

July 31, 2009

By Hand

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

OIL PIPELINE FILING
PUBLIC VERSION

Re: SFPP, L.P. -- East Line Tariff Filing

Dear Ms. Bose:

In accordance with the requirements of the Interstate Commerce Act (“ICA”) and the Rules and Regulations of the Federal Energy Regulatory Commission (“F.E.R.C.”), SFPP, L.P. (“SFPP”) submits for filing three copies of the attached F.E.R.C. Tariff No. 182, to be effective September 1, 2009.

The rates contained in F.E.R.C. Tariff No. 182 (cancels F.E.R.C. Tariff No. 177) are being increased for movements on SFPP’s East Line from El Paso or Diamond Junction, Texas to Lordsburg, New Mexico, Tucson, Arizona, and Phoenix, Arizona. The Cost of Service Summary Schedule, attached as part of the cost-of-service schedules supporting the increased rates, lists the current rates, the proposed rates, and proposed increases for the tariff. The proposed rates are as follows: Lordsburg – 86.42 cents per barrel (“cpb”); Tucson – 142.78 cpb; and Phoenix – 191.99 cpb.

A. Reason for this Filing

SFPP is filing these rate increases to reflect a decline in demand for petroleum products in the Arizona market served by SFPP’s East Line.

Until recently, SFPP has experienced growth in the demand for the transportation of refined petroleum products on its East Line. In response, SFPP increased the capacity of the East Line in two phases. Phase I entered service on June 1, 2006.¹ All issues regarding the Phase

¹ SFPP, L.P., 115 FERC ¶ 61,279 (2006).

I Expansion tariff filing, docketed as F.E.R.C. Docket No. IS06-283-000, were resolved by settlement in November 2007.²

The completion of the East Line expansion, Phase II, entered service on December 1, 2007.³ All issues regarding the Phase II Expansion tariff filing, docketed as F.E.R.C. Docket No. IS08-28-000, were resolved by settlement in October 2008 in the “Settlement Agreement in Satisfaction of Protests and Complaints” (“Phase II Settlement Agreement”).⁴ The Phase II Settlement Agreement set forth the rates currently charged on the East Line.

Because the East Line serves Phoenix from West Texas and Houston-based refineries, and SFPP’s West Line serves the same market from Southern California-based refineries, fluctuations in volumes on one line affect volumes on the other. The Phase II Settlement Agreement contained a volume-based rate adjustment mechanism which would adjust East Line rates within the structure of the settlement to reflect changes in annual average daily East Line volumes above or below certain thresholds at defined measurement periods.⁵ Under this provision, SFPP was obligated to adjust its East Line rates downward if total East Line annual average daily volumes exceeded 182,500 barrels per day.⁶ In contrast, if total East Line annual average daily volumes fell below 162,500 barrels per day, SFPP was permitted to unilaterally terminate the Settlement Agreement, or to replace the East Line settlement rates with specific Replacement Rates set forth in the Settlement Agreement.⁷

Economic conditions in Arizona began to decline significantly in the third quarter of 2008, and Arizona demand for refined petroleum products—and consequently the demand for transportation of such products via SFPP’s East Line—has steadily decreased since that time. As of May 31, 2009, the end of the first 12-month measurement period under the Phase II Settlement Agreement, average East Line volumes had dropped to approximately 157,000 barrels per day, significantly below the lower threshold in the Phase II Settlement

² *SFPP, L.P.*, 122 FERC ¶ 61,107 (2008).

³ *SFPP, L.P.*, 121 FERC ¶ 61,211 (2007).

⁴ *SFPP, L.P.*, 126 FERC ¶ 61,076 (2009). The Phase II Settlement Agreement resolved the protests in F.E.R.C. Docket Nos. IS08-28-000 and IS08-389-000, as well as the East Line portions of the complaints in Docket Nos. OR08-13-000 and OR08-15-000. ConocoPhillips Company, Southwest Airlines Co., Valero Marketing and Supply Company, Chevron Products Company, Navajo Refining Company L.L.C., Western Refining Company, L.P., BP West Coast Products LLC, and ExxonMobil Oil Corporation were parties to the Settlement Agreement.

⁵ Phase II Settlement Agreement, Section III.D.(3)(b).

⁶ Phase II Settlement Agreement, Section III.D.(3)(b)(i).

⁷ Phase II Settlement Agreement, Section III.D.(3)(b)(ii).

Agreement. Therefore, on June 2, 2009, SFPP gave notice to the Shipper Parties that it was exercising its right to terminate the Phase II Settlement Agreement, as East Line volumes had declined to such an extent that even the Replacement Rates contemplated by the Phase II Settlement Agreement would not recover SFPP's costs. The termination will be effective at the close of business on August 31, 2009.

Since May 2009, East Line volumes have continued to decline, in line with an overall decline in Arizona demand on SFPP, which has declined from 246,222 barrels per day in 2008 to 239,960 barrels per day in the first six months of 2009. As reflected in the attached Schedule 22, average East Line volumes to all destinations for the 12-month base period ending June 30, 2009 were 154,921 barrels per day. Over the most recent six months, from January to June 2009, average East Line volumes were 143,731 barrels per day. SFPP anticipates that East Line volumes will remain depressed, and adjusted East Line test period volumes to 150,932 barrels per day, 2.6 percent below base period volumes but 5 percent above January to June 2009 volumes, to reflect these market conditions.

