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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

T.W. Patch, Chairman
Stephen McAlpine
Robert M. Pickett
Norman Rokeberg
Janis W. Wilson

In the Matter of the Tariff Rate Revision,
Designated as TL131-301, Filed by
CONOCOPHILLIPS TRANSPORTATION
ALASKA, INC. for Revised Rates Pertaining to
the Trans Alaska Pipeline System

P-08-009
ORDER NO. 39

In the Matter of the Tariff Rate Revision
Designated as TL140-304, Filed by
EXXONMOBIL PIPELINE COMPANY for
Revised Rates Pertaining to the Trans Alaska
Pipeline System

P-08-013
ORDER NO. 36

In the Matter of the Tariff Rate Revision,
Designated as TL128-308, Filed by KOCH
ALASKA PIPELINE COMPANY, LLC for
Revised Rates Pertaining to the Trans Alaska
Pipeline System

P-09-005
ORDER NO. 36

In the Matter of the Tariff Rate Revision,
Designated as TL118-312, Filed by UNOCAL
PIPELINE COMPANY for Revised Rates
Pertaining to the Trans Alaska Pipeline System

P-09-006
ORDER NO. 36

In the Matter of the Tariff Rate Revision,
Designated as TL137-301, Filed by
CONOCOPHILLIPS TRANSPORTATION
ALASKA, INC. for Revised Rates Pertaining to
the Trans Alaska Pipeline System

P-09-010
ORDER NO. 25

1 In the Matter of the Tariff Rate Revision,) P-09-012
 2 Designated as TL133-308, Filed by KOCH) ORDER NO. 25
 3 ALASKA PIPELINE COMPANY, LLC for)
 Revised Rates Pertaining to the Trans Alaska)
 Pipeline System)

4 In the Matter of the Tariff Rate Revision) P-09-015
 5 Designated as TL147-304, Filed by) ORDER NO. 25
 6 EXXONMOBIL PIPELINE COMPANY for)
 Revised Rates Pertaining to the Trans Alaska)
 Pipeline System)

7 In the Matter of the Tariff Rate Revision,) P-10-005
 8 Designated as TL126-312, Filed by UNOCAL) ORDER NO. 25
 9 PIPELINE COMPANY for Revised Rates)
 Pertaining to the Trans Alaska Pipeline System)

10 In the Matter of the Tariff Rate Revision,) P-10-010
 11 Designated as TL141-301, Filed by) ORDER NO. 17
 12 CONOCOPHILLIPS TRANSPORTATION)
 13 ALASKA, INC. for Revised Rates Pertaining to)
 the Trans Alaska Pipeline System)

14 In the Matter of the Tariff Rate Revision,) P-10-013
 15 Designated as TL138-308, Filed by KOCH) ORDER NO. 17
 16 ALASKA PIPELINE COMPANY, LLC, for)
 Revised Rates Pertaining to the Trans Alaska)
 Pipeline System)

17 In the Matter of the Tariff Rate Revision,) P-11-006
 18 Designated as TL151-304, Filed by) ORDER NO. 15
 19 EXXONMOBIL PIPELINE COMPANY for)
 20 Revised Rates Pertaining to the Trans Alaska)
 Pipeline System)

21 In the Matter of the Tariff Rate Revision,) P-11-009
 22 Designated as TL132-312, Filed by UNOCAL) ORDER NO. 12
 23 PIPELINE COMPANY for Revised Rates)
 Pertaining to the Trans Alaska Pipeline System)

ORDER INCORPORATING INTO THE RECORD THE INITIAL DECISION OF THE FEDERAL ENERGY REGULATORY COMMISSION ADMINISTRATIVE LAW JUDGE, INCORPORATING INTO THE RECORD EXHIBITS AND BRIEFS FILED WITH THE FEDERAL ENERGY REGULATORY COMMISSION, ADOPTING PORTIONS OF FEDERAL ENERGY REGULATORY COMMISSION OPINION NO. 544, RULING ON RATE ISSUES, REQUIRING COMPLIANCE FILING AND REFUND PLAN, ALLOWING COMMENTS AND REPLY COMMENTS, AND REDESIGNATING COMMISSION PANEL

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21 BY THE COMMISSION:

22 Summary

23 We incorporate into our record exhibits and post-hearing briefs filed at the
 24 Federal Energy Regulatory Commission (FERC). We incorporate into our record the
 25 initial decision of the FERC presiding administrative law judge in the concurrent FERC
 26 proceeding and the briefs filed on and opposing exceptions to that initial decision. We
 adopt portions of FERC Opinion No. 544 as our own decision on the issue of inclusion
 of strategic reconfiguration costs in rates. We decide test year, throughput, and
 operating expense issues. We determine that supplemental 2006 ad valorem tax
 payments paid in 2010 cannot be included in rates at issue in this proceeding. We

1 approve a surcharge to recover rate case expense. We require calculation and filing of
2 rates based on the decisions in this order and filing of plans to distribute refunds to
3 shippers. We allow comments and reply comments.

4 Introduction

5 In response to protests, we opened this proceeding (12-Docket
6 Proceeding) to investigate a series of intrastate rate increases filed by four of the five
7 owners of the Trans Alaska Pipeline System (TAPS). The four owners filing rates were
8 ConocoPhillips Transportation Alaska, Inc. (CPTAI); ExxonMobil Pipeline Company
9 (ExxonMobil); Koch Alaska Pipeline Company, LLC (KAPCO); and Unocal Pipeline
10 Company (Unocal) (collectively, the Four Carriers). BP Pipelines (Alaska) Inc. (BP), the
11 fifth owner, did not file intrastate rates during the period the rates at issue in this
12 12-Docket proceeding were in effect.¹

13 All five owners—BP, CPTAI, ExxonMobil, KAPCO, and Unocal—are
14 collectively referred to in this order as “TAPS Carriers” or simply as “Carriers.” Only
15 three of the five TAPS Carriers who operated TAPS at the beginning of this 12-Docket
16 Proceeding—BP, CPTAI, and ExxonMobil—continue to operate TAPS today. KAPCO’s
17 ownership share has been transferred to BP, CPTAI, and ExxonMobil. Unocal’s share
18 is in the process of being transferred to those three Carriers.²

19 This 12-Docket Proceeding was divided into two parts—Phase I
20 (prudence) and Phase II (cost of service). Phase I was devoted to a single issue:

21 ¹BP did increase its interstate rate during this period but, for reasons never
22 articulated, did not increase its three intrastate rates.

23 ²KAPCO provided notice of its withdrawal from TAPS effective August 1, 2012
24 (see Docket P-12-014), and sold its ownership interest in TAPS to BP, CPTAI, and
25 ExxonMobil (see Docket P-12-019). Unocal provided final notice of its withdrawal from
26 TAPS effective August 1, 2012, but has not yet transferred its ownership interest (see
Docket P-12-013).

1 whether the carriers were imprudent in the Strategic Reconfiguration (SR) Project.³ The
2 SR Project, simply put, is the electrification and automation of TAPS Pump Stations 1,
3 3, 4, and 9. If SR costs were not prudently incurred, they may not be included in rates.
4 If costs of the SR Project were prudently incurred the TAPS Carriers may include them
5 in rates, unless the costs are disallowed on other grounds.

6 Phase II concerned cost-of-service issues, including claims that SR costs
7 should be disallowed on grounds other than imprudence—used and useful, ratepayer
8 benefit, intergenerational equity, and failed project.⁴ The protests and prefiled testimony
9 in this 12-Docket Proceeding raised a number of intrastate cost-of-service issues not
10 related to the SR Project. Some issues were resolved through settlement and others
11 were withdrawn. Five issues remain in dispute—test year,⁵ throughput, 2009 operating
12 expenses, supplemental 2006 ad valorem tax payments, and rate case expense. We
13 resolve those issues in this order.

14 Background

15 TAPS lies entirely within the State of Alaska. It moves crude oil
16 approximately 800 miles from Prudhoe Bay on Alaska’s North Slope, where the oil is
17 produced, to an ice-free port in Valdez. Oil flowing through TAPS is ultimately delivered
18 to refineries located within the State and to refineries outside of Alaska. Oil destined for
19

20 ³ *Joint Statement of Issues and Witness List*, filed October 24, 2011, by all parties
21 in this 12-Docket Proceeding and FERC Trial Staff.

22 ⁴ *Joint Statement of Phase II Cost of Service Issues*, filed August 31, 2012 by all
23 the parties in this 12-Docket Proceeding and by FERC Trial Staff (Joint Statement of
24 Phase II).

25 ⁵ Test year is not an issue directly presented to us for decision in this 12-Docket
26 Proceeding. However, because of the position ultimately taken by Anadarko/Tesoro on
the rate case issues remaining for us to decide, we must, by default, issue a ruling on
the appropriate test year.

1 out-of-state refineries moves in interstate commerce. Oil delivered to instate refineries
2 moves in intrastate commerce.

3 TAPS is separately regulated both by the FERC and by us. The FERC
4 has jurisdiction over interstate oil movements while we have jurisdiction over intrastate
5 oil movements. The Carriers file interstate tariffs with the FERC and intrastate tariffs
6 with us.

7 Most of the oil transported on TAPS is shipped the full length of the
8 pipeline to the Valdez Marine Terminal where it is stored in tanks until loaded onto
9 tankers. Most tankers leaving Valdez carry oil destined for delivery to refineries outside
10 of Alaska, located primarily on the U.S. West Coast (interstate oil). The remaining
11 (intrastate) oil is delivered to four refineries in Alaska. Some of the intrastate oil is
12 delivered via tanker from Valdez to a refinery owned by Tesoro Alaska Company
13 (Tesoro) in Nikiski. Some is delivered almost the full length of the pipeline to a refinery
14 located north of the Valdez Marine Terminal, the Petro Star Valdez Refinery, owned by
15 Petro Star Inc. (Petro Star). That oil is delivered through the Petro Star Valdez Refinery
16 Connection. The two other Alaska refineries are located at North Pole, near Fairbanks,
17 approximately 60% of the way down the pipeline. Intrastate oil destined for the North
18 Pole refineries is delivered through the Golden Valley Electric Association Connection
19 (GVEA Connection). Flint Hills Alaska Resources Inc. (Flint Hills) owns the larger of the
20 two refineries at North Pole. Petro Star owns the smaller North Pole refinery.⁶

21 At all times during which the tariffs at issue in this 12-Docket Proceeding
22 were in effect, the TAPS ownership percentages were: BP, 46.93%; CPTAI, 28.29%;

23
24 ⁶See EM-8 (Ray Direct) at 5. The Flint Hills refinery, by far the largest of the four
25 refineries in Alaska, ceased operations in 2014.

1 ExxonMobil, 20.34%; KAPCO, 3.08%; and Unocal, 1.36%.⁷ Each Carrier owns an
2 undivided joint interest and entitlement to its percentage ownership share of the
3 pipeline's capacity. Alyeska Pipeline Service Company (Alyeska) incurs most of the
4 costs of providing transportation service but does not collect rates from shippers.
5 Rather, it operates on cash calls from the owner companies.

6 Early TAPS Rates

7 Each Carrier operates its interest as though it were a separate pipeline.
8 Each Carrier has its own tariff and deals directly with the shippers that transport oil over
9 that Carrier's ownership share. Each Carrier publishes one interstate tariff rate, a rate
10 for transportation from Prudhoe Bay to Valdez. Each maintains three intrastate rates,
11 one each from Prudhoe Bay to: the GVEA Connection, the Petro Star Valdez Refinery
12 Connection, and the Valdez Marine Terminal.

13 For many years TAPS rates, intrastate as well as interstate, were
14 calculated under a 1985 settlement between the TAPS owners and the State of Alaska
15 (State).⁸ The settlement finalized past rates, back to 1977, the year oil shipments on
16 TAPS began, and prescribed a methodology, the TAPS Settlement Methodology (TSM),
17 for calculating future rates. Every year, under TSM, every carrier calculated and filed
18 one interstate rate and three intrastate rates.

19 TSM was a trended original cost (TOC) methodology. Neither we nor our
20 predecessor, the Alaska Public Utilities Commission (APUC), have ever set rates in an
21 adjudicated proceeding using a TOC methodology. We and the APUC have always

22
23 ⁷Exhibit SOA-427 at 6.

24 ⁸The settlement was approved as to interstate rates in 1985 and 1986 and
25 accepted as to intrastate rates in 1987 and 1993.

1 used a depreciated original cost (DOC) methodology to calculate rates for utilities and
2 pipeline carriers. The APUC accepted TSM rates, even though TSM was a TOC
3 methodology, because no economically interested party spoke against acceptance.

4 TSM was complicated, with many unorthodox features no longer relevant
5 to TAPS rates. However, three features are still important to understand today. The
6 first is that TSM rates were annual rates. The TAPS owners calculated each year's
7 rates in the fall, submitted them to the State, and then filed them with the FERC and the
8 APUC. TSM rates became effective January 1 and remained in effect exactly one year,
9 coinciding with the calendar year, expiring of their own accord on December 31.

10 A second feature relevant today is that TSM revenue requirements were
11 based largely, though not completely, on the estimated cost of operating TAPS for the
12 ensuing calendar year. In test year terms, then, TSM can be thought of as being based
13 on a future test year rather than on a historical test year.

14 The third important feature of TSM was its true-up mechanism which
15 ensured that the TAPS owners collected exactly the revenue requirement allowed them
16 under TSM, no more and no less. The true-up mechanism was called the "net
17 carryover." Under TSM the amount of net carryover could be either a positive number
18 or a negative number. The net carryover amount was the difference between the
19 transportation revenues received by the carriers and the carriers' actual experienced
20 costs of operating the pipeline, thus ensuring complete cost recovery.

21 A carrier's annual TSM ceiling rates were based on a single TAPS-wide
22 revenue requirement and throughput (rather than on the individual carrier's revenue
23 requirement and the throughput shipped on its share of TAPS) but varied somewhat
24 between carriers because of differences in each carrier's estimates. Under TSM, each
25

1 carrier's interstate rate to Valdez was identical to its intrastate rate to Valdez because
2 TSM was designed to produce that result.

3 The multiple ownership structure of TAPS allowed rate competition
4 amongst the TAPS owners. TSM contemplated and provided for rate competition.
5 Under TSM, a carrier could, at its option, charge less than its TSM ceiling rates. At
6 times in the past, some carriers did charge less than their calculated TSM ceiling rates,
7 for competitive purposes. However, with those minor exceptions, during most of the
8 period TSM was used to calculate TAPS rates, the Carriers charged TSM ceiling rates.
9 During the TSM years, interstate rates and intrastate full-line rates were identical.

