

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Test Year 2009 General Rate ) Application No. 09-05-014  
Application of SFPP, L.P. (PLC-9 Oil) )  
 )  
And Related Matters ) Application No. 08-06-008  
 ) Application No. 08-06-009  
\_\_\_\_\_ )

**PREPARED ANSWERING TESTIMONY  
OF PATRICK R. CROWLEY  
ON BEHALF OF  
BP WEST COAST PRODUCTS LLC, CHEVRON PRODUCTS COMPANY,  
EXXONMOBIL OIL CORPORATION AND SOUTHWEST AIRLINES CO.**

**DECEMBER 18, 2009**

**PREPARED ANSWERING TESTIMONY  
OF PATRICK R. CROWLEY**

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**INDEX OF EXHIBITS**

**EXHIBIT NO.            DESCRIPTION**

<b>Exhibit A</b>	<b>Crowley Curriculum Vitae</b>
<b>Exhibit B</b>	<b>SFPP Trucking Comparison Study as received (Kehlet, November 9, 2004, A.04-11-017)</b>
<b>Exhibit C</b>	<b>Recreation of SFPP Trucking Comparison Study</b>
<b>Exhibit D</b>	<b>Crowley Updated Trucking Study for SFPP</b>
<b>Exhibit E</b>	<b>ATRI Hourly Trucking Cost Estimate</b>
<b>Exhibit F</b>	<b>DOE/EIA Diesel Fuel Prices</b>
<b>Exhibit G</b>	<b>U.S. Interest Rates, Wall Street Journal</b>
<b>Exhibit H</b>	<b>Updated Volumes By Destination Point</b>
<b>Exhibit I</b>	<b>Current SFPP and Calnev CPUC Tariffs</b>
<b>Exhibit J</b>	<b>Crowley Trucking Study for Calnev</b>

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1 **I. IDENTIFICATION AND QUALIFICATIONS**

2 Q. Please state your name, business affiliation, and the latter's address.

3 A. Patrick R. Crowley. I am a regulatory energy consultant with Crowley Energy  
4 Consulting, which is located at 630 E Street, Northeast, Washington D.C. 20002. I have attached  
5 my C.V. as Exhibit A.

6 Q. What is the purpose of your testimony?

7 A. The purpose of my testimony is to provide an updated version of the study made by SFPP  
8 comparing the estimated cost of trucking petroleum products to SFPP markets versus the  
9 estimated cost of piping petroleum products to those same markets.

10 Q. Please describe your educational background.

11 A. I graduated from DePaul University in Chicago, Illinois, with a Bachelor of Arts degree

1 in Economics in 1976 and again from DePaul University with a Master of Arts degree in  
2 Economics in 1978 with a concentration in mathematical economics.

3 Q. Please summarize your employment history.

4 A. Upon graduation from DePaul University in 1978 I joined the Chicago, Rock Island &  
5 Pacific Railroad where I worked for a short time with the corporation's general manager in a  
6 small "think tank" group assigned to focus on specific problem areas of the railroad's operations.  
7 Shortly thereafter I joined the Federal Energy Regulatory Commission ("FERC" or  
8 "Commission") where I was employed for 28 years. I retired to form my own consulting firm in  
9 February 2007.

10 Q. Please summarize your experience as a regulatory energy economist.

11 A. I began work at FERC in 1979 as an Industry Economist in the Pipeline Rates Division of  
12 the Office of Pipeline Rates. As an expert witness with the Trial Staff gas and oil litigation team  
13 from 1979 to 1992, I prepared pipeline depreciation studies, long-term forecasts of natural gas  
14 reserves and production, mortality studies of plant retirements, cost behavior studies for pipeline  
15 facilities, and Mcf-mile studies. From 1992 through 1994, I worked on the operational aspects of  
16 the restructuring of Texas Eastern Gas Pipeline Companies and was the team leader for the  
17 restructuring of the Tennessee Gas Pipeline Company. From 1994 through 1998, I worked on  
18 the advisory side of the Commission where I prepared reports for Commission orders regarding  
19 proposals for revised tariff terms, new services, rate designs, and tariff rates, and a wide variety  
20 of utility reports and cost studies. In 1998, I returned to the litigation side of the Commission  
21 where I worked on electric utility, natural gas and oil pipeline rate cases, complaint cases, and  
22 show cause orders.

