McNees
Wallace & Nurick LLC

100 Pine Street • PO Box 1166 • Harrisburg, PA 17108-1166
Tel: 717.232.8000 • Fax: 717.237.5300

Adeolu A. Bakare
Direct Dial: 717.237.5290
Direct Fax: 717.260.1712
abakare@mcneeslaw.com

December 4, 2017

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

<u>VIA HAND DELIVERY</u>

RE: Application of Laurel Pipe Line Company, L.P. for All Necessary Authority, Approvals, and Certificates of Public Convenience To Change the Direction of Petroleum Products Transportation Service to Delivery Points West of Eldorado, Pennsylvania; Docket No. A-2016-2575829

Affiliated Interest Agreement between Laurel Pipe Line Company, L.P. and Buckeye Pipe Line Company, L.P.; Docket No. G-2017-2587567

Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission are the both HIGHLY CONFIDENTIAL and PUBLIC versions of the Main Brief of the Indicated Parties on behalf of Gulf Operating, LLC, Philadelphia Energy Solutions Refining & Marketing, LLC, Sheetz, Inc., Monroe Energy, LLC, and Giant Eagle, Inc., in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to this proceeding are being duly served. Thank you.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By [signature]
Adeolu A. Bakare

Counsel to Gulf Operating, LLC
and Sheetz, Inc.

Enclosure
c: Administrative Law Judge Eranda Vero (via E-Mail and First-Class Mail)
Certificate of Service

PUBLIC

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Laurel Pipe Line Company, L.P. for All Necessary Authority, Approvals, and Certificates of Public Convenience To Change the Direction of Petroleum Products Transportation Service to Delivery Points West of Eldorado, Pennsylvania	:	Docket No. A-2016-2575829
Laurel Pipe Line Company, L.P. - Pipeline Capacity Agreement with Buckeye Pipe Line Company, L.P.	:	Docket No. G-2017-2587567

MAIN BRIEF OF THE INDICATED PARTIES

Robert A. Weishaar, Jr. (Pa. I.D. No. 74678)
McNEES WALLACE & NURICK LLC
1200 G Street, NW, Suite 800
Washington, DC 20005
Phone: (202) 898-0688
Fax: (717) 260-1765
bweishaar@mcneeslaw.com

Susan E. Bruce (Pa. I.D. No. 80146)
Adeolu A. Bakare (Pa. I.D. No. 208541)
Kenneth R. Stark (Pa. I.D. No. 312945)
McNEES WALLACE & NURICK LLC
100 Pine Street
P. O. Box 1166
Harrisburg, PA 17108-1166
Phone: (717) 232-8000
Fax: (717) 237-5300
sbruce@mcneeslaw.com
abakare@mcneeslaw.com
kstark@mcneeslaw.com

Counsel to Gulf Operating, LLC and Sheetz, Inc.

PUBLIC

Alan M. Seltzer (I.D. #27890)
John F. Povilaitis (I.D. 28944)
Buchanan Ingersoll & Rooney PC
409 North Second Street, Suite 500
Harrisburg, PA 17101-1357
Phone: 717 237 4800
Fax: 717 233 0852
E-mail: john.povilaitis@bipc.com
E-mail: alan.seltzer@bipc.com
Counsel to Philadelphia Energy Solutions Refining and Marketing LLC

Kevin J. McKeon (PA ID 30428)
Todd S. Stewart (PA ID 75556)
Whitney E. Snyder (PA ID 316625)
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Phone: (717) 236-1300
Fax: (717) 236-4841
kjmckeon@hmslegal.com
tsstewart@hmslegal.com
wesnyder@hmslegal.com
Counsel to Monroe Energy, LLC

Jonathan D. Marcus (PA ID No. 312829)
Daniel J. Stuart (PA ID No. 321011)
MARCUS & SHAPIRA LLP
One Oxford Centre, 35th Floor
301 Grant Street
Pittsburgh, PA 15219
Phone: (412) 471-3490
Fax: (412) 391-8758
jmarcus@marcus-shapira.com
stuart@marcus-shapira.com

Counsel to Giant Eagle, Inc.

December 4, 2017

PUBLIC

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Cases: Page

I. STATEMENT OF THE CASE

A. Introduction

Gulf Operating, LLC ("Gulf"), Sheetz, Inc. ("Sheetz"), Philadelphia Energy Solutions Refining & Marketing LLC ("PESRM"), Monroe Energy, LLC ("Monroe Energy"), and Giant Eagle, Inc. ("Giant Eagle") (collectively, the "Indicated Parties") hereby submit this Main Brief to the Pennsylvania Public Utility Commission ("PUC" or "Commission") in opposition to the Application of Laurel Pipe Line Company, L.P. filed at the above-captioned docket on November 14, 2016 ("Application").

Laurel currently transports petroleum products from points of origin near Philadelphia, Pennsylvania, westerly to destination points across the Commonwealth, terminating west of Pittsburgh, Pennsylvania.[1] In addition to the intrastate shipments, Laurel assigns a portion of its capacity to Buckeye Pipe Line Company, L.P. ("Buckeye") for interstate transportation service from origin points in New Jersey and Delaware to destination points in Pennsylvania.[2]

In its Application, Laurel claims it has authority without Commission approval to change the direction of its petroleum products transportation service over the portion of its system extending westward from Eldorado, Pennsylvania to the western boundary of Pennsylvania.[3] Alternatively, Laurel requests all necessary Commission approvals authorizing its proposed change in direction.[4]

The Application proposes to dramatically modify the jurisdictional pipeline transportation service currently provided by Laurel by eliminating service to all points west of

---

[1] *See* Laurel Exhibit No. 1 (Application), at 2. Technically and under the current Laurel tariff, the westernmost delivery point on the Laurel system is Midland. The proposed reversal would apply to the service that is currently being provided from points east of Eldorado to all current delivery points west of Eldorado, to and including Midland.

[2] *See* Laurel Exhibit No. 1 (Application), at 2.

[3] *See* Laurel Exhibit No. 1 (Application), at 2.

[4] *See* Laurel Exhibit No. 1 (Application), at 2.

Eldorado (near Altoona) from the east.[5] Laurel proposes that Buckeye will use the pipeline facilities west of Eldorado to receive interstate deliveries originating from origin points in the Midwest and in the Pittsburgh area to Eldorado.[6] Importantly, the Application claims that these deliveries would be "on Laurel's pipeline at Federally-approved interstate rates," rather than PUC-regulated rates.[7]

B. Background of Indicated Parties

Each of the Indicated Parties would experience economic and operational harm upon approval of Laurel's Application and consumers in the west, including Pittsburgh, would be subject to higher and more volatile prices. While the Indicated Parties present the relevant arguments jointly and in further detail throughout the brief, this Statement of the Case reviews the backgrounds and concerns underlying each of the Indicated Parties' opposition to Laurel's Application.

1. Gulf

Gulf is a distributor, wholesaler, and retailer of gasoline and diesel for branded outlets (i.e., Gulf brand gas stations) and a distributor and wholesaler of private label retail outlets (i.e., non-Gulf gas stations), as well as a supplier of heating oil, lubricants, and bio-fuels.[8]

As a distributor and wholesaler, Gulf operates Pittsburgh area terminals in Coraopolis, North Neville Island, South Neville Island, and Delmont. Gulf operates additional Pennsylvania terminals in Altoona, Mechanicsburg, Highspire, Northumberland, Allentown, Dupont, Sinking

---

[5] *See* Laurel Exhibit No. 1 (Application), at 9.

[6] *See* Laurel Exhibit No. 1 (Application), at 9.

[7] *See* Laurel Exhibit No. 1 (Application), at 9.

[8] Gulf St. No. 1, at 1:9-11.

Spring, and Fullerton.[9] Gulf also supplies both its branded retail gas operations and various unbranded retail gas outlets with petroleum products.[10]

The Laurel pipeline is the only pipeline connecting Gulf's Pittsburgh area terminals to East Coast refineries. Gulf relies on the Laurel pipeline to supply its terminals with East Coast product desired by Gulf for its wholesale and retail operations. As a terminal operator, Gulf values optionality in the market. With access to diverse supply sources, Gulf and its terminal customers can obtain low cost supply with a high degree of supply reliability.[11] Gulf's retail operations similarly benefit from diverse supply options.

Gulf is a shipper of petroleum products on the Laurel pipeline, and has relied on the Laurel pipeline's public utility service for decades. Service on the Laurel pipeline from points east to Pittsburgh should be preserved for shippers and other stakeholders that utilize or rely on these services.[12] Gulf is concerned that the proposed reversal would reduce the total number of refineries with access to Gulf's Pittsburgh-area terminals and subject the Pittsburgh petroleum market and its many consumers to higher and more volatile prices.

2. Sheetz

Sheetz is a family-owned business with more than 17,000 employees in six states, the majority of whom work in Pennsylvania.[13] Sheetz owns and operates over 250 stores in Pennsylvania and over 550 total stores nationwide.[14] Sheetz sells gasoline and diesel products at

---

[9] Tr. 1047:24 – 1048:2 (Johnston).

[10] *See* Laurel Exhibit MJW-11, at 28.

[11] Gulf St. No. 1, at 2:20-23, 3:1-10, 9:17-19, 10:10-12.

[12] Gulf St. No. 1-S, at 2:13-15.

[13] Sheetz St. No. 1, at 2:8-9.

[14] Sheetz St. No. 1, at 2:9-10.

substantially all of its 250 retail locations throughout Pennsylvania, more than half of which are located west of Altoona.[15] Sheetz is a shipper of petroleum products on the Laurel pipeline.

With extensive retail gas operations in the Pittsburgh area as well as Altoona, Sheetz would be significantly impacted by the proposed reversal. Sheetz participates directly in the wholesale petroleum products market to procure gasoline, diesel, and other products for sale at its retail locations. Presently, Sheetz benefits from the opportunity to supply its stores in the Pittsburgh area with gasoline and diesel from the Midwest and the East Coast in accordance with seasonal pricing dynamics generally favoring East Coast products in the summer months and Midwest products in the winter months. Specifically, Sheetz sources petroleum products from the east on the Laurel pipeline and from the Midwest on Buckeye and Sunoco Logistics' (now Energy Transfer Partners' ("ETP (Sunoco)") owned pipeline systems.[16]

If the Commission approves the proposed reversal, Sheetz and other market participants in the Pittsburgh area will lose the ability to obtain supply from the East Coast. As Sheetz strives to supply its retail outlets with the most economical fuel supply, reducing the number of competitive refineries connected to the Pittsburgh market by pipeline directly frustrates Sheetz's goal of providing high quality fuel at the lowest market cost. Sheetz is also concerned that eliminating pipeline access to the Pittsburgh market would leave the region more vulnerable to price spikes or supply shortages because Pittsburgh-area marketers could no longer rely on East Coast supply options when planned or unplanned events cause outages at Midwest refineries.

3. <u>Giant Eagle</u>

Giant Eagle is a privately-held corporation headquartered in Pittsburgh, Pennsylvania that owns and operates a chain of corporate-owned and independently-owned retail supermarkets, food

[15] Sheetz St. No. 1, at 2:11-12.