10 Intrastate shippers paid TSM rates until 1997, when Tesoro protested
11 intrastate TSM rates. Interstate shippers paid TSM rates until 2005 when those rates
12 were challenged by Anadarko Petroleum Corporation (Anadarko).

13 Intrastate TAPS Rates (1997-2008)

14 In response to Tesoro's protests, we conducted lengthy proceedings to
15 determine whether the annual 1997, 1998, 1999, and 2000 intrastate TSM rates were
16 just and reasonable. In late 2002, in Order 151,⁹ we determined those TSM rates were
17 not just and reasonable. In that order we prescribed a DOC methodology and required
18 the carriers to use that DOC methodology in calculating future intrastate TAPS rates. In
19 addition, we used that methodology to establish just and reasonable rates for
20 transportation to the three intrastate destinations. Because we were replacing TSM
21 rates, which were always in effect for exactly one calendar year, we established four
22

23 ⁹Order P-97-4(151)/P-97-7(110), *Order Rejecting 1997, 1998, 1999, and 2000*
24 *Filed TAPS Rates; Setting Just and Reasonable Rates; Requiring Refunds and Filings;*
25 *and Outlining Phase II Issues*, dated November 27, 2002; as corrected by *Errata*, dated
January 29, 2003; and *Second Errata Notice*, dated April 18, 2003 (Order 151).

1 sets of intrastate rates, one set for each of four calendar years the TSM rates under
2 consideration had been in effect—1997, 1998, 1999, and 2000.¹⁰

3 During the course of the Order 151 proceeding, the carriers filed three
4 more sets of annual intrastate TSM rates—for calendar years 2001, 2002, and 2003.
5 After establishing rates for 1997-2000 in Order 151, we required the carriers to file a
6 revenue requirement study based on a 2001 test year so that we could set post-2000
7 intrastate rates. In Order 34,¹¹ we rejected the revenue requirement study as
8 noncompliant with our regulations and denied the requested 2001, 2002, and 2003 TSM
9 rates. We established the Order 151 calendar year 2000 rates as the effective rates for
10 the period January 1, 2001, and thereafter, until the carriers made new filings, with
11 proper support, that we could approve. The carriers did not seek to change the rates
12 we established until late 2008.

13 Interstate TAPS Rates (2005-2008)

14 Meanwhile, on the interstate side, the carriers continued to file TSM rates.
15 The carriers filed interstate rates calculated under TSM for each calendar year through
16 calendar year 2004, without protest. However, when the carriers filed their 2005
17 interstate TSM rates with the FERC, Anadarko protested the rates as unjust and
18 unreasonable. The State challenged the interstate rates as violating the unjust

19 _____
20 ¹⁰The TAPS Carriers appealed our decision in Order 151 to the Superior Court of
21 the State of Alaska, which affirmed our decision in its entirety. *Amerada Hess Pipeline*
22 *Corp. v. Regulatory Comm'n of Alaska*, 3AN-02-13511CI (Alaska Super. Jan. 18, 2006).
The Supreme Court of the State of Alaska affirmed the superior court's decision and
order. *Amerada Hess Pipeline Corp. v. Regulatory Comm'n of Alaska*, 176 P.3d 667
(Alaska 2008).

23 ¹¹Order P-03-004(34), *Order Rejecting the TAPS Carriers' 2001-2003 TSM*
24 *Intrastate Filings, Rejecting the TAPS Carriers' Post-2000 Revenue Requirement and*
25 *Rate Filings, Establishing Permanent Post-2000 Intrastate TAPS Rates, Requiring*
Refunds, Ordering Release of Escrowed Funds, Letters of Credit, and Bonds;
Approving Filings and Affirming Electronic Rulings, dated June 10, 2004 (Order 34).

1 discrimination and undue preference provisions of the Interstate Commerce Act
2 because the rates were higher than our Order 151 intrastate rates, as well as on other
3 grounds. The FERC suspended the 2005 rates for investigation. When the 2006
4 interstate TSM rates were filed, Anadarko and the State, along with Tesoro, protested
5 the rates. The FERC also suspended the 2006 TSM rates.

6 A hearing was held at the FERC in late 2006 and early 2007. We
7 participated as a party in that case. In May 2007, the FERC Presiding Administrative
8 Law Judge issued an initial decision finding the 2005 and 2006 TSM rates unjust and
9 unreasonable, rejecting the use of TSM to calculate interstate rates, and establishing
10 just and reasonable interstate rates using the TOC methodology. The initial decision
11 also required all carriers to charge the same rate, termed a “uniform rate.” In Opinion
12 No. 502, decided in June 2008,¹² the full commission (FERC) affirmed the initial
13 decision on all issues except one, return on equity. In that opinion, the FERC explicitly
14 affirmed the requirement that all carriers file a uniform rate for interstate transportation.

15 During the Opinion No. 502 proceeding, the Carriers filed TSM rates for
16 2007 and 2008. After Opinion No. 502 was issued, the FERC ordered and the Carriers
17 submitted a compliance filing with a uniform rate for 2007 and for 2008. No refunds
18 were due for calendar year 2007 because the 2007 compliance rate was lower than the
19 last TSM rate that went into effect without protest, the 2004 TSM rate.

20 The 2008 compliance rate was higher than the 2004 TSM rate and the
21 carriers’ calculation of the 2008 compliance rate was disputed. The parties ultimately
22 settled their differences over the 2008 rate. The FERC approved the parties’ settlement
23 in April 2010. The resulting uniform 2008 interstate rate was \$3.33. All five of the TAPS

24 _____
25 ¹²*BP Pipelines (Alaska) Inc.*, 123 FERC ¶ 61,287 (2008) (Opinion No. 502).

1 Carriers collected that interstate rate until, in 2009, they began to file new interstate
2 rates.

3 Each of the five Carriers filed interstate rate increases based on a 2008
4 historical test year and further increases based on a 2009 test year. Those rates are at
5 issue in the FERC proceeding conducted concurrently with this 12-Docket Proceeding.

6 The Carriers have filed interstate rates more recently than 2010, but those
7 newer rates have been held in abeyance by the FERC and were not part of the
8 concurrent proceeding. Those interstate filings, all rate increases, were based on
9 historical 2010, 2011, 2012, and 2013 test years.

10 RCA and FERC Methodologies

11 We have a long tradition of calculating oil pipeline tariff rates using a DOC
12 methodology. The FERC uses the TOC methodology it created in 1985 in Opinion
13 No. 154-B.¹³ The main difference between a DOC methodology and a TOC
14 methodology is that under a TOC methodology part of the carrier's return on rate base
15 is not collected currently, but is instead amortized over time. Thus, even if precisely the
16 same inputs are used to calculate a DOC rate and a TOC rate, the two rates will be
17 different. Because TAPS intrastate rates are calculated under a DOC methodology and
18 TAPS interstate rates are calculated under a TOC methodology, interstate and
19 intrastate rates can never be the same in the post-TSM era, absent another
20 comprehensive rate settlement.

21 Intrastate Rate Revisions at Issue in this 12-Docket Proceeding

22 In late 2008, at separate times, the Four Carriers filed tariff rate increases,
23 based on a 2007 historical test year (2007 test year rates or 2008 rates). These rates

24 ¹³*Williams Pipe Line Co.*, 31 FERC ¶ 61,377 (1985) (Opinion No. 154-B).

1 went into effect in late 2008 and early 2009, the last going into effect February 1, 2009.
2 Each Carrier asserted that its requested rate revisions were based on application of the
3 methodology we prescribed in Order 151.

4 Beginning in July 2009, the Four Carriers filed new increased intrastate
5 rates, at separate times. These rates were based on a historical 2008 test year (2008
6 test year rates or 2009 rates). The first rates to go into effect, CPTAI's, began to be
7 collected in August 2009. By February 2010 the last rate increase, which was filed by
8 Unocal, went into effect. All rates were said to be based on the Order 151
9 methodology.

10 Later in 2010 and in early 2011, the Four Carriers, at separate times, filed
11 a third set of intrastate rate increases, based on a 2009 historical test year (2009 test
12 year rates or 2010 rates). The third set of rate increases went into effect beginning in
13 August 2010, with the last increase, again Unocal's, going into effect in April 2011.
14 Each of the Four Carriers repeated that its rates were calculated under Order 151.

15 The rates of the Four Carriers in each set of rate increases did not
16 become effective on the same day, except two of the first set.¹⁴ The filings in the
17 second set of rate increases became effective on widely varying dates—August 1,
18 2009; October 1, 2009; December 31, 2009, and February 1, 2010. Those rates were
19 all based on a 2008 historical test year. Each of the 12 filings was in effect for its own
20 unique period of time—eight months was the shortest period any filing was in effect, a
21 year and a half the longest.

24 ¹⁴The 2007 test year rates filed by KAPCO and Unocal became effective on the
25 same date, February 1, 2009.

1 Each of the 12 filings was eventually superseded by a new filing
2 containing increased rates. Thus, not one of the rates contained in the filings at issue in
3 this 12-Docket Proceeding is still being collected. Each of the 12 unique effective rate
4 periods is a “locked-in period” for rate purposes. A graphic representation is helpful in
5 understanding the variation in the effective periods of the different rate filings. We
6 attach as Appendix A a copy of Exhibit AT-206 to illustrate how the effective periods
7 varied.

8 The three tariff rate increases filed by each of the Four Carriers are
9 described in the next sections. For each carrier we list the tariff letter numbers, the
10 docket numbers, the filing dates, the tariff rates, the test years on which the rates were
11 based, and the unique periods during which each of the tariff rates were being collected.

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CPTAI Rate Revisions

CPTAI filed rates based on a 2007 test year on October 1, 2008, as TL131-301. We suspended TL131-301 into Docket P-08-009.¹⁵ CPTAI filed rates based on a 2008 test year on July 1, 2009, as TL137-301. We suspended TL137-301 into Docket P-09-010.¹⁶ CPTAI filed rates based on a 2009 test year on July 23, 2010, as TL141-301. We suspended TL141-301 into Docket P-10-010.¹⁷

The established rates and CPTAI's proposed rates are:

From	To	Commission Established Rates (\$/bbl)	CPTAI's Proposed Rates in TL131-301 (\$/bbl)	CPTAI's Proposed Rates in TL137-301 (\$/bbl)	CPTAI's Proposed Rates in TL141-301 (\$/bbl)
TAPS Pump Station 1	GVEA Connection	\$1.25	\$1.97	\$2.55	\$2.86
TAPS Pump Station 1	Petro Star Valdez Refinery Connection	\$1.96	\$3.03	\$3.98	\$4.48
TAPS Pump Station 1	Valdez Marine Terminal	\$1.96	\$3.05	\$4.00	\$4.51
Effective Dates			11/01/2008 to 07/31/2009	08/01/2009 to 08/21/2010	08/22/2010 to 06/19/2011

¹⁵Order P-08-009(1), dated October 31, 2008, as corrected by errata dated October 31, 2008, and November 4, 2008.

¹⁶Order P-09-010(1), dated July 31, 2009.

¹⁷Order P-10-010(1), dated August 20, 2010.

ExxonMobil Rate Revisions

ExxonMobil filed rates based on a 2007 test year on November 26, 2008, as TL140-304. We suspended TL140-304 into Docket P-08-013.¹⁸ ExxonMobil filed rates based on a 2008 test year on November 24, 2009, as TL147-304. We suspended TL147-304 into Docket P-09-015.¹⁹ ExxonMobil filed rates based on a 2009 test year on December 21, 2010, as TL151-304. We suspended TL151-304 into Docket P-11-006.²⁰

The established rates and ExxonMobil's proposed rates are:

From	To	Commission Established Rates (\$/bbl)	ExxonMobil's Proposed Rates in TL140-304 (\$/bbl)	ExxonMobil's Proposed Rates in TL147-304 (\$/bbl)	ExxonMobil's Proposed Rates in TL151-304 (\$/bbl)
TAPS Pump Station 1	GVEA Connection	\$1.25	\$1.97	\$2.53	\$3.07
TAPS Pump Station 1	Petro Star Valdez Refinery Connection	\$1.96	\$3.04	\$3.93	\$4.82
TAPS Pump Station 1	Valdez Marine Terminal	\$1.96	\$3.05	\$3.95	\$4.84
Effective Dates			12/31/2008 to 12/30/2009	12/31/2009 to 01/19/2011	01/20/2011 to 07/31/2012

¹⁸Order P-08-013(1), dated December 24, 2008.

¹⁹Order P-09-015(1), dated December 22, 2009.

²⁰Order P-11-006(1), dated January 20, 2011.

KAPCO Rate Revisions

KAPCO filed rates based on a 2007 test year on December 22, 2008, as TL128-308. We suspended TL128-308 into Docket P-09-005.²¹ KAPCO filed rates based on a 2008 test year on August 31, 2009, as TL133-308. We suspended TL133-308 into Docket P-09-012.²² KAPCO filed rates based on a 2009 test year on August 31, 2010, as TL138-308. We suspended TL138-308 into Docket P-10-013.²³

The established rates and KAPCO's proposed rates are:

From	To	Commission Established Rates (\$/bbl)	KAPCO's Proposed Rates in TL128-308 (\$/bbl)	KAPCO's Proposed Rates in TL133-308 (\$/bbl)	KAPCO's Proposed Rates in TL138-308 (\$/bbl)
TAPS Pump Station 1	GVEA Connection	\$1.25	\$1.97	\$2.55	\$2.87
TAPS Pump Station 1	Petro Star Valdez Refinery Connection	\$1.96	\$3.04	\$3.98	\$4.49
TAPS Pump Station 1	Valdez Marine Terminal	\$1.96	\$3.05	\$4.00	\$4.51
Effective dates			02/01/2009 to 09/30/2009	10/01/2009 to 09/30/2010	10/01/2010 to 07/12/2011

²¹Order P-09-005(1), dated January 1, 2009.

²²Order P-09-012(1), dated September 29, 2009.

²³Order P-10-013(1), dated September 30, 2010.

Unocal Rate Revisions

Unocal filed rates based on a 2007 test year on December 30, 2008, as TL118-312. We suspended TL118-312 into Docket P-09-006.²⁴ Unocal filed rates based on a 2008 test year on December 24, 2009, as TL126-312. We suspended TL126-312 into Docket P-10-005.²⁵ Unocal filed rates based on a 2009 test year on February 24, 2011, as TL132-312. We suspended TL132-312 into Docket P-11-009.²⁶

The established rates and Unocal's proposed rates are:

From	To	Commission Established Rates (\$/bbl)	Unocal's Proposed Rates in TL118-312 (\$/bbl)	Unocal's Proposed Rates in TL126-312 (\$/bbl)	Unocal's Proposed Rates in TL132-312 (\$/bbl)
TAPS Pump Station 1	GVEA Connection	\$1.25	\$1.97	\$2.53	\$3.07
TAPS Pump Station 1	Petro Star Valdez Refinery Connection	\$1.96	\$3.04	\$3.93	\$4.82
TAPS Pump Station 1	Valdez Marine Terminal	\$1.96	\$3.05	\$3.95	\$4.84
Effective dates			02/01/2009 to 01/31/2010	02/01/2010 to 02/01/2010	04/01/2011 to 12/31/2011

²⁴Order P-09-006(1), dated January 13, 2009, as corrected by errata dated January 20, 2009.

