$13	\$87	\$65	100%	33.20%	\$21	\$11	(\$11)
RE8368	81424	9245	Elmira - Fox Road	\$715	\$1,059	\$578	\$497	\$570	100%	33.20%	\$189	\$227	\$38
RE8365	81425	9245	Elmira - A Street	\$1,589	\$4,145	\$568	\$636	\$373	100%	33.20%	\$124	\$485	\$362
RE8110	81194	9744	Concord Term.	\$444	\$469	\$543	\$426	\$659	100%	10.70%	\$71	\$54	(\$16)
RE2386	81321	9764	Elmira Booster	\$0	\$0	\$56	\$21	\$1	100%	33.20%	\$0	\$5	\$5
RE8108	81193	9894	Reno/Speris	\$1,250	\$1,622	\$1,284	\$2,246	\$1,321	20%	100.00%	\$264	\$309	\$45
RE8230	81178	9895	Richmond Sump I	\$0	\$0	\$0	\$13	\$32	100%	2.63%	\$1	\$0	(\$1)
RE8104	81310	9898	Rocklin Stat.	\$84	\$132	\$235	\$193	\$198	100%	54.79%	\$108	\$92	(\$16)
RE8215	81198	9903	West Sec.	\$25	\$130	\$402	\$198	\$210	100%	54.79%	\$115	\$106	(\$9)
				\$4,158	\$7,666	\$4,404	\$4,379	\$3,585					
											\$1,008	\$1,412	\$404

SFPF, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 330 -- Electric Power Operational Savings
 (\$000's)

Workpaper 10

Line No.	Description	Volume (a) Co. Records	Discharge Pressure (b) Co. Records	Vol / Press Weight (c) (a) * (b)	Weight % (d) (c) / Total	Concord Elec. Power (e)	North Line Interest % (f) Co. Records	North Line Amount (g) (e) * (f)
1	Concord Station Major Power Exp. (2004 Actual)					\$4,392.6		
	<u>Allocation of Concord Power for Deliveries to:</u>							
2	Fresno	20,576.9	850	17,490,332	14.7%	\$647.0		
3	Sacramento (14 inch)	41,765.2	800	33,412,174	28.1%	\$1,235.9		
4	San Jose	34,004.7	1,150	39,105,436	32.9%	\$1,446.5		
5	Stockton/Bradshaw	31,017.1	900	27,915,390	23.5%	\$1,032.6		
6	Travis	2,071.8	400	828,738	0.7%	\$30.7		
7	Subtotal	<u>129,435.7</u>		<u>118,752,069</u>	<u>100.0%</u>	<u>\$4,392.6</u>		
	<u>Power Cost Equivalent to Elmira (20 v 14 inch):</u>							
8	Cost Equiv. Factor 20 inch (Miles of new 20")		68.7 Miles		(14^2 / 20^2)	49.00%		
9	Cost Equiv. Factor 14 inch (Miles of Remaining 14")		1.5 Miles			100.00%		
10	Total Mileage from Concord to Sacramento		<u>70.2 Miles</u>					
11	Weighted Avg. Cost Equiv. Factor					50.09%		
12	Mileage from Concord to Elmira (14 inch)		29.0 Miles					
13	Distance Factor (Lines 10 / 12)					2.42		
14	New Pipeline Power Cost - Concord-to-Sacramento (Lines 3 * 11 * 13)					\$1,499.2	10.70%	\$160.4
15	Remove Elmira Station Power Exp. (2004 Actual)					(\$1,123.7)	33.20%	(\$373.1)
16	Remove Sacramento (14 inch) portion of Concord Power					(\$1,235.9)	10.70%	(\$132.2)
17	Net Operational Savings (Lines 14 + 15 + 16)					<u>(\$860.5)</u>		<u>(\$344.9)</u>

SFTP, L.P.
North Line Test Period Adjustment Workpaper
FERC Account 358 -- Pipeline Right-of-Way Expense
(2004's)

