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John M. Christal
Commercial Assets Business Manager
P.O. Box 100360
Anchorage, AK 99510-0360
Phone 907.263.4793
Fax 907.263.3748

July 1, 2009

Regulatory Commission of Alaska
701 West 8th Avenue, Suite 300
Anchorage, Alaska 99501

2008 TEST YEAR RATE CASE – TARIFF ADVICE LETTER NO. TL137-301

Commissioners:

Pursuant to the Pipeline Act, AS § 42.06.055, et seq., and 3 AAC 48.275(a), ConocoPhillips Transportation Alaska, Inc. (“CPTAI”) hereby files a request to change its tariff rates for the intrastate transportation of crude petroleum through the Trans Alaska Pipeline System (“TAPS”). The requested rate changes are based on application of the methodology prescribed by the Commission in Order No. P-97-4(151) (2002) (“Order 151”) to a 2008 test year. CPTAI requests that the proposed tariff rate changes take effect on August 1, 2009, which complies with the thirty-day filing requirement of AS § 42.06.390(b).

The tariff change is shown on the 6th Revised Sheet No. 7 canceling the 5th Revised Sheet No. 7 for Phillips Transportation Alaska, Inc.’s Tariff No. 301.¹ The proposed rates are as follows:

¹ By Order P-04-13(1) dated June 25, 2004, CPTAI was required to file a new tariff under its own name. CPTAI complied with the Commission’s order by filing TL105-301 on September 23, 2004. Subsequently, the Commission requested that TL 105-301 be withdrawn pending the resolution by the Commission of the disputes concerning the rates calculated using the TAPS Settlement Methodology. CPTAI further understands that the requirement to file a new tariff in its own name has been waived until further notice by the Commission. Thus, CPTAI is maintaining the current tariff filed under the name of Phillips Transportation Alaska, Inc. which is adopted by CPTAI as the tariff in force and effect. CPTAI requests, however, that the Commission permit further tariff filings to be made in its own name.

ITEM	FROM	TO	SOURCE	PROPOSED RATE
3.1	Trans Alaska Pipeline System PS No. 1	Golden Valley Electric Association, Inc.	Prudhoe Bay (Sadlerochit Petroleum)	\$2.55
			Kuparuk	\$2.55
			Lisburne	\$2.55
			Endicott	\$2.55
			Northstar	\$2.55
3.2	Trans Alaska Pipeline System PS No. 1	Valdez Refinery Connection	Prudhoe Bay (Sadlerochit Petroleum)	\$3.98
			Kuparuk	\$3.98
			Lisburne	\$3.98
			Endicott	\$3.98
			Northstar	\$3.98
3.3	Trans Alaska Pipeline System PS No. 1	Valdez, Alaska	Prudhoe Bay (Sadlerochit Petroleum)	\$4.00
			Kuparuk	\$4.00
			Lisburne	\$4.00
			Endicott	\$4.00
			Northstar	\$4.00

Pursuant to 3 AAC 48.270, CPTAI's tariff rate revision described herein is transmitted to you for filing. The effect of this rate change is to increase rates. As shown in the Prepared Direct Testimony of Erik G. Wetmore (T-5) at Exhibit EGW-3, the projected effect on CPTAI's revenues at each connection point is as follows:

Destination	Annual Intrastate Revenue Under Most Recently Approved Rates	Annual Intrastate Revenue Under Existing Rates	Proposed Annual Intrastate Revenue
GVEA	\$23.5	\$37.1	\$48.0
Valdez Refinery Connection	\$8.1	\$12.5	\$16.4
Valdez Terminal	\$23.3	\$36.3	\$47.6
TOTAL	\$55.0	\$85.9	\$112.1

The shippers affected by the tariff are all CPTAI intrastate shippers (which is typically fewer than five shippers). The proposed tariffs will not result in the termination of an existing service.

Overview of Proposed Rate Change

CPTAI's existing rates were filed on October 1, 2008 and took effect November 1, 2008, subject to investigation and refund. See Order P-08-9(1). As CPTAI noted in the tariff advice letter accompanying its October 1, 2008 rate filing, CPTAI's prior intrastate rates were prescribed by the Commission in Order 151 based on data compiled in Docket No. P-97-4 relating to the period 1997-2000. Between 2000 and 2007, the volume of crude petroleum transported through TAPS decreased significantly, from an average of approximately 1,000,000 barrels per day in 2000 to an average of approximately 740,000 barrels per day in 2007, without a corresponding decrease in costs. In 2008, volumes declined further to an average of approximately 700,000 barrels per day. Costs in 2008 were also greater than 2007. As a result, CPTAI's existing rates filed on October 1, 2008, based on a 2007 test year, no longer adequately compensate CPTAI under the terms of the Commission's prescribed methodology.