²⁵Order P-10-005(1), dated January 25, 2010.

²⁶Order P-11-009(1), dated March 29, 2011.

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Protests of Intrastate Rate Increases

The State and Tesoro protested the 12 individual filings.²⁷ In response to those protests, we suspended each filing into its own docket of investigation. We established temporary intrastate rates equal to the individual filed rates, subject to refund with interest. We consolidated the 12 dockets for hearing and decision.

Extension of Suspension Periods of Intrastate Rates at Issue

We initially suspended each of the 12 tariff revisions for six months from the date each would have gone into effect.²⁸ We subsequently extended the suspension period of each tariff revision for a one-year period, and then suspended them indefinitely while we conducted our investigation in this 12-Docket Proceeding.²⁹

²⁷Those protests are described in the initial suspension order (Order 1) in each of the 12 dockets. As to some of the tariff filings, the State filed “Comments” rather than “Protest and Comments” as to other tariff filings. However, even in its filing titled “Comments,” the State requested suspension and investigation of that tariff filing.

²⁸The initial suspension orders suspending each of the 12 tariff filings in this 12-Docket Proceeding is Order 1 in the docket into which the particular tariff filing was suspended.

²⁹The suspension periods of CPTAI's three tariff revisions were extended for a one-year period in Orders P-08-009(11), P-09-010(2), and P-10-010(5) and extended indefinitely in Orders P-08-009(14), P-09-010(12), and P-10-010(11). The suspension periods of ExxonMobil's three tariff revisions were extended for a one-year period in Orders P-08-013(9), P-09-015(2), and P-11-006(6) and extended indefinitely in Orders P-08-013(12), P-09-015(16), and P-11-006(12). The suspension periods of KAPCO's three tariff revisions were extended for a one-year period in Orders P-09-005(10), P-09-012(2), and P-10-013(7) and extended indefinitely in Orders P-09-005(13), P-09-012(15), and P-10-013(12). The suspension periods of Unocal's three tariff revisions were extended for a one-year period in Orders P-09-006(10), P-10-005(2), and P-11-009(5) and extended indefinitely in Orders P-09-006(13), P-10-005(16), and P-11-009(10). In this footnote the order designations have been shortened by referencing only the docket number and order number of the proceeding into which the subject tariff has been suspended.

1 Parties and FERC Trial Staff

2 We granted petitions to intervene in each docket and made the parties in
3 each of the 12 dockets parties in the consolidated proceeding.³⁰ The parties to this
4 12-Docket Proceeding are BP, CPTAI, ExxonMobil, KAPCO, Unocal, Flint Hills, Petro
5 Star, the State, Tesoro, and Anadarko (Tesoro and Anadarko participated in this
6 proceeding together and are collectively referred to as Anadarko/Tesoro). FERC Trial
7 Staff is not a party in this 12-Docket Proceeding. It is a party in the FERC proceeding
8 that was conducted concurrently with this 12-Docket Proceeding.

9 Subsequent Tariff Revisions Not at Issue in this 12-Docket Proceeding

10 The Four Carriers have made nine subsequent rate filings since the filing
11 of the last of the 12 tariff revisions at issue in this proceeding. CPTAI, KAPCO, and
12 Unocal each filed a tariff rate revision using a 2010 test year.³¹ We suspended those
13 tariff filings into Dockets P-11-011, P-11-012, and P-11-022, respectively.³² ExxonMobil
14 and CPTAI each filed a tariff rate revision using a 2011 test year.³³ We suspended
15 those tariff filings into Dockets P-12-016 and P-12-017, respectively.³⁴ ExxonMobil and

16 ³⁰Order P-08-009(28)/ P-08-013(25)/ P-09-005(25)/ P-09-006(25)/ P-09-010(14)/
17 P-09-012(14)/ P-09-015(14)/ P-10-005(14)/ P-10-010(6)/ P-10-013(6)/ P-11-006(4)/
18 P-11-009(1), *Order Opening Docket of Investigation; Suspending TL132-312;*
19 *Establishing Temporary Rates Equal to Filed Rates, Subject to Refund; Approving Tariff*
Sheet; Granting Waiver; Consolidating Proceedings; Granting Intervention; Granting
Confidential Treatment to Certain Exhibits; Designating Commission Panel; and
Appointing Administrative Law Judge, dated March 29, 2011.

20 ³¹ExxonMobil did not file a rate revision based on a 2010 test year.

21 ³²Order P-11-011(1), dated June 17, 2011; Order P-11-012(1), dated July 13,
2011; Order P-11-022(1), dated December 29, 2011.

22 ³³KAPCO and Unocal did not file rate revisions based on a 2011 test year. By
23 the time CPTAI and ExxonMobil made their filings based on a 2011 test year, KAPCO
and Unocal were already planning to transfer their shares of TAPS to BP, CPTAI, and
ExxonMobil.

24 ³⁴Order P-12-016(1), dated July 26, 2012; Order P-12-017(1), dated August 31,
2012, as corrected by errata dated October 8, 2012.

1 CPTAI each filed a tariff rate revision using a 2012 test year. We suspended those tariff
2 filings into Dockets P-13-009 and P-13-010, respectively.³⁵ ExxonMobil and CPTAI filed
3 tariff rate revisions using a 2013 test year. We suspended those tariff filings into
4 Dockets P-14-023 and P-14-024, respectively.³⁶ No Carrier filed a tariff revision based
5 on a 2014 test year. The time to file such a rate revision, absent a waiver, has now
6 passed.

7 None of the nine subsequent filings of the Four Carriers were consolidated
8 into this 12-Docket Proceeding. CPTAI, KAPCO, ExxonMobil, and Unocal each
9 requested that its respective filings be consolidated with each additional subsequent
10 filing (that is, any rate filing made after we established this 12-Docket Proceeding).
11 However, each of the Four Carriers requested that no investigation take place until a
12 decision is reached in this 12-Docket Proceeding. We are holding the proceedings in
13 the nine subsequent dockets in abeyance pending a final decision in this 12-Docket
14 Proceeding.

15 On September 23, 2013, BP filed a tariff revision, TL143-311, using a
16 2012 test year. We suspended TL143-311 into Docket P-13-012. BP specifically
17 requested we not consolidate the docket concerning TL143-311 with the dockets of any
18 of the other TAPS Carriers, no matter when the underlying rate was filed.³⁷ Docket
19 P-13-012 currently is being held in abeyance.³⁸

21 ³⁵Order P-13-009(1), dated May 20, 2013; Order P-13-010(1), dated August 12,
22 2013.

23 ³⁶Order P-14-023(1), dated August 29, 2014; Order P-14-024(1), dated
24 August 29, 2014.

24 ³⁷TL143-311 at 6.

25 ³⁸Order P-13-012(1), dated October 22, 2013.

1 RCA Procedural History

2 CPTAI filed the first of the Four Carriers' intrastate rate increases with us
3 six months before they and BP began increasing their interstate rates at the FERC.
4 Even though there were not yet any rate increase filings at the FERC, the first tariff
5 revisions filed by CPTAI, ExxonMobil, KAPCO, and Unocal (those under consideration
6 in Dockets P-08-009, P-08-013, P-09-005, and P-09-006) each included a motion to
7 phase proceedings.³⁹ The Carriers proposed one phase to consider all aspects of the
8 rate filings except for inclusion of the costs of the SR Project. The motion asked that
9 review of the costs of the SR Project be conducted in a separate phase after the costs
10 and benefits of the SR Project were more fully known. They posited that this separate
11 phase could be coordinated with a similar proceeding on SR costs at the FERC.⁴⁰

12 In response to CPTAI's 2008 rate increase filing (as stated previously, the
13 first-filed rate increase in this 12-Docket Proceeding), we deferred consideration of
14 CPTAI's motion to phase proceedings and, instead, issued an order in October 2008,
15 scheduling a June 2009 hearing, on the justness and reasonableness of CPTAI's rate
16 increase. By January 2009, all Four Carriers had filed their intrastate rate increases. In
17 response, we appointed a settlement judge and instituted a settlement proceeding for
18 the purpose of dealing with pending motions, agreeing on a procedural schedule, and
19 discussing settlement of substantive issues.

20 ³⁹CPTAI's *Motion to Phase Proceedings*, filed October 1, 2008, in TL131-301;
21 ExxonMobil's *Motion to Phase Proceedings*, filed November 26, 2008, in TL140-304;
22 KAPCO's *Motion to Phase Proceedings*, filed December 22, 2008, in TL128-308; and
Unocal's *Motion to Phase Proceedings*, filed December 30, 2008, in TL118-312.

23 ⁴⁰See, eg., TL131-301 at 1. The motion to phase proceedings became moot
24 when a procedural schedule was adopted for a concurrent hearing with the FERC
25 regarding the SR Project. Order P-08-009(21)/ P-08-013(18)/ P-09-005(18)/
P-09-006(18)/ P-09-010(7)/ P-09-012(7)/ P-09-015(7)/ P-10-005(7), *Order Regarding
Concurrent Hearings on Strategic Reconfiguration Issues*, dated October 22, 2010.

1 As a result of the settlement discussions, the parties filed a stipulation to
2 consolidate the four then-existing dockets (the first set of rate increases). We accepted
3 the parties' stipulation in February 2009. The parties, through the settlement judge,
4 requested we vacate the hearing scheduled for June 15, 2009, postpone establishing a
5 procedural schedule for the Four Carriers' rate increases, and hold all motions then filed
6 in abeyance pending possible coordination with the FERC on SR cost issues. In April
7 2009, Tesoro filed a motion asking that we reject the Four Carriers' rate increases
8 because they failed to meet our form and filing requirements. The Carriers opposed the
9 motion. We denied Tesoro's motion to reject the filings.⁴¹

10 Procedural History of Concurrent Hearings⁴²

11 Before concurrent hearings with the FERC were instituted, the FERC
12 Chief Judge, Curtis L. Wagner, bifurcated the interstate proceedings on the 2009 and
13 2010 interstate rates into two parts: one for issues not related to SR (FERC Non-SR
14 Proceeding) and another for SR issues (FERC SR Proceeding). In his order, the Chief
15 Judge stated that bifurcation would enable the FERC Non-SR Proceeding to
16 expeditiously proceed while allowing additional time for the more complex FERC SR
17 Proceeding.⁴³

18 ⁴¹Order P-08-009(20)/ P-08-013(17)/ P-09-005(17)/ P-09-006(17)/ P-09-010(6)/
19 P-09-012(6)/ P-09-015(6)/ P-10-005(6), *Order Denying Tesoro Alaska Company's*
Motion to Reject Filed Rates, dated October 1, 2010.

20 ⁴²At the conclusion of the concurrent hearing, the FERC presiding judge required
21 the parties to submit an agreed-upon procedural background to be incorporated directly
22 into the Initial Decision. The parties did so. However, the background only referred to
23 FERC procedural issues and cited only to FERC orders or RCA/FERC joint orders.
Most of the following portion of our procedural background incorporates the procedural
background submitted to FERC by the parties, with minor modifications, including
modifications to include references to relevant procedural orders issued by us.

24 ⁴³*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-000, et al., *Order of Chief*
Judge Severing Strategic Reconfiguration Issues and Scheduling Prehearing
Conferences (Jan. 13, 2010).

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At the parties' request, on January 20, 2010, the FERC ordered that the FERC SR Proceeding be held concurrently with this 12-Docket Proceeding.⁴⁴ Subsequently, the parties filed a joint motion with us requesting that we grant permission to hold the concurrent hearing already ordered in the FERC SR Proceeding.⁴⁵ We granted the joint motion on the condition that we could work out a mutually acceptable plan with the FERC for the concurrent hearing to be held in Anchorage, Alaska.⁴⁶ On October 25, 2010, Chief Judge Wagner established

⁴⁴*BP Pipelines (Alaska), Inc.*, 130 FERC ¶ 61,042 (2010), *Order Establishing Concurrent Hearings*.

⁴⁵*Joint Motion of the State of Alaska, Tesoro Alaska Company, ConocoPhillips Transportation Alaska, Inc., ExxonMobil Pipeline Company, Koch Alaska Pipeline Company, LLC, Unocal Pipeline Company, Flint Hills Resources Alaska, LLC, and Petro Star, Inc. to Hold a Concurrent Hearing with the Federal Energy Regulatory Commission Regarding the Strategic Reconfiguration Issues Raised in the Above Captioned Dockets*, filed January 29, 2010, in Dockets P-08-009, P-08-013, P-09-005, P-09-006, P-09-010, P-09-012, P-09-015, and P-10-005.

⁴⁶*Order P-08-009(19)/ P-08-013(16)/ P-09-005(16)/ P-05-006(16)/ P-09-010(5)/ P-09-012(5)/P-09-015(5)/P-10-005(5)*, *Order Granting Joint Motion to Hold Concurrent Hearing, if Held in Alaska; Accepting Procedural Schedule for Purposes of Discussion with Federal Energy Regulatory Commission; and Establishing Concurrent Hearing if Concurrent Hearing Is Held in Alaska*, dated August 17, 2010.

1 procedures and a schedule for a concurrent hearing to take place in Anchorage, Alaska,
2 and Washington, D.C.⁴⁷ We adopted Chief Judge Wagner's order.⁴⁸

3 On August 25, 2011, the FERC Presiding Judge, Carmen A. Cintron, and
4 our Presiding Judge, Debra J. Brandwein (Presiding Judges), held a prehearing
5 conference in Anchorage, Alaska. After the prehearing conference, Chief Judge
6 Wagner ordered that the joint proceedings be split into two phases: the first addressing
7 SR prudence issues (Phase I) and the second addressing all other outstanding rate
8 issues (Phase II).⁴⁹

9 On September 2, 2011, the Presiding Judges issued a joint order that
10 confirmed, modified, and made additional procedural determinations relating to the
11 conduct of the concurrent hearing. On December 12, 2011, Chief Judge Wagner

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15 ⁴⁷*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order of Chief*
16 *Judge Establishing Procedures for Hearing* (Oct. 25, 2010). On October 27, 2010, the
17 Chief Judge designated Carmen A. Cintron as the Presiding Judge to replace Judge
18 Silverstein for the SR joint proceedings. *BP Pipelines (Alaska) Inc.*, Docket No. IS09-
19 348-004, et al., *Designation of Presiding Administrative Law Judge* (Oct. 27, 2010).