[16] Sheetz St. No. 1, at 10:21-22.

distribution facilities, and fuel and convenience stores in the Western Pennsylvania, Ohio, north central West Virginia, Indiana, and Maryland region—although the majority of stores are located in Pennsylvania and Ohio.[17] Giant Eagle's fuel and convenience stores are operated under the trade name "GetGo".[18] GetGo is one of the largest fuel retailers in Western Pennsylvania[19] with approximately 20% of the market share in the Pittsburgh area.[20] Giant Eagle, through its GetGo stations, supplies gasoline and diesel to retail consumers in Pennsylvania.[21] Giant Eagle purchases fuel that travels through the Laurel pipeline in Pennsylvania as well as fuel that originates in the Midwest.[22] A majority of the fuel sold at Pittsburgh-area GetGo stations originates from East Coast sources and is shipped westward via the Laurel pipeline.[23] Giant Eagle's business objective, through its GetGo retail stations, is to provide its customers with an uninterrupted supply of fuel at a competitive price.[24] As such, Giant Eagle has a strong interest in ensuring the competitiveness of the fuel market in Western Pennsylvania and the security and reliability of fuel supply.[25]

On behalf of one of the largest fuel retailers in Western Pennsylvania, Giant Eagle's witness Mr. Richard Tomnay testified that if the pipeline is reversed, retail prices in Western Pennsylvania are likely to increase, and that Giant Eagle's retail customers (representing approximately 20% of the Pittsburgh-area market) will likely pay more for their fuel than they otherwise would.[26] In addition, Mr. Tomnay testified that if the Western Pennsylvania market is

[17] Giant Eagle St. No. 1, at 2:8-13.

[18] Giant Eagle St. No. 1, at 2:13-14.

[19] Giant Eagle St. No. 1, at 2:14-15.

[20] Giant Eagle St. No. 1, at 3:19-20.

[21] Giant Eagle St. No. 1, at 2:15-16.

[22] Giant Eagle St. No. 1, at 2:16-18.

[23] Giant Eagle St. No. 1, at 3:20-22.

[24] Giant Eagle St. No. 1, at 2:18-20

[25] Giant Eagle St. No. 1, at 3:17-19.

[26] Giant Eagle St. No. 1, at 5:8-16.

limited to obtaining fuel via pipeline from Midwest sources, the market will be more vulnerable to a disruption on the pipeline or a Midwest refinery.[27] Mr. Tomnay, who is responsible for fuel pricing at approximately 200 GetGo locations, disagreed with Laurel's assertions that consumers do not benefit from arbitrage opportunities presented by the current configuration of the Laurel pipeline.[28] Mr. Tomnay testified that the continued supply of the Pittsburgh market from *both* the east and the west is a benefit to consumers that the Commission should recognize.[29]

4. Monroe Energy

Monroe Energy has been the owner and operator of the Trainer refinery near Philadelphia, PA, since 2012 when it purchased the refinery, which was closed at the time, from Phillips 66.[30] At its Trainer refinery, Monroe Energy refines various crude and other feedstocks into a variety of petroleum products, including: gasoline (50%), diesel fuel (24%), jet fuel (19%), and other products such as residual fuel, and liquefied petroleum gas (7%).[31] These products are then sold into bulk wholesale markets throughout Pennsylvania, Delaware, New York, New Jersey, Connecticut, Rhode Island, and Massachusetts. The vast majority of products (84%) leave the Trainer facility via Monroe Energy's wholly-owned 55-mile pipeline system ("MIPC").

MIPC transports products to other pipeline systems such as the Laurel Pipeline (46%), Harbor Pipeline, or various ETP (Sunoco) pipelines (38% combined). For most of these pipeline shipments, Monroe Energy transfers title to the buyer at the point where the product enters the non-MIPC pipe, and so it is not the shipper. Monroe Energy transports approximately 15% of its products via barge and a limited amount (approximately 1%) via wholesale rack.[32] Monroe

[27] Giant Eagle St. No. 1, at 5:20-23.

[28] Giant Eagle St. No. 1-S, at 2:20-22.

[29] Giant Eagle St. No. 1-S, at 3:6-8.

[30] The product portfolio percentages are approximates. *See* Monroe Energy St. No. 1, at 3:2-12.

[31] *See* Monroe Energy St. No. 1, at 3:2-12.

[32] Monroe Energy St. No. 1, at 4:15-20.

Energy is a vital citizen of the Philadelphia area and Delaware County community, and directly employs approximately 500 people at the Trainer facility, which indirectly supports approximately 9,000 jobs in southeast Pennsylvania and approximately 11,000 jobs across the Commonwealth of Pennsylvania in the form of contractors and suppliers providing goods and services to the Trainer facility.[33]

The proposed reversal would increase Monroe Energy's transportation costs which will cause substantial harm to its operating income, and substantially diminish Monroe Energy's access to critical markets west of Eldorado that could ultimately lead to reduced production and possibly closure of the refinery.

5. PESRM

PESRM is a Delaware limited liability company that owns and operates a merchant refinery in Philadelphia, Pennsylvania. PESRM has nearly 1,100 employees and an additional 500 contractors. The Philadelphia refining complex is a large-scale facility with a combined distillation capacity of 335,000 barrels per day ("BPD"), making it the largest refining complex in PADD I and the 10th largest in the United States.[34] PESRM produces a range of products, including gasoline and ultra-low sulfur diesel fuel, that are marketed primarily in Pennsylvania and in the northeastern United States. Gasoline, including those components that are blended into gasoline, is the primary product of the PESRM refinery complex by volume.

PESRM is connected to the eastern portion of the Laurel pipeline and relies upon its transportation services to deliver petroleum products from the Philadelphia area to the Pittsburgh

[33] Monroe Energy St. No. 1, at 10:3-15.

[34] PESRM St. No. 1, at 3:6-8.

area via a pipeline.[35] PESRM and previous owners of the refinery have utilized the Laurel pipeline since the Commission authorized service in 1957.[36]

In 2016, PESRM delivered twenty percent (20%) of its total production on the Laurel pipeline, which amounted to 4,057,812 barrels of product with the shipper as PESRM and 16,964,831 barrels for third parties. For the period January through May 2017, 23% of PESRM's total production was going into the Laurel pipeline, which is a 3% increase over 2016.[37]

PESRM relies on the Laurel pipeline to enable the efficient operation of the refined petroleum products market. The Laurel pipeline increases the value of PESRM products but also provides for lower and more reliable prices for consumers.[38]

The key markets PESRM currently accesses include (i) a large local market, (ii) a wholesale rack business in central and western Pennsylvania and upstate New York which PESRM accesses through third-party pipelines, storage terminals and truck loading racks, (iii) New York Harbor, which PESRM accesses through pipeline connections (iv) other PADD I markets, which PESRM accesses by barge, and (v) international markets which PESRM accesses via exports from a third-party terminal on the Delaware River.[39]

PESRM primarily sells products to wholesalers and retailers of transportation fuels, commodities trading companies and other refiners, as well as marketers and distributors of home heating oil.[40]

The Pittsburgh market continues to be an important historic and future market for PESRM that it can only access through the Laurel pipeline. PESRM has continued to vigorously

[35] PESRM St. No. 1, at 3:12-15.

[36] PESRM St. No. 1, at 9:16-17.

[37] PESRM St. No. 1, at 3:17-4:4.

[38] PESRM St. No. 1, at 4:3-7.

[39] PESRM St. No. 2-S, at 3:18-24.

[40] PESRM St. No. 1, at 4:15-17.

compete in the Pittsburgh market despite multiple pipelines moving product from the Midwest into Pittsburgh.[41]

If the Pittsburgh market was cut off due to the Commission's approval of Laurel's proposed pipeline reversal, PESRM's sales into that market could only be replaced by sales at lower margins or they would not be made at all, leading to revenue reductions and cuts in production, which could lead to workforce reductions.[42]

PESRM seeks the highest margin within which to sell its products and therefore ensure its viability.[43] PESRM does not believe it has viable alternative markets to Pittsburgh post reversal. It is skeptical that the Altoona market, the central Pennsylvania, the New Jersey and/or Upstate New York markets, within which PESRM already operates, will be viable alternatives to Pittsburgh.[44]

C. Summary of Evidence

This Section provides a high-level overview of the undisputed factual evidence supporting the Indicated Parties' position in this proceeding. It is organized around the following themes:

- Flaws in Laurel's Case in Chief
- Flaws in Laurel's Volume Analysis
- Flaws in Laurel's Price/Supply Analysis
- Harms to Refineries
- Harms to Consumers

[41] PESRM St. No. 1, at 7:21-23-8:1.

[42] PESRM St. No. 1, at 8:16-19.

[43] PESRM St. No. 1, at 9:14-16.

[44] PESRM St. No. 1, at 6:11-7:17.

1. Flaws in Laurel's Case in Chief

a. Laurel's CPC and status as a Regulated Public Utility

Laurel's existing CPC only supports an east to west flow of product along the pipeline and Laurel was conferred no unilateral right to change the flow direction.[45] The Laurel pipeline is an essential public utility facility over which Laurel cannot change the flow direction and resulting "service" without Commission authorization and confirmation that to do so is in the public interest.[46]

The proposed reversal of flow along the Laurel pipeline between Eldorado and Pittsburgh, Pennsylvania constitutes an abandonment of service by Laurel, a regulated public utility.[47] Laurel's 1957 CPC Application confirms that the "service" the Laurel pipeline intended to provide was to move petroleum products *westerly* from Philadelphia to Pittsburgh.[48] "Service" in one direction is a distinct service from service in the other direction. Therefore, a reversal is the abandonment of service on one direction and the commencement of an entirely new service in the other direction.[49]

Laurel is an intrastate petroleum pipeline that is a public utility under the Public Utility Code ("Code").[50] Nothing in Laurel's current Commission tariff provides for, or contemplates, eastward service. The provisions in the tariff align with the east-to-west service authorized in the CPC and Laurel's application representations.[51]

[45] Indicated Parties St. No. 3, at 3:19-20.

[46] Indicated Parties St. No. 3, at 3:24-4:1-3.

[47] Indicated Parties St. No. 3, at 4:4-6.

[48] Indicated Parties St. No. 3, at 5:15-17.

[49] Indicated Parties St. No. 3-S, at 6:22-25.

[50] *See* 66 Pa. C.S. §§ 101, *et seq.*; *see also* Indicated Parties St. No. 3, at 8:4-5.

[51] Indicated Parties St. No. 3, at 7:20-22.

The Code does not limit the scope and nature of the Commission's regulation of intrastate petroleum pipeline utilities like Laurel in terms of rates (Code Chapter 13), service (Code Chapter 15) and facilities (Code Chapter 11).[52]

It is not sound regulatory policy for Laurel to have unilateral discretion to make decisions regarding the direction of the flow on the Laurel pipeline in the absence of clear, Commission-approved standards.[53]

Despite the Indicated Parties' strong views to the contrary, should the Commission desire to adopt light-handed regulation of intrastate pipelines like Laurel without waiting for specific authorization from the General Assembly, it should do so through a generic proceeding and not in this proceeding. With a generic proceeding, all interested pipelines, refiners, terminal owners, shippers, and consumer representatives would have the opportunity to participate in setting the parameters for the new form of regulation.[54]

b. Laurel's Claimed Justification for the Proposed Reversal is Flawed

Laurel has not demonstrated any basis for abandoning the western bound petroleum products transportation service it has continuously provided between Eldorado and Pittsburgh along the Laurel pipeline for over sixty (60) years.[55] Laurel has not alleged or shown any "loss" it has incurred in continuing to provide the petroleum transportation services along the Laurel pipeline between Eldorado and Pittsburgh.[56]

Laurel has *not* provided any quantification of the claimed loss in revenue and return on its investment in the Laurel pipeline allegedly resulting from fewer shipments between Eldorado

[52] Indicated Parties St. No. 3, at 8:21-23.

[53] Indicated Parties St. No. 3-S, at 7:8-9.

[54] Indicated Parties St. No. 5-S, at 11:9-14.

[55] Indicated Parties St. No. 3, at 14:4-6.