1 Over the course of my 28 years at FERC, I worked on hundreds of complex filings made  
2 by major gas pipeline companies in which the pipelines made proposals for rate and tariff  
3 changes, new types of transmission and storage services, cost allocations, and new facilities. My  
4 staff reports applied Commission policies to the proposals, protests, and comments of the parties  
5 involved, and contributed to the drafting of Commission orders addressing the matters at hand.  
6 Through my work at the Commission, site visits to pipeline operations, interviews with pipeline  
7 executives, and numerous seminars on a wide variety of pipeline matters, I have acquired a  
8 thorough knowledge of pipeline operations and Commission policies on a wide range of issues.

9 Q. Have you filed testimony before the FERC?

10 A. Yes, I have filed testimony before FERC in numerous dockets, as listed in Exhibit A.

11 Q. Have you filed testimony prior to this docket before the California Public Utilities  
12 Commission?

13 A. No, I have not.

14 **II. TRUCKING STUDY**

15 Q. Mr. Crowley, were you asked to perform any studies in connection with your testimony  
16 in this proceeding?

17 A. Yes. I was tasked to update a study done by SFPP in order to address the question of  
18 which mode of transportation was most economical: (1) transportation first by pipeline to a  
19 destination and then short haul trucking to service stations or (2) trucking only, bypassing the  
20 pipeline entirely.

21 Q. What was the basis of your study?

1 A. I was given a copy of SFPP witness Mr. James Kehlet's trucking study, which was  
2 submitted to the California Public Utilities Commission on November 9, 2004 in Docket  
3 No. A.04-11-017 on behalf of SFPP. That study is included as Exhibit B to this testimony. I  
4 was asked to recreate and update the trucking study attached as Schedules B and C to Mr.  
5 Kehlet's testimony in that proceeding.

6 Q. First, who is Mr. Kehlet?

7 A. According to his testimony in Docket No. A.04-11-017, he was the Vice President,  
8 Marketing West, Kinder Morgan Energy Partners, L.P. at the time. It is my understanding that  
9 he still holds that position today.

10 Q. Did you faithfully recreate Mr. Kehlet's trucking study?

11 A. Yes, I did. The copy at my disposal was a scanned pdf of Schedules B, C-1, and C-2  
12 with no observable functioning formulae to indicate how the figures in the charts had been  
13 derived. I recreated the formulae in an electronic spreadsheet so that it could be updated. The  
14 results of that recreation are attached as Exhibit C to my testimony.

15 Q. Did you then update the SFPP trucking study?

16 A. Yes, I did. The updated study can be seen in Exhibit D to this testimony.

17 Q. Can you please explain the process you used to update Mr. Kehlet's trucking study?

18 A. Yes, essentially I reversed engineered the spreadsheets included in Mr. Kehlet's  
19 Schedules B and C and then updated a few items to reflect more current costs or numbers. I  
20 added line numbers on all sheets to facilitate locating figures. I updated the truck cost identified  
21 on Schedule B, line 8. I obtained the revised truck cost of \$83.68 per hour from the American

1 Transportation Research Institute, which estimates the average operating costs of trucks.  
2 Support for this update is attached as Exhibit E to my testimony.

3 I also updated the Inventory Charges associated with gasoline and distillates found on  
4 Schedule B, lines 20-21. I obtained the updated information from the U.S. Department of  
5 Energy, Energy Information Administration. Support for this update is attached as Exhibit F to  
6 my testimony.

