

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, DC 20426

August 2, 2006

In Reply Refer to:  
Docket Nos. OR92-8-028, OR04-3-002,  
OR05-4-003, OR05-5-003.

Steven H. Brose, Counsel for SFPP, L.P.  
Steptoe & Johnson LLP  
1330 Connecticut Avenue, NW  
Washington, DC 20036-1795

Dear Mr. Brose:

1. On May 17, 2006, SFPP, L.P. (SFPP), on behalf of the BP West Coast Products LLC, ExxonMobil Oil Corporation, Chevron Products Company, ConocoPhillips Company, Tosco Corporation, Ultramar Inc., Valero Marketing and Supply Company, America West Airlines, Inc., Continental Airlines, Inc., Southwest Airlines Co., Northwest Airlines Inc. and Arizona Fueling Facilities Corporation (collectively, the Shipper Parties and, with SFPP, the Parties), submitted a Settlement Agreement in these proceedings. On June 6, 2006, Commission Trial Staff submitted comments in support of the Settlement Agreement. Also on that day, BP West Coast Products LLC, Chevron Products Company, ConocoPhillips Company, ExxonMobil Oil Corporation, Valero Marketing and Supply Company, and Ultramar Inc. (together, the Indicated Shippers) jointly and severally filed comments in support of the Settlement. On June 21, 2006, the Honorable Karen V. Johnson certified the Settlement Agreement to the Commission as uncontested.

2. Section 1 provides that the “pumping rate” for incoming lines to Watson Station shall be stated in a tariff at 15,000 bbl per hour for gasoline and 13,500 bbl per hour for distillate. The tariff will also state that any amounts pumped at less than those rates shall be accepted by SFPP at Watson Station upon charging a fee not to exceed the “forward-looking rate” (as defined in section 2(b) of the Settlement). Section 1 precludes SFPP from proposing a change either in the pumping rates or the forward-looking rate for a period of three years following the approval of the Settlement by the Commission, except with the agreement of all of the Shipper Parties. Similarly, section 1 prevents any Shipper Party from filing a challenge at FERC against the pumping rates or fee provided for in the Agreement, or with respect to any pumping rate or fee in effect, during such three-year period. In order to change the pumping rate or fee after the three year period, SFPP may file with the Commission a proposed change to its tariff, which shall be

subject to protest by the Shipper Parties. In no event shall SFPP file to remove the fee from the tariff and thereby require all shippers and suppliers to meet the pumping rates. Section 1 does not prevent SFPP from proposing a higher line haul rate for West Line service to recover prudent investments at Watson Station made after the date of the Settlement to obviate any claimed need to increase any incoming pumping rate or pressure, without prejudice to any protest or complaint rights of shippers or suppliers.

3. Section 2 sets forth the stipulated rates for each year from 1991 through 2005 to be used in calculating refunds in these proceedings for the period after March 31, 1999, and, subject to the reserved issues described in section 4 of the Settlement, any reparations for the period prior to April 1, 1999, for each year from 1991 through 2005. Those rates are based on a single cost of service of \$225,000, divided by the volumes set forth in Appendix A of the Settlement. The stipulated total cost of service reflects the Parties' agreement to take no position on whether any individual cost of service component is reasonable. Section 2(a) lists the per barrel rate for each year based on the calculation described above. The rate for 2005 will apply until the forward-looking rate (as defined in section 2(b)) commences. All refunds and reparations shall be made based on the differences between the rate actually collected by SFPP and the rates listed in section 2(a).

4. Section 2(b) defines the forward-looking rate as the fee SFPP is authorized to charge the shippers commencing on the first day of the first month after the Commission issues a final order approving the Settlement. The forward-looking rate will be \$0.003 per barrel and will remain in effect for three years. After the three years, any party may propose to modify the rate, as provided in section 1 of the Settlement.

5. Section 3 identifies the Appendices to the Settlement that set forth stipulated volumes in total for each Shipper Party. Section 3 also explains how reparations and refunds will be calculated based on these volumes. Total stipulated Watson volumes for each year are reflected in Appendix A. The calculation of the reparations potentially due each Shipper Party is based on the stipulated volumes reflected in Appendix B, multiplied by the difference between the collected rate and the applicable stipulated rate, and including interest at the FERC interest rate. The calculation of the refunds due each Shipper Party is based on the stipulated volumes reflected in Appendix C, multiplied by the difference between the collected rate and the applicable stipulated rate, and including interest at the FERC interest rate.

6. Section 4 reserves two legal issues for hearing and decision. The first of these issues is whether SFPP's contracts with individual shippers establish the rate level or limit reparations during the period prior to April 1, 1999. The second issue is whether the payment of any reparations that may be held to be owed should start on November 1, 1991 or upon the dates two years before the filing of each individual complaint. The

Parties intend that all facts necessary to resolve these two issues will be stipulated and that there will be no need for an evidentiary hearing.

7. Section 5 provides that SFPP shall pay all reparations and refunds, together with interest compounded quarterly as required by the Commission's regulations, to the appropriate shippers. It specifies the Shipper Parties to whom SFPP will pay refunds and reparations for volumes as to which the Watson charge was paid by predecessor entities. Section 5 also sets forth the timing for SFPP's payment of refunds and reparations, pursuant to an escrow agreement entered into among SFPP and the Shipper Parties (Appendix G).

8. Section 6 states that the Settlement does not represent agreement between the Parties as to any regulatory or legal principles. However, it states that the Parties do agree on the terms and conditions in section 1 of the Settlement and on the contents of the tariff filing, including the minimum pumping rates and fee applicable to Watson Station, as set forth in Appendix D of the Settlement.

9. Section 7(a) provides that once the Commission approves the Agreement, the Shipper Parties will move to dismiss all Watson-related protests and the Watson portion of any complaints relating to the period after March 31, 1999. If such a protest or complaint also relates to the pre-April 1, 1999 period, section 7(a) limits dismissal to Watson issues for the period after March 31, 1999. The dockets affected by section 7(a) are listed in Appendix E of the Settlement. Sections 7(b) and (c) set forth the relationship between the Agreement and Watson-related proceedings pending before the California Public Utilities Commission.

10. Section 8 states that the Settlement is submitted pursuant to Rule 602 and if it is not approved in its entirety without condition or modification, then it is privileged, and its terms shall be null and void, of no effect, and may not be used in any way to prejudice any of the Parties' litigating position in any forum. Section 8 also reserves each of the Parties' right to a hearing in the event that the Settlement is not approved in its entirety without conditions.

11. Section 9 states that the Settlement shall be binding upon and inure to the benefit of the parties and their respective successor and assigns.

12. Section 10 states that the Settlement may be executed in separate and identical counterparts. It also states that each of the individuals signing the Settlement represents that he or she has the actual authority to bind the indicated company to the Settlement.

13. Section 11 provides a list of Appendices that are included with the Settlement.

14. The Commission approves the Settlement on the grounds that it appears fair, reasonable, and in the public interest. The Commission's approval of the Offer of Settlement does not constitute acceptance of, or precedent regarding, any principle or issue in this filing.

15. Within thirty (30) days from the date of this letter, SFPP will make the refunds necessary to reflect the rates provided in the Settlement. SFPP will file with FERC a refund report with thirty (30) days of the date on which SFPP has provided refunds, as described in the Settlement.

16. This letter terminates Docket Nos. OR92-8-028, OR04-3-002, OR05-4-003, and OR05-5-003. The legal questions reserved by the terms of the Settlement will be disposed of according to the terms of the Settlement.

By direction of the Commission.

Magalie R. Salas,  
Secretary.

cc: All Parties