Workpaper 11

Location Code	Description	Miles	Miles% of Total	Total ROW Allocation	North Line Interstate%	North Line Amount
9008	L.S. 8: Richmond Station - Concord Station 8"	22.90	0.82%	\$66.2	10.70%	\$7.1
9011	L.S. 11: Roseville Station - Colfax Station	33.67	1.21%	\$97.3	100.00%	\$97.3
9012	L.S. 12: Colfax Station - CA/NV Border	71.95	2.58%	\$208.0	100.00%	\$208.0
9013	L.S. 13: CA/NV Border - Reno Terminal	15.21	0.54%	\$44.0	100.00%	\$44.0
9020	L.S. 20: Sacramento Station - Roseville Station 12"	23.61	0.85%	\$68.2	54.79%	\$37.4
9027	L.S. 27: Martinez Station - Concord Station	5.31	0.19%	\$15.3	10.70%	\$1.6
9032	L.S. 32: Pacific Refinery - Rodeo Jct.	1.59	0.06%	\$4.6	10.70%	\$0.5
9033	L.S. 33: Concord Station From L.S. 103	4.56	0.16%	\$13.2	10.70%	\$1.4
9068	L.S. 68: Amoco Station - Martinez Station	0.89	0.03%	\$2.6	10.70%	\$0.3
9069	L.S. 69: Chevron #1 - Richmond P/S for Concord	1.29	0.05%	\$3.7	10.70%	\$0.4
9071	L.S. 71: Tosco/Unocal Terminal - Richmond Station	2.12	0.08%	\$6.1	6.67%	\$0.4
9073	L.S. 73: UDS - Concord Station	2.17	0.08%	\$6.3	10.70%	\$0.7
9075	L.S. 75: Shore - Richmond Station	1.86	0.07%	\$5.4	2.63%	\$0.1
9076	L.S. 76: Shore - L.S. 75	0.82	0.03%	\$2.4	2.63%	\$0.1
9088	L.S. 88: Amoco Station - L.S. 103	0.26	0.01%	\$0.8	10.70%	\$0.1
9089	L.S. 89: Amoco Station - Tosco (Richmond)	0.39	0.01%	\$1.1	6.67%	\$0.1
9103	L.S. 103: Exxon - L.S. 33	3.21	0.11%	\$9.3	10.70%	\$1.0
9211	L.S. 72A: Rodeo Jct. - Martinez Station	13.12	0.47%	\$37.9	10.70%	\$4.1
9244	L.S. 25: Concord Station - Sacramento 14" (BD)	61.16	2.19%	\$176.8	33.20%	\$58.7
	Remaining allocable line sections (non-North Line)	2,525.57	90.47%	\$7,300.7	0.00%	\$0.0
	Total 2004 Base Period	2,791.66		\$8,069.9		\$463.2
9130	L.S. 130: ROW expense for new 20-inch line			\$81.5	33.20%	\$27.1
9244	Less: 2004 allocated ROW on L.S. 25			<u>(\$176.8)</u>	33.20%	<u>(\$58.7)</u>
	Test Period Adjustment			<u>(\$95.3)</u>		<u>(\$31.6)</u>

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 520 – FERC Litigation Expense
 (\$000's)

Workpaper 12

Line No.	Year	OR92-8	OR96-2	OR98-11 IS98-1	Other FERC	Total
1	1992	\$407				\$407
2	1993	\$2,006				\$2,006
3	1994	\$2,914				\$2,914
4	1995	\$3,393				\$3,393
5	1996	\$5,997		\$110		\$6,106
6	1997	\$2,356	\$108	\$645		\$3,110
7	1998	\$660	\$95	\$392		\$1,147
8	1999	\$464	\$157	\$1,628		\$2,249
9	2000	\$189	\$2,172	\$836		\$3,197
10	2001	\$349	\$6,049	\$261	\$6	\$6,666
11	2002	\$783	\$3,435	\$0		\$4,218
12	2003	\$1,002	\$890	\$50	\$1	\$1,942
13	2004	\$501	\$1,211	\$746	\$58	\$2,516
14	Total	\$21,021	\$14,118	\$4,668	\$65	\$39,871
15	NL Percentage	0.00%	25.00%	12.50%	25.00%	
16	NL Base Period	\$0	\$303	\$93	\$15	\$410
17	Case Total Avg.	\$1,617	\$1,765	\$519	\$22	\$3,067
18	NL Test Period	\$0	\$441	\$93	\$5	\$540 [1]
19	Test Period Adj.	\$0	\$139	\$0	(\$9)	\$129

[1] Percentages on line 15 multiplied by line 17 for OR96-2 (annual average) and line 13 for OR98-11 (pre-2004 OR98-11 costs focused primarily on issues exclusive to Sepulveda)

SFPP, L.P.
 North Line Test Period Adjustment Workpaper
 FERC Account 540 - Depreciation and Amortization Expense
 (\$000's)

Workpaper 13

FERC Acct	Description	CPIS at 12/31/03 (a) 1/	2004 Additions (b)	Test Period Retirements (c) 2/	Depr. Rate (d)	Base Period Depr. Exp. (e)-(a)*(b/2))*(d)	Test Period Depr. Exp. (f)-(a+b+c)*(d)	Test Period Adjustment (g)-(f)-(e)
151	Land	\$1,924	\$0	(\$2)				
152	Right of Way	\$596	\$2,843	(\$1)	2.60%	\$52	\$89	\$37
153	Line Pipe	\$5,235	\$3,682	(\$386)	2.22%	\$157	\$189	\$32
154	Line Pipe Fittings	\$815	\$1,729	(\$60)	2.60%	\$44	\$65	\$21
155	Pipeline Construction	\$16,483	\$20,203	(\$662)	2.50%	\$665	\$901	\$236
156	Buildings	\$1,444	\$16	(\$29)	3.25%	\$47	\$47	(\$1)
158	Pumping Equipment	\$2,005	\$131	(\$87)	2.95%	\$61	\$60	(\$1)
160	Other Station Equipment	\$13,346	\$1,352	(\$295)	2.55%	\$358	\$367	\$10
161	Oil Tanks	\$3,173	\$0		3.20%	\$102	\$102	\$0
162	Delivery Facilities	\$403	\$0		3.10%	\$12	\$12	\$0
163	Communication Systems	\$262	\$0	(\$2)	3.65%	\$10	\$10	(\$0)
164	Office Furniture and Equipment	\$812	\$62		14.00%	\$118	\$122	\$4
165	Vehicles and Other Work Equipment	\$886	\$71		9.35%	\$86	\$89	\$3
166	Other Property	\$0			2.66%	\$0	\$0	\$0
	Total	\$47,384	\$30,089	(\$1,524)		\$1,711	\$2,054	\$342