[56] Indicated Parties St. No. 3, at 14:7-9.

and Pittsburgh.[57] Nowhere in Laurel's justification for the decision to reverse the flow on the Laurel pipeline was there any mention – let alone discussion about- Laurel's overall return on its assets devoted to serving the public.[58]

Laurel has not indicated why any claimed reduction in revenue and return on its used and useful Laurel pipeline asset cannot be addressed through a rate filing, which is the typical way for utilities to ensure they have an opportunity to earn a market return on invested capital.[59]

Laurel has not presented evidence supporting the basic requirements for abandonment of a public utility service.[60] Laurel/Buckeye undertook no direct analysis of the impacts of the Laurel Pipeline reversal on Philadelphia consumers.[61] Laurel/Buckeye undertook no quantitative analysis of the impact of the proposed reversal to Eldorado on consumers in Pittsburgh, central Pennsylvania, and Philadelphia.[62] Nor did it undertake any specific analysis of the impacts of the reversal to Eldorado on the shippers on the Laurel pipeline.[63] Laurel/Buckeye undertook no specific quantitative analysis of the impacts of the reversal to Eldorado on Philadelphia refiners.[64]

In deciding to reverse flow on the Laurel pipeline, Laurel/Buckeye did not take into consideration the possibility of increased truck traffic from Eldorado to the Pittsburgh market.[65]

Laurel/Buckeye conducted no quantifiable analysis to support their view that the pipeline reversal to Eldorado was appropriate, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

---

[57] Indicated Parties St. No. 3, at 14:10-13.

[58] Indicated Parties St. No. 3, at 21:12-15.

[59] Indicated Parties St. No. 3, at 14:13-16.

[60] Indicated Parties St. No. 3, at 16:5-7.

[61] Indicated Parties Exhibit No. RAR-2 p. 23: line 18, p. 24: line 3; Indicated Parties St. No. 3, at 17:12-14.

[62] Indicated Parties Exhibit No. RAR-2, at 24:9; Indicated Parties St. No. 3, at 17:15-17.

[63] Indicated Parties Exhibit No. RAR-2, at 24:25; Indicated Parties St. No. 3, at 17:18-20.

[64] Indicated Parties Exhibit No. RAR-2, at 42: 9-10; Indicated Parties St. No. 3, at 18:5-7.

[65] Indicated Parties Exhibit RAR-2, at 53:8; Indicated Parties St. No. 3, at 18:8-10.

f[redacted] **[END HIGHLY CONFIDENTIAL]** Buckeye has not treated Laurel as a stand-alone utility subject to the jurisdiction of the Commission as to rates, service and facilities. This perception and treatment by Buckeye does *not* support Buckeye's attempts to ignore and effectively eschew Commission regulation of the proposed abandonment of service as proposed by Laurel in this proceeding.

2. Flaws in Laurel's Volumes Analysis

Contrary to the premise behind Laurel's Application and the relief requested in this proceeding, the utilization of the Laurel pipeline between Altoona and Pittsburgh is not declining.[67] Actual volumes on the Laurel pipeline do not support a conclusion that there is a definite, long-term, continuous decline in the volumes being shipped on the Laurel pipeline west of Eldorado. The data shows that the volumes on the Laurel pipeline vary through time, and periods of average decline have been offset by marked increases in product shipments.[68]

While movements of summer blend gasoline have declined from prior-year levels into Pittsburgh from the east, they remain at a level approaching 60,000 barrels per day. Importantly, movements from Philadelphia area refineries are making up a larger proportion of those movements, up to 57% of movements through August 2017 as compared to 53% for 2016. This level of movements continues to occur despite the infrastructure additions that have been completed in the Eastern Midwest region.[69]

---

[66] Indicated Parties Exhibit No. RAR-2, at 77: 23; Indicated Parties St. No. 3, at 18:26-31.

[67] Indicated Parties St. No. 2, at 4:17-18.

[68] Indicated Parties St. No. 2-S, at 6:9-13.

[69] Indicated Parties St. No. 2-S, at 13:3-10.

Over the past 12 months, eastern Pennsylvania refineries have supplied an average of 50,000 BPD on the Laurel pipeline west of Eldorado and at times in 2016 it was as high as 75,000 BPD, which is more than half of the consumption of the Pittsburgh market.[70]

Laurel witness Dr. Michael Webb's contention that volumes being transported on the Laurel pipeline west of Eldorado are in steep decline is false. His methodology is fatally flawed according to Indicated Parties witnesses Dr. Daniel Arthur and Michael Schaal.[71]

Nominations on Laurel pipeline for destinations west of Eldorado for the months of October and November 2017 rose to over 60,000 barrels per day.[72]

PESRM uses and plans to continue to use the necessary and valuable transportation service currently available on the Laurel pipeline to bring its refined petroleum products to Pittsburgh from the east, either as a shipper or as a seller to its customers that ship PESRM's products along the Laurel pipeline to all points west of the Philadelphia area.[73]

Laurel overstates the decline in the utilization of its pipeline between Altoona and Pittsburgh.[74]

There have been no material and consistent declines in the flow of petroleum products to Pittsburgh on the Laurel pipeline from the three terminals located near Philadelphia refiners. Rather, there are only non-material year-to-year variations in these shipments.[75]

---

[70] Tr. 749:10-12 (Arthur); *see also* Indicated Parties Exhibit DSA-11, at 15 (showing peak 2016 flows on Laurel pipeline to the Pittsburgh area of 75,000 BPD).

[71] Indicated Parties St. No. 1-S, at 25:5-25 and n. 72; Indicated Parties St. No. 1, at 6, Fig. 1, Indicated Parties St. No. 1-S, at 27:3-13 and Table 1; Indicated Parties St. No. 2, at 18:6-21:6; Indicated Parties St. No. 2-S, at 7:6-14:2.

[72] Laurel Exhibit DWA-16.

[73] PESRM St. No. 1, at 2:19-23.

[74] Indicated Parties St. No. 2, at 18:6-7.

[75] Indicated Parties St. No. 2, at 18:9-12.

3. Flaws in Laurel's Price/Supply Analysis

Pittsburgh consumers currently enjoy the benefit of being able to buy the cheapest products from a multitude of suppliers in both the East and the West.[76] There is no discernible trend toward lower wholesale gasoline prices in the Midwest compared to the East as claimed by Laurel.[77]

The proposed partial reversal will affect the price and availability of gasoline and other petroleum products within and beyond Pennsylvania.[78] Importantly, the Eastern Midwest region does not currently produce petroleum products in excess of its regional demand on an annual average basis.[79] If the proposed reversal is approved and implemented, Pittsburgh will lose its status as a regional balancing point, which will necessarily magnify price spikes as products would have to be trucked or barged over greater distances.[80]

Because of higher (i.e., average annual of 90%) refinery utilization, Eastern Midwestern refineries cannot supply Central and Western Pennsylvania with petroleum products during the Summer months if the proposed Laurel pipeline reversal were to be approved.[81]

Analysis of delivered prices into the Pittsburgh market for 2012-2016 provides consistent data showing East Coast sources, on average, post lower delivered prices for shipments of gasoline and diesel fuel into the Pittsburgh market than their Midwest counterparts.[82] The Laurel pipeline reversal will isolate the Pittsburgh market from eastern supply, which will cause prices

[76] PESRM St. No. 1-S, at 9:3-5.

[77] Indicated Parties St. No. 2, at 32:1-3.

[78] Indicated Parties St. No. 2, at 5:7-8.

[79] Indicated Parties St. No. 2, at 9:18-19.

[80] Indicated Parties St. No. 2, at 11:16-18.

[81] Indicated Parties St. No. 2, at 12:9-11 and at 13:2-4.

[82] Indicated Parties St. No. 1, at 28: Figures 6a and 6b.

to rise to levels to induce additional movements into that market from the West, a situation that will benefit Buckeye and not consumers.[83]

Post reversal, western Pennsylvania gasoline prices to consumers will become more volatile and more prone to price spikes, as has been observed in Eastern Midwest gasoline prices.[84]

Prices to Pittsburgh consumers will be higher if the proposed pipeline reversal were to proceed. This is due to the fact that Central Atlantic region refinery production and other supply from the East is still being moved into Pittsburgh along the Laurel pipeline, which indicates that such supply is equal to or lower in cost than any other supply that may be available from the Eastern Midwest or Gulf Coast regions – a condition that will continue for many years in the future, if not longer.[85]

Moving additional low-RVP gasoline supply from the Gulf Coast through the Eastern Midwest region into the Pittsburgh market is a likely result of the proposed Laurel pipeline reversal, which corroborates the lack of sufficient, reliable, and low cost supply currently available from Eastern Midwest refineries during the Summer.[86]

4. <u>Harms to Refineries</u>

PESRM and previous owners of the refinery have utilized the Laurel pipeline since the Commission authorized service in 1957.[87]

European gasoline is a byproduct of diesel production and is therefore viewed by European refiners as a product that must be sold even at a loss, if necessary. For that reason the

---

[83] Indicated Parties St. No. 2, at 21:16-18.

[84] Indicated Parties St. No. 2, at 21:19-21.

[85] Indicated Parties St. No. 2-S, at 3:17-23.

[86] Indicated Parties St. No. 2-S, at 43:20-44:2.

[87] PESRM St. No. 1, at 9:16-17.

volume of European imports will not be displaced regardless of the competitiveness of U.S. domestic refiners.[88]

The Pittsburgh market currently is a high margin market for products sold by PESRM and Monroe Energy.[89]

PESRM is concerned that the proposed flow reversal may be the first phase of additional flow reversals in the future that reverse flows further east on the Laurel pipeline, completely abandoning the service that the Commission authorized in 1957, and further limiting the ability of PESRM and others to access the Pittsburgh market or markets west of Philadelphia with their petroleum products.[90]

Neither PESRM nor Monroe Energy has feasible and economic options for clearing their refineries post reversal. Due to a combination of lower prices, non-viable markets, and poor alternative transportation options, production cutbacks by Monroe Energy and PESRM are likely if the Laurel pipeline is reversed.[91]

PESRM witness John J. Sadlowski testified that any loss of access to markets into which PESRM currently sells would diminish its marketing options. Loss of its most profitable market – Pittsburgh – would be devastating. Loss of the Pittsburgh market and PESRM's resulting inability to move sufficient volumes out of its refinery could result in a refinery closure.[92]

PESRM does not believe it has viable alternative markets post reversal. Mr. Sadlowski is skeptical that the Altoona market, the central Pennsylvania, or the New Jersey and/or Upstate

---

[88] PESRM St. No. 1-S, at 13:2-5.

[89] Monroe Energy St. No. 1, at 8:18; Monroe St. No. 1-SR, at 6:8-17; PESRM St. No. 1, at 8:14-16.

[90] PESRM St. No. 1, at 7:8-12.

[91] Tr. 979:12-21 (Sadlowski); Tr. 1129:18-1130:16 (Sadowski).

[92] PESRM St. No 1-S, at 3:15-17; 15:3-15.

New York markets, each of which PESRM already operates in, will be viable alternatives for Pittsburgh.[93]

Monroe Energy witness Tracy Sadowski estimates that the increased transportation costs due to barging a significant amount of product into New York Harbor that Monroe Energy currently delivers into Laurel pipeline would be somewhere between $7.2 million and $12 million per year. These increased costs are demonstrative harm to Monroe Energy.[94]

Moving substantial additional barrels into the New York Harbor market will push down prices and reduce margins for refiners.[95]

The loss of revenue to the Philadelphia area refineries that would be associated with the Laurel reversal will lead to production cuts, reduced output, and reduced employment.[96]

Monroe Energy's operating income has averaged **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** A loss of even half of the $12 million Ms. Sadowski estimates due to increased shipping costs, especially due to a structural change such as the reversal of the Laurel pipeline, would be extremely harmful to Monroe Energy.[97]

If the products that Monroe Energy and PESRM's and/or their customers ship west of Eldorado on the Laurel pipeline are no longer able to reach those destinations due to the proposed reversal, and as a result Monroe Energy and PESRM are required to sell those

[93] PESRM St. No. 1, at 6:11-7:17.