7 I updated the interest rate, which is utilized in calculating the carrying cost of each barrel.  
8 The 5.07% interest rate shown on Schedule B, line 26 is the corporate bond Aaa interest rate on  
9 November 30, 2009 as reported in the *Wall Street Journal*. A copy of the applicable portion of  
10 the *Wall Street Journal*'s web site is attached as Exhibit G to my testimony.

11 Lastly, I updated the volume information found on Schedule B, lines 29-35. The updated  
12 volume information came from SFPP during discovery in this proceeding. The supporting  
13 documentation is attached as Exhibit H to my testimony. I also used the current SFPP and  
14 Calnev tariffs on file at the California CPUC for the pipeline costs, which are included in Exhibit  
15 I. Aside from the updated items all of the other data was taken from Mr. Kehlet's trucking study.

16 Q. Have you any reservation about the revised trucking study?

17 A. The only caveat I would make is that only SFPP and Calnev have the necessary  
18 information for some of the current cost factors, which they did not provide to me.  
19 Consequently, to the extent such information was not provided, the calculations will be slightly  
20 off but the methodology follows exactly that used by Mr. Kehlet so that an exact comparison can  
21 be made with Mr. Kehlet's conclusions.

1 Q. Mr. Crowley, the replicated trucking study shown in Exhibits B and C looks different  
2 from your updated study in Exhibit D; please explain why they look different.

3 A. My Exhibit D looks different for three reasons. First, Mr. Kehlet's 2004 trucking study  
4 includes several military destination points that are not listed on the SFPP CPUC Tariff Nos. 110  
5 or 111: Beale AFB, El Centro NAF, LeMoore, March AFB, Miramar NAS, and Travis AFB. I  
6 left those destinations off my study for simplicity's sake. Second, Mr. Kehlet included some  
7 columns of data that had no direct formulaic relation to the transportation cost estimates, such as  
8 the existing tariff rates and revenues, and barrel-miles by destination. So I left that data off the  
9 spreadsheet as well. Third, Mr. Kehlet's study listed the destinations in alphabetical order  
10 regardless of the tariff to which they related. I reorganized the destination points by tariff group,  
11 origin/destination pairs, and distance from origin point to highlight the point at which pipeline  
12 transportation undercuts the cost of trucking. The maps attached to the tariffs in Exhibit I reflect  
13 the origin/destinations pairs in the spreadsheets.

14 Q. Some destination points are listed twice in both studies, please explain why that is.

15 A. At some destination points the shippers can be served through SFPP-owned terminal  
16 facilities or through proprietary-owned terminal facilities, such as at Colton, Mission Valley, and  
17 San Jose. Where there are two listing for a single point, the difference is seen in the column  
18 labeled "Terminal Charge" where SFPP terminaling adds \$0.305/bbl and the proprietary  
19 facilities add only \$0.008/bbl.

20 Q. Mr. Crowley can you briefly describe the results of your trucking study?

21 A. Yes, my updated study shows that of the many destination points on the SFPP system,  
22 there are only 6 destinations where it is cheaper to truck the petroleum product than ship it on

1 SFPP's intrastate system, according to the SFPP methodology. Those points are Orange and  
2 Colton-SFPP on tariff 110; and Richmond, Brisbane, San Jose-SFPP, and Chico from  
3 Sacramento on tariff no. 111. These are the same destination points that Mr. Kehlet's study  
4 indicates are better served by trucking, as seen in Exhibit B and C, page 3, column labeled  
5 "Station to Station." However, as noted below, two of the six destinations have higher pipeline  
6 costs due to SFPP's own terminal charges. In general, pipeline transportation of large volumes  
7 over long distances is significantly cheaper than trucking.