This filing is not designed to challenge any aspect of the Order 151 methodology, which has been upheld by the Alaska courts. Instead, CPTAI has followed the Order 151 methodology as closely as possible. The sole purpose of this rate filing is to update CPTAI's intrastate rates using the Order 151 methodology and more current information on costs and throughput.

Temporary Rate

To the extent the Commission determines it is appropriate to suspend these rates subject to investigation and hearing, CPTAI requests that the Commission (1) permit CPTAI to collect the proposed rates subject to refund, and (2) establish temporary rates equal to the filed proposed rates so that neither CPTAI nor the shippers are required to escrow any difference between the temporary rates and the filed proposed rates. See AS 42.06.400(c). This proposed treatment is consistent with the manner in which the Commission has treated TAPS rate filings in prior proceedings. See, e.g., Order P-08-9(1) (October 31, 2008) (suspending CPTAI's October 1, 2008 rate filing subject to refund and investigation and establishing temporary rates equal to the filed rates); Order P-97-4(1) (June 27, 1997) (suspending TAPS Carriers' 1997 rate filings subject to refund and investigation and establishing temporary rates equal to the filed rates).

As the Commission has noted, AS 42.06.400(c) requires the Commission to "establish a reasonable temporary rate if a proposed increased rate is suspended." *Id.* at 14. Under that provision, the Commission "may require collection either of the temporary rate or of the proposed increased filed rate and it must order the difference between the temporary rate and the filed rate to be placed in escrow." *Id.* However, when the "filed rates and temporary rates are equal, no escrow of funds is required." *Id.* In that case, the carrier is "required to collect the temporary rates subject to refund of the difference between those rates and the rates set by the Commission at the conclusion of [the] proceedings." *Id.* at 15.

CPTAI submits that in the circumstances presented here no purpose would be served by setting a temporary rate different from the proposed filed rates. If the temporary rates are lower and CPTAI is allowed to collect the higher proposed rates in the interim, CPTAI would be required to escrow the difference (or alternatively, provide a bond or letter of credit for an equivalent amount).² However, there is no significant risk that CPTAI would be unable to pay refunds, if required, at the end of the proceeding, as evidenced by CPTAI's (and the other TAPS Carriers') recent payment of substantial refunds (with interest) in connection with Docket Nos. P-97-4 and P-03-4. Alternatively, if the Commission were to set the temporary rates lower than the filed rates and require CPTAI to charge only the temporary rates in the interim, the shippers would have to undertake the burden and expense of creating an escrow account (or providing a bond or letter of credit) for the difference. Particularly where, as here, CPTAI is proposing to apply the Order 151 methodology to updated costs and revenues for a more current test-year, it would be entirely reasonable and within the Commission's authority to establish temporary rates equal to the proposed filed rates to the extent the filed rates are suspended and set for investigation and hearing.

Uniform Systemwide Rate

As the Commission is aware, TAPS is owned by five separate companies (the "TAPS Carriers"), each of which holds an undivided joint interest in TAPS.³ Although the Commission has not unequivocally required the TAPS Carriers to file uniform, systemwide rates, the Commission has imposed uniform rates on the Carriers in prior orders. See Order 151 at 160 and Endnote 9; Order P-03-4(34) at 48-51 (June 10, 2004). Pursuant to Order 151, an individual

² The Commission has also permitted CPTAI to substitute a parent guarantee or letter of credit in some circumstances. See Order No. P-97-7(125) (June 30, 2003); Order No. P-97-7(126) (Sept. 9, 2003).

³ In addition to CPTAI, the TAPS Carriers are BP Pipelines (Alaska) Inc., ExxonMobil Pipeline Company, Unocal Pipeline Company, and Koch Alaska Pipeline Company LLC.