[94] Monroe Energy St. No. 1-SR, at 5:1-13.

[95] Monroe Energy St. No. 1, at 10:1-5; PESRM St. No. 1, at 6:8-7 – 7:7.

[96] PESRM St. No. 1, at 8:14-19; Monroe St. No. 1, at 10:8-21.

[97] Monroe Energy St. No. 1-SR, at 19:9-19.

products into the New York Harbor market, to the extent they are able to do so, basic economics suggests that prices in that market will fall and these refineries margins will be reduced.[98]

[BEGIN HIGHLY CONFIDENTIAL] [redacted] **[END HIGHLY CONFIDENTIAL]**

The proposed Laurel pipeline reversal to Altoona could potentially reduce Philadelphia refinery operations by an average of 132,000 BPD during the non-Summer months.[101]

Post Laurel pipeline reversal, Central Atlantic refinery production would have to be *reduced* in order to increase the utilization of Eastern Midwest refineries rather than reducing gasoline imports from other countries.[102]

Post Laurel pipeline reversal, petroleum product imports will not be reduced because imported gasoline products coming into the United States are very low in price.[103]

5. Harm to Pittsburgh Market

PESRM relies on the Laurel pipeline to enable the efficient operation of the refined petroleum products market. The Laurel pipeline increases the value of PESRM products but also provides for lower and more reliable prices for wholesalers, retailers, and consumers.[104]

---

[98] Monroe Energy St. No. 1, at 10:1-5; PESRM St. No. 1, at 6:8-7:7.

[99] PESRM St. No. 2-S, at 5:8-10.

[100] PESRM St. No. 2-S, at 6:6-8.

[101] Indicated Parties St. No. 2, at 34:7-9.

[102] Indicated Parties St. No. 2, at 36:1-3.

[103] Indicated Parties St. No. 2, at 37:14-15.

[104] PESRM St. No. 1, at 4:3-7; Indicated Parties St. No. 1, at 22:18-24; Gulf St. No. 1, at 9:1-6; Sheetz St. No. 1, at 3:4 to 4:21.

Dr. Arthur testified that supplies from the East Coast are the lowest cost supply for much of the year.[105]

Sheetz witness Michael E. Lorenz and Gulf witness Greg Johnston testified that wholesalers' ability to obtain low cost supply from both the Midwest and the East Coast benefits consumers because competitive conditions require wholesalers to pass on arbitrage savings, resulting in lower gasoline prices at the pump.[106]

Husky did a study before entering into the open season contracts and concluded that prices were going to increase in Pittsburgh.[107] The Laurel pipeline reversal will lead to higher prices for Pittsburgh consumers based on the facts that: (i) there currently exist flows from East to West along the Laurel pipeline, a situation that can be expected to last for years in the future as described above, and (ii) the Laurel pipeline flow reversal proposal would eliminate pipeline transportation services into Pittsburgh from the East. The effect of these facts would be to raise the cost of supply for Pittsburgh and Western Pennsylvania, which will result in Pittsburgh wholesalers, retailers, and consumers having to pay higher prices for supply than they do currently.[108]

Gasoline prices in Chicago have been higher than Philadelphia and Pittsburgh during the past two years, while Cleveland prices had a small discount as compared to Pittsburgh, due primarily to a trucking discount.[109] Mr. Schaal's analysis of price levels on a monthly basis shown in Figure 8 and Figure 9 present the differences in the monthly average price for

[105] Tr. 739:8-15 (Arthur).

[106] Sheetz St. No. 1, at 11:1-2; Gulf St. No. 1, at 8:12-10:12.

[107] Tr. 748:22-23 (Arthur).

[108] Indicated Parties St. No. 2-S, at 19:15-21.

[109] Indicated Parties St. No. 2, at 29:1-11.

wholesale gasoline that retail gasoline stations paid for wholesale supply before taxes or other fees.[110]

With Pittsburgh forced to meet its total petroleum products demand of 103-113 MBPD with supply from the Midwest, the reversal would increase annual supply costs for the Pittsburgh area by $75 million or more.[111]

The proposed Laurel pipeline reversal puts Pittsburgh area wholesalers, retailers and ultimately consumers, at the mercy of a long supply chain for petroleum product supply with no price benefit. Long supply chains typically result in higher prices and higher price volatility because they are subject to interruptions along the longer path.[112]

II. STATEMENT OF THE QUESTIONS INVOLVED

A. Whether Disposition of the Relief Requested in the Application Requires the Exercise of Commission Jurisdiction?

Suggested Answer: Yes.

B. If the Exercise of Commission Jurisdiction Is Required, Has Laurel Met Its Burden of Proof Entitling It to the Relief Requested in the Application?

Suggested Answer: No.

III. BURDEN OF PROOF

As the proponent of a rule or order, the Applicant in this proceeding, Laurel, bears the burden of proof pursuant to Section 332(a) of the Code.[113] To satisfy this burden, Laurel must demonstrate that it has met the Abandonment of Service test[114] discussed below by a preponderance of the evidence.[115] "Preponderance of the evidence" requires the party with the

---

[110] Indicated Parties St. No. 2-S, at 22:9 to 23:7.

[111] Indicated Parties St. No. 1, at 40:25.

[112] Indicated Parties St. No. 2, at 39:1-7; Indicated Parties St. No. 2-S, at 24:13-17.

[113] 66 Pa.C.S. § 332(a).

[114] Laurel bears the same burden of proof regardless of the legal standard that is ultimately selected to apply in this proceeding.

[115] *Patterson v. Bell Telephone Company of Pennsylvania*, 72 Pa. PUC 196 (1990).

burden of proof, i.e., Laurel, to present evidence that is more convincing than that presented by the other party.[116] In addition, the Commission's decision must be supported by "substantial evidence," which is evidence that a reasonable mind might accept as adequate to support a conclusion. A mere "trace of evidence or a suspicion of the existence of a fact" is insufficient.[117]

Upon the presentation by the Applicant (i.e., Laurel) of evidence sufficient to initially satisfy its burden of proof, the burden of going forward with the evidence to rebut the evidence of the Applicant then shifts to the Protestants and Intervenors, in this case the Indicated Parties. If the Protestants and Intervenors have placed into the record evidence to rebut that of the Applicant, the burden of going forward with the evidence shifts back to the Applicant. To then satisfy its burden of proof, the Applicant must rebut the Protestants' and Intervenors' evidence by a preponderance of the evidence. If the evidence presented by the Protestants and Intervenors is of co-equal weight, the Applicant has not satisfied its burden of proof, and would be required to provide additional evidence to rebut the evidence of the Protestants and Intervenors.[118]

While the burden of persuasion may shift back and forth during a proceeding, the burden of proof never shifts. The burden of proof always remains on the party seeking affirmative relief from the Commission, here, Laurel.[119]

IV. SUMMARY OF ARGUMENT

In this proceeding, Laurel challenges the fundamental principle that the Commission should hold public utility intrastate petroleum products pipelines to the obligations and standards that govern public utility service in Pennsylvania. Instead of invoking the Commission's

---

[116] *Samuel J. Lansberry, Inc. v. Pa. Pub. Util. Comm'n,* 578 A.2d 600 (Pa.Cmwlth. 1990) *alloc. den.*, 529 Pa. 654, 602 A.2d 863 (1992).

[117] *Norfolk and Western Railway Co. v. Pa. Pub. Util. Comm'n,* 489 Pa. 109, 413 A.2d 1037 (1980); *Se-Ling Hosiery v. Margulies,* 364 Pa. 45, 70 A.2d 854 (1950).

[118] *Burleson v. Pa. Pub. Util. Comm'n*, 443 A.2d 1373 (Pa.Cmwlth. 1982), *aff'd*, 501 Pa. 433, 461 A.2d 1234 (1983).

[119] *Milkie v. Pa. Pub. Util. Comm'n*, 768 A.2d 1217 (Pa.Cmwlth. 2001).

regulatory authority available to Laurel to address its alleged problems, Laurel seeks to use this proceeding to completely shed the vestiges of public utility status with respect to petroleum pipeline service that has been provided as a utility service between Eldorado, Pennsylvania and Pittsburgh area destination points for over sixty (60) years.

The Laurel pipeline is an essential public utility facility. It is the only petroleum products pipeline providing transportation service from eastern origins across Pennsylvania to Pittsburgh. With its Application, Laurel seeks to terminate its east to west service along the Laurel pipeline between Eldorado and Pittsburgh (a service that Laurel's existing customers utilize and will continue to utilize) and turn this portion of pipeline into a federally regulated interstate pipeline (thereby removing any rates and service jurisdiction of the Commission) that will serve out of state customers that Laurel's affiliate Buckeye prefers to serve. Laurel purports simultaneously to reserve the unilateral right to further reverse the flow along the pipeline to points further east of Eldorado whenever it decides that doing so would enhance Laurel's (or, based on Laurel's conduct to date, Buckeye's) economic self-interest and *without any further Commission review or action or consideration of impacts on customers*. Laurel's proposals are both unlawful and contrary to good public policy.

Laurel ignores or downplays the significant role the Laurel pipeline in general, and the proposed reversed segment in particular, have played and continue to play in the economic well-being of Pennsylvania. Key users of the Laurel pipeline – shippers, refiners, gasoline retailers, among others – have joined together in this proceeding as the "Indicated Parties" to oppose the proposed Laurel pipeline reversal and to challenge Laurel's claimed justifications for the reversal. These key stakeholders have not only relied on the Laurel pipeline's service westward into Pittsburgh for over sixty years, but have also invested millions of dollars in facilities connected to the Laurel pipeline, employed many thousands of Pennsylvanians and contributed substantially to the economic growth and vitality of all regions of the Commonwealth. The Indicated Parties need and actively utilize the Laurel pipeline service in a westward direction between Eldorado and Pittsburgh. In the face of this clear need, the Commission should not – and indeed cannot – allow Laurel to abandon this critical service, the potential loss of which the Indicated Parties have so strongly challenged in this proceeding.

While at its core this case should be about the "public interest" and whether the proposed reversal of the Laurel pipeline satisfies the clear legal standards required to be met for the abandonment of utility service, Laurel has attempted to transform this proceeding into a case about purported pipeline economics and speculation about future local, regional, national, and global oil markets. The Indicated Parties' witnesses have shown, however, that Laurel's predictions about the future are unsupported by the evidence and risky to Pennsylvania businesses and consumers.

Rather than assessing the impact of the proposed reversal on Laurel itself as a regulated state public utility, Laurel has unilaterally determined that the reversal is necessary to maximize the profits of Buckeye, its corporate parent and affiliate, and to foil competition from other petroleum pipeline companies that might propose new west to east pipeline projects that are "threats" to Laurel. As such, Laurel and Buckeye, acting in concert, have unilaterally selected Midwest United States refiners as the "winners" and East Coast refiners and shippers as the "losers," an action the Commission should not endorse when there is such patent harm to Pennsylvania as a consequence. These Midwest refiners can and do *already* compete with East Coast refiners in the Pittsburgh market. The proposed Laurel pipeline reversal simply serves to eliminate all competition from East Coast refiners in the Pittsburgh market, solely for the benefit of Buckeye's preferred out-of-state business partners.

