



McCHORD PIPELINE



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December 15, 2004

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. S.W.
P.O. Box 47250
Olympia, WA 98504-7250
Attn: Carole J. Washburn, Secretary

**SUBJECT: REF. NO. DOCKET P-041344 WRITTEN COMMENTS
PIPELINE FEE METHODOLOGY RULEMAKING**

Dear Ms. Washburn:

McChord Pipeline Co. submits these comments for consideration in response to the Notice of Opportunity to File Written Comments on Pipeline Fee Methodology Rulemaking (Docket No. P-041344). McChord Pipeline Co. is an operator of a 14.25-mile length of intrastate pipeline within the State of Washington. McChord Pipeline Co. supports the Washington Utilities and Transportation Commission (WUTC) in its efforts to provide oversight to the pipeline industry within the state. McChord Pipeline Co. remains dedicated to safe operation of the pipeline.

It should also be noted that McChord Pipeline Co. is a small business. McChord Pipeline Co. does business on an annual bid contract basis. As such, significant fee increases as proposed in many of the options will have a significant impact on our business. When coupled with the costs already incurred to comply with the pipeline safety regulations promulgated in the past five years, fee increases that place a heavy burden on the small operator may result in severely impacting their business.

Specific comments are attached on the following pages. Thank-you for the opportunity to participate in this process. McChord Pipeline Co. remains committed to working and being involved with WUTC to insure the safe operation of our pipeline.

Sincerely,

McChord Pipeline Co.

Alan J. Cabodi
President

cc : RWS, GAH, JPW, TJG

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The following comments correspond to the identically numbered questions on Pages 3-6 of the Notice of Opportunity to File Written Comments Dated 11/23/04:

1. **What program costs should your company pay for directly?** McChord Pipeline Co. feels that pipeline fees it pays should reflect the best estimate of the costs WUTC will incur in the year associated with the inspections, manual reviews and overhead for McChord Pipeline Co. This means we should pay for the inspector's time for the inspection, manual review and report writing, supervisory review and support associated with said inspection. At the same time, McChord Pipeline Co. feels WUTC must keep the pipeline company informed as to the time expended. The time charged to our pipeline for 2003 and 2004 was surprisingly high (152 hrs and 114 hrs) since the inspector was on-site for less than three days for each inspection. WUTC should also be asking the question internally about why the time expended is not matching the estimated number of inspection days (Option 1 in the handout). The reason for commenting on these time values is that they are used as a basis for developing the various fee options presented. The fact that the time was expended is not in dispute, but is WUTC being as efficient as it can be in an effort to reduce the "in-office" costs?
2. **For program costs that can be allocated to an industry group, should they be allocated to the companies within that group or should they be treated as unassigned costs and allocated to all companies?** McChord Pipeline Co. does not agree with allocating program costs by industry group. Depending upon the population sample for the group, this can result in disproportionately high charges on very small operators. We also think allocating these charges in proportion to the inspection durations is fair since program development leads to subsequent inspections associated with the developed program.
3. **What costs or activities should not be directly assignable to companies?** Activities that are associated with generalized activities should not be considered as directly assignable costs. McChord Pipeline Co. views such items as those listed "Indirect Support" in Option 4(a) as items that should be generally distributed as opposed to directly assigned to specific companies. We do not feel this conflicts with the statute.
4. **What is your preferred method for allocating non-directly assignable costs and why?** McChord Pipeline Co. favors a rate setting method that will be easy to follow and agree with in the future. The problem with setting rates based on pipeline miles is that there is a minimum mileage where the inspection time is the same for facilities. There is also a maximum mileage where the inspection time is the same for larger facilities. McChord Pipeline Co. agrees with using directly assigned time for allocating the non-assignable costs. As we understand it, this would correspond most closely with Options 2 and 3(a). These options would raise our rates (383% in one case and 329% in the other). We feel that the option that is the most fair and equitable should simply factor in the inspection time. If the time expended on inspections has been X% of the total inspection time the rate/fee should be set at X% of the overall total. It seems fair, equitable, simple to calculate and would eliminate some of the inequities that are created by some companies that have large mileage but not a corresponding % of inspection time.
5. **Should some portion of the unassigned be covered by a flat fee?** McChord Pipeline Co. does not support the flat fee method as proposed in the options. The flat fee would disproportionately impact the small operator.
6. **Regarding incident and construction-related inspection activities:**