Carrier may only file an individual rate if it can establish that the sum of the revenues to be collected under the individual rates charged by all of the TAPS Carriers would not exceed the total systemwide revenue requirement for a particular test year permitted by Order 151. Order 151 at 160; Order P-03-4(34) at 48-51. CPTAI could only make that determination upon consultation with the other TAPS Carriers to establish what each Carrier's forward-looking individual rates would be, based on a 2008 test year adjusted for appropriate pro forma changes. Because of antitrust concerns, however, CPTAI felt constrained not to consult with the other TAPS Carriers about the establishment of forward-looking intrastate rates prior to making this rate filing. This inability to consult with other Carriers to verify that aggregated individual rates would not exceed the total systemwide revenue requirement has led CPTAI to conclude that it was appropriate in this case to file a uniform systemwide rate (i.e., a rate based on systemwide costs spread over total TAPS throughput rather than a rate based solely on CPTAI's individual costs and throughput).⁴

Because CPTAI has not consulted with the other TAPS Carriers in preparing its intrastate rate filing, it has primarily relied on cost data available to it from Alyeska Pipeline Service Company ("Alyeska"), which is the agent of the TAPS Carriers and the operator of TAPS, as well as on information regarding TAPS-related costs that CPTAI incurs directly as a TAPS Carrier ("Carrier-direct costs"). With respect to the Carrier-direct costs of the other TAPS Carriers, CPTAI has been able to confirm the major categories of costs that are common to all of the Carriers, such as fuel gas, depreciation, and ad valorem property taxes, using public data and data provided by Alyeska. For the remaining Carrier-direct costs of the other TAPS Carriers,

⁴ CPTAI nevertheless has confirmed that the combination of the rates in its present filing and the intrastate rates of the other TAPS Carriers currently on file would not be expected to generate total revenues in excess of the systemwide revenue requirement calculated by Mr. Wetmore on behalf of CPTAI. CPTAI is filing a uniform rate, based on systemwide costs and total TAPS throughput, in order to conform as closely as possible to the methodology applied by the Commission in Order 151. In so doing, CPTAI does not waive any objections it may assert to the uniform systemwide rate approach for purposes of any future rate filings with the RCA or any existing or future rate filings with any other regulatory agency.

CPTAI has relied on the information contained in a January 28, 2009 filing made by the TAPS Carriers with the Federal Energy Regulatory Commission calculating compliance filing rates for 2008, which is the best evidence currently available to CPTAI.

Using that cost information and the methodology prescribed in Order 151, CPTAI calculated the total revenue requirement for TAPS for the normalized test-year (2008 actual data updated for normalizing adjustments and known and measurable changes). CPTAI then calculated across-the-board rate increases by spreading the revenue requirement to the specific destinations using systemwide volume data for 2008 (adjusted downward by 3.8 percent to account for declining throughput) and the existing TAPS rate design methodology applied in Order 151. Order 151 at 159-60. That rate design methodology, which has been used for TAPS rates since the 1980s (see *Re Amerada Hess Pipeline Corp.*, 1 APUC 606, 611 (1980); 6 APUC 401, 405 (1984)), assigns all costs to one of two categories: distance-related costs that vary with the distance oil is transported on the system (e.g., pipeline capital costs, fuel and power, maintenance costs, etc.) and non-distance-related costs that do not vary with distance traveled (e.g., Alyeska management costs, overhead expense, etc.). Distance-related costs are allocated on a barrel-mile basis (that is, based on the volume transported to each particular destination multiplied by the miles to that destination). Non-distance-related costs are allocated on a barrel basis, meaning that each barrel on the system bears an equal share of the non-distance-related costs. Because the bulk of the systemwide costs are distance-related, the resulting rates are generally proportional to distance.⁵

⁵ Since CPTAI is not seeking a "rate redesign" but is simply applying an across-the-board rate increase under the existing rate design methodology applied in Order 151, there does not appear to be any requirement to file a cost-of-service study pursuant to 3 AAC 48.275(h). To the extent a cost-of-service study is required, CPTAI submits that the rate design calculations shown on Exhibit EGW-2, Schedule 5 and the narrative discussion of the rate design methodology in Mr. Wetmore's testimony (Exhibit T-5) satisfy the requirements of Section 275(h). If the Commission deems Section 275(h) to require anything more than that, CPTAI requests that the Commission waive any such requirement, since the rate design methodology used by CPTAI complies with Order 151, which is the applicable ratemaking methodology governing TAPS intrastate rate.