The depth of Laurel's disdain for its existing certificate of public convenience and the regulatory jurisdiction and authority of the Commission is demonstrated by the fact that at no time in the last sixty years has Laurel – as the regulated public utility – seen fit to invoke the regulatory tools available to address its alleged loss of shipping volumes. If Laurel needed rate relief from alleged declining volumes, it could have and should have requested authorization to increase its rates or at least proposed to change its rate design. If it needed other remedies to incent greater use of its pipeline or greater assurances of revenue, it could have proposed Commission approval minimum commitments, demand charges, etc. to address these matters. It could have conferred with its "customers" about a claimed lack of usage on a segment of the Laurel pipeline and solicited mutually beneficial creative solutions and remedies. But Laurel did none of these things. Instead, Laurel—in service of its parent company, Buckeye—has manufactured a detailed rationalization of why its petroleum products service must only come into Pittsburgh from the west and then move further east in Pennsylvania, in defiance of an overwhelming array of inconvenient facts that demonstratively contradict any such justification.

Laurel's claimed justification for the proposed pipeline reversal is unsupportable. At every step along the way, the Indicated Parties have offered regulatory, legal, factual and expert testimony that contradicts every claimed public interest benefit of the proposed reversal. As the evidence shows, post reversal:

- Retail gasoline prices in the Pittsburgh area will rise above what they would be absent the proposed Laurel pipeline reversal.
- The Pittsburgh area gasoline prices will be benchmarked against the Chicago index rather than the New York Harbor index, which will subject Pittsburgh consumers to a greater likelihood of price spikes and price volatility than they have today, including exposing them to the "price cycling" phenomenon that plagues Midwest gasoline consumers.
- With no pipeline access from the east, Pittsburgh will be a captive market, making it more susceptible to supply uncertainty and price increases.

- Pittsburgh will lose access to low RVP gasoline supply from eastern refineries, which currently serve a large portion of the Pittsburgh market in the summer.

- Absent the continued availability of the Laurel pipeline between Eldorado and Pittsburgh, there is no practical, safe *and economic* alternative for East coast shippers and refiners to continue to deliver gasoline and other petroleum products into Pittsburgh.

- The loss of the Pittsburgh market to southeastern Pennsylvania refiners will most likely result in the need to reduce refinery production, placing the continued viability of these refineries into significant doubt and causing massive economic harm and disruption to large portions of the Commonwealth.

Moreover, the Indicated Parties have materially challenged and persuasively undermined the very factual foundation of Laurel's claims by demonstrating that volumes of petroleum products moving from Eldorado to Pittsburgh along the Laurel pipeline have *not* declined in the manner and for the reasons that Laurel argues. While there have been shifts in the level of volumes on the Laurel pipeline over the years in response to changing market conditions and marketplace dynamics, there is no basis to conclude that volumes will decline, rather, there are a reasonable range of likely future outcomes in which volumes moving to Pittsburgh from Eldorado will increase and/or remain at currently robust levels. Each of the Indicated Parties individually has shown that they need and use the transportation service of the Laurel pipeline all the way to Pittsburgh. Indeed, PESRM has demonstrated that the Laurel pipeline is its preferred mode for selling refinery production and that it seeks to ship as much product as possible on the pipeline.

Laurel has failed to meet its burden of proof that its proposed abandonment of service complies with all applicable legal requirements and the Application should therefore be rejected in its entirety.

V. ARGUMENT

A. Whether Commission Approval Is Required For The Proposed Reversal

From the outset of this proceeding, Laurel has argued in the alternative. First, it claims that it has the unilateral right, based on its interpretation of its 1957 vintage CPC, to reverse the flow on the Laurel pipeline between Eldorado and Pittsburgh, Pennsylvania *without any Commission filing or authorization.*[120] Failing that, it next claims that it has the right to reverse the flow on the Laurel pipeline based upon the alleged public interest benefits of such action, and without any consideration of the Commission's longstanding standards applicable to the abandonment of service. Laurel rationalizes the absence of Commission jurisdiction and authority by relying on changes in the market since its CPC was issued, claiming it has carte blanche to run its "public" utility as a "private" enterprise – not for the benefit of Laurel or the public, but to maximize the profits of its corporate affiliate/parent Buckeye. Without having utilized any of the numerous tools available to it under Commission jurisdiction to address alleged deficiencies in revenues/earnings – rate cases, rate and tariff redesigns, etc. – Laurel seeks to use this proceeding to create a new and internally inconsistent legal standard for the way in which the Commission regulates intrastate Pennsylvania petroleum pipelines. There is no legal basis for the Commission to abruptly change the nature of its regulation of a certificated public utility (Laurel) that was issued a CPC in 1957 under the Code and remains fully subject to Commission jurisdiction today.

A fundamental element of public utility regulation is that a jurisdictional utility obtain Commission authorization before it withdraws "service" from a customer. Before granting a CPC allowing a utility to abandon service to some or all of its customers, the Commission must

[120] Tr. 261:2-11 (Arnold).

determine that "the granting of such certificate is necessary or proper for the service, accommodation, convenience or safety of the public."[121]

The Code clearly requires a public utility like Laurel to file an application and obtain Commission authorization before it abandons service:

> **§ 1102. Enumeration of acts requiring certificate.**
> **(a) General rule.--***Upon the application of any public utility and the approval of such application by the commission, evidenced by its certificate of public convenience first had and obtained*, and upon compliance with existing laws, it shall be lawful:
> (1) For any public utility to begin to offer, render, furnish or supply within this Commonwealth service of a different nature or to a different territory than that authorized by:
> (i) A certificate of public convenience granted under this part or under the former provisions of the act of July 26, 1913 (P.L.1374, No.854), known as "The Public Service Company Law," or the act of May 28, 1937 (P.L.1053, No.286), known as the "Public Utility Law."
> (ii) An unregistered right, power or privilege preserved by section 103 (relating to prior rights preserved).
> (2) *For any public utility to abandon or surrender, in whole or in part, any service*, except that this provision is not applicable to discontinuance of service to a patron for nonpayment of a bill, or upon request of a patron.[122]

Laurel claims to have the unilateral discretion to reverse the flow on the Laurel pipeline without any obligation to obtain Commission approval on two primary bases: (a) its fallacious interpretation of its 1957 CPC; and (b) its equally incorrect view that the proposed reversal of flow is not a change or abandonment of *service* that implicates the requirements of Code Chapter 11 discussed above. Neither of these purported bases survives scrutiny.

[121] 66 Pa.C.S. §1103(a); *see also* Indicated Parties St. No. 3, at 11-12.

[122] 66 Pa. C.S. § 1102 (emphasis added).

1. Laurel's 1957 Application And CPC Support Only East To West Flows Along The Laurel Pipeline

Laurel is a public utility that traces its rights to transport petroleum products along the Laurel pipeline to a CPC granted to a predecessor company in 1957 (the "1957 Application").[123] After reviewing the 1957 Application, the CPC and related documents, Indicated Parties witness Rosenthal found no indication that the Commission intended to leave the issue of directional flow to Laurel's discretion.[124] On the contrary, all indicia are that the nature of the "service" that is the subject of Laurel's 1957 Application and CPC is petroleum pipeline transportation service in a westerly direction into Pittsburgh.

The 1957 Application sought approval for service from Philadelphia to Pittsburgh. In describing the proposed service, the 1957 Application stated:

> The nature and character of the *service to be rendered* is the transportation, storage, and distribution of petroleum and petroleum products *by means of pipe lines, pumps, tanks and other equipment* and appurtenances for the public in and across the Commonwealth of Pennsylvania and other states of the United States. The approximate route to be followed by *the proposed pipe line in this Commonwealth from the vicinity of Philadelphia to the vicinity of Pittsburgh* and thence northwesterly to the western boundary of the Commonwealth is indicated on the attached map designated "Exhibit A" and made a part of this application.[125]

That Application also represented that the proposed new services would create competitive conditions with respect to companies "which carry petroleum products in a westerly direction across the southern half of the Commonwealth of Pennsylvania from the vicinity of

---

[123] Indicated Parties St. No. 3, at 5:3-5.

[124] Indicated Parties St. No. 3, at 7:8-9. Mr. Rosenthal worked for the PUC for 30 years in a variety of roles, including from 1999-2007 as Director of the Bureau of Fixed Utility Services that handled informal tariff matters, compliance, utility finances and reporting for all jurisdictional types of public utilities. Indicted Parties St. No. 3, at 5-9.

[125] Indicated Parties Exhibit No. RAR-1, at 1. (Emphasis added).

Philadelphia to the vicinity of Pittsburgh and beyond."[126] Indicated Parties witness Rosenthal specifically testified that the 1957 Application confirms that the service the Laurel pipeline intended to provide was to move petroleum products *westerly f*rom Philadelphia to Pittsburgh. Laurel requested and received authority to transport petroleum products from east to west across Pennsylvania. The 1957 Application also deemed relevant the fact that seven other oil pipelines also carried oil products in a *westerly* direction.

Indeed, Laurel itself has confirmed that from the mid-1950s to today, the flow of petroleum products on the Laurel pipeline has been consistently and uniformly in a *westerly* direction originating in Eastern Pennsylvania with points of delivery in Central and Western Pennsylvania.[127]

When Pennsylvania courts have considered Laurel pipeline's flow of petroleum products, they have viewed the Laurel pipeline as providing *westerly* service. The Pennsylvania Supreme Court addressed Laurel's 1957 CPC in the context of potential exemption from certain local taxes in the 1963 Pennsylvania Supreme Court case, *Appeal of Independence Twp. Sch. Dist.*[128]. In that case, in addition to finding that Laurel was a public utility and therefore exempt from certain local taxation, the Pennsylvania Supreme Court noted that:

> [t]he Commission's certificate of public convenience authorized Laurel Pipe Line Company, a foreign public utility, to engage in transporting, storing and distributing petroleum and petroleum products by means of pipelines and appurtenances for the public, extending generally *westward* from a point near Philadelphia to the vicinity of Pittsburgh…These products are moved from *east to west* through the pipeline. Its Booth station in Delaware County receives shipments of products from tank farms of its shippers in

[126] Indicated Parties Exhibit No. RAR-1, at 3.

[127] Laurel Exhibit No. 1 (Application), at 8.

[128] 194 A.2d 437, 438 (Pa. 1963).

> the Philadelphia and New Jersey area, *which shipments are then moved westward* to various take-off stations along the route.[129]

Note that at the time the Court was describing the Laurel pipeline, the pipeline had already been constructed so the east to west references had to be references to the certificated service provided along the Laurel pipeline and not the directional progression of the pipeline's initial construction.

The Pennsylvania Supreme Court's recognition of the westerly flow along the Laurel pipeline not only corroborates Mr. Rosenthal's interpretation of the 1957 Application and the actual operations on the pipeline, it also suggests that flow reversal from west to east was *not contemplated* by the Commission or Laurel's CPC.

Laurel's existing tariff structure is fully consistent with *only westerly flows* along the Laurel pipeline. Laurel's current Commission tariff contains a specific table of rates for delivery service from two origin points in Philadelphia to 14 destinations in Pennsylvania. A second schedule identified as Table 2 of that tariff provides volume-based discounts for spur delivery service from Tioga Junction to the Pittsburgh International Airport. Nothing in Laurel's current Commission tariff provides for, or contemplates, service in a west to east direction. Laurel witness David W. Arnold specifically testified that there is no reservation of rights in Laurel's existing tariff giving it any discretion to flow petroleum products eastward on any segment of the pipeline as requested in this proceeding.[130] It is clear that the provisions in Laurel's existing tariff align with the east-to-west service authorized in its CPC and nothing more.[131]

Two elements of a utility's CPC are particularly relevant to this proceeding. First, a CPC is *prima facie* evidence that the Commission has determined there is a public need for the

---

[129] 194 A.2d 437, 438 (Pa. 1963).

[130] Tr. at 252:18-21 (Arnold).