20 ⁴⁸Order P-08-009(23)/ P-08-013(20)/ P-09-005(20)/ P-09-006(20/ P-09-010(9)/
21 P-09-012(9)/P-09-015(9)/P-10-005(9), *Order Adopting Federal Energy Regulatory*
22 *Commission Order Establishing Procedures for Concurrent Hearings on Strategic*
23 *Reconfiguration Issues*, dated October 28, 2010. Shortly thereafter, we issued an order
24 that, among other things, required the parties to file a proposed procedural schedule for
25 a hearing on the rate case issues not related to SR. Order P-08-009(24)/P-08-013(21)/
26 P-09-005(21)/ P-09-006(21/ P-09-010(10)/ P-09-012(10)/ P-09-015(10)/ P-10-005(10)/
P-10-010(2)/ P-10-013(2), *Order Consolidating Proceedings, Granting Intervention,*
Granting Confidential Treatment to Certain Exhibits, Granting Motion for Withdrawal of
Attorney and Substitution of Counsel, Requiring Parties to Update Agreed-Upon Service
Lists, Requiring Parties To File Proposed Procedural Schedule for Hearing on Non-
Strategic Reconfiguration Issues, and Finding Request for Clarification Moot, dated
December 16, 2010.

⁴⁹*BP Pipelines (Alaska) Inc.*, 136 FERC ¶ 63,009 (2011), *Order of Chief Judge*
Phasing Hearing Issues and Establishing Further Procedures.

1 established a briefing schedule and deadline for the FERC presiding judge to issue an
2 initial decision on the SR portion of the joint proceedings.⁵⁰

3 Phase I of the concurrent hearing commenced on October 31, 2011, in
4 Anchorage, Alaska, and continued until November 16, 2011.⁵¹ The hearing resumed in
5 Washington, D.C. on November 30, 2011, and continued until December 16, 2011.
6 After a break for the winter holidays, the hearing resumed again in Washington, D.C. on
7 January 9, 2012, and continued until January 17, 2012. The evidentiary record was
8 closed for Phase I on January 17, 2012. Over 1,400 exhibits were admitted at the
9 Phase I hearing.

10 Immediately following the conclusion of the Phase I hearing on
11 January 17, 2012, Chief Judge Wagner held a prehearing conference to establish dates
12 for Phase II. We, the Presiding Judges, and all hearing participants attended the
13 conference. At the Phase II prehearing conference, Chief Judge Wagner scheduled the
14 Phase II hearing to commence on July 10, 2012.⁵²

15 The main issues raised during the January 17, 2012, prehearing
16 conference with Chief Judge Wagner were: the outstanding 2010 cost-of-capital issues

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20 ⁵⁰*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order of Chief Judge Revising Procedural Schedule* (Dec. 12, 2011).

21 ⁵¹Prior to the commencement of the hearing, discovery disputes arose with
22 regard to the classification of certain exhibits. There was also a dispute regarding the
23 terms of the FERC protective order. Several orders were issued by the FERC presiding
24 judge and the FERC on these issues, and the disputes were resolved in a timely
25 manner. See *BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order on Interlocutory Appeal* (June 27, 2011).

26 ⁵²*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-006, et al., *Order of Chief Judge Confirming Rulings Made at Prehearing Conference*, (Jan. 18, 2012).

1 not included in a previously reached settlement;⁵³ the life of the pipeline; whether there
2 should be a concurrent hearing for Phase II; and whether Judge Sharon L. Gleason's
3 December 30, 2011 Decision⁵⁴ (Ad Valorem Decision) should be given weight or merit,
4 admitted as evidence, or accorded official notice in Phase II. The Carriers requested
5 that if the Ad Valorem Decision was going to be admitted as evidence, it should be
6 presented as additional evidence according to a procedural schedule, with the Carriers
7 being permitted to respond to the Ad Valorem Decision evidence submitted by the other
8 parties.⁵⁵

9 Chief Judge Wagner ordered the parties to submit briefs on or before
10 February 3, 2012, on the weight to be given the Ad Valorem Decision in the Phase II
11 hearing. The Carriers, FERC Trial Staff, Flint Hills, and Anadarko filed briefs regarding
12 the Ad Valorem Decision on February 3, 2012. The briefs addressed whether
13 dispositive motions regarding the life of the line were appropriate in light of the Ad
14 Valorem Decision, the weight to be given, if any, to the Ad Valorem Decision, and
15 whether all testimony and exhibits had been filed for Phase II. Chief Judge Wagner
16 issued a ruling on February 6, 2012, in which he took official notice of the Ad Valorem

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18 ⁵³Tr. 30:11-32:7 (Docket No. IS09-348-006, Vol. 1, January 17, 2012). On
19 September 9, 2011, we issued an order accepting the parties' stipulation resolving all
20 "return on equity, cost of debt, capital structure, and weighted average cost of capital"
21 issues. Order P-08-009(31)/ P-08-013(28)/ P-09-005(28)/ P-05-006(28)/ P-09-010(17)/
22 P-09-012(17)/ P-09-015(17)/ P-10-005(17)/ P-10-010(9)/ P-10-013(9)/ P-11-006(7)/
23 P-11-009(4), *Order Accepting Stipulation Regarding Return Issues*, dated September 9,
24 2011 (Order P-08-009(31)).

25 ⁵⁴*Decision Following Trial De Novo 2007, 2008, and 2009 Assessed Valuations*
26 *of the Trans Alaska Pipeline System*, dated December 30, 2011, in the Superior Court
of the State of Alaska, Third Judicial District at Anchorage, in Case No.
3AN-06-08446Cl. *BP Pipelines (Alaska) Inc. v. State*, 3AN-06-08446Cl (Alaska Super.
Dec. 30, 2011).

⁵⁵Tr. 34:18-24 (Transcript, Docket No. IS09-348-006, et al., Vol. 1, January 17,
2012).

1 Decision. However, Chief Judge Wagner gave the Presiding Judges the discretion as
2 to the weight to give the Ad Valorem Decision and whether any additional testimony or
3 exhibits needed to be filed. Additionally, Chief Judge Wagner designated the Presiding
4 Judge for Phase II and scheduled Phase II to commence on July 10, 2012, at 10 a.m. in
5 Washington, D.C.⁵⁶

6 On February 10, 2012, the Carriers filed a motion to hold a concurrent
7 hearing for Phase II. Anadarko, the State, and FERC Trial Staff also collectively filed a
8 motion for a concurrent hearing in Phase II. Chief Judge Wagner emailed all parties on
9 February 17, 2012, requesting that they file a pleading outlining all testimony and
10 exhibits filed with the FERC and the RCA and outlining the witnesses testifying in each
11 jurisdiction on each issue. Chief Judge Wagner further requested that the parties
12 outline any issues and/or evidence that would be exclusive to either the FERC or the
13 RCA. The TAPS Carriers, along with Flint Hills, responded to Chief Judge Wagner's
14 February 17, 2012 email with a clarification pleading on February 22, 2012. Anadarko,
15 the State, and FERC Trial Staff also filed responsive pleadings on February 22, 2012.

16 On February 27, 2012, Chief Judge Wagner approved the parties' request
17 for a concurrent hearing, scheduled the time and location of the Phase II hearing, and
18 allowed supplemental testimony on the life-of-line and Ad Valorem Decision issues.⁵⁷ In
19 his February 27, 2012 Order, Chief Judge Wagner also scheduled the Phase II hearing
20 to commence on July 10, 2012, and continue through July 19, 2012, in Anchorage,

21 ⁵⁶*BP Pipelines (Alaska) Inc.*, 138 FERC ¶ 63,009 (2012) (February 6, 2012
22 Order), *Order of Chief Judge Ruling on Issues To Be Considered in Phase II and*
23 *Designating Presiding Administrative Law Judge*. Judge Cintron was assigned as
Presiding Judge in Phase II.

24 ⁵⁷*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-006, et al., *Order of Chief*
25 *Judge Approving Concurrent Hearings, Scheduling Date and Place of Hearings,*
Providing for Supplemental Testimony (Feb. 27, 2012) (February 27, 2012 Order).

1 Alaska. He ordered that the hearing would then recess and reconvene in Washington,
2 D.C. on July 23, 2012, and continue in Washington, D.C. until its conclusion. The
3 Washington, D.C. start date was later changed from July 23, 2012, to July 25, 2012, to
4 allow everyone time to move the hearing to Washington, D.C.⁵⁸ Chief Judge Wagner
5 also permitted any party or participant wishing to file additional testimony addressing the
6 evidence considered in the Ad Valorem Decision to do so by May 4, 2012. Any party
7 wishing to file reply testimony and exhibits to opposing parties' filed Ad Valorem
8 Decision testimony, were permitted to do so by June 19, 2012.⁵⁹

9 On March 2, 2012, Anadarko/Tesoro, the TAPS Carriers, the State, and
10 FERC Trial Staff filed post-hearing initial briefs for Phase I. Reply briefs were filed by
11 Anadarko/Tesoro, the TAPS Carriers, the State and FERC Trial Staff on March 30,
12 2012. On March 23, 2012, we issued an order incorporating the briefs filed by FERC
13 Trial Staff into our record.⁶⁰ The FERC presiding judge's initial decision for Phase I
14 regarding prudence of the SR Project was set to be issued by June 29, 2012.

15 On March 15, 2012, the Carriers filed a motion seeking clarification of
16 Chief Judge Wagner's February 27, 2012 Order, specifically, to modify paragraph 3.
17 The Carriers simultaneously filed a motion to exclude the Ad Valorem Decision.

18 On April 9, 2012, Anadarko and FERC Trial Staff filed replies opposing the
19 TAPS Carriers' motion for clarification. FERC Trial Staff advised that the State joined in
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21 ⁵⁸*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-006, et al., *Order of Chief*
22 *Judge Modifying Hearing Date in Washington, DC* (Mar. 23, 2012).

23 ⁵⁹February 27, 2012 Order at P 3.

24 ⁶⁰Order P-08-009(35)/ P-08-013(32)/ P-09-005(32)/ P-09-006(32)/ P-09-010(21)/
25 P-09-012(21)/ P-09-015(21)/ P-10-005(21)/ P-10-010(13)/ P-10-013(13)/ P-11-006(11)/
P-11-009(8), *Order Incorporating Briefs of the Federal Energy Regulatory Commission*
Trial Staff into the Record, dated March 23, 2012.

1 their reply. On April 13, 2012, the same parties filed replies opposing the TAPS
2 Carriers' motion to exclude the Ad Valorem Decision. The TAPS Carriers filed an
3 answer to Anadarko's and FERC Trial Staff's replies on April 13, 2012. In his order
4 issued April 17, 2012, Chief Judge Wagner found the TAPS Carriers' motion for
5 clarification moot. Chief Judge Wagner also reiterated his previous ruling that the
6 admissibility of and extent to which the Ad Valorem Decision and evidence would be
7 relied upon was at the discretion of the Presiding Judges.⁶¹ The Presiding Judges
8 issued an order on April 17, 2012, denying the TAPS Carriers' motion to exclude the Ad
9 Valorem Decision.

10 On April 17, 2012, the Carriers requested permission to file a new
11 depreciation study for Phase II. Chief Judge Wagner stated in his April 17, 2012 Order
12 that he deferred to the Presiding Judges regarding the TAPS Carriers' motion for a
13 depreciation study, and that the parties should be prepared to argue the TAPS Carriers'
14 motion for a depreciation study during oral argument scheduled in Phase I.

15 Burden of proof issues were raised for the first time in the Carriers' reply
16 brief (filed March 30, 2012) for the Phase I hearing. The TAPS Carriers asserted that
17 the protestants had changed their original position on burden of proof and now argued
18 in their post-hearing briefs that the TAPS Carriers bear the burden of proving that the
19 expenditures related to SR were prudent. The record was reopened and an oral
20 argument was held on April 19, 2012 on the burden of proof issue in Phase I and on the
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23 ⁶¹*BP Pipelines (Alaska), Inc.*, 139 FERC ¶ 63,003 (2012) (April 17, 2012 Order).
24 *Order of Chief Judge on TAPS Carriers' Request for Clarification*. Chief Judge Wagner
25 previously ruled on these issues in his February 6, 2012 Order.

1 Carriers' motion for a depreciation study in Phase II.⁶² Following the oral argument, it
2 was decided that the TAPS Carriers would be given an opportunity to file an additional
3 round of testimony by June 4, 2012, to rebut the reply testimony of the protestants on
4 the issue of the prudence of the SR Project costs.⁶³ The Presiding Judges also ordered
5 a supplemental Phase I hearing to be conducted after completion of the Phase II
6 hearing in order to give the protestants and FERC Trial Staff ample time to review the
7 TAPS Carriers' reply testimony, conduct discovery on TAPS Carriers' reply testimony,
8 and to allow them an opportunity to cross examine the TAPS Carriers' rebuttal
9 witnesses.⁶⁴ The TAPS Carriers withdrew their motion for a depreciation study during
10 the oral argument, and thus a ruling on that request was not necessary.⁶⁵

11 Because new evidence was going to be filed in both Phase I and Phase II,
12 and because a supplemental hearing would be scheduled for Phase I, Chief Judge
13 Wagner, on May 4, 2012, suspended the Phase I FERC initial decision date of June 29,
14 2012, ordered one FERC initial decision for both phases of the joint proceedings, and
15 established dates for the supplemental Phase I hearing. The supplemental hearing was
16 scheduled to commence on September 5, 2012, and continue until September 14,
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20 ⁶²A joint order was issued by the Presiding Judges reopening the record. *BP*
21 *Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order Re-Opening the Record,*
22 *Requiring Briefs and Oral Argument* (Apr. 5, 2012). The protestants, the TAPS Carriers,
and FERC Trial Staff all filed briefs on the issue of burden of proof on April 12, 2012,
prior to the oral argument.

23 ⁶³*BP Pipelines (Alaska) Inc.*, 139 FERC ¶ 63,007 (2012) as corrected by *Errata*,
issued May 4, 2012 (Order on Burden of Proof).

24 ⁶⁴Order on Burden of Proof at P 18.

25 ⁶⁵Tr. 207:21-25, 208:1-6 (Docket No. IS09-348-006, et al., Vol. 2, April 19, 2012).