B. Substantial Divergence

SFPP is filing this tariff in accordance with Section 342.4(a) of the Commission's regulations, 18 C.F.R. § 342.4(a) (2008), which requires that SFPP demonstrate a substantial divergence between its actual costs and its ceiling rates, such that the ceiling rates would preclude SFPP from being able to charge just and reasonable rates. As reflected in the Cost of Service Summary Schedule included with the attached cost-of-service schedules, SFPP has calculated its cost of service for the test period to be \$95,845,000. Its test period revenue under the current ceiling rate is projected to be approximately \$70,095,000, which would result in an under-recovery of approximately \$25,749,000, or 26.8 percent. Under the proposed rate, the test period revenue is projected to be approximately \$95,844,000.

C. Cost and Revenue Data

In accordance with Part 346 of the Commission's regulations, 18 C.F.R. § 346, SFPP has attached hereto the cost and revenue data underlying the rate increases reflected in the tariff referenced above.

1. *Base and Test Periods.* SFPP used the period beginning July 1, 2008 through June 30, 2009 as the base period for purposes of identifying its actual cost, throughput, and

revenue as shown in the attached Statements A-G. SFPP has adjusted the base period data for certain changes in costs that are known and measurable with reasonable accuracy and will become effective by March 31, 2010, consistent with Section 346.2(a)(1)(ii) of the Commission's regulations.

2. *Income Tax Allowance.* SFPP has calculated its income tax allowance in accordance with the Commission's December 2005 *Order on Initial Decision and on Certain Remanded Issues*⁸ in the OR96-2, *et al.*, proceeding, the December 2006 *Order on Initial Decision*⁹ in the IS98-1 proceeding, and the December 2007 *Order on Rehearing, Remand, Compliance, and Tariff Filings*¹⁰ in the OR96-2 *et al.*, proceeding.

3. *Test Period Adjustments.* SFPP's cost-of-service calculations include test period adjustments to: (1) reduce fuel and power expenses and certain cost allocations as a result of lower East Line volumes, (2) adjust power expenses to reflect increased energy costs at El Paso Station; (3) reduce Arizona property tax expenses based on 2009 estimates, (4) estimate litigation expenses for the FERC proceeding involving the instant East Line filing, (5) annualize a 3.5-percent merit pay increase that went into effect on October 1, 2008; and (6) adjust right-of-way expenses to account for an increase in Gila River Reservation right-of-way costs and a reduction in right-of-way expenses related to SFPP's abandonment of certain line segments. The adjustment amounts and reasons for the adjustments are shown in the attached workpaper Schedule 15 and accompanying supporting Schedules.

D. Settlement Negotiations

As discussed in Section A above, SFPP entered into settlement agreements resolving shipper protests regarding SFPP's Phase I and Phase II tariff filings in Docket Nos. IS06-283, IS08-28 and IS08-389. Given these recent successful settlement negotiations, SFPP is willing to engage in a settlement process to resolve any protests of this filing if any protestants are likewise interested.

E. Suspension

SFPP respectfully submits that its filing is complete under the Commission's applicable regulations and requests that its filing be afforded a short suspension and be made effective September 1, 2009. Such a suspension would be consistent with the Commission's *Buckeye*

⁸ *SFPP, L.P., et al.*, 113 FERC ¶ 61,277 (2005).

⁹ *SFPP, L.P., et al.*, 117 FERC ¶ 61,285 (2006).

¹⁰ *SFPP, L.P., et al.*, 121 FERC ¶ 61,240 (2007).

standard and with the Commission's treatment of SFPP's East Line Phase I Expansion tariff filing in Docket No. IS06-283 and East Line Phase II Expansion tariff filing in Docket No. IS08-28.

F. Confidential Treatment

Schedule 18 of this filing contains commercially sensitive information. Pursuant to 18 C.F.R. § 388.112, SFPP requests that this schedule be exempt from public disclosure. SFPP is providing a confidential copy of the filing to all Shippers.

G. Service

I hereby certify that, on or before this date, copies of the tariffs and other attachments hereto have been sent to each subscriber by first class mail, or by other means of transmission agreed upon in writing by the subscriber.

In accordance with 18 C.F.R. § 343.3(a), SFPP requests that any protest of this filing be telefaxed at the time the protest is filed to Mr. Peter M. Dito at (714) 560-4602 and Ms. Amy L. Hoff at (713) 615-5451.

Should you have any questions regarding this filing, please contact Peter M. Dito at (714) 560-4780 or via email at Tariff_Group@kindermorgan.com.

Best regards,

Handwritten signature of Amy L. Hoff in cursive, followed by the initials "by AHH" in a smaller, less legible script.

Amy L. Hoff
Counsel for SFPP, L.P.

Hand delivered and receipt received.

Enclosure

cc: David Ulevich
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426