[131] Indicated Parties St. No. 3, at 7:16-23.

proposed service.[132] This means that when Laurel received its CPC in 1957 to provide service westerly into Pittsburgh along its pipeline, the Commission found that the east to west movement of petroleum products was "needed" in the Commonwealth. This pre-existing and longstanding "need" cannot and should be not overturned absent evidence to the contrary, particularly as Laurel has historically benefitted from the powers derived from its status as a certificated public utility by exercising eminent domain authority and obtaining exemption from local authority over its operations.[133] Laurel has not demonstrated – as it must – any reason or basis to overcome the prima facie need for the existing Laurel pipeline service *to Pittsburgh* that is reflected in Laurel's current CPC.

Second, the courts and the Commission have expressly acknowledged when granting CPCs that "enhancing delivery options" is a relevant and material factor in assessing whether a CPC application satisfies the standard of being "necessary and proper for the service, accommodation, and convenience of the public." As discussed *infra* Section V.C.1.c.(2).(a). and elsewhere, the proposed Laurel pipeline reversal would not enhance, but rather eliminate delivery options into the Pittsburgh area for petroleum products via pipeline from the east. This is the very antithesis of the reason and basis for issuing the CPC to Laurel back in 1957.

Laurel has argued through witness Thomas that any reference to or interpretation of the 1957 Application is irrelevant, claiming that only the CPC is relevant to the scope of Laurel's actual authority.[134] Mr. Thomas claims that since Laurel's CPC has no limitation or condition on

[132] *In re Condemnation by Sunoco Pipeline, L.P.*, 143 A. 3d 1000 (Pa. Cmwlth.), *petition for allowance of appeal denied*, (Pa., Nos. 571, 572, 573 MAL 2016, filed December 29, 2016.

[133] *See Jerome v. Laurel Pipe Line Co.*, 177 A.2d 150 (Pa. Super. Ct. 1962) (noting Laurel's use of eminent domain power to condemn a 30-foot right of way in Allegheny County, PA); *see also Appeal of Independence Twp. Sch. Dist.*, 194 A.2d 437, 438 (Pa. 1963) (recognizing Laurel's exemption from local taxation from school district in Beaver County, PA, due to Laurel's public utility status).

[134] Laurel St. 9-RJ, at 2:2-12.

the direction of transportation service, the inquiry ends there.[135] This view is simply wrong. The CPC expressly refers to "approval of the said application as set forth in said report and order." The Commission's Report and Order describes the Laurel pipeline as "extending generally westwardly . . . as more fully described in said application." Thus, contrary to Laurel's and Mr. Thomas' view, in the case of Laurel's CPC, the Commission actually relied on the 1957 Application and exhibits Laurel submitted in determining what authority was provided.

As Indicated Parties witness Lloyd noted, and contrary to Mr. Thomas' claims, Laurel stated in both its 1957 application for incorporation, organization, and creation and in the 1957 Application for its CPC that its proposed pipeline would create "competitive conditions," i.e., create competition, only for a list of pipelines that, according to the applications, "carry petroleum products in a *westerly* direction across the southern half of the Commonwealth of Pennsylvania from the vicinity of Philadelphia to the vicinity of Pittsburgh and beyond." (emphasis added).[136] If Laurel in 1957 wanted to preserve the right to reverse the directional flow from the west to the east (as Mr. Thomas implies Laurel did), it is reasonable to assume that the 1957 applications would have stated that intention in order to alert the Commission of the need to evaluate all aspects and impacts of the service that Laurel was actually proposing to offer.

The extension of Mr. Thomas and Laurel's argument is both nonsensical and completely unsound regulatory policy. Under Laurel's view, a public utility would not be held to the language in its CPC and the record of the case that describes the type, size, and location of the utility's proposed facilities. As a result, the Commission's granting of a CPC would, in effect, empower the utility with virtually unlimited discretion to determine who would receive what

[135] Laurel St. 9-RJ, at 2:8-9.

[136] Indicated Parties St. 5-S, at 3:17-23.

type of service. As Indicated Parties' witness Lloyd noted, Laurel's position is essentially that silence from the Commission actually means approval of *any* interpretation the utility would subsequently place on the application and the record.[137] This cannot and should not be the law; yet, this is precisely what Laurel urges in this case.

As noted previously, the record in the 1957 Commission proceedings leading to Laurel's CPC clearly shows that what Laurel actually intended and what the Commission understood to be Laurel's requested authority was east to west service. For example, the pipeline segments were numbered from east to west (starting in the Philadelphia area), the microwave communication system was proposed to run from Birney Station (in the Philadelphia area) to the vicinity of Pittsburgh, and the control equipment was to be sequenced westward from Birney Station. Similarly, Laurel intended to construct the pipeline from east to west, in that the delivery points for construction began in the east and ended in the west and that the pipe diameters decreased from east to west.[138]

2. <u>What Constitutes Service</u>

A critical threshold issue with respect to the Commission's consideration of a utility abandonment is whether there is an actual *service* being terminated or abandoned. Laurel has consistently attempted to deflect this issue by suggesting that all of the same receipt and delivery points currently along the Laurel pipeline will continue to be served post-reversal (albeit from a different direction).[139] This argument is misleading, factually inaccurate and inconsistent with the breadth of the definition of the term "service" under existing Pennsylvania law.

---

[137] Indicated Parties St. 5-S, at 4:9-11.

[138] Indicated Parties St. 5-S, at 4:12-19; *see also* Indicated Parties St. No. 2, at 15:2-5.

[139] Laurel witness Mr. Hollis noted, "I think, if I understand your question, all of the delivery points that are there today will remain off of Laurel, so there should be no change to the delivery points." Tr. 329:13-15 (Hollis).

The first indication that the proposed flow reversal is a change in "service" along the Laurel pipeline is that the origins for some of the existing delivery points on the pipeline would change post-reversal. Laurel witness Michael J. Kelly acknowledged this fact[140] when he noted that ". . . the origins for some of those delivery points would change. They would not be accessible, for any delivery points west of the Eldorado location, they would no longer be accessible from the eastern origins."[141] This elimination of destination points west of Eldorado along the Laurel pipeline from eastern Pennsylvania locations like Philadelphia is a material change and abandonment of westerly petroleum products transportation *service* on the Laurel pipeline. Indicated Parties witness Rosenthal confirmed the same point. By comparing Laurel's current Commission tariff to its proposed tariff, Indicated Parties' witness Rosenthal noted that the latter removes the availability and pricing of service from the two origin points of the tariff to the service delivery points west of Eldorado. If the Laurel pipeline is reversed, the western portion of the current Laurel system will be restricted to eastward operations *through Buckeye* (and not Laurel) and will *not* be accessible to shippers attempting to move petroleum products from the east to points west of Eldorado.[142] Accordingly, the proposed reversal of the Laurel pipeline between Eldorado and Pittsburgh, Pennsylvania is a "service" to the public that Laurel is proposing to abandon.[143]

The broad definition of the term "service" in the Code also shows Laurel's proposed reversal is an abandonment of service:

> **"Service."** Used in its broadest and most inclusive sense, includes any and all acts done, rendered, or performed, *and any and all things furnished or supplied, and any and all facilities used,*

[140] Laurel witness Mr. Arnold also acknowledged that Laurel is proposing in this proceeding to "change" both its facilities and its tariff. Tr. 268:18-25 to 269:1 (Arnold).

[141] Tr. 385:19-22 (Kelly).

[142] Indicated Parties St. No. 3, at 13:22-27.

[143] Indicated Parties St. No. 3-S, at 4.

> *furnished, or supplied by public utilities*, or contract carriers by motor vehicle, in the performance of their duties under this part to their patrons, employees, other public utilities, and the public, as well as the interchange of facilities between two or more of them, but shall not include any acts done, rendered or performed, or any thing furnished or supplied, or any facility used, furnished or supplied by public utilities or contract carriers by motor vehicle in the transportation of voting machines to and from polling places for or on behalf of any political subdivision of this Commonwealth for use in any primary, general or special election, or in the transportation of any injured, ill or dead person, or in the transportation by towing of wrecked or disabled motor vehicles, or in the transportation of pulpwood or chemical wood from woodlots.[144]

Given the broad definition of "service", the movement of petroleum products from points east of Eldorado to Pittsburgh along the Laurel pipeline is an existing *service* Laurel provides to a variety of shippers, refiners and other customers. If the Application is granted, this east to west shipping on the pipeline will no longer be available. As Indicated Parties' witness Rosenthal testified, "[i]t is reasonable to conclude based on these facts that (i) the movement of petroleum products along the Laurel pipeline from Eldorado westerly into Pittsburgh is a utility "service" that is available to and used by various shippers and (ii) if the Commission approves and Laurel implements the proposed flow reversal, this 'service' will no longer be available."[145]

As discussed *infra* Section V.C.1.c. and elsewhere, shipments on the Laurel pipeline west of Eldorado, while varying from year to year based on fluctuating market conditions and dynamics, have remained robust over time. Because the lack of availability of pipeline service into Pittsburgh from Eldorado would be directly the result of Laurel's proposed conduct, it is clear that Laurel's reversal would be an "abandonment" of an existing service that is the subject of an existing Commission-issued CPC intended to benefit the public.

[144] 66 Pa. C.S. § 102 (emphasis added).

[145] Indicated Parties St. No. 3, at 13:12-16.

There is little doubt that the flow reversal Laurel proposes in this proceeding is a different *service* than what has been provided to customers since Laurel was granted its CPC in 1957. Although administering a different regulatory regime than this Commission, FERC has expressly found that the cessation of a previously provided service (i.e., flows in a particular direction) constitutes an abandonment of service:

> The Commission [FERC] does not have jurisdiction over the commencement and abandonment of service on an oil pipeline, and *service in one direction is a distinct service from service in the other direction. Therefore, a reversal is the abandonment of service on one direction and the commencement of an entirely new service in the other direction.*[146]

This guidance from FERC is instructive to the Commission in this proceeding.

Not surprisingly, Laurel has strained to distance itself from the undeniable fact that its proposed flow reversal between Eldorado and Pittsburgh is a clear change and abandonment of petroleum pipeline service on the Laurel pipeline. Late in the game, Laurel claimed that the flow reversal would only be "temporary",[147] thereby suggesting that even if the reversal was a service (which it clearly is) less (or no) Commission regulatory scrutiny of its proposal is appropriate. However, the claimed temporary nature of the reversal is contradicted by Laurel's proposed and existing tariff. Indicated Parties witness Rosenthal noted that if the proposed reversal was intended to be truly temporary, one would have expected to see rates provided for service to the delivery points between Coraopolis and Eldorado listed in Laurel's proposed post-reversal tariff. Yet those delivery points do not appear in Laurel's proposed tariff.[148] Not only has Laurel *removed* various western Pennsylvania delivery points from its proposed tariff (which contradicts its position that no delivery points are being changed), it has not proposed tariff

[146] *Re: Rocky Mountain Pipeline System LLC*, Docket No. IS09-157-000, 126 FERC ¶ 61,301 (2009) (March 31, 2009) (emphasis added); Indicated Parties St. No. 3-S, at 6:17-25.

[147] Laurel St. No. 9-R, at 3:11-12.

[148] Indicated Parties St. No. 3-S, at 6:10-12.

language designed to indicate to any existing or potential shipper that Commission jurisdictional service could be reinstated to delivery points west of Eldorado.[149] Moreover, Laurel witness Mr. Arnold unequivocally confirmed that there is nothing in Laurel's existing tariff reserving the right to change the flow of product on the Laurel pipeline from the east to Pittsburgh that has been flowing since the CPC was granted in 1957.[150] Nor are any rates specified in the existing Laurel tariff regarding west to east flows on the Laurel pipeline.[151] These tariffs do not show that: (i) west to east flows as now proposed along the Laurel pipeline were ever contemplated; or (ii) that the current proposed reversal is only "temporary."