1/ Excludes capitalized software

2/ Retirement of Concord to Sacramento 14-inch pipeline and the Elmira pump station

KINDER MORGAN

ENERGY PARTNERS, L.P.

ORIGINAL

SFPP, L.P.
Operating Partnership

FILED
OFFICE OF THE
SECRETARY
MAY 31
2005 1:52

Oil Pipeline Filing
SFPP, L.P.
May 27, 2005

Ms. Magalie R. Salas,
Secretary
Federal Energy Regulatory Commission
888 First Street NE
Washington DC 20426

1505-327-000

Dear Secretary Salas:

In accordance with the requirements of the Interstate Commerce Act (ICA) and the Rules and Regulations of the Federal Energy Regulatory Commission (F.E.R.C.), SFPP, L.P. (SFPP) submits for filing four copies of the following tariffs, effective July 1, 2005:

- F.E.R.C. Tariff No. 112 covers SFPP East Line Interstate movements (Cancels F.E.R.C. Tariff No. 105)
- F.E.R.C. Tariff No. 113 covers SFPP West Line Interstate movements (Cancels F.E.R.C. Tariff No. 106)
- F.E.R.C. Tariff No. 114 covers SFPP Oregon Line Interstate movements (Cancels F.E.R.C. Tariff No. 107)
- F.E.R.C. Tariff No. 115 covers SFPP interstate movements from Watson and East Hynes to Calnev Pipe Line, L.L.C. (Cancels F.E.R.C. Tariff No. 108)
- F.E.R.C. Tariff No. 116 covers SFPP interstate movements from Sepulveda Junction to Watson (Cancels F.E.R.C. Tariff No. 109)
- F.E.R.C. Tariff No. 117 covers SFPP North Line Interstate movements (Cancels F.E.R.C. Tariff No. 111)
- F.E.R.C. Tariff No. 118 - Index of Tariffs (Cancels F.E.R.C. Tariff No. 110)

SFPP is making this filing in compliance with 18 CFR § 342.3, to index the existing rates. All rates in the above submitted tariffs are increased from the prior tariffs. Attached is a summary table of SFPP tariff rates which includes 2004 and 2005 index ceilings, current rates and proposed rates.

In addition to the tariff rate increase, item numbers have been assigned to the Rate Tables for easier identification.

We are also enclosing herewith one additional copy of this transmittal, including all attachments, and respectfully request that it be stamped at the time of filing with the Commission's file stamp and returned for our records.

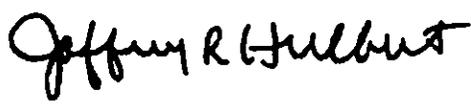
I hereby certify that copies of these tariffs have been sent via First Class U.S. Postal Service, or other means of transmission agreed upon by the subscriber, to all subscribers on the SFPP, L.P. subscriber list.

SFPP, L.P.
Oil Pipeline Filing
May 27, 2005
Page 2 of 2

In accordance with 18 CFR § 343.3(a), SFPP hereby requests that any protest of the attached tariffs be telefaxed to SFPP in care of Peter M. Dito at (714) 560-4602.

If you have any questions regarding this filing, please contact the undersigned at (714) 560-4640.

Sincerely,



Jeffrey R. Hulbert
Sr. Project Manager
Economics and Regulatory Analysis

cc: David Ulevich
Federal Energy Regulatory Commission
888 First Street NE
Washington DC 20426

F.E.R.C. No. 117
(Cancel F.E.R.C. No. 111)

SFPP, L.P.
LOCAL PIPELINE TARIFF

CONTAINING
RATES

APPLYING ON THE TRANSPORTATION
OF
PETROLEUM PRODUCTS
BY PIPELINE

From Richmond and Concord (Contra Costa County), CA
To Reno/Sparks (Washoe County), NV

THIS TARIFF APPLIES TO INTERSTATE TRAFFIC ONLY

Rates herein are governed by Rules and Regulations provided in SFPP, L.P.'s Tariff F.E.R.C. No. 103, Supplements thereto and reissues thereof.

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

Issued in compliance with 18 CFR § 342.4(a).