- a) **Do you support recovering unexpected incident and construction related activities through an additional fee or charge?** If the inspection time is included in the operator's average for the previous year, then the cost would be recovered in the next rate-setting cycle. In either Option 2 or 3(a), these would be averaged to soften the impact to the operator. At the same time, other operator's rates would adjust based on the actual time being spent by WUTC on their inspections. The operator is being charged based on the amount of time that WUTC is spending with that facility. This would meet the intent of recovering fees for incident investigation and construction related expenses and is fair since the operator's whose fees went indirectly for those inspections in the previous year would recoup some of that through a reduced fee in the next rate session.
 - b) **Should the program recover costs for every incident or only those that exceed the program's plan?** By basing fees on the inspection time spent, every incident or construction related activity is accounted for. McChord Pipeline Co. does not feel that establishing a system to compare actual to estimated will be easy to implement. It will also result in operators paying for inspections that they may never incur and then have to somehow recoup that fee later.
 - c) **How should fees for such costs impact the fees on other companies?** McChord Pipeline Co. feels the fees should be proportionate with the inspection time associated with the company. Given a fixed number of inspection hours in a year, if a percentage is expended performing an incident investigation or intensive construction related activity, then the amount of time spent on other operators will decrease. This will result in their rates decreasing once the inspection times are evaluated and the rates for the next year established.
7. **The federal grant is received in a haz liquid and natural gas component and divided between inter- and intrastate companies. No distinction is made between those companies that pay a federal fee or not. What other method would your company suggest? What portion of the the federal safety fee should be returned to the companies through the fee methodology?** McChord Pipeline Co. does not agree with the concept discussed at the stakeholder's meeting that since the Interstate operator pays a federal fee they are entitled to a majority of the federal grant as a rebate. OPS has relegated oversight of Intrastate pipelines to WUTC. WUTC works in conjunction with OPS for oversight of Interstate pipelines. It seems that the federal grant is an attempt to offset the amount of effort expended by WUTC as they act as OPS's agent in the state of Washington. Since WUTC is completely responsible for Intrastate facilities and assists OPS with Interstate, it seems reasonable that the federal grant would be directed more toward Intrastate costs since OPS does not have to devote time and energy to those facilities. McChord Pipeline Co. believes the present distribution of federal dollars to be reasonable when examined from this standpoint.
8. **The options presented at the 11/16/04 stakeholder's meeting used a two-year average to set fees. What is your position regarding how to determine average costs?** The larger the population size, the more accurate the average. A two-year average can penalize an operator that has a large inspection costs in one year. I would recommend a four to five year average of inspection man hours

dropping the oldest year when computing the next year's fees. This would be more of a true average.

9. **Are you satisfied with the current fee methodology?** McChord Pipeline Co. is very satisfied with the present fee methodology. The comments thus far have been directed toward which system McChord Pipeline Co. feels would be most fair and equitable if the fee methodology were changed.
10. **If the current fee method is retained, what changes would you recommend?**
None.
11. **Indicate which fee concepts presented at the workshop you would like to see as part of an improved fee method:**
 - a) **Single pool with fee based on company's two-year average of direct inspection time:** This method comes closer in line with the concept that fees should be associated directly with the amount of time spent inspecting the company. Please refer to earlier comments regarding WUTC ensuring that the time spent performing inspections should be examined to ensure that the organization is efficient. Some could argue that this is not the case given the huge ratio of indirect to direct and office vs. field.
 - b) **Inspection pools where averages are based on four major inspection activities.** This method also aligns itself well with the principle of charges based on time spent versus pipeline miles.
 - c) **Industry pool where average is based on percentage within that specific pool.** McChord Pipeline Co. feels this method is unfair to the small intrastate operator. This method ends up dividing out costs to a point that the impact on the small intrastate hazardous liquid operator is huge. The population base within our industry pool is so small that costs skyrocket. This method would have a difficult time being shown to be fair and equitable given the quadruple digit increases in rates when inspection times as a percent of the total do not support these increases. The calculations of this method are also very difficult to understand.
 - d) **Gas/Liquid Pools where fee is based on two year average within that pool.** Again, the population sizes are so small that a disproportionate increase is passed on to the hazardous liquids intrastate operator. The calculations for this method are also very cumbersome.
 - e) **Inter/Intrastate Pool with fee based on average within that pool.** McChord Pipeline Co. feels this method is also unfair due to the cumbersome nature of determining the fees and the splitting of the pools into such small numbers that the costs skyrocket.
 - f) **Indirect costs allocated on a per mile basis.** McChord Pipeline Co. does not have a problem with this depending upon what value is used for total pipeline mileage. Splitting up pipeline mileage into different categories can end up with disproportionate allocations. This is some of the problem with the present system that would be alleviated in basing charges on the percentage of direct time spent.
 - g) **Annual fee increases are limited to 20% per year.** McChord Pipeline Co. recommends that this be incorporated into the fee structure. This will allow for a gradual transition from the old system to the new and prevents wide fluctuations in rates based on spikes in the averaging.
 - h) **Indirect costs are reduced by a minimum base charge assessed to all companies.** McChord Pipeline Co. does not agree with a flat fee concept.

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This means that indirect costs are split evenly among all companies regardless of inspection time spent on that company or on company size. It is reasonable to assume that a company that incurred 3 times as much inspection time would have more of an impact on the indirect costs than a company that is inspected less.

- i) **Directly assign as much of the costs as is possible.** McChord Pipeline Co. feels this will again result in charges to the small operator that are not proportional with the inspection efforts. The small operator could potentially bear a disproportionate burden of the costs for development of pipeline safety rules and procedures for the state.
12. **Other comments?** McChord Pipeline Co. would like to see some type of factor applied to fees that takes into account the operator's history and operating characteristics. The number of incidents, amount of time the pipeline is transferring product, severity of the transported product (corrosivity, environmental hazards, etc.) could be used to adjust inspection frequency or inspection durations. This would result in reduced fees for those methods that are based on direct inspection costs (Options 2 and 3(a)).