Finally, Laurel asserts that the proposed pipeline reversal would not constitute a service abandonment because the pipeline would continue to be utilized for the transportation of petroleum products.[152] This simplistic argument misses the fundamental point that the "service" absolutely changes if the *direction* of flow through the facilities changes, the entity responsible for providing service changes (here, from Laurel to Buckeye), and jurisdiction over the service changes. As noted in the definition of service under the Code, the service includes facilities through which service is provided, such as the Laurel pipeline.[153] Although Laurel is proposing that the physical pipeline itself continue to be used for the transportation of petroleum products, a specific service that Laurel currently provides (i.e., from points in the Philadelphia area and delivered to Eldorado and points west to the Pittsburgh area) would no longer be available. Therefore, because the change in directional flow would constitute an abandonment of a

[149] Indicated Parties St. No. 3-S, at 7:8-12.

[150] Tr. at 252:18-21 (Arnold).

[151] Tr. at 252:15-17 (Arnold).

[152] Laurel St. 9-R, at 3:9-15.

[153] *See supra*, n.144 *citing* 66 Pa. C.S. § 102.

"service" at least "in part," Laurel must obtain a CPC from this Commission before it may implement a change or reduction in service.[154]

B. If Commission Approval Is Required, What Standard Should Apply In Evaluating The Proposed Reversal

1. The Abandonment Of Service Test Is The Standard Applicable To Laurel's Application

In the context of common carriers subject to public utility regulation under the Code, the Commission has developed a multi-factor test to assess the merits of a proposed abandonment of public utility service.[155] To determine whether a proposed abandonment is in the public interest, the Commission considers the following[156]:

1. The extent of loss to the utility;

2. The prospect of the system being used in the future;

3. The loss to the utility balanced with the convenience and hardship to the public upon discontinuance of such service; and

4. The availability and adequacy of the service to be substituted.

This standard has also been applied to the abandonment of fixed utilities, such as water and natural gas.[157]

The Commission's most recent review of intrastate petroleum pipeline abandonments has occurred via a series of cases involving Sunoco Pipeline, L.P. ("Sunoco Pipeline").[158]

---

[154] Indicated Parties St. No. 3-S, at 5:7-12.

[155] *Borough of Duncannon v. Pa. Public Utility Comm'n,* 713 A.2d 737, 740 (Pa. Commw. Ct. 1998).

[156] *Commuters' Comm. v. Pennsylvania Pub. Util. Comm'n*, 88 A.2d 420, 422 (Pa. Super. 1952) (abandonment of segment of rail line); *West Penn Rys. Co. v. Pennsylvania Public Util. Comm'n*, 15 A.2d 539, 544 (Pa. Super. 1940) (abandonment of rail line); *Re Avery Transp., Inc.*, 64 Pa. P.U.C. 420 (Aug. 20, 1987) (abandonment of a bus route).

[157] *See Borough of Duncannon v. Pa. Public Utility Comm'n,* 713 A.2d 737 (Pa. Commw. Ct. 1998) (water service pipeline); *In re National Fuel Gas Distribution Corp*., 99 Pa.P.U.C. 181 (June 1, 2004) (natural gas pipeline); *See e.g.*, *In Re PPL Gas Utilities Corp*., 2007 WL 542199 (Jan. 26, 2007) (propane pipeline).

[158] *See,* for example, (i) *Application for Approval of Abandonment of a Portion of Sunoco Pipeline, LP 's Petroleum Products Pipeline Transportation Service*, 2004 WL 5854823, (Jan. 25, 2005) ("*Sunoco 2005 Application Order*"); (ii) *Application of Sunoco Pipeline L.P. for a Certificate of Public Convenience to Abandon a Portion of Its Petroleum Products Pipeline Transportation Service in Pennsylvania*, A-2013-2371789, 2013 WL 4761154 (Aug. 29, 2013) ("*Sunoco 2013 Application Order*"); and (iii) a series of Petitions filed by Sunoco Pipeline, L.P seeking a

In the *Sunoco 2005 Application proceeding*, Sunoco Pipeline sought to discontinue one of two roughly parallel segments of intrastate petroleum product pipeline. While no shipper customers objected to the Application, one petroleum terminal facility owner ("Artex") objected because the segment proposed for abandonment provided 100% of the petroleum products it received.[159]

In her recommended decision,[160] the ALJ set forth at length the relevant considerations for approval of the abandonment of an intrastate petroleum pipeline:

> When considering an abandonment application, the Commission has considered ***the extent of the loss to the utility; whether or not a reasonable rate increase would cure such loss; the economics of maintaining the system; the public's use of such system; the number of customers affected; the prospects of the system being used in the future; balancing the utility's loss with the hardship to the public; the availability and adequacy of alternative service; the cost of conversion; and, the allocation of such costs.*** The Commission has permitted abandonment of a line serving only four (4) seasonal customers where the line was clearly unsafe and not cost effective to repair, and two of the customers could be easily converted to an alternative fuel. The Commission has conditioned permission to a utility to abandon service on: all customers having converted to an alternative source; payment by the utility of all or a portion of conversion costs or transfer costs or a lump sum; and, abandonment and deactivation of its facilities in accordance with federal and state statutes (internal citations omitted).
>
> The Commission has on occasion denied or delayed permission to utilities to terminate, or abandon, service to one customer in circumstances where the public impact would be major and the harm to the utility by continuing service would not be irreparable. *Re United Mine Workers of America*. 77 Pa PUC 230 (October 5, 1992) (Shannopin Mine); *Re Pennsylvania Power Company*, 77 Pa PUC 246 (October 20,1992) (Sharon Steel).

Commission determination that certain buildings for a pipeline were reasonably necessary for the convenience and welfare of the public. Commission Docket Nos. P-2014-2411941-24111954, P-2014-2411956-2411958, P-2014-2411960-2411961, P-2014-2411963-2411968, P-2014-2411971-2411972, P-2014-2411974-2411977, and P-2014-2411979-2411980 ("*Sunoco 2014 Petitions Order"*).

[159] *Sunoco 2005 Application Order,* at 2.

[160] The Commission reversed the recommended decision only to the extent it required Sunoco to provide Artex with free petroleum product as a condition of abandonment. *Sunoco 2005 Application Order,* at 5-6.

***

> The ALJ concludes that neither of these precedents applies here. This case is not a matter of collecting large amounts of overdue bills. Neither Protestant is a key part of the local or state economy; at Tri-State only one part-time job is at stake, and at Artex one yardman, as opposed to hundreds; the Protestants have already unilaterally ceased operation of their terminal facilities without claiming irreversible damage; and, there are no sales negotiations depending on the operations of the Protestants' facilities. The Applicant is not similarly situated to the utilities, and Protestants are not similarly situated to the customers, in these cases.[161]

The ALJ found that Sunoco Pipeline had met its burden to show an entitlement to abandon service based on the following factors:

- Sunoco Pipeline had not yet suffered a loss, but had projected that it would be unable to collect rates from shippers to cover its costs to repair and maintain the abandoned segment under the standards of new Federal regulations;
- A reasonable rate increase would not cure such losses. Here, Sunoco Pipeline projected a proportionally greater rate increase would be required to collect its costs, that its shippers would refuse to pay such higher rates, and would find alternate means of shipping their product;
- It appeared that the shipping public would not continue to use pipeline service over the abandoned segment;
- Future prospects for use of the abandonment segment were almost non-existent;
- While there was evidence of hardship to Artex, which would be forced out of business, there was no other evidence of impacts on other parts of the public. Sunoco Pipeline argued that all shippers and consumers had obtained competitive replacement service, which it based on the absence of protest to the application; and
- There was no available alternative service to Artex, but shippers and consumers had apparently found alternatives service to meet their needs.[162]

The ALJ recognized the hardship the abandonment would inflict on Artex, and relying on the Commission's decision in *Re Pennsylvania Electric Company*, 70 Pa. P.U.C. 148 (1989),

---

[161] *Application for Approval of Abandonment of a Portion of Sunoco Pipeline, LP 's Petroleum Products Pipeline Transportation Service*, 2004 Pa. PUC LEXIS 695, (July. 09, 2004), at *49-*50 (Recommended Decision) ("*Sunoco 2004 Application R.D.")* (emphasis added).

[162] *Sunoco 2004 Application R.D.*, at *49-*50 , *55-*56.

conditioned the approval of abandonment upon Sunoco Pipeline providing Artex with 69,000 barrels of petroleum product, free of charge by truck.[163]

In 2013, the Commission considered the *Sunoco 2013 Application Order* under which Sunoco Pipeline sought to abandon a large portion of a petroleum products pipeline in order to allow for the construction of its Mariner East Pipeline.[164] Although the Commission did not recite the criteria for abandonment from the *Sunoco 2004 Application* proceeding, its reasoning in approving the request for abandonment was similar:

- Sunoco Pipeline stated that five of nine customers shipping on its intrastate facilities since January 1, 2012 did not ship any volumes through the pipeline segment proposed for abandonment;

- Sunoco, Inc. was the primary shipper on the abandonment segment, with 99.3% of the 2012 shipments and 96.8% of the 2013 shipments. Sunoco Pipeline stated that Sunoco, Inc. was the only shipper providing sufficient line fill to enable operation of the pipeline and that Sunoco, Inc. had confirmed its *non-opposition* to the application;

- The other customers utilizing the abandonment segment also confirmed *non-opposition* to the application;

- Sunoco Pipeline stated that available alternatives existed to meet the future intrastate petroleum transportation needs of each customer;

- The abandonment would provide public benefits (i.e., enhanced delivery options for the abundant supply of natural gas liquids and the moderation of commodity costs due to the injection of a new supply of ethane and propane into existing natural gas liquids markets) that would outweigh the minimal impact to the few customers currently taking service on the abandonment segment; and

- In its application, Sunoco Pipeline quantified yearly projected losses as a result of leaving the abandonment segment in service.[165]

In the *Sunoco 2014 Petitions* proceedings, Sunoco Pipeline sought findings from the Commission that several buildings associated with the proposed Mariner East Project were

---

[163] The Commission subsequently overturned this condition as excessive because Artex was not actually a shipper customer on the Sunoco Pipeline.

[164] *See Sunoco 2013 Application Order,* at 7.

[165] *See Sunoco 2013 Application Order,* at 4-5.

reasonably necessary for the convenience or welfare of the public. Because of its belief that there were serious misconceptions about Sunoco Pipeline's regulated history with the Commission and the specific issues to be addressed in that proceeding, the Commission took the unusual step of making certain "legal determinations" regarding Sunoco Pipeline's current certificated authority under the Commission's jurisdiction.[166] These legal determinations went beyond the actual relief sought and issues raised in that proceeding.

For purposes relevant to this proceeding, the Commission found as follows in the *Sunoco 2014 Petitions Order*:

- Public utility services may be economically feasible even if they are only provided to entities that have large volumes of business;
- The provision of wholesale services can clearly fall within the definition of public utility services;
- It is not necessary for a public utility to provide services to retail end-users in order to provide "public utility services"; and
- The Sunoco pipeline at issue in the proceeding was not limited to east to west transportation – based on any interpretation of the original CPC applications or related Commission orders – because there is no directional restriction contained in either the CPC *applications* or the Commission orders and to make such finding would render the pipeline "useless."[167]

These Sunoco Pipeline cases provide important and relevant guidance in evaluating Laurel's proposed reversal at issue in this proceeding. First, with respect to the *2004 and 2013 Sunoco Application Orders*, the proposed abandonments were *unopposed*, except by Artex, whose needs were specifically addressed in the Commission's order. These facts stand in stark contrast to this proceeding. Second, Sunoco Inc. was shipping almost one hundred percent of the volumes on the pipeline proposed to be abandoned. That shipper was not only an affiliate of the applicant, but it *did not oppose* the abandonment. Unlike this proceeding, the few non-affiliated

[166] *Sunoco 2014 Petitions Order* at 38-39.