8 I would add a note of caution that in replicating the SFPP model, the study does not  
9 incorporate diesel fuel surcharges, which can add significantly greater costs to the trucking side  
10 of the comparison. In the mid-1990s long haul trucking operators began adding fuel surcharges  
11 to trucking rates to deal with rapidly rising fuel prices, rather than revising whole transportation  
12 rate schedules. The surcharges are based on current costs of diesel fuel. Each freight carrier is  
13 free to set its own diesel fuel surcharge rate; there are no national or local regulations governing  
14 the diesel fuel surcharges charged by the freight carriers. A surcharge can be as high as  
15 \$0.35/mile. If a representative surcharge were added to the trucking cost model, the headroom  
16 of trucking costs in excess of piping costs would be that much greater.

17 Q. Please place here a summary of your calculations using the SFPP methodology, arranged  
18 by tariffs for purposes of segmenting the systems. That way the Commission can trace the  
19 comparison from the origin through the intermediate destinations to the final intrastate  
20 destination on each segregated system.

1 A. The table below is the first page of Exhibit D which summarizes the trucking and piping  
 2 alternatives on the SFPP system, showing the destination points at which trucking is cheaper or  
 3 piping is cheaper.

Comparison of Trucking v Pipeline Cost <sup>7 8</sup>

	<u>From</u>	<u>To</u>	Delivery to Station by Tanker Truck Only a <u>Cost per bbl</u>	Delivery to Station by Pipe & Short Haul b	Destinations where Trucking is Cheaper c (a - b)	Destinations where Piping is Cheaper d (b - a)	
<u>CPUC Tariff 110</u>							
1	Watson East Hynes <sup>1</sup>	Orange	\$0.9544	\$1.6827	-\$0.7283		
2		Mission Valley (SFPP)	\$2.3913	\$2.2162		-\$0.1751	
3		Mission Valley (Prop) <sup>10</sup>	\$2.3913	\$1.9195		-\$0.4718	
4		San Diego	\$2.5604	\$2.2041		-\$0.3563	
5							
6	Watson East Hynes <sup>2</sup>	Ontario Intl	\$1.3450	\$0.4536		-\$0.8913	
7		CalNev PL	\$1.5207	\$0.5376		-\$0.9831	
8		Colton (SFPP)	\$1.6780	\$1.7724	-\$0.0944		
9		Colton (Prop) <sup>10</sup>	\$1.6780	\$1.4757		-\$0.2023	
10		Imperial	\$4.2357	\$2.2475		-\$1.9881	
11		Colton to Imperial <sup>9</sup>	\$3.0760	\$2.2475		-\$0.8285	
12							
13	Bakersfield <sup>3</sup>	Fresno B	\$2.1631	\$1.7018		-\$0.4613	
14							
15	<u>CPUC Tariff 111</u>						
16	Benicia <sup>4</sup>	Richmond	\$0.8901	\$1.2950	-\$0.4049		
17							
18	Benicia Richmond <sup>4</sup>	Oakland	\$0.8479	\$0.3632		-\$0.4847	
19		Oakland Jefferson	\$0.9122	\$0.3632		-\$0.5489	
20		Oakland Airport	\$0.9899	\$0.3650		-\$0.6249	
21		Brisbane	\$1.5360	\$1.6289	-\$0.0929		
22		San Francisco	\$1.6560	\$0.3941		-\$1.2619	
23							

24	Richmond Concord <sup>5</sup>	San Jose (SFPP) <sup>4</sup>		\$1.3542	\$1.6419	-\$0.2877	
25		San Jose (Prop) <sup>4 10</sup>		\$1.3542	\$1.3452		-\$0.0090
26							
27		Stockton		\$1.6780	\$1.4197		-\$0.2583
28		Bradshaw/Sacro		\$1.8757	\$1.7510		-\$0.1247
29							
30		Sacramento Arpt		\$1.6256	\$1.4536		-\$0.1720
31		Roseville		\$1.4589	\$0.6245		-\$0.8343
32		Chico		\$3.1267	\$2.0555		-\$1.0712
33		Sacramento to Chico <sup>9</sup>		\$1.5630	\$2.0555	-\$0.4925	
34							
35	Fresno N <sup>6</sup>		\$3.2636	\$2.5604		-\$0.7032	