ISSUED: May 31, 2005

EFFECTIVE: July 1, 2005

Issued By:

Thomas A. Bannigan, for
SFPP, L.P.
500 Dallas St., Suite 1000
Houston TX 77002

Compiled By:

Jeffrey R. Hulbert
1100 Town & Country Road
Orange CA 92868
Voice (714) 560-4640; Fax (714) 560-4602
hulbertj@kindermorgan.com

SPPP, L.P.
 F.E.R.C. No. 117
 Page 2 of 4

[N] Item 310. [W] Local Rates
 (All movements are via SPPP, L.P. pipelines)

FROM :	TO :	Notes	RATE
			In cents per barrel
Richmond, CA (Contra Costa County)	Reno/Sparks, NV (Washoe County)	① ②	144.40 [I]
Concord, CA (Contra Costa County)	Reno/Sparks, NV (Washoe County)	① ②	144.40 [I]

Exceptions to RULES AND REGULATIONS
 Contained in FERC No. 103, Item 40, including
 supplements thereto and releases thereof.

Item 40. Minimum Batch and Delivery Requirements

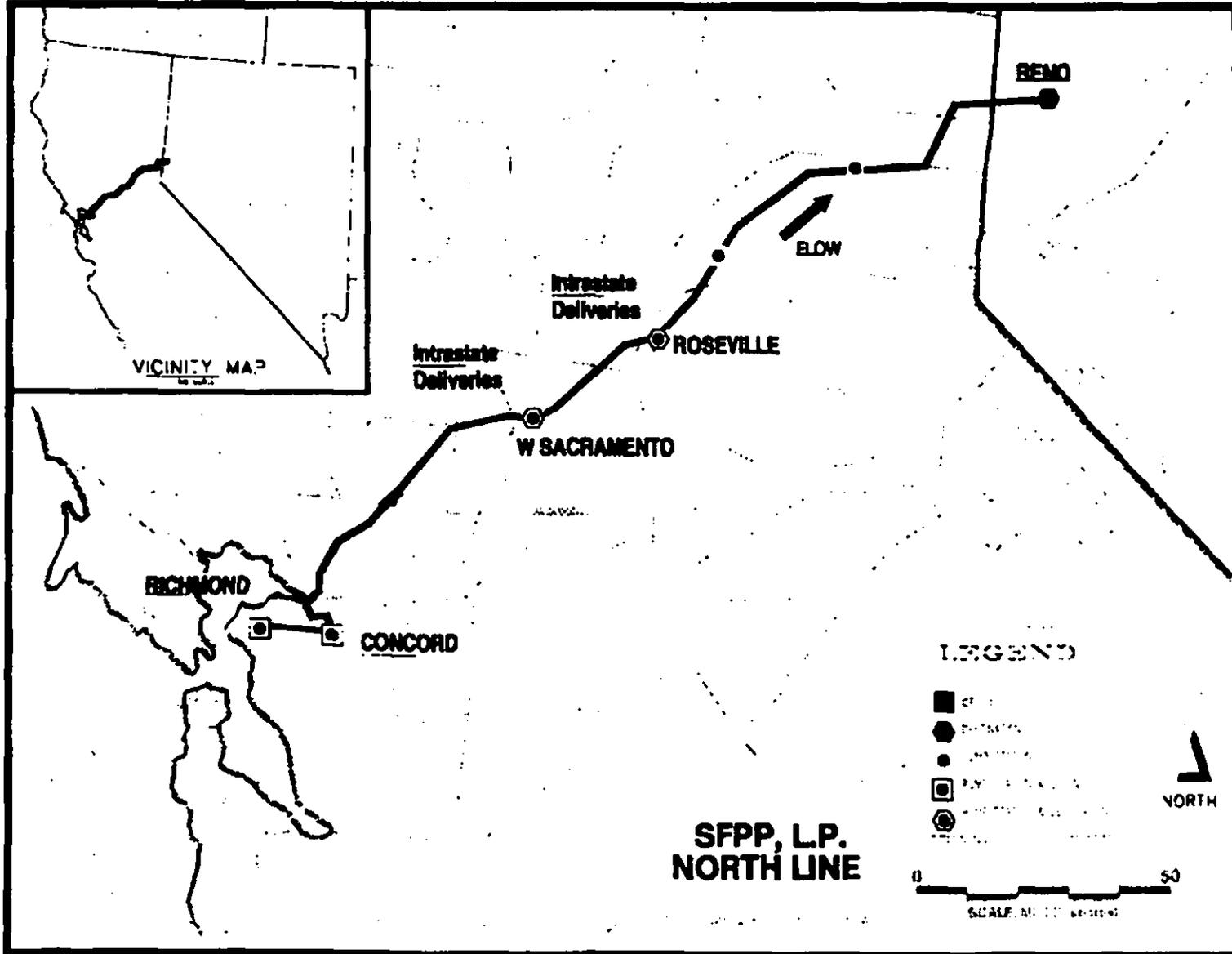
Minimum Batch sizes at Origin and Delivery Barrels at Destination are shown in the table below.