1 2012, in Anchorage, Alaska, at which time the hearing would recess and then
2 reconvene in Washington, D.C. on September 19, 2012, until its conclusion.⁶⁶

3 Anadarko, the Carriers, and FERC Trial Staff filed their Ad Valorem
4 Decision testimony in Phase II on May 4, 2012, and filed reply testimony in Phase II on
5 June 19, 2012. The TAPS Carriers filed motions to strike portions or all of both FERC
6 Trial Staff's and Anadarko's Ad Valorem Decision testimony in Phase II. The Carriers
7 also renewed their motions to exclude Ad Valorem Decision evidence. The Carriers'
8 motions were denied.⁶⁷

9 The Carriers filed rebuttal testimony for Phase I on June 4, 2012.
10 Anadarko and the State filed deposition notices and served supplemental data requests
11 related to the June 4, 2012, rebuttal testimony.

12 On June 19, 2012, the parties advised Chief Judge Wagner that they had
13 been negotiating settlement of most or all of the issues set for hearing in Phase II, which
14 was scheduled to begin on July 5, 2012. We, the Presiding Judges, and Chief Judge
15 Wagner informally met with representatives of each party to discuss the possibility of
16 settlement and whether the settlement activities had been successful enough to warrant
17 postponing the Phase II hearing through July to allow the parties more time to work on a

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19 ⁶⁶*BP Pipelines (Alaska), Inc.*, 139 FERC ¶ 63,009, at PP 2-3 (2012), *Order of*
20 *Chief Judge Suspending Phase I Initial Decision Establishing Date for Rebuttal Hearing*
on Phase I, and Directing Issuance of Single Initial Decision.

21 ⁶⁷*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-006, et al., *Order Denying*
22 *Motion to Strike* (June 19, 2012). The TAPS Carriers filed a Motion to Permit
23 Interlocutory Appeal with the FERC presiding judge on July 2, 2012, which was denied.
24 The TAPS Carriers filed an Interlocutory Appeal with the full commission (FERC) on
25 July 5, 2012. Chairman Jon Wellinghoff issued a Notice of Determination by the
Chairman on July 10, 2012 in Docket No. IS09-348-004, et al. In his notice, Chairman
Wellinghoff, acting as Motions Commissioner, concluded TAPS Carriers failed to
demonstrate extraordinary circumstances. Therefore, the Chairman did not refer the
TAPS Carriers' Interlocutory Appeal to the full commission (FERC).

1 settlement agreement. Based on the representations of all parties at the informal
2 meeting on June 20, 2012, in Washington, D.C., Chief Judge Wagner postponed the
3 Phase II hearing to allow the parties more time to continue settlement negotiations. The
4 parties advised that there may be minor issues remaining in Phase II that might need to
5 be heard after a settlement agreement was completed, but were confident the
6 remaining issues would only take a few hearing days.

7 On June 21, 2012, Chief Judge Wagner granted the parties' request to
8 postpone the Phase II hearing. Chief Judge Wagner gave the parties until July 23,
9 2012, to file a settlement agreement or to advise him, the Presiding Judges, and us that
10 a settlement in principle on the life-of-line issues had been reached. Chief Judge
11 Wagner further ordered that if a settlement was not reached by July 23, 2012, the
12 Phase II hearing would commence August 15, 2012. Chief Judge Wagner also ordered
13 that any remaining issues in Phase II not resolved in a settlement agreement would be
14 heard immediately following the Phase I supplemental hearing still scheduled for
15 September 5, 2012, with the location of the Phase II hearing being equally divided
16 between Anchorage, Alaska and Washington, D.C. A decision regarding dates for
17 briefing in each phase and for an initial decision was deferred until a later date.⁶⁸

18 Several discovery disputes arose during the course of the supplemental
19 discovery process in Phase I, some of which required oral argument. The TAPS
20 Carriers were ultimately ordered to produce all documents and data requested of them
21 by Anadarko and the State and to produce all witnesses noticed for depositions in a
22 timely manner. Some of the discovery disputes were resolved by the parties during oral

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24 ⁶⁸*BP Pipelines (Alaska) Inc.*, Docket Nos. IS09-348-004, et al. and IS09-348-006,
25 et al., *Order of Chief Judge Confirming Rulings, Rescheduling Phase II Hearing and
Establishing Additional Procedures* (June 21, 2012).

1 arguments without the need for the Presiding Judges to rule.⁶⁹ The TAPS Carriers filed
2 a motion for expedited clarification of discovery rulings. That motion was denied on
3 July 24, 2012.

4 On July 23, 2012, the parties emailed the Presiding Judges, Chief Judge
5 Wagner, and us to advise they had reached a settlement in principle of the
6 depreciation/life-of-line issues set for hearing in Phase II and planned on filing a
7 settlement agreement by August 24, 2012, or advising the commissions of the status of
8 a settlement agreement at that time. The email also indicated that the parties planned
9 to continue to negotiate settlement of the remaining issues in Phase II.

10 Anadarko filed a motion to strike portions of the Carrier's pre-filed rebuttal
11 testimony, or for alternative relief on July 9, 2012. An oral argument on the motion was
12 held on July 27, 2012. At the oral argument a procedural schedule for the remaining
13 hearing was also discussed. The Presiding Judges issued an order on July 31, 2012.
14 The order denied Anadarko's motion to strike portions of the Carrier's pre-filed rebuttal
15 testimony and partially granted Anadarko's motion for alternative relief. The order
16 permitted Anadarko to file answering testimony to the Carriers' pre-filed rebuttal
17 testimony by August 10, 2012, and also to call their witnesses to testify at the
18 supplemental Phase I hearing. The order also provided the Carriers the opportunity to
19 file reply testimony by August 24, 2012. Finally, the Presiding Judges ordered the
20 Carriers to make their witnesses available at the supplemental Phase I hearing, to be
21 followed by Anadarko's witnesses.⁷⁰

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23 ⁶⁹*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order Confirming Rulings* (July 16, 2012).

24 ⁷⁰*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order Denying Motion to Strike and Partially Granting Alternative Relief* (July 31, 2012).

1 At the July 27, 2012, oral argument, all parties agreed that the remaining
2 non-life-of-line issues that were scheduled to be addressed at the August 15 hearing
3 would be heard either at the end of the Supplemental Phase I hearing commencing on
4 September 5, 2012, or would be briefed to the Presiding Judges. Thus, the August 15
5 hearing was canceled.⁷¹

6 The Phase I supplemental hearing began in Anchorage, Alaska, running
7 from September 5 to 14, 2012, and continued in Washington, D.C. from September 19
8 to 28, 2012. The Phase II hearing began again in Washington, D.C. on September 28
9 and ended on October 2, 2012.

10 The Presiding Judges ordered the participants to file a joint and complete
11 chronology of exhibits for the Phase I proceeding by October 30, 2012, and to submit
12 new briefs on both Phase I and Phase II, with initial briefs due November 30, 2012.⁷²
13 The participants filed their joint chronology on October 31, 2012.⁷³

14 Due to the complexity of the joint proceedings, Chief Judge Wagner
15 extended the time for the filing of reply briefs to January 25, 2013. Chief Judge Wagner
16 also deferred establishing a date for the issuance of the FERC initial decision until the
17 reply briefs were filed.⁷⁴

19 ⁷¹*BP Pipelines (Alaska) Inc.*, Docket Nos. IS09-348-004, et al. and IS09-348-006,
20 et al., *Order of Chief Judge Canceling Hearing* (Aug. 3, 2012).

21 ⁷²*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order Establishing*
22 *Schedule for Briefing and Other Submissions* (Oct. 4, 2012).

23 ⁷³The joint chronology was filed one day past the date specified by the Presiding
24 Judges because the FERC was closed on October 30, 2012, due to severe weather
25 conditions.

24 ⁷⁴*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-004, et al., *Order of Chief*
25 *Judge Establishing Reply Brief Date and Deferring Initial Decision Deadline* (Oct. 4,
26 2012).

1 On October 11, 2012, the Parties jointly submitted an offer of settlement
2 for the life-of-line issue. The Parties also requested that the comment period be
3 shortened so that initial comments would be due by October 22, 2012, and reply
4 comments due by October 26, 2012. This request was granted.⁷⁵ FERC Trial Staff filed
5 comments on October 22, 2012 supporting the settlement. On November 13, 2012, the
6 parties and FERC Trial Staff filed a consent motion for clarification to the agreement,
7 which clarified the identity of the Carriers and their obligations after January 1, 2013, in
8 light of the notifications by KAPCO and Unocal of their withdrawal from TAPS effective
9 August 1, 2012. On November 15, 2012, Presiding Judge Cintron certified the offer of
10 settlement together with the consent motion for clarification as a partial settlement, as
11 the settlement agreement did not address all issues needed to terminate the dockets
12 under which the offer of settlement was filed.⁷⁶ FERC approved the partial settlement
13 on December 28, 2012.⁷⁷ We accepted the settlement agreement on the life-of-line
14 issues on November 14, 2012.⁷⁸

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18 ⁷⁵*BP Pipelines (Alaska) Inc.*, Docket Nos. IS09-348-006, et al., *Order Granting Motion for Shortened Comment Period* (Oct. 15, 2012).

19 ⁷⁶*BP Pipelines (Alaska) Inc.*, 141 FERC ¶ 63,012, at P 2 & n.2 (2012), *Certification of Uncontested Partial Settlement*.

20 ⁷⁷*BP Pipelines (Alaska) Inc.*, Docket No. IS09-348-009, et al., 141 FERC ¶ 61,263 (Dec. 28, 2012). Letter order approving Settling Parties' October 11, 2012 filing of a Partial Settlement Agreement resolving the depreciation and thereby the life-of-line issues under Docket IS09-348-009, et al.

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23 ⁷⁸Order P-08-009(38)/ P-08-013(35)/ P-09-005(35)/ P-09-006(35) P-09-010(24)/ P-09-012(24)/ P-09-015(24)/ P-10-005(24)/ P-10-010(16)/ P-10-013(16)/ P-11-006(14)/ P-11-009(11)/ P-11-011(3)/ P-11-012(3)/ P-11-022(3)/ P-12-016(2)/ P-12-017(2), *Order Granting Motion and Accepting Settlement Agreement on Issues Relating to "Life of Line,"* dated November 14, 2012 (Order P-08-009(38)).

1 The Carriers, Anadarko/Tesoro, FERC Trial Staff, the State, and Flint Hills
2 filed new initial briefs on November 30, 2012, and reply briefs on January 25, 2013.⁷⁹
3 Presiding Judge Cintron issued her Initial Decision on February 27, 2014.⁸⁰ On May 16,
4 2014, Anadarko/Tesoro, the TAPS Carriers, the State, KAPCO, and FERC Trial Staff
5 filed briefs on exceptions. On July 25, 2014, the TAPS Carriers, Anadarko/Tesoro, the
6 State, FERC Trial Staff, and Flint Hills filed briefs opposing exceptions. FERC issued
7 Opinion No. 544 on November 20, 2015.⁸¹ A copy of Opinion No. 544 is attached as
8 Appendix B.

9 Record for Decision

10 The record in this proceeding is massive. As recently enumerated by one
11 of the parties, it includes: 14 rounds of prefiled testimony, 55 witnesses, 2,200 exhibits,
12 48 hearing days, over 9,600 pages of transcript, and over 1,600 pages of post-hearing
13 briefing.⁸² Not all of this material is yet a part of our record. We incorporate that
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16 ⁷⁹An order was issued on January 10, 2013, to allow the State to correct page 1
17 of Exhibit SOA-172. On February 8, 2013, Chief Judge Wagner issued an order stating
18 that settlement procedures would not serve any purpose. On February 11, 2013, Chief
19 Judge Wagner by order established June 25, 2013, as the initial decision date. Staff's
20 motion to file a cross-reference index to exhibits cited in its briefs was granted by order
21 dated February 14, 2013. A similar motion by the TAPS Carriers was granted by order
22 dated February 19, 2013. The State filed a similar motion which was granted on
23 February 20, 2013. An order re-opening the record, admitting Exhibit J-2 (joint
24 chronology of exhibits) and closing the record was issued on April 3, 2013. Chief Judge
25 Wagner by order dated June 25, 2013, extended the initial decision date to October 31,
26 2013. The initial decision date was extended to February 28, 2014, by order issued
October 30, 2013.

⁸⁰*BP Pipelines (Alaska) Inc.*, 146 FERC ¶ 63,019 (2014) as corrected by *Errata*,
issued March 7, 2014 (Initial Decision).

⁸¹*BP Pipelines (Alaska) Inc.*, 153 FERC ¶ 61,233 (2015) (Opinion No. 544).

⁸²*Comments of Anadarko Petroleum Corporation Concerning Compliance Filing
of the TAPS Carriers Pursuant to Opinion No. 544*, filed February 5, 2016, with the
FERC in Docket No. IS09-348-004, et al. These comments are not part of our record.

1 material now. We also incorporate the Initial Decision, the parties' briefing following the
2 Initial Decision, and Opinion No. 544.

3 Incorporation into Record of Briefs, Testimony, and Exhibits Filed at FERC

4 *FERC Trial Staff's Briefs*

5 Because FERC Trial Staff is not a party in this 12-Docket Proceeding, we
6 incorporated its original Phase I initial and reply briefs into our record. Subsequently, in
7 the concurrent proceeding, supplemental testimony was allowed to be filed in Phase I
8 and a supplemental Phase I hearing was held, making those FERC Trial Staff briefs
9 obsolete. While the parties to this 12-Docket Proceeding filed their new post-hearing
10 initial and reply briefs with us addressing both the Phase I and Phase II issues, FERC
11 Trial Staff, as a non-party, did not.

12 In post-hearing briefing, Anadarko/Tesoro adopted FERC Trial Staff's
13 positions on some cost-of-service issues in Phase II and advocated we adopt those
14 positions for the calculation of intrastate rates. To properly consider Anadarko/Tesoro's
15 arguments, we need FERC Trial Staff's briefing in our record. Further, upon review, we
16 found FERC Trial Staff's briefs very helpful in our consideration of both the Phase I
17 issue and the disputed Phase II issues common to both the FERC and to us.

18 No party opposed the incorporation of FERC Trial Staff's original Phase I
19 initial and reply briefs. All parties had the opportunity to address the arguments made
20 by FERC Trail Staff in the eventual Phase I and Phase II briefing. Therefore, we now
21 incorporate into our record FERC Trial Staff's new initial post-hearing brief filed at FERC
22 on November 30, 2012, and its reply brief filed at the FERC on January 25, 2013.⁸³

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24 ⁸³*Initial Brief of the Commission Trial Staff*, filed November 30, 2012; *Reply Brief*
25 *of the Commission Trial Staff*, filed January 25, 2013.

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FERC Trial Staff's Testimony and Exhibits

Anadarko/Tesoro's argument that we should adopt FERC Trial Staff's position on certain Phase II issues makes it necessary for us to incorporate into our record the prefiled testimony and exhibits sponsored by FERC Trial Staff.⁸⁴ Because all parties had the opportunity to fully test the evidence offered by FERC Trial Staff, and to oppose Anadarko/Tesoro's argument to adopt FERC Trial Staff's positions, we incorporate into our record the testimony and exhibits of FERC Trial Staff—Exhibits S-1, Revised, through S-24.