1 Q. Did you make a similar comparison of trucking and piping to destinations on the Calnev  
2 Pipeline?

3 A. Yes, I did. The comparison of trucking and pipeline costs to points on the Calnev system  
4 within California indicates that LA to all Calnev points is cheaper by pipeline. If shippers could  
5 originate volumes at Colton, trucking to the first three destinations (each under 80 miles) might  
6 be competitive with pipeline transportation. However, getting the volumes to Colton requires  
7 either trucking or pipeline. Consequently, the Calnev model, attached as Exhibit J to my  
8 testimony, shows a combined cost estimate for LA-to-Colton plus Colton-to-final-destination for  
9 both trucking and pipelining.

10 Q Did the trucking study charts break out the costs of piping, terminaling, and short hauling  
11 to gas stations?

12 A. Yes, it did. The terminal charge represents the costs of operating the terminal station.  
13 The short haul charge, as used in the Kehlet study, stands in for the trucking delivery from the

1 pipeline discharge point to the service station. The cost faced by the shipper includes all three  
2 costs.

3 Q. Did you calculate the difference in revenues SFPP would receive if the pipeline tariff  
4 rate, terminaling, and short haul rate were reduced to compete with the trucking alternative  
5 where the study suggests the trucking alternative is cheaper than shipping by pipeline?

6 A. Yes, I did. There are six destinations on the SFPP system where the trucking study  
7 methodology suggests that trucking is a cheaper alternative than pipeline transmission: Orange,  
8 Colton, Richmond, Brisbane, San Jose, and Sacramento to Chico. If the pipe and short haul-to-  
9 destination rate were reduced to compete with the truck-to-destination costs, the difference in  
10 revenue received by SFPP, using 2009 test year volumes, would be \$12.6 million. However, the  
11 Colton and San Jose destinations are only cheaper by trucking if the comparison is made to those  
12 shippers using the SFPP terminal facilities. Shippers using the proprietary terminal facilities at  
13 those same two destinations would find that pipeline transmission is the cheaper alternative. For  
14 Calnev destinations, no trucking alternative is cheaper.

15 Q. Did you also calculate the difference in revenues SFPP would receive if the pipeline tariff  
16 rate were *increased* to compete with the trucking alternative where the study suggests the  
17 trucking alternative is more expensive than shipping by pipeline?

18 A. Yes, I did. There are nineteen destinations on the SFPP system where the piping  
19 alternative is cheaper than trucking. If the pipeline tariff rate were *increased* to meet truck-to-  
20 destination costs, the difference in revenue received by SFPP, using 2009 test year volumes,  
21 would be approximately \$92.1 million. In other words, the higher cost of trucking, which the  
22 model calibrates from hourly wage rates for truck drivers, provides head room for the pipeline

1 rates to rise enough to raise an additional \$92 million, without significant fear of price  
2 competition. If diesel fuel surcharge costs levied by the freight carriers were added to the  
3 trucking comparison, the headroom for pipeline transportation charges would be greater. For  
4 Calnev destination points, the trucking costs provide headroom of approximately \$4 million.

5 Q. What is the amount of revenues that SFPP claims is just and reasonable in the most  
6 current cost of service?

7 A. SFPP witness Mr. Dito states on page 17 of his Prepared Direct Testimony that SFPP  
8 witness Mr. Turner calculated a cost of service of approximately \$118.7 million.

9 Q. Does that conclude your testimony, Mr. Crowley?

10 A. Yes it does.


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**DECLARATION OF PATRICK R. CROWLEY**

I, Patrick R. Crowley, hereby declare under penalty of perjury that I have reviewed the foregoing testimony and it is true and accurate to the best of my knowledge, information, and belief.

Executed this 17th day of December, 2009.

/s/   
\_\_\_\_\_  
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