Depreciable Life Change

This rate filing complies with the Order 151 depreciation methodology by applying straight-line depreciation from 1997-forward based on the carrier property balances determined in Order 151. CPTAI submits, however, that it is appropriate to apply the most current information available to update the depreciable life as of January 1, 2008 to end in 2034, rather than to end in 2026, the date that was used in Order 151. Order 151 at 150. The change to a 2034 end date is supported by a number of factors, including: (1) the expiration of the current right-of-way leases for TAPS at the end of 2034; (2) the adoption of a depreciable life for TAPS ending in 2034 by the Federal Energy Regulatory Commission ("FERC") in its most recent interstate rate decisions for TAPS, BP Pipelines (Alaska) Inc., 123 FERC ¶ 61,287 at PP 126-127 (2008); BP Pipelines (Alaska) Inc., 127 FERC ¶ 61,047, at P 37 (2009); and (3) the determination in the most recent depreciation study conducted for TAPS (a copy of which is included in this rate filing as Exhibit EGW-4) that a 2034 end-life is appropriate. The effect of this change is to lower the depreciation expense that would otherwise be attributable to the normalized test-year if a depreciable life ending in 2026 had been applied, and therefore to reduce the rates calculated to each destination under Order 151. Making the transition from a 2026 to a 2034 useful life as of January 1, 2008, is also consistent with how CPTAI's existing rates were calculated.⁶

Motion to Consolidate

Also included with this tariff filing package is a motion to consolidate any proceeding arising out of this filing with the consolidated proceedings in Docket Nos. P-08-9. In requesting

⁶ The tariff advice letter submitted with CPTAI's October 1, 2008 rate filing stated that CPTAI was updating "the depreciable life as of January 1, 2007." Tariff Advice Letter, TL131-301 at 7. As Mr. Wetmore explained in his testimony accompanying that filing, however, he applied the 2034 end-life to the "year-end 2007 net depreciable property balance," and conservatively maintained the 2026 remaining life set forth in Order 151 for the years 2000 through 2007, "thereby depreciating the net depreciable property balance at a more rapid pace." Docket No. P-08-9, Exhibit T-5 at 22.

consolidation, CPTAI agrees to be bound by the procedural schedule ultimately established in Docket No. P-08-9, as well as the Order Governing Confidential Discovery Material, Order No. P-08-9(3) and any decisions of the Commission regarding motions pending in Docket No. P-08-9, including CPTAI's motion to phase the proceedings ("Phasing Motion") and Tesoro's motion to reject the TAPS Carriers' filed rates. Since the Docket No. P-08-9 proceeding is in its initial stages and is currently the subject of Commission-sponsored settlement discussions; CPTAI submits that consolidation will not disrupt the Docket No. P-08-9 proceedings, and to the contrary will enhance the efficient use of the resources of the Commission and all parties.

Strategic Reconfiguration Costs

A portion of the total revenue requirement supporting this filing relates to an ongoing project to replace and upgrade certain TAPS facilities referred to as the Strategic Reconfiguration Project ("SR Project"). The SR Project involves, among other things, the modernization and automation of four of the TAPS pump stations. In its Phasing Motion CPTAI requested that the costs related to the SR Project contained in its October 1, 2008 rate filing be considered in a second phase of the proceeding that would begin at such time as the costs and benefits related to the SR Project were more fully known. As discussed above, in requesting consolidation, CPTAI has agreed to be bound by the procedural schedule to be established in Docket No. P-08-9 as well as the Commission's decision with respect to the Phasing Motion.

The SR Project costs are also at issue in proceedings pending before the FERC regarding the TAPS Carriers' interstate tariff rates. As part of the settlement procedures in Docket No. P-08-9, the parties "agreed that efficient handling of the RCA Dockets suggests that strategic reconfiguration issues should be coordinated between and heard concurrently by both [the RCA and FERC] if feasible." See Settlement Report Number One at 2. Specifically, the parties

requested that “the RCA wait to set a procedural schedule in the RCA Dockets and hold in abeyance all currently pending motions . . . until the FERC has set a procedural schedule for strategic reconfiguration issues.” Id. On March 12, 2009, the Administrative Law Judge accepted the parties’ agreement. Order No. P-08-9(9) at 4.

CPTAI respectfully submits that the interest of efficiency and judicial economy are best served by consolidating any proceedings arising out of this tariff filing with Docket No. P-08-9 and by considering all of the SR Project costs in the consolidated case in a separate phase of the proceeding that is coordinated between and heard concurrently by both the RCA and FERC. A concurrent hearing would save time and expense by allowing a coordinated discovery process, the filing of testimony and cross-examination of witnesses once, and the creation of a single transcript and record on SR Project issues.