TAPS Carriers' Testimony and Exhibits Filed at FERC

The Four Carriers filed testimony and supporting exhibits with each of their 12 intrastate tariff filings. Each of the 12 sets of testimony was signed on a different date and of necessity contained only information available at the time of the filing. The testimony and exhibits supporting the FERC interstate tariff filings were filed in January 2011 and address all interstate tariff filings at issue. We found review of the supporting FERC testimony and exhibits useful in our consideration of the Phase II issues in this 12-Docket Proceeding.⁸⁵ Accordingly, we incorporate that testimony and those supporting exhibits into our record. Specifically, we incorporate Exhibits ATC-1 through ATC-17, Exhibits ATC-714 through ATC-740, Exhibits CPT-1 through CPT-3, Exhibits EM-1 through EM-7, Exhibits KAP-1 through KAP-3, and Exhibits UPC-1 through UPC-5.

⁸⁴None of FERC Trial Staff's witnesses were cross-examined at the hearing.

⁸⁵None of these witnesses were cross-examined at the hearing.

1 Incorporation of Initial Decision

2 The Initial Decision has been affirmed in part and modified in part by the
3 full commission (FERC) in Opinion No. 544. As discussed below, we adopt certain
4 paragraphs of Opinion No. 544 as our own resolution of the issues decided in those
5 paragraphs. Therefore, we incorporate the Initial Decision into our record only to the
6 extent necessary to support our decision and the paragraphs of Opinion No. 544 that
7 we adopt.

8 Incorporation of Briefs On and Opposing Exceptions Filed with FERC

9 After the Initial Decision was issued, the parties filed briefs on and
10 opposing exceptions to the Initial Decision. Those briefs were filed only at FERC. We
11 find that reviewing and considering the issues discussed in those briefs is relevant and
12 beneficial to our consideration of the issues raised in this 12-Docket Proceeding.
13 Therefore, we incorporate those briefs into the record of this 12-Docket Proceeding as
14 supplemental to, and explanatory of, the advocacy of the parties throughout the
15 proceeding.⁸⁶

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20 ⁸⁶The briefs on exceptions to the Initial Decision were all filed May 16, 2014:
21 *TAPS Carriers' Brief on Exceptions to Initial Decision; Limited Brief on Exceptions of*
22 *Anadarko Petroleum Corporation; Koch Alaska Pipeline Company, LLC's Separate*
23 *Additional Brief on Exceptions to the Initial Decision; Brief on Exceptions of the State of*
24 *Alaska; Limited Brief on Exceptions of the Commission Trial Staff. The briefs opposing*
25 *exceptions to the Initial Decision were all filed July 25, 2014: Brief Opposing Exceptions*
of Anadarko Petroleum Corporation; Brief Opposing Exceptions of the Commission Trial
Staff; TAPS Carriers' Brief Opposing Exceptions to Initial Decision; Brief of the State of
Alaska Opposing Exceptions of the TAPS Carriers; Errata to Brief Opposing Exceptions
of Flint Hills Resources Alaska, LLC.

1 Phase I Discussion and Decision

2 Resolution of SR Prudence Issue

3 Although the tariff filings in this 12-Docket Proceeding are different than
4 those filed with the FERC, the Phase I issue, whether the Carriers were imprudent in
5 the SR Project, is identical at both commissions. We attended the concurrent hearing
6 and evaluated the extensive record in the joint proceedings. We also reviewed the
7 parties' initial and reply briefs, the Initial Decision, the briefs on and opposing exceptions
8 to the Initial Decision, and Opinion No. 544. We find that the portions of Opinion No.
9 544 deciding the issues relating to the SR Project result in a just and reasonable
10 resolution of the Phase I SR prudence issue in this 12-Docket Proceeding. Therefore,
11 we adopt the portions of Opinion No. 544 that address the Phase I SR prudence issue
12 as our own decision in this 12-Docket Proceeding. Specifically, we adopt, as if fully set
13 out in this order, paragraphs 4-109 of Opinion No. 544.

14 Application of Decision on Phase I SR Prudence Issue

15 Anadarko/Tesoro challenged the SR costs included in the Carriers' 2007
16 test year intrastate rates as well as those included in the 2008 and 2009 test year rates.
17 We apply our decision in Phase I to the 2007 test year rates as well as to the 2008 and
18 2009 test year rates. Thus, the 2007, 2008, and 2009 test year rates must be adjusted
19 by the TAPS Carriers to reflect the SR capital costs we have excluded, as discussed in
20 the applicable portions of Opinion No. 544.

21 Phase II Discussion and Decisions

22 Anadarko/Tesoro is the only party challenging costs and other items used
23 by the Four Carriers to calculate their 2007, 2008, and 2009 test year rates. By the time
24 of the hearing, Anadarko/Tesoro had dropped all its challenges to the 2007 test year
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1 rates, save one—inclusion of SR costs.⁸⁷ Anadarko/Tesoro also dropped some of its
2 challenges to 2008 and 2009 test year rates but maintained others. Some of the
3 maintained challenges were resolved by settlement, both before and after the hearing.
4 We have already accepted those settlement agreements, but briefly summarize the rate
5 components agreed upon.

6 We address Anadarko/Tesoro’s remaining non-prudence challenge to
7 inclusion of SR costs in the 2007, 2008, and 2009 test year rates. We then address
8 Anadarko/Tesoro’s remaining cost-of-service challenges to the 2008 and 2009 test year
9 rates—test year, throughput, Alyeska operating expenses, supplemental 2006 ad
10 valorem taxes, and rate case expense.

11 Settled Issues

12 Before the concurrent SR hearings began, as part of the FERC Non-SR
13 Proceeding,⁸⁸ the parties settled cost-of-capital issues as to interstate rates. The
14 parties also settled cost of capital as to intrastate rates. The settlement specifies values
15 for return on equity, cost of debt, capital structure, and weighted average cost of capital
16 for calculation of all rates at issue in this 12-Docket Proceeding and some of the
17 subsequent rate filing not at issues in this proceeding. We accepted the parties’ return
18 stipulation in September 2011.⁸⁹

19 After the hearing concluded, the parties settled the “life of line” and
20 depreciation issues. The parties filed a settlement agreement in October 2012. The

21 ⁸⁷Carriers Initial Brief at 258 (citing AT-199 (Grasso Answering) at 15).

22 ⁸⁸As discussed above, the interstate rate proceeding at the FERC was originally
23 divided into two parts, SR and Non-SR, assigned to two different administrative law
24 judges. The SR part of the proceeding, both interstate and intrastate, was later divided
25 into Phase I and Phase II.

⁸⁹Order P-08-009(31).

1 settlement established depreciation factors to be used in calculating future rates, factors
2 that are lower than the depreciation factors that would otherwise be in effect. We
3 accepted the “life of line” settlement in November 2012.⁹⁰

4 Other Grounds for Exclusion of SR Costs

5 In Phase II, Anadarko/Tesoro challenged inclusion of SR costs in rates on
6 different grounds, separate from their challenge to the prudence of SR costs in Phase I.
7 Those different grounds were: used and useful, ratepayer benefit, intergenerational
8 equity, and failed project.⁹¹ We have found that the Carriers were imprudent in the SR
9 Project. In Opinion No. 544, the FERC determined that it did not need to address the
10 other grounds for disallowance of SR costs because it had affirmed the Initial Decision
11 finding that the Carriers were imprudent in the SR Project. Like the FERC, we do not
12 find a need to reach the alternative grounds proposed by Anadarko/Tesoro for
13 disallowance of SR costs. We note that Anadarko/Tesoro indicated on brief that, if SR
14 costs are disallowed for imprudence, it would be unnecessary for the commissions to
15 address their other grounds for disallowance.⁹²

16 RCA-Only Rate Case Issues

17 Anadarko/Tesoro challenged certain items used to calculate both the
18 Carriers’ intrastate 2008 test year rates and their 2009 test year rates. For both the
19 2008 and 2009 test year rates, Anadarko/Tesoro sought removal of certain SR Project
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21 ⁹⁰Order P-08-009(38).

22 ⁹¹Originally, Anadarko/Tesoro argued for allocation of risk between shareholders
23 and ratepayers through a throughput condition. AT-22 (B. Sullivan) at 42-44. At
24 hearing Anadarko/Tesoro’s witness withdrew his support for a throughput condition
(Phase II Tr. 285, (Docket No. IS09-348-006, et al., Vol. 4, October 1, 2012)) and
Anadarko/Tesoro no longer argues for it (Anadarko/Tesoro Initial Brief at 27).

25 ⁹²Anadarko/Tesoro Initial Brief at 15.

1 costs, removal of FERC rate case litigation expenses, and a change to the rate design
2 treatment of carrier-direct ad valorem taxes.

3 For 2008 test year rates, Anadarko/Tesoro also proposed using actual
4 2009 calendar year throughput and Alyeska's actual operating expenses instead of the
5 2008 normalized test year data. For 2009 test year rates, Anadarko proposed removing
6 a supplemental 2006 ad valorem tax payment, adjusting the useful life of TAPS, and
7 amending the Carriers' throughput.⁹³

8 In post-hearing briefing, Anadarko/Tesoro took a new tack on several
9 issues, proposing that FERC Trial Staff's cost-of-service and throughput data (with a
10 few alterations)⁹⁴ be used for intrastate rate calculations.⁹⁵ Anadarko/Tesoro withdrew

11 _____
12 ⁹³Joint Statement of Phase II. The Joint Statement of Phase II included issues
13 Anadarko/Tesoro raised only as to interstate rates—expenses related to the operations
14 control center in 2009 and 2010 rates and compensation expenses in 2009 rates.
15 Anadarko/Tesoro Reply Brief at 148, 150. Anadarko/Tesoro's briefs characterize the
16 proposed adjustment to wage and salary expenses as an issue for both commissions.
17 Anadarko/Tesoro Reply Brief at 148. However, in pre-filed testimony, Anadarko
18 proposed this adjustment only for interstate rates. AT-42 (Brown Answering) at 21-22;
19 ATC-656 (Ganz Reply) at 61 n.25.

20 ⁹⁴The parties agreed to corrections to FERC Trial Staff's treatment of (1) post-
21 retirement benefits other than pensions, (2) income tax on imputed management fees,
22 and (3) charitable and lobbying expenses. Anadarko/Tesoro Initial Brief at 282-284;
23 Anadarko/Tesoro Reply Brief at 150; FERC Trial Staff Reply Brief 106-108; Carriers
24 Reply Brief 181-182. Anadarko/Tesoro continues to independently advocate for the
25 elimination of certain SR Project costs and the supplemental 2006 ad valorem tax
26 payment. Anadarko/Tesoro Initial Brief at 252-280, 284; AT-199 (Grasso Answering) at
16, 19; AT-42 (Brown Answering) at vi-vii, 13-18; ITC-1 (Wetmore Reply) at Summary.

⁹⁵For both 2009 and 2010 rate cases, FERC Trial Staff (1) used actual end of
FERC test period cost of service and throughput data instead of adjusted base period
data, (2) amortized FERC rate case litigation costs, (3) extended the life of the pipeline
to reduce depreciation and amortization expenses, and (4) removed severance
payment expenses. For 2010 rates, FERC Trial Staff also sought (1) an upward
adjustment to throughput to account for an oil spill, (2) removal of certain oil spill clean-
up expenses, and (3) removal of a supplemental 2006 ad valorem tax payment. Joint
Statement of Phase II; FERC Trial Staff Initial Brief at 117-125; S-1 (Tran Direct and
Answering) at Summary; S-11 (Cayton Direct) at Summary; S-8 (Pewterbaugh Direct
and Answering) at Summary; ATC-656 (Ganz Reply) at 5-7.

1 its challenge to the rate design treatment of carrier-direct ad valorem taxes.⁹⁶ Flint Hills
2 asks that we rule on Anadarko's withdrawn challenge to the rate design treatment of
3 carrier-direct ad valorem property taxes.⁹⁷ All of the parties now agree that these taxes
4 may be considered distance-related costs for purposes of calculating the rates at issue
5 in this 12-Docket Proceeding.⁹⁸ Thus, we consider the issue moot. There is no case or
6 controversy before us and we decline to issue an advisory opinion. Additionally, we
7 note that we grant changes in rate design on a prospective basis only.

8 *Briefing on RCA-Only Phase II Issues*

9 Anadarko/Tesoro and the TAPS Carriers neither clearly identified the
10 Phase II issues that are pending only before us nor did they adequately support their
11 respective positions on those issues. It was difficult to determine from the briefing what
12 adjustments to the rate filings actually have been agreed to and what adjustments
13 remain to be decided by us.

14 Additionally, it appears that Anadarko/Tesoro has changed its original
15 positions on most of the Phase II rate issues pending before us, now suggesting
16 uniformly that we adopt FERC Trial Staff's data to resolve those issues. We note that
17 FERC Trial Staff is not now and never has been a party to this 12-Docket Proceeding.
18 Neither the testimony sponsored by FERC Trial Staff nor any of its other exhibits were
19 part of our record until today. Further, Anadarko/Tesoro did not request that any of
20 FERC Trial Staff's exhibits or briefs be incorporated into our record to support the
21

22 ⁹⁶Anadarko/Tesoro Initial Brief at 281, n.1333; Anadarko/Tesoro Reply Brief
at 150.

23 ⁹⁷Flint Hills Reply Brief at 2.

24 ⁹⁸Carriers Reply Brief at 157 n.191; Anadarko/Tesoro Initial Brief at 281, n.1333,
25 287; Anadarko/Tesoro Reply Brief at 150; Flint Hills Reply Brief at 1.

1 positions they have now taken in this 12-Docket Proceeding, requiring us to do so on
2 our own initiative. Finally, as discussed in more detail below, the adjustments to rates
3 made by FERC Trial Staff that Anadarko/Tesoro requests we utilize are based on a test
4 period that differs significantly from ours.

5 Our review of Anadarko/Tesoro's and the Carriers' briefs indicates that
6 there are three RCA-only issues requiring a decision. We address below the test year
7 issue, the throughput issue, the Alyeska 2009 operating expense issue.