Origin	Destination	Minimum Batch	Minimum Delivery
Richmond	All	5,000 Bbls	2,500 Bbls
Concord	All	5,000 Bbls	2,500 Bbls

SFP, L.P.
F.R.C. No. 117
Page 3 of 4

Notes:	
①	Carrier will make gathering lines available to Shippers for Petroleum Products entering the System at Richmond and Concord, CA.
②	Item 260 "Watson Volume/Pressure Deficiency Charge" does not apply.

Explanation of Reference Marks	
Reference Mark	Explanation
[I]	Increased rate.
[W]	Change in wording.
[N]	New.



SFPP, L.P.
Tariff Schedule Changes
Issued: May 31, 2005
Effective: July 1, 2005
In compliance with 18 CFR § 342.3
(Rates are in Cents per Barrel)

Origin	Destination	Prior Ceiling			Calculation of new Ceiling Rate		
		Tariff Number	Jul-04 Ceiling	Current Rate	Tariff Number	Jul-05 Ceiling	New Rate
Watson Volume Deficiency Charge		FERC 103	3.48	3.20	FERC 103	3.61	3.20
Sequoyeda	Watson CA	FERC 109	5.29	5.09	FERC 116	5.480	5.29
Watson CA	Phoenix AZ	FERC 108	136.92	136.92	FERC 113	141.89	141.89
East Hynes CA	Phoenix AZ	FERC 108	136.92	136.92	FERC 113	141.89	141.89
El Paso TX	Lordsburg NM	FERC 105	33.51	33.51	FERC 112	34.73	34.73
Diamond Jet TX	Lordsburg NM	FERC 105	33.51	33.51	FERC 112	34.73	34.73
El Paso TX	Tucson AZ	FERC 105	57.62	57.62	FERC 112	59.71	59.71
Diamond Jet TX	Tucson AZ	FERC 105	57.62	57.62	FERC 112	59.71	59.71
El Paso TX	Phoenix AZ	FERC 105	77.56	77.56	FERC 112	80.37	80.37
Diamond Jet TX	Phoenix AZ	FERC 105	77.56	77.56	FERC 112	80.37	80.37
Richmond CA	Reno (Sparks) NV [2]	FERC 111	139.34	139.34	FERC 117	144.40	144.40
Concord CA	Reno (Sparks) NV [2]	FERC 111	139.34	139.34	FERC 117	144.40	144.40
Portland OR *	Eugene OR	FERC 107	49.49	49.49	FERC 114	51.29	51.29
*Includes Willbridge & Linnton OR							
Watson CA	Tucson AZ	FERC 108	167.42	167.42	FERC 113	173.50	173.50
East Hynes CA	Tucson AZ	FERC 108	167.42	167.42	FERC 113	173.50	173.50
Watson CA	Tucson AZ	FERC 108	167.42	167.42	FERC 113	173.50	173.50
East Hynes CA	Tucson AZ	FERC 108	167.42	167.42	FERC 113	173.50	173.50
Colton CA	Phoenix AZ	FERC 108	107.60	107.60	FERC 113	111.50	111.50
Colton CA	Tucson AZ	FERC 108	137.37	137.37	FERC 113	142.35	142.35
Watson CA	Calnev PL, CA	FERC 108	26.67	26.67	FERC 115	27.64	27.64
East Hynes CA	Calnev PL, CA	FERC 108	26.67	26.67	FERC 115	27.64	27.64

[1] These rates apply to jet fuel only.

[2] Cost of Service Rate Effective June 1, 2005



ORIGINAL

SFPP, L.P.
Operating Partnership

2006 MAY 31 P 4:38

Oil Pipeline Filing
SFPP, L.P.
May 30, 2006

IS06-356-000

Ms. Magalie R. Salas,
Secretary
Federal Energy Regulatory Commission
888 First Street NE
Washington DC 20426

Dear Secretary Salas:

In accordance with the requirements of the Interstate Commerce Act (ICA) and the Rules and Regulations of the Federal Energy Regulatory Commission (F.E.R.C.), SFPP, L.P. (SFPP) submits for filing four copies of the following tariffs, effective July 1, 2006:

- F.E.R.C. Tariff No. 123 covers SFPP interstate movements from Sepulveda Junction to Watson (Cancels F.E.R.C. Tariff No. 116)
- F.E.R.C. Tariff No. 124 covers SFPP interstate movements from Watson and East Hynes to Calnev Pipe Line, L.L.C. (Cancels F.E.R.C. Tariff No. 121)
- F.E.R.C. Tariff No. 125 covers SFPP East Line Interstate movements (Cancels F.E.R.C. Tariff No. 122)
- F.E.R.C. Tariff No. 126 covers SFPP West Line Interstate movements (Cancels F.E.R.C. Tariff No. 120)
- F.E.R.C. Tariff No. 127 covers SFPP North Line Interstate movements (Cancels F.E.R.C. Tariff No. 117)
- F.E.R.C. Tariff No. 128 covers SFPP Oregon Line Interstate movements (Cancels F.E.R.C. Tariff No. 114)
- F.E.R.C. Tariff No. 129 - Index of Tariffs (Cancels F.E.R.C. Tariff No. 118)

SFPP is making this filing in compliance with 18 CFR § 342.3, to index the existing rates. All rates in the above submitted tariffs are increased from the prior tariffs. Attached is a summary table of SFPP tariff rates which includes 2005 and 2006 index ceilings, current rates and proposed rates.