Section 275(a) Presentation

In accordance with the Commission’s regulations, this rate filing includes the schedules required by section 275(a) as supported by the testimony of the following:⁷

Erec S. Isaacson – Mr. Isaacson, the President of CPTAI, provides an overview of the circumstances that support CPTAI’s need for an intrastate rate increase and describes how the TAPS Carriers interact with Alyeska to manage costs.

Joseph C. Falcone – Mr. Falcone, a Commercial Supervisor with responsibility for CPTAI, describes and supports the Carrier-direct costs incurred by CPTAI during the test year.

George R. Ganz – Mr. Ganz, an expert regulatory consultant, presents the costs incurred by Alyeska on behalf of all of the TAPS Carriers during the test year and makes appropriate adjustments.

⁷ As explained in the testimony of Mr. Wetmore (Exhibit T-5), there are three instances in which the information required by Section 275(a) is different from the information needed to calculate rates consistent with Order 151. Section 275(a) (9) requires the regulated entity to compute rate base using a 13-month average, whereas Order 151 used the average of the beginning-of-year rate base and end-of-year rate base. Sections 275(a) (12) and (13) appear to require the regulated entity to provide information regarding its own embedded cost of debt, while Order 151 calculates debt cost with reference to proxy companies. In those instances, Mr. Wetmore’s testimony notes the difference between Section 275(a) and Order 151 and provides both the information required by Section 275(a) and the information necessary to calculate rates pursuant to Order 151. To the extent the Commission determines that the information provided pursuant to Order 151 is inconsistent with that required by Section 275(a), CPTAI requests that the Commission waive the requirements of Section 275(a) in those limited instances.

Dr. Bruce H. Fairchild – Dr. Fairchild, an expert economist, presents the cost of capital for TAPS as calculated under the Commission's Order 151 methodology.

Erik G. Wetmore – Mr. Wetmore, an expert regulatory consultant, presents the systemwide revenue requirement for TAPS and the calculation of rates to specific intrastate destinations, applying the Order 151 methodology and other Commission precedents and policies and using the data supplied to him by the other witnesses. Mr. Wetmore also sponsors the schedules required under 3 AAC 48.275(a).

Attached to this Tariff Advice Letter as Schedule 1 is a list of the schedules, testimony, exhibits and other information submitted with this presentation.

Confidentiality

By separate petition, CPTAI is requesting confidential treatment of a limited portion of the materials submitted in support of this rate filing. CPTAI has made every effort to keep the confidential material in the filing to a minimum. All of the narrative testimony of CPTAI's witnesses is being submitted without restriction, as is the great majority of the exhibits to that testimony. The following six exhibits, however, contain confidential information and are being filed under seal: Exhibit EGW-2 (Schedule 6.1), Exhibit EGW-9, Exhibit EGW-10, Exhibit GRG-6, Exhibit GRG-7 (Schedule 1), and Exhibit GRG-8. For the reasons set forth in its petition for confidential treatment, CPTAI submits that these exhibits are confidential pursuant to AS 42.06.445(c) and 3 AAC 48.040, 48.045.

Electronic Filing

A CD accompanies this filing and contains the entire filing in electronic format.

Notification of Tariff Filing

CPTAI shippers as well as State agencies are being notified of this filing electronically. A copy of the tariff filing will be available for public inspection at the offices of CPTAI at 700 G Street, Room 986, Anchorage, AK 99501, and Attn: Luke Kiskaddon (907) 265-6393.

Notices

Please send notices relating to this matter to:

Rita H. Lovett
ConocoPhillips Transportation Alaska, Inc.
700 G Street
Anchorage, Alaska 99501
(907) 263-3703


Steven H. Brose
Steven Reed
Daniel J. Poynor
Steptoe & Johnson LLP
1330 Connecticut Avenue, NW
Washington, D.C. 20036
(202) 429-6250

Andrew E. Hoge
Hartig Rhodes Hoge & Lekisch, P.C.
717 K Street
Anchorage, Alaska 99501-3397
(907) 276-1592

Very truly yours,

ConocoPhillips Transportation Alaska, Inc.

By: _____



John M. Christal
Commercial Assets Business Manager

Attachments