8 Test Year

9 Our regulations define a "test year" as "any 12 consecutive months of
10 operating data selected to evaluate revenue requirements or cost of service" and direct
11 that the test year "be at least as recent as the utility's latest calendar or fiscal year."⁹⁹ A
12 tariff filing seeking a change in rates must include additional supporting information from
13 the last two calendar or fiscal years.¹⁰⁰ Supporting information should generally
14 correlate to the test year.¹⁰¹

15 Each of the Four Carriers complied with our regulations and precedent by
16 choosing a calendar year as the test year for each of its three rate filings. Each used a
17 2007 historical test year to support its first rate increase, a 2008 historical test year to
18 support its second rate increase, and a 2009 historical test year to support its third rates
19 increase.¹⁰² Each Carrier then "normalized" its test year through pro forma adjustments

20 ⁹⁹3 AAC 48.820(41); See also Order P-08-005(6)/P-08-011(7), *Order*
21 *Determining Test Year for Interim Period*, dated December 22, 2009 (Order
22 P-08-005(6)) (noting that RCA regulations allow a test year that is more recent than the
latest calendar or fiscal year).

23 ¹⁰⁰3 AAC 48.275(a).

24 ¹⁰¹Order P-08-005(6) at 23.

25 ¹⁰²Carriers Initial Brief at 286; AT-199 (GrassFo Answering) at 16; ITC-1
(Wetmore Reply) at Summary.

1 in accordance with the instructions in our regulations. Each carrier supported its
2 normalizing adjustments with prefiled testimony as required by our regulations.

3 Anadarko/Tesoro suggests we adopt the approach taken by FERC Trial
4 Staff for interstate rates, an approach that, for interstate 2009 rates, uses actual data
5 from the period that begins October 1, 2008, and runs to September 30, 2009, and, for
6 2010 interstate rates uses actual data from the period October 1, 2009, to
7 September 30, 2010.¹⁰³ Anadarko/Tesoro states that importing the data used by FERC
8 Trial Staff will resolve several issues identified in its prefiled testimony and will avoid
9 “the need for the Commissions to review two different approaches to similar
10 adjustments.”¹⁰⁴ The Carriers argue that importing FERC Trial Staff’s data is
11 inconsistent with our regulations and precedent.¹⁰⁵

12 We reject Anadarko/Tesoro’s proposal to use October to September
13 actual data to calculate intrastate rates. Anadarko/Tesoro’s suggested approach is not
14 required by our regulations or precedent; rather, it constitutes a departure from our
15 usual practice.¹⁰⁶ Adopting Anadarko/Tesoro’s proposal also runs counter to our earlier
16 decision in these dockets to allow Unocal to file a rate case in 2011 using a 2009

17
18 ¹⁰³Anadarko/Tesoro Initial Brief at 280-281, 286; Anadarko/Tesoro Reply Brief
19 at 148. The end of test period data used by FERC Trial Staff is the data from the last
20 three months of the base period (in this case, the preceding calendar year) and the
subsequent nine-month adjustment period. See 18 C.F.R. § 346.2(a)(i)-(ii) (2013).
FERC Trial Staff Initial Brief at 117-121.

21 ¹⁰⁴Anadarko/Tesoro Initial Brief at 280-281.

22 ¹⁰⁵Carriers Reply Brief at 176-177 (citing 3 AAC 48.820(42); 3 AAC 48.275(a)(5));
Order 34 at 11; See Order P-08-005(6).

23 ¹⁰⁶Interestingly, it was Anadarko that successfully challenged Kuparuk
24 Transportation Company’s use of a non-calendar year test year in Docket P-08-005
25 referenced above. Anadarko argued doggedly that it was inappropriate to permit a non-
calendar year test year even though use of such a test year was not precluded by our
regulations.

1 historical test year.¹⁰⁷ We approve the Carriers' use of normalized test years, derived
2 through pro forma adjustments to the 2008 and 2009 historical test years, to calculate
3 their 2008 and 2009 test year intrastate rates.

4 Throughput

5 For both 2008 and 2009 test year rates, the Carriers adjusted the
6 historical test year throughput downward to reflect a forecasted decline.¹⁰⁸ In support of
7 those adjustments, the Carriers point to the historical trend of decline, Alyeska's
8 forecast of Pump Station 1 receipts, and a comparison of monthly throughput from the
9 test year and updated data available at the time of filing.¹⁰⁹ For 2008 test-year rates all
10 of the Four Carriers adjusted actual 2008 throughput by 3.8%. For 2009 test year rates,
11 the magnitude of the downward adjustment varied among the filings depending upon
12 the information available at the time the individual carrier filed its tariff.¹¹⁰ CPTAI and
13 KAPCO adjusted actual 2009 throughput downward by 4.5%. ExxonMobil and Unocal's
14 downward adjustment, filed later, was 7.6%.

15 Anadarko/Tesoro challenged the amount of the Four Carriers'
16 adjustments. For 2008 test year rates, Anadarko/Tesoro initially proposed using 2009
17 calendar year throughput on the basis that it represented a "locked-in" period.¹¹¹ For
18 2009 test year rates, Anadarko/Tesoro initially proposed using the adjusted 2009

19 _____
20 ¹⁰⁷TL132-312; See *also* Docket P-11-009.

21 ¹⁰⁸Carriers Initial Brief at 271; Carriers Reply Brief at 177.

22 ¹⁰⁹KAP-8 (Hoover Direct) at 16-17; EM-12 (Ray Direct) at 17-18; CPT-10
(Falcone Direct) 17; UPC-10 (Avioli Direct) at 20-21; UPC-14 (Avioli Direct) at 18-21;
23 EM-16 (Ray Direct) at 17-18; CPT-14 (Falcone Direct) at 20-21; KAP-12 (Hoover Direct)
at 17-19; See *also* ATC-017 at WP13.

24 ¹¹⁰Carriers Initial Brief at 273; ITC-1 (Wetmore Reply) at 31-32.

25 ¹¹¹Carriers Initial Brief at 271-273; Carriers Reply Brief at 177; AT-199 (Grasso
Answering) at 16, 36, 62.

1 throughput that the Carriers filed in support of their 2010 interstate rate.¹¹² In post-
2 hearing briefing, as to both 2008 and 2009 test year intrastate rates, Anadarko/Tesoro
3 instead advocated use of the volumes advanced for interstate rates by FERC Trial
4 Staff.¹¹³ FERC Trial Staff recommended use of actual throughput volumes for the
5 periods October 1, 2008, through September 30, 2009, and October 1, 2009, through
6 September 30, 2010.

7 The Carriers supported their throughput adjustments. The historical
8 trends show significant decline since 1988.¹¹⁴ Alyeska's forecasts were supported by
9 data published by the Department of Revenue.¹¹⁵ The post-test year data available at
10 the time of filing further confirmed the trend.

11 Anadarko/Tesoro did not offer any compelling rationale for rejecting the
12 Carriers' adjustments. The period that rates were in effect did not correlate to either a
13 calendar year or FERC's October to September test periods, which we have already
14 declined to use for other purposes. Consequently, for 2008 and 2009 test year rates,
15 we accept the throughput volumes as adjusted by the Carriers.

16 *Alyeska's 2008 Test Year Operating Expenses*

17 In its prefiled testimony, Anadarko/Tesoro proposed using Alyeska's
18 actual 2009 calendar year operating expenses instead of the adjusted 2008 test year
19 expenses proposed by the Carriers.¹¹⁶ Anadarko/Tesoro did not offer any rationale for
20 this approach in either in its prefiled testimony or in its post-hearing briefs. The

21 _____
22 ¹¹²AT-199 (Grasso Answering) at 18-19, 36.

23 ¹¹³Anadarko/Tesoro Initial Brief at 286; Anadarko/Tesoro Reply Brief at 148-150.

24 ¹¹⁴See ATC-6.

25 ¹¹⁵See ATC-7.

26 ¹¹⁶AT-199(Grasso Answering) at 15, 16, 28, 34.

1 Carriers, in their initial post-hearing brief, opposed Anadarko/Tesoro's proposal.¹¹⁷
2 Anadarko/Tesoro stated in its initial post-hearing brief and reiterated in its post-hearing
3 reply brief that they have now adopted FERC Trial Staff's use of actual operating
4 expenses for period October 1, 2008, to September 30, 2009. They argued that using
5 FERC Trial Staff's data was a reasonable way to resolve the issue and that we should
6 adopt that data for the calculation of intrastate rates.¹¹⁸ We reject Anadarko/Tesoro's
7 proposal to use actual operating expenses for the period October 1, 2008, through
8 September 30, 2009. We accept the adjusted 2008 test year expenses proposed by the
9 TAPS Carriers.

10 Issues Common to the FERC and the RCA

11 The parties' evidence and argument on the supplemental 2006 ad valorem
12 tax issue and the rate case expense issue were thoroughly discussed in the Initial
13 Decision and in Opinion No. 544. We cite those discussions with approval. We
14 reached conclusions similar to the FERC but not for the same reasons. Because our
15 practice and precedent is so different from the FERC's practice and precedent, we
16 consider it necessary to discuss our reasoning.

17 Supplemental 2006 Ad Valorem Taxes Paid in December 2010

18 With respect to 2010 rates, based on an adjusted 2009 test year,
19 Anadarko challenged the inclusion of a supplemental payment of 2006 ad valorem
20 taxes made in December 2010.¹¹⁹ The supplemental tax liability resulted from a
21 successful appeal by the Fairbanks North Star Borough and the City of Valdez of the

22 _____
23 ¹¹⁷Carriers Initial Brief at 286-287.

24 ¹¹⁸Anadarko/Tesoro Initial Brief at 286 (citing AT-199 (Grasso Answering) at 28);
25 Anadarko/Tesoro Reply Brief at 150.

26 ¹¹⁹Carriers Initial Brief at 259-261; Carriers Reply Brief at 157.

1 State Assessment Review Board's 2006 assessment of TAPS.¹²⁰ On May 24, 2010, the
2 Superior Court of the State of Alaska issued a decision in that appeal that resulted in a
3 supplemental ad valorem tax liability of \$113.4 million for the 2006 tax year.¹²¹ On
4 October 26, 2010, in response to motions for reconsideration, the superior court further
5 ruled the Carriers also owed interest on these taxes, bringing the total owed to \$154
6 million.¹²² Alyeska paid the \$154 million supplemental 2006 ad valorem taxes on
7 December 17, 2010.¹²³ The payment was made under protest and the Carriers
8 appealed.¹²⁴ The Supreme Court of the State of Alaska affirmed the superior court
9 decision in February 2014.¹²⁵

10 The Carriers separately filed tariff rate revisions between July 2010 and
11 February 2011 based upon a 2009 test year.¹²⁶ CPTAI and KAPCO filed their tariffs in
12 July and August and included \$113.4 million in 2010 intrastate rates.¹²⁷ ExxonMobil
13 and Unocal filed their rates in December 2010 and February 2011, after the October
14 decision requiring the payment of interest, and included \$154 million in their rates.¹²⁸

15 A significant amount of time in this 12-Docket Proceeding was spent on
16 the issue of whether these payments should be allowed in the Carriers' adjusted 2009

18 ¹²⁰AT-6 at 5.

19 ¹²¹AT-6 at 4; Carriers Initial Brief at 260.

20 ¹²²Carriers Initial Brief at 260.

21 ¹²³Carriers Initial Brief at 260.

22 ¹²⁴AT-42 (Brown Answering) at 13.

23 ¹²⁵*BP Pipelines (Alaska) Inc. v. State, Dep't of Revenue*, 325 P.3d 478 (Alaska
24 2014).

25 ¹²⁶ITC-1 (Wetmore Reply) at 4-6.

26 ¹²⁷Carriers Initial Brief at 260.

¹²⁸Carriers Initial Brief at 260.

1 test year rates. Anadarko asserted that recovery of the supplemental 2006 ad valorem
2 tax payment as proposed by the Carriers is prohibited based on retroactive ratemaking,
3 filed-rate and intergenerational equity principles.¹²⁹ Anadarko also argued that the
4 payment should not be included in 2010 rates because it was made outside of the 2009
5 historical test year and, therefore, is not an appropriate normalizing adjustment.¹³⁰
6 Anadarko argued that the supplemental 2006 tax payment is not an appropriate
7 normalizing adjustment to the test year because it is not “known and measureable”—
8 primarily because it was paid under protest and the case was appealed to the Supreme
9 Court of the State of Alaska.¹³¹ Anadarko further argued that the 2006 supplemental ad
10 valorem tax payment cannot be included in 2010 or future rates because it is a one-
11 time, nonrecurring cost.¹³²

12 The Carriers asserted that the tax liability is an appropriate normalizing
13 adjustment because the liability was known and measureable at the time the superior
14 court issued its orders in May and October of 2010.¹³³ The Carriers further take the
15 position that ad valorem property taxes generally, and supplemental ad valorem
16 property taxes in particular, are ongoing, recurring expenses.¹³⁴ Citing the increased
17 valuation and tax liability of TAPS for 2007-2009 tax years, and the pending appeal for

18 ¹²⁹Anadarko/Tesoro Reply Brief at 140.

19 ¹³⁰Anadarko/Tesoro Initial Brief at 273-278; Anadarko/Tesoro Reply Brief
20 at 141-142; AT-42 (Brown Answering) at 16; AT-199 (Grasso Answering) at 31-32.

21 ¹³¹Anadarko/Tesoro Initial Brief at 277-278 (citing Order U-83-038(6), dated
22 February 14, 1984; Order 34 at 7 n.67; Order U-00-088(12), dated August 8, 2002,
23 at 10; Anadarko/Tesoro Reply Brief at 141-142; AT-42 (Brown Answering) at 16;
24 AT-199 (Grasso Answering) at 31-32).

25 ¹³²Anadarko/Tesoro Initial Brief at 276-277(citing Order 34 at 9).

26 ¹³³Carriers Initial Brief at 263, 265; Carriers Reply Brief at 161-162, 172-173;
ITC-1 (Wetmore Reply) at 27.

¹³⁴Carriers Initial Brief at 266; Carriers Reply Brief at 172-173.

1 the 2010 tax year, the Carriers state that the supplemental ad valorem taxes have
2 recurred in recent years and are likely to recur for the foreseeable future.¹³⁵

3 The FERC, in Opinion No. 544, determined that the 2006 supplemental ad
4 valorem tax payment should be excluded from the Carriers' cost of service because the
5 taxes were non-recurring and because recovery is barred by the retroactive ratemaking
6 doctrine. Additionally, the FERC determined that the Carriers were not entitled to their
7 requested alternative relief because the payment of the taxes was not an extraordinary
8 event.¹³⁶

9 We agree with the FERC that the Carriers should not be able to recover
10 the 2006 supplemental ad valorem tax payment in their rates based on a 2009 test year.
11 However, our decision is based on different reasoning. We find, as discussed below,
12 that the pro forma adjustment to include supplemental 2006 taxes in the rates based on
13 an adjusted 2009 test year is not appropriate under our regulations and precedent.
14 Because of this determination, it is unnecessary for us to address whether the Carriers'
15 addition of either \$113.4 million or the \$154 million to their 2009 test year rates violated
16 the filed rate doctrine and/or the rule against retroactive ratemaking.

