STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

G. Nanette Thompson, Chair
Bernie Smith
Patricia M. DeMarco
Will Abbott
James S. Strandberg

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| In the Matter of the Correct Calculation and Use of Acceptable Input Data To Calculate the 1997, 1998, 1999, 2000, 2001, and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System Filed by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; EXXONMOBIL PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; UNOCAL PIPELINE COMPANY; PHILLIPS TRANSPORTATION ALASKA, INC.; and WILLIAMS ALASKA PIPELINE COMPANY, L.L.C., and the Protest by TESORO ALASKA PETROLEUM COMPANY of the 1997 and 1999 Tariff Rates | P-97-4<br><br>ORDER NO. 151 |
| In the Matter of the Petition of TESORO ALASKA PETROLEUM COMPANY for an Investigation into the Amounts Collected by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; and UNOCAL PIPELINE COMPANY for Dismantling, Removal, and Restoration of the Trans Alaska Pipeline System | P-97-7<br><br>ORDER NO. 110 |

**ORDER REJECTING 1997,1998,1999 AND 2000 FILED TAPS RATES; SETTING JUST AND REASONABLE RATES; REQUIRING REFUNDS AND FILINGS; AND OUTLINING PHASE II ISSUES**

BY THE COMMISSION:

**Regulatory Commission of Alaska**
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501
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B. <u>Comparing From the Beginning of Pipeline Operation, the Annual Past Revenue Requirements of a DOC Methodology With the Annual Past Revenue Requirements of TSM, Demonstrates That the Year-end 1996 Rate Base of $669 Million Is Reasonable</u>

We now compare the past annual DOC revenue requirements shown at Exhibit 33 with the past annual TSM revenue requirements. Exhibit 7, Schedule 2 reveals that TSM has, on a cumulative basis,[547] provided the Carriers with an opportunity to recover $9.9 billion more than their costs as determined by the DOC revenue requirements.[548] In 1997 dollars, the net present value[549] of the cumulative stream of revenue requirement differences is $13.5 billion, far in excess of the $669 million year-end 1996 DOC rate base.

Because the revenue requirements determined under TSM have been higher than costs as determined under a DOC methodology applied consistently from the beginning of pipeline operations, we find that the Carriers have had ample opportunity to recover costs and no taking of Carrier property occurs if we adopt a $669

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[547]Our finding regarding the appropriateness of TSM depreciation and the year-end 1996 rate base is properly tested with reference to the Carriers' *cumulative* historical opportunity to recover their full costs of service. In *Re Amerada Hess Pipeline Corporation*, Order P-97-4(79), April 10, 2000, we directed the Carriers to show that 1997-2000 rates reflect costs. We found that evidence that rates are just and reasonable over the life of the line is not sufficient to prove that the rates for specific years are just and reasonable. *Id.,* at 11. The Carriers' "life of the line" argument requires, among other things, a projection of costs of service into the future. Moreover, it fails to address whether 1997-2000 costs are reflected in 1997-2000 filed rates. We evaluate *historical* costs; we do so to determine whether 1997-2000 rates reflect the costs of providing service for the years in question.

[548]Exhibit 7, Schedule 2, Line 1.

[549]Exhibit 7, Schedule 2, Line 2. The net present value calculation uses interest rates equal to the Commission's overall weighted rate of return in each year. *See* Exhibit 7, Schedule 1, Line 6. We note that the present value comparative revenue requirement analysis indexes 1997 dollars, because those are the dollars with which the remaining rate base is measured.

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[Exhibit 2 Source, Sheet 2]