We are also enclosing herewith one additional copy of this transmittal, including all attachments, and respectfully request that it be stamped at the time of filing with the Commission's file stamp and returned for our records.

I hereby certify that copies of these tariffs have been sent via First Class U.S. Postal Service, or other means of transmission agreed upon by the subscriber, to all subscribers on the SFPP, L.P. subscriber list.

In accordance with 18 CFR § 343.3(a), SFPP hereby requests that any protest of the attached tariffs be telefaxed to SFPP in care of Peter M. Dito at (714) 560-4602.

If you have any questions regarding this filing, please contact the undersigned at (714) 560-4910.

Sincerely,



Eileen Mizutani
Sr. Business Analyst
Economics and Regulatory Analysis

cc: David Ulevich
Federal Energy Regulatory Commission
888 First Street NE
Washington DC 20426

SFPP, L.P.
Tariff Schedule Changes
Issued: May 31, 2006
Effective: July 1, 2006
In compliance with 18 CFR § 342.3
(Rates are in Cents per Barrel)

Origin	Destination	Prior Ceiling			Calculation of new Ceiling Rate			
		Tariff Number	Jul-05 Ceiling	Current Rate	Tariff Number	Jul-05 Ceiling	New Rate	
Watson Volume Deficiency Charge			FERC 103	3.61	3.20	FERC 103	3.63	3.20
Sepulveda	Watson CA		FERC 116	5.48	5.28	FERC 123	5.820	5.62
Watson CA	Phoenix AZ	(1)	FERC 120	97.33	97.33	FERC 126	103.31	103.31
East Hynes CA	Phoenix AZ	(1)	FERC 120	97.33	97.33	FERC 126	103.31	103.31
El Paso TX	Lordsburg NM	(2)	FERC 122	58.43	58.43	FERC 125	59.90	59.90
Diamond Jct TX	Lordsburg NM	(2)	FERC 122	58.43	58.43	FERC 125	59.90	59.90
El Paso TX	Tucson AZ	(2)	FERC 122	94.30	94.30	FERC 125	100.10	100.10
Diamond Jct TX	Tucson AZ	(2)	FERC 122	94.30	94.30	FERC 125	100.10	100.10
El Paso TX	Phoenix AZ	(2)	FERC 122	125.63	125.63	FERC 125	133.35	133.35
Diamond Jct TX	Phoenix AZ	(2)	FERC 122	125.63	125.63	FERC 125	133.35	133.35
Richmond CA	Reno (Sparks) NV		FERC 117	144.40	144.40	FERC 127	153.28	153.28
Concord CA	Reno (Sparks) NV		FERC 117	144.40	144.40	FERC 127	153.28	153.28
Portland OR *	Eugene OR		FERC 114	51.29	51.29	FERC 126	54.44	54.44
*Includes Willbridge & Linnton OR								
Colton CA	Phoenix AZ	(1)	FERC 120	74.38	74.38	FERC 126	78.93	78.93
Watson CA	Calnev PL, CA	(1)	FERC 121	22.97	22.97	FERC 124	24.38	24.38
East Hynes CA	Calnev PL, CA	(1)	FERC 121	22.97	22.97	FERC 124	24.38	24.38

(1) SFPP Compliance Filing dated March 7, 2006, FERC Order on Initial Decision and on Certain Remanded Cost Issues, issued December 16, 2005 in Docket No. OR92-8-000 et al., and Order on Rehearing issued February 13, 2006.

(2) Cost of Service Rate Effective June 1, 2006

FILED
OFFICE OF THE
SECRETARY F.E.R.C. No. 127
(Cancels F.E.R.C. No. 117)

MAY 31 P 4:39

SFPP, L.P.
LOCAL PIPELINE TARIFF

**CONTAINING
RATES**

**APPLYING ON THE TRANSPORTATION
OF
PETROLEUM PRODUCTS
BY PIPELINE**

**From Richmond and Concord (Contra Costa County), CA
To Reno/Sparks (Washoe County), NV**

THIS TARIFF APPLIES TO INTERSTATE TRAFFIC ONLY

Rates herein are governed by Rules and Regulations provided in SFPP, L.P.'s Tariff F.E.R.C. No. 163, Supplements thereto and reissues thereof.

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

Issued in compliance with 18 CFR § 342.3.

ISSUED: May 31, 2006

EFFECTIVE: July 1, 2006

Issued By:

Thomas A. Bannigan, for
SFPP, L.P.
500 Dallas St., Suite 1000
Houston TX 77002

Compiled By:

[W] Eileen Mizutani
1100 Town & Country Road
Orange CA 92868
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SFPP, L.P.
 F.E.R.C. No. 127
 Page 2 of 3

Item 310. Local Rates
 (All movements are via SFPP, L.P. pipelines)

FROM :	TO :	Notes	RATE
			In cents per barrel
Richmond, CA (Contra Costa County)	Reno/Sparks, NV (Washoe County)	① ②	153.28 [I]
Concord, CA (Contra Costa County)	Reno/Sparks, NV (Washoe County)	① ②	153.28 [I]

Exceptions to RULES AND REGULATIONS
 Contained in FERC No. 183, Item 40, including
 supplements thereto and releases thereof.