17 Our regulations define "test year" and "normalized test year" as follows:

18 "test year" means any 12 consecutive months of operating data selected to
19 evaluate revenue requirements or cost of service; the period selected must
20 be at least as recent as the utility's or pipeline carrier's latest calendar or
fiscal year;¹³⁷

21 ¹³⁵Carriers Initial Brief at 266; Carriers Reply Brief at 173. The Carriers cite the
22 Ad Valorem Decision upholding the increased valuation for 2007 through 2009 and the
23 pending appeal of the 2010 assessment. Carriers Initial Brief at 266 (citing AT-286
at 215-216; ATC-656 (Ganz Reply) at 66; CPT-1 (Falcone Direct) at 15; EM-1 (Ray
Direct) at 10-11).

24 ¹³⁶Opinion No. 544 PP 127-129.

25 ¹³⁷3 AAC 48.820(41).

1 “normalized test-year” means a historical test-year adjusted to reflect the
2 effect of known and measureable changes and to delete or average the
3 effect of unusual or nonrecurring events, for the purpose of determining a
4 test year which is representative of normal operations in the immediate
5 future;¹³⁸

6 The parties argued about whether the 2006 supplemental ad valorem tax
7 payment was “nonrecurring.” Under our regulations, nonrecurring events and unusual
8 events must be deleted or averaged; that is, test year items must be adjusted
9 downward. Thus costs associated with nonrecurring or unusual events are not added to
10 test years. In this instance, the event sought to be labeled nonrecurring did not happen,
11 nor were the costs incurred or paid in any historical test year at issue in this 12-Docket
12 Proceeding. Instead, the Carriers added this purported nonrecurring or unusual item
13 into their respective 2009 historical test years, even though it was paid almost a full year
14 after the closing of the test year.

15 In our practice, we strictly adhere to utilization of historical test year
16 information. Pro forma adjustments are allowed only sparingly and must be fully
17 supported by testimony filed with the tariff revision request. Updating information after
18 the filing of a tariff revision and its accompanying supporting testimony is problematic for
19 us and for intervening parties. For example, it makes orderly discovery and filing of
20 fully-responsive testimony difficult or impossible.

21 Further, we do not consider post-filing information in ruling on pro forma
22 adjustments. The Carriers did not pay the supplemental 2006 ad valorem taxes until
23 December 17, 2010, nearly two months after the superior court issued its order on
24 reconsideration and almost a full year after the end of the 2009 historical test year.
25 Additionally, when the Carriers did pay the taxes, they paid them under protest and

26 ¹³⁸3 AAC 48.820(42).

1 appealed the superior court's decision to the Supreme Court of the State of Alaska.
2 Arguably, the amount of supplemental 2006 ad valorem taxes did not become known
3 and measurable until May 14, 2014, the date on which the Court denied rehearing.¹³⁹

4 Even if we could find that this proposed adjustment was known and
5 measurable at the time the rates were filed, we must also determine, before allowing the
6 adjustment, that it serves the purpose of making the normalized test year more
7 representative of normal operations in the immediate future.

8 At the time of hearing and briefing in this 12-Docket Proceeding (2011-
9 2013) all TAPS ad valorem tax assessments since the 2006 assessment were on
10 appeal, pending either in the superior court or the supreme court. The outcome of
11 those appeals was uncertain, pending a decision in the first appeal, that concerning the
12 supplemental 2006 ad valorem tax payment, which, as stated previously, was not
13 resolved until 2014. The Carriers unequivocally failed to prove in this 12-Docket
14 Proceeding that inclusion of the amounts of \$113.4 million in CPTAI and KAPCO rates
15 and \$154 million in ExxonMobil and Unocal rates makes those rates more
16 representative of normal operations in the immediate future. There was no way we
17 could determine, based on the record in this 12-Docket Proceeding, whether the
18 addition of \$113.4 million or \$154 million, even if those amounts were known and
19 measurable, would make the test year more representative of the immediate future.

20 For these reasons, we disallow the Carriers' proposed adjustment to add
21 the 2006 Supplemental ad valorem tax payments to their respective 2009 test year
22 rates.

23 _____
24 ¹³⁹The Supreme Court of the State of Alaska affirmed the superior court's
25 assessment of \$154 million on February 19, 2014. Rehearing was requested. The
Court denied rehearing on May 14, 2014.

1 Rate Case Expense

2 This 12-Docket Proceeding was lengthy and complex. It was almost
3 exclusively conducted concurrently with the FERC SR Proceeding. The TAPS Carriers
4 seek recovery of the costs they incurred to present their case supporting the intrastate
5 rates they filed based on a 2007 test year and the interstate and intrastate rates they
6 filed based on 2008 and 2009 test years. Both we and the FERC allow some level of
7 rate case expense to be included in a test year revenue requirement. Both we and the
8 FERC usually require the amortization of rate case expense over several years.

9 We stated in Order 151:

10 Rate case expense is ordinarily a fairly uncontroversial component of
11 revenue requirement. The actual or estimated cost of the rate case is
12 supplied by the regulated entity. The Commission then looks at the entity's
13 rate case history and applies its own judgment to decide how many years it
14 will be before a new rate case. Typically, rate case expense would be
15 amortized over a three to five-year period.¹⁴⁰

16 In Order 34 we stated:

17 Our standard practice for treatment of rate case expense is to determine a
18 representative amount and amortize it over the period time that the rates are
19 expected to be in effect.¹⁴¹

20 In the Initial Decision, Presiding Judge Cintron determined that three-year
21 average litigation costs should be included in revenue requirement. Average litigation
22 costs for 2007, 2008, and 2009 were to be included in the 2009 interstate rates.
23 Average litigation costs for 2008, 2009, and 2010 were to be included in the 2010
24 interstate rates. The FERC reversed this holding of the Initial Decision and determined

25 ¹⁴⁰Order 151 at 162.

26 ¹⁴¹Order 34 at 39-40.

1 that the Carriers should recover their reasonable litigation costs through a six-year
2 surcharge.

3 Although we believe it is unprecedented at our commission to recover rate
4 case expense through a surcharge, we find that a surcharge is well-suited to the highly
5 unusual situation presented in this 12-Docket Proceeding. The amortization method we
6 ordinarily use would not work well for three consecutive annual rate cases, with
7 additional consecutive annual rate cases already filed and being held in abeyance
8 pending the resolution of this 12-Docket Proceeding. Therefore, we adopt the FERC's
9 solution to the rate case expense issue. Specifically we adopt paragraphs 130 through
10 137 of Opinion No. 544 as our decision on the merits of this issue. The Carriers may
11 recover their reasonable litigation costs for the 12-Docket Proceeding through a six-year
12 surcharge. The Carriers must calculate the surcharge amount as part of the compliance
13 filing required by this order.

14 Other Phase II Issues

15 We have addressed all clearly-identified Phase II issues in dispute. To the
16 extent there are any other challenges to the Carriers' proposed rates that are not
17 specifically discussed in this order, we accept the Carriers' rate filings on those issues.

18 Conclusion—Phases I and II

19 Under our decision in Phase I, 2007, 2008, and 2009 test year rates must
20 each be adjusted by deducting SR costs as specified in Opinion No. 544, as adopted by
21 us. In response to our decisions in Phase II, supplemental 2006 ad valorem tax
22 payments must be deducted from 2009 test year rates and a surcharge for rate case
23 expense must be calculated. No action is necessary in response to our decisions on
24 test year, throughput, and 2009 Alyeska operating expenses because we accept the
25 TAPS Carriers' positions on those issues.

1 Required Filings

2 We require the Four Carriers to recalculate and file in this 12-Docket
3 Proceeding revised rates consistent with this order. The filing must include supporting
4 cost-of-service schedules and workpapers, and any other necessary documentation.

5 Based on our decisions in this order, we expect the recalculated rates to
6 be lower than the rates that were collected during the period the rates at issue were in
7 effect. We require each Carrier to refund to each of its shippers payments made in
8 excess of the recalculated rates, with interest at the rate of 10.5%. We require each
9 Carrier to submit a refund plan with the compliance filing.

10 Redesignation of Commission Panel

11 Under AS 42.04.080(a), the chairman designates a commission panel to
12 hear, or if a hearing is not required, to otherwise consider and decide docketed matters.
13 The chairman redesignates the commission panel for this 12-Docket Proceeding. He
14 designates Commissioners Robert M. Pickett, and Janis W. Wilson and himself as the
15 commission panel.¹⁴² Commissioner Wilson remains the commission docket manager.

16 Final Order

17 This order constitutes the final decision in this 12-Docket Proceeding.
18 This decision may be appealed within thirty days of this order in accordance with
19 AS 22.10.020(d) and Alaska Rule of Appellate Procedure 602(a)(2). In addition to the
20 appellate rights afforded by AS 22.10.020(d), a party has the right to file a petition for
21 reconsideration in accordance with 3 AAC 48.105. If such a petition is filed, the time
22

23 _____
24 ¹⁴²The redesignated commission panel, Commissioners T.W. Patch, Robert M.
25 Pickett, and Janis W. Wilson have been panel members throughout this 12-Docket
Proceeding.

1 period for filing an appeal is tolled and then recalculated in accordance with Alaska Rule
2 of Appellate Procedure 602(a)(2).

3 ORDER

4 THE COMMISSION FURTHER ORDERS:

5 1. The *Initial Decision* of the Federal Energy Regulatory Commission
6 Administrative Law Judge, issued February 27, 2014, and corrected by errata issued
7 March 7, 2014, is incorporated into the record.

8 2. The initial briefs and reply briefs on and opposing exceptions to the
9 Initial Decision of the Federal Energy Regulatory Commission Administrative Law Judge
10 filed on May 16, 2014, and July 25, 2014, respectively, by Anadarko Petroleum
11 Corporation and Tesoro Alaska Company; the TAPS Carriers; the State of Alaska; Flint
12 Hills Resources Alaska, LLC; and the Federal Energy Regulatory Commission Trial
13 Staff are incorporated into the record.

14 3. The initial brief filed November 30, 2012, and the reply brief filed
15 January 25, 2013, by the Federal Energy Regulatory Commission Trial Staff with the
16 Federal Energy Regulatory Commission are incorporated into the record.

17 4. The testimony and other exhibits (designated as S-1, Revised, through
18 S-24) filed by the Federal Energy Regulatory Commission Trial Staff with the Federal
19 Energy Regulatory Commission are incorporated into the record.

20 5. Paragraphs 4 through 109 of Opinion No. 544, Order on Initial Decision
21 (Attached as Appendix B), issued November 20, 2015, by the Federal Energy
22 Regulatory Commission in its Dockets IS09-348-004, et al., are adopted as the decision
23 of the commission in this proceeding on the issue of inclusion in rates of Strategic
24 Reconfiguration Project costs.

1 6. The inclusion of the supplemental 2006 ad valorem tax payment in the
2 2009 test year rates of ConocoPhillips Transportation Alaska, Inc.; ExxonMobil Pipeline
3 Company; Koch Alaska Pipeline Company, LLC; and Unocal Pipeline Company
4 contained in TL141-301, TL151-204, TL138-308, and TL132-312, respectively, is
5 disallowed.

6 7. Paragraphs 130 through 137 of Opinion No. 544, Order on Initial
7 Decision (attached as Appendix B), issued November 20, 2015, by the Federal Energy
8 Regulatory Commission in its Dockets IS09-348-004, et al., are adopted as our decision
9 in this proceeding. ConocoPhillips Transportation Alaska, Inc.; ExxonMobil Pipeline
10 Company; Koch Alaska Pipeline Company, LLC; and Unocal Pipeline Company may
11 recover their reasonable rate case litigation expenses through a six-year surcharge as
12 discussed in the body of this order.

13 8. The use by ConocoPhillips Transportation Alaska, Inc.; ExxonMobil
14 Pipeline Company; Koch Alaska Pipeline Company, LLC; and Unocal Pipeline
15 Company of a historical 2008 calendar year test year, including adjustments not
16 disallowed in this order, and without updated actual data, is approved.

17 9. The use by ConocoPhillips Transportation Alaska, Inc.; ExxonMobil
18 Pipeline Company; Koch Alaska Pipeline Company, LLC; and Unocal Pipeline
19 Company of a historical 2009 calendar year test year, including adjustments not
20 disallowed in this order, and without updated actual data, is approved.

21 10. The use by ConocoPhillips Transportation Alaska, Inc.; ExxonMobil
22 Pipeline Company; Koch Alaska Pipeline Company, LLC; and Unocal Pipeline
23 Company of their proposed adjusted 2008 historical test year throughput in calculating
24 2008 historical test year rates, contained in TL137-301, TL147-304, TL133-308, and
25 TL126-312, respectively, is approved.

1 11.The use by ConocoPhillips Transportation Alaska, Inc.; ExxonMobil
2 Pipeline Company; Koch Alaska Pipeline Company, LLC; and Unocal Pipeline
3 Company of their proposed adjusted 2009 historical test year throughput in calculating
4 2009 historical test year rates, contained in TL141-301, TL151-204, TL138-308, and
5 TL132-312, respectively, is approved.

6 12. The use by ConocoPhillips Transportation Alaska, Inc.; ExxonMobil
7 Pipeline Company; Koch Alaska Pipeline Company, LLC; and Unocal Pipeline
8 Company of their proposed adjusted 2008 historical year Alyeska Pipeline Service
9 Company operating expenses for purposes of calculating 2008 historical test year rates
10 is approved, except that, to the extent any rate case expense is included in Alyeska
11 Pipeline Service Company operating expenses, that rate case expense is disallowed.

12 13.Any challenge to the 2007, 2008, and 2009 test year rates of
13 ConocoPhillips Transportation Alaska, Inc.; ExxonMobil Pipeline Company; Koch
14 Alaska Pipeline Company, LLC; and Unocal Pipeline Company not specifically
15 addressed in this order, is denied.

16 14.By March 30, 2016, ConocoPhillips Transportation Alaska, Inc.;
17 ExxonMobil Pipeline Company; Koch Alaska Pipeline Company, LLC; and Unocal
18 Pipeline Company shall make a compliance filing along with a refund plan as specified
19 in the body of this order.

20 15.Any party wishing to file comments on the filings made in accordance
21 with Ordering Paragraph No. 14 must file them by April 14, 2016. Any reply comments
22 a party wishes to file must be filed by April 29, 2016.

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16. Commissioners T.W. Patch, Robert M. Pickett, and Janis W. Wilson are designated as the commission panel.

DATED AND EFFECTIVE at Anchorage, Alaska, this 29th day of February, 2016.

BY DIRECTION OF THE COMMISSION
(Commissioners Stephen McAlpine and Norman Rokeberg, not participating.)



Regulatory Commission of Alaska
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