Item 40. Minimum Batch and Delivery Requirements

Minimum Batch sizes at Origin and Delivery Barrels at Destination are shown in the table below.

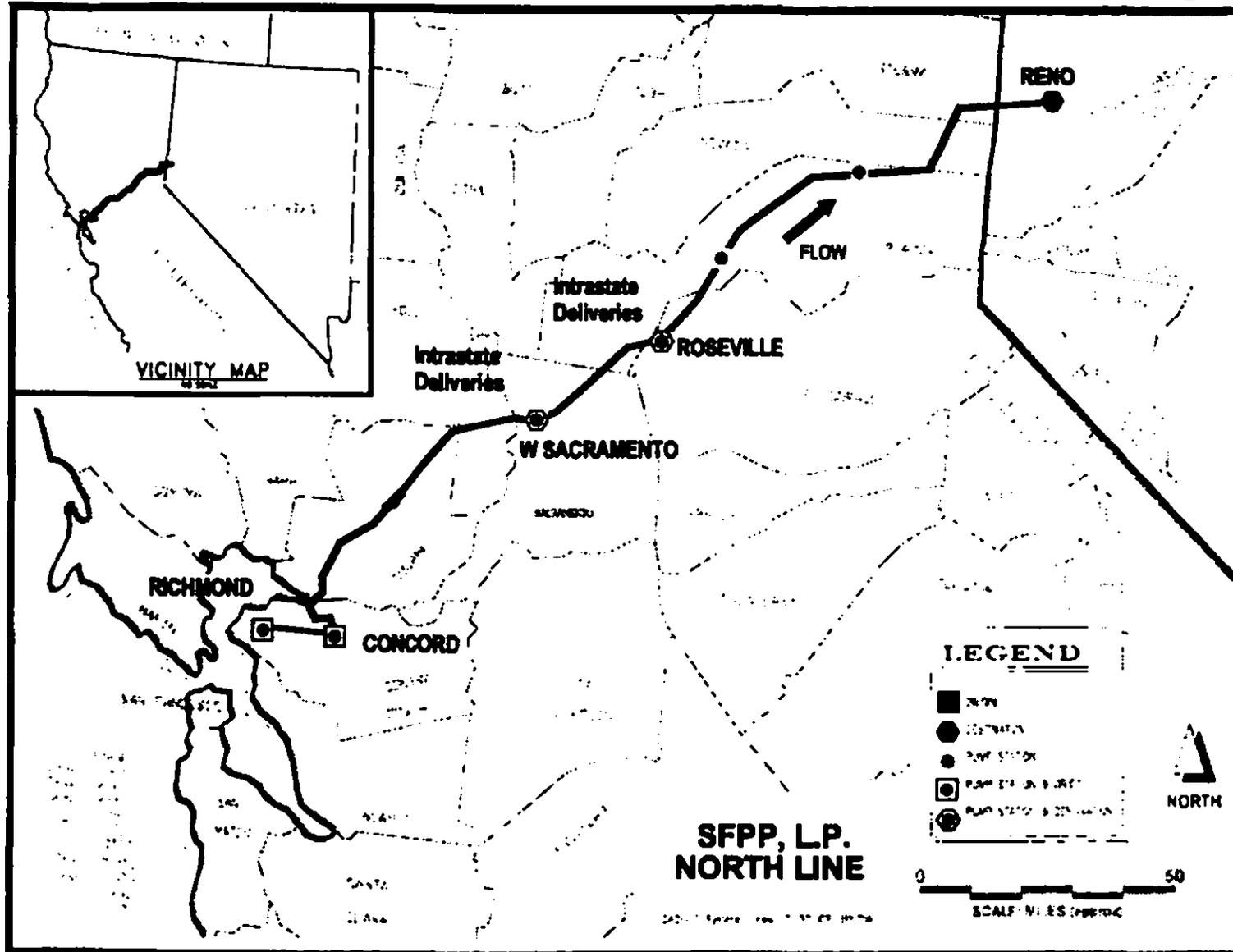
Origin	Destination	Minimum Batch	Minimum Delivery
Richmond	All	5,000 Bbls	2,500 Bbls
Concord	All	5,000 Bbls	2,500 Bbls

Notes:

①	Carrier will make gathering lines available to Shippers for Petroleum Products entering the System at Richmond and Concord, CA.
②	Item 260 "Watson Volume/Pressure Deficiency Charge" does not apply.

Explanation of Reference Marks

Reference Mark	Explanation
[I]	Increased rate.
[W]	Change in wording.



F.E.R.C. No. 137
(Cancels F.E.R.C. No. 127)

SFPP, L.P.
LOCAL PIPELINE TARIFF

CONTAINING
RATES

APPLYING ON THE TRANSPORTATION
OF
PETROLEUM PRODUCTS
BY PIPELINE

From Richmond and Concord (Contra Costa County), CA
To Reno/Sparks (Washoe County), NV

THIS TARIFF APPLIES TO INTERSTATE TRAFFIC ONLY

Rates herein are governed by **Rules and Regulations** provided in SFPP, L.P.'s **Tariff F.E.R.C. No. [W] 133**, Supplements thereto and reissues thereof.

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

ISSUED: August 11, 2006

EFFECTIVE: September 11, 2006

Issued By:

Thomas A. Bannigan, for
SFPP, L.P.
500 Dallas St., Suite 1000
Houston TX 77002

Compiled By:

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Item 310. Local Rates
 (All movements are via SFPP, L.P. pipelines)

FROM :	TO :	Notes	RATE
			In cents per barrel
Richmond, CA (Contra Costa County)	Reno/Sparks, NV (Washoe County)	① ② [N]③	153.28 [U]
Concord, CA (Contra Costa County)	Reno/Sparks, NV (Washoe County)	① ② [N]③	153.28 [U]

Exceptions to RULES AND REGULATIONS
 Contained in FERC No. [W] 133, Item 40, including
 supplements thereto and reissues thereof.

Item 40. Minimum Batch and Delivery Requirements

Minimum Batch sizes at Origin and Delivery Barrels at Destination are shown in the table below.

Origin	Destination	Minimum Batch	Minimum Delivery
Richmond	All	5,000 Bbls	2,500 Bbls
Concord	All	5,000 Bbls	2,500 Bbls

Notes:

①	Carrier will make gathering lines available to Shippers for Petroleum Products entering the System at Richmond and Concord, CA.
②	Item 260 "Watson Volume/Pressure Deficiency Charge" does not apply.
[N] ③	To recover the costs of complying with the Environmental Protection Agency's (EPA's) regulation of 40 CFR Part 80 Subpart 1, Carrier has established a diesel handling recovery fee for the recovery of prudently incurred costs necessary for Carrier to facilitate the handling of diesel products as defined in Carrier's Rules and Regulations Tariff, FERC No. 133, Item 265, supplements thereto and reissues thereof. The ULSD Recovery Fee is 0.75 cents per Barrel on all diesel movements.

Explanation of Reference Marks

Reference Mark	Explanation
[N]	New
[U]	Unchanged rate.
[W]	Wording change.

Summary of Repairs Incurred by Tesoro for Shipments on SFPP North Line November 2004-November 2006

Adjusted Tariff Rate	Reparations Excluding Interest	Interest	Total Repairs
Grandfathered Rate of \$1.10	\$694,520.20	\$37,251.47	\$731,771.67

[Privileged Information Removed]

[Privileged Information Removed]

Interest Rates

Month	Rate	Monthly	Quarterly
Jul-04	4.25%	0.35%	
Aug-04	4.43%	0.37%	
Sep-04	4.58%	0.38%	
Oct-04	4.75%	0.40%	0.37%
Nov-04	4.93%	0.41%	0.37%
Dec-04	5.15%	0.43%	0.37%
Jan-05	5.25%	0.44%	0.41%
Feb-05	5.49%	0.46%	0.41%
Mar-05	5.58%	0.47%	0.41%
Apr-05	5.75%	0.48%	0.45%
May-05	5.98%	0.50%	0.45%
Jun-05	6.01%	0.50%	0.45%
Jul-05	6.25%	0.52%	0.49%
Aug-05	6.44%	0.54%	0.49%
Sep-05	6.59%	0.55%	0.49%
Oct-05	6.75%	0.56%	0.54%
Nov-05	7.00%	0.58%	0.54%
Dec-05	7.15%	0.60%	0.54%
Jan-06	7.28%	0.61%	0.58%
Feb-06	7.50%	0.63%	0.58%
Mar-06	7.53%	0.63%	0.58%
Apr-06	7.75%	0.65%	0.62%
May-06	7.93%	0.66%	0.62%
Jun-06	8.02%	0.67%	0.62%
Jul-06	8.25%	0.69%	0.66%
Aug-06	8.25%	0.69%	0.66%
Sep-06	8.25%	0.69%	0.66%
Oct-06	8.25%	0.69%	0.69%
Nov-06	8.25%	0.69%	0.69%

Source: Federal Reserve Statistical Release H.15, available at <http://www.federalreserve.gov/releases/h15/data.htm>

Note: As of 11/22/06, Bank Prime Rate had not changed, it is left here at 8.25% for Nov-06 - due to Commission preferred interest rate calculation methodology of using lagged quarterly interest rates, this value does not factor into current reparations calculations

Note: In 18 C.F.R. § 340.1(c)(2)(i), the regulations state the interest rate shall be taken from Statistical Release G.13, however this release was discontinued by the Federal Reserve in 2002 - all applicable rates are available in Release H.15