[167] *Sunoco 2014 Petitions Order* at 38-39.

shippers *did not oppose* the abandonment either. Third, notwithstanding the lack of opposition to the proposed abandonment, again unlike this proceeding *the applicant pipeline introduced evidence of quantified projected losses* of continuing to use the pipeline and showed why rate increases would not alleviate the underlying losses to the utility. Fourth, again unlike this proceeding, all shippers and consumers had obtained competitive replacement service, which the Commission concluded based on the absence of protests to the application. Fifth, unlike this proceeding, the future prospects for use of the proposed abandoned pipeline were almost non-existent. Sixth, the Commission was unwilling to imply any directional restriction on the flows of the subject pipeline because of a concern that, on the facts involved, the subject pipeline "would sit useless."[168] Finally, while the Commission interpreted Sunoco Pipeline's CPC to include authority to provide bi-directional service under the circumstances set forth in the *Sunoco 2014 Petitions Order*, the Commission first required Sunoco Pipeline to obtain a CPC to abandon its initial provision of east to west service, consistent with the language in Section 1102(a)(2) requiring a public utility to obtain a CPC to "abandon or surrender, in whole or in part, *any service*… ."[169]

The similarities and differences between these Sunoco Pipeline decisions and this proceeding are clear and unequivocal. For example, in contrast to Laurel's actions here, Sunoco Pipeline directly addressed and quantified losses from the continued use of the pipeline and introduced evidence about why traditional rate increases would not alleviate the need to abandon the pipeline.[170] In addition, unlike this proceeding, there was no opposition to the proposed abandonment at all. This proceeding involves specific and material challenges to the proposed

---

[168] *Sunoco 2014 Petitions Order* at 38-39.

[169] 66 Pa. C.S. § 1102(a)(2).

[170] As Indicated Parties' witness Rosenthal noted, "Laurel's Application is particularly unusual in that it seeks to terminate a service customers desire, with no showing that continuation of the service is impractical or would result in an unavoidable financial loss to the utility." Indicated Parties St. No. 3, at 12:10-12.

abandonment of service along a portion of the Laurel pipeline. In the Sunoco Pipeline cases, viable alternatives to the proposed abandoned pipeline existed – none do in this case. Additionally, while the Commission was unwilling to imply any directional restriction on the flows of the subject pipeline, it is clear that this finding was motivated by a concern that the pipeline would sit useless. This is not even remotely similar to this case, where the Laurel pipeline in general and the segment between Eldorado and Pittsburgh continue to transport substantial and robust volumes of petroleum products from the east into Pittsburgh.[171] These Sunoco Pipeline decisions recognized the benefits from Pennsylvania shale gas that are *not* present in this proceeding. Finally, Sunoco Pipeline sought and obtained authority to abandon its east to west service.

There is no doubt that the service abandonment standard enunciated in *Borough of Duncannon* applies to this case.

2. The Alternative Standards Proposed By Laurel Do Not Apply

a. The *City Of York* Substantial Affirmative Benefit Standard Does Not Apply

Laurel's primary position in this case is that no CPC is required to be issued by the Commission to authorize Laurel's cessation of east to west deliveries to Pittsburgh because it is not an abandonment of service. Laurel argues in the alternative that in the event its proposal is an abandonment of service and requires issuance of a CPC pursuant to Sections 1102(a)(2) and 1103(a) of the Code, the primary legal standard for evaluating the proposal is the general standard of whether the proposal is in the public interest.[172] As an example of the use of the public interest standard in an abandonment proceeding, Laurel points to the Commission's

[171] Indicated Parties St. No. 1, at 12: Figure 6.

[172] Laurel Exhibit No. 1 (Application), at 13.

Sunoco 2013 Application Order[173] where the Commission found substantial evidence of "affirmative public benefit sufficient to warrant approval of the proposed Application under *City of York v. Pennsylvania Public Utility Commission*."[174]

The Indicated Parties do not dispute that the decision in this proceeding must be in the public interest, and that any CPC the Commission issues pursuant to Sections 1102(a)(2) and 1103(a) of the Code should confer substantial affirmative benefits on the public and should not harm the public interest. However, Laurel's preferred reliance on the public interest standard and the *City of York* test is intentionally designed to draw attention away from the Commission's more specific and legally appropriate multi-factor test used for evaluating abandonment of service proposals. Laurel's aim in structuring its legal standard argument in this manner is fairly transparent. By avoiding the Commission's abandonment of service standard, Laurel can avoid having to meet specific legal burdens it cannot meet such as (i) showing that the financial loss to the utility outweighs the hardship to the public upon discontinuance of service and (ii) the availability and adequacy of substitute service. This case presents a clear abandonment of existing public utility service that requires the application of the Commission's abandonment of service standard and not merely the general public interest standard Laurel prefers.

The *City of York* affirmative benefits test is a test typically used in merger and acquisition proceedings that involve one entity utility acquiring the assets of a certificated public utility with the intent of continuing public utility service. This test is preferred by Laurel because it limits the main focus of Commission review to the general question of whether the proposal would promote the service, accommodation, convenience or safety of the public in some substantial way. An unwarranted legal advantage would be conferred on Laurel if the Commission confines

[173] *Sunoco 2013 Application Order*, at 7.

[174] *Sunoco 2013 Application Order*, at 7 *citing* 449 Pa. 136, 295 A.2d 825 (1972); Laurel St. No. 9-R, at 6:16-23, 7:1-4.

its review to the *City of York* standard because under that standard, the applicant is not explicitly required to address alternative service, the applicant's claimed benefits do not have to be legally binding commitments; nor does the applicant under *City of York* have to quantify the alleged benefits where to do so would be impractical, burdensome or impossible.[175] Under the *City of York* standard, Laurel would not have to quantify or legally commit to actually delivering the gasoline price benefits it claims the proposed reversal will provide to the Pittsburgh market, if to do so would be considered "impractical". However, even under *City of York*, Laurel must show by a preponderance of the evidence that the abandonment will result in substantial public benefits that outweigh the harms.[176]

Contrary to Laurel's view, the *Sunoco 2013 Application Order* does not establish that the Commission limited its review of this abandonment request to the *City of York* affirmative public benefits standard. A careful reading of this decision shows that while the Commission mentioned the *City of York* standard, it still applied important elements of the abandonment of service standard, including potential harm to customers, noting that the primary users of the facilities to be abandoned did not oppose the suspension of service and recognizing that the alternative facilities of Laurel Pipe Line Company L.P. were available to provide alternative service.[177] Moreover, unlike the facts of this proceeding, the abandonment authority requested in the *2013 Sunoco Application* case was necessary to allow the applicant to construct new facilities

---

[175] *Popowsky v. Pa.P.U.C.*, 594 Pa. 583, 611, 937 A. 2d 1040, 1057 (2007) ("…as indicated in *City of York*, the appropriate legal framework requires a reviewing court to determine whether substantial evidence supports the Commission's finding that a merger will affirmatively promote the service, convenience or safety of the public in some substantial way. In conducting the underlying inquiry, the Commission is not required to secure legally binding commitments or to quantify benefits where this may be impractical, burdensome or impractical…".).

[176] *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 682 (Pa. Cmwlth. 1984) ("when the 'public interest' is considered, it is contemplated that the benefits and detriments of the acquisition be measured as they impact on *all affected parties*, and not merely on one particular group or geographic subdivision.").

[177] *Sunoco 2013 Application Order*, at 3-4.

that would promote established state policy interests and provide additional Commission regulated public utility service to the public in the form of the Mariner East project.

The Commission should hold Laurel to its obligation to meet the abandonment of service legal standard and not dilute the legal burden it must carry in this case by limiting its review to a general public interest standard.

b. The Just And Reasonable Standard Applicable To Tariff Revisions Does Not Apply

As noted above, Laurel's main position in this proceeding is that it requires no Commission authorization to implement its proposed reversal of the current east to west flow from the Eldorado to the Midland delivery points. However, by filing a new tariff supplement as part of this case, Laurel concedes that to implement the flow reversal it must modify its existing tariff by deleting the delivery points and rates listed for service west of Eldorado because public utility service to those points will no longer be available. It is possible therefore that Laurel may contend its legal burden in this case is limited to proving that its proposed tariff changes are "just and reasonable" pursuant to Section 1301 of the Code.[178]

Just as Laurel's legal burden is not limited to a general public interest or *City of York* public benefits standard, neither is it limited to the just and reasonable tariff standard even though a tariff revision is necessary to implement its proposal. Despite its strenuous denials, what underlies Laurel's Application is a request to abandon service to customers. This reality requires Laurel to meet by a preponderance of evidence the more stringent and specific abandonment of service test that involves evaluations of the loss to the utility, the loss of convenience and hardship to customers and the availability of alternative service to existing

[178] 66 Pa.C.S. § 1301 ("Every rate made, demanded, or received by any public utility…shall be just and reasonable, and in conformity with regulations or orders of the commission.").

customers. The Commission must hold Laurel to this standard and not evaluate the proposed reversal on the just and reasonable standard applicable to tariff changes.

C. **Has The Standard Applicable To This Case Been Met?**

1. Laurel Has Not Met The Abandonment Of Service Standard

In the following sections, the Indicated Parties analyze each of the four factors that must be satisfied to support an abandonment of a Commission-jurisdictional service. The analysis shows that Laurel has not met any of those four factors.

a. Laurel Has Not Demonstrated Any Loss To The Utility

The sum total of Laurel's "evidence" of demonstrated "loss" is its disputed claim that there are declining petroleum product shipments on the Laurel pipeline west of Eldorado, Pennsylvania and therefore that Laurel is receiving less revenue.[179] Unlike the Sunoco Pipeline in connection with the *2004 Sunoco Application* proceeding, Laurel made no showing of any quantitative projections of losses or that it would be unable to collect rates from shippers to cover its costs to maintain the proposed segment of the Laurel pipeline to be reversed. Among other things:

- Laurel did not present and does not calculate Laurel's return on investment for the Laurel pipeline;[180]
- Laurel has not filed a rate case before the Commission since at least the mid-1980s and nothing has prevented Laurel from doing so; [181]
- Prior to this proceeding, neither Laurel nor Buckeye has ever advised the Commission of its claim of declining petroleum product volumes moving along the Laurel pipeline between Eldorado and Pittsburgh and the claimed impacts on Laurel;[182]

---

[179] Tr. at 239:20-25 (Arnold) and 240:10-13 (Arnold).

[180] Tr. at 240:17-18 (Arnold).

[181] Tr. at 240:19-25 and 241:1 (Arnold).

[182] Tr. at 241:2-7 (Arnold).

- At no time prior to this proceeding did Laurel meet with the Indicated Parties to ask for their assistance and cooperation in dealing with alleged adverse impacts on Laurel as a result of alleged declining petroleum product volumes moving along the Laurel pipeline between Eldorado and Pittsburgh;[183]

- Laurel *never* even evaluated the proposed Laurel pipeline reversal in terms of potential revenues, costs and benefits solely on Laurel, the Pennsylvania regulated utility, independent of any other Buckeye affiliate;[184] and

- There is a substantial difference in the rates for service on Buckeye's interstate pipeline compared to Laurel's Pennsylvania rates, in an order of magnitude of three dollars per barrel (interstate) versus sixty cents per barrel ($0.60/barrel) under Laurel's tariff.[185]

Laurel has completely failed to satisfy its burden of proof with evidence showing any real loss associated with the current operation of the Laurel pipeline in a westerly direction between Eldorado and Pittsburgh. It simplistically asks this Commission to leap to the conclusion that Laurel's earnings are declining because volumes of petroleum product moving west between Eldorado and Pittsburgh are allegedly declining (an allegation that the Indicated Parties dispute). There is no evidence whatsoever to support any allegation of losses and the overwhelming evidence shows that Laurel has done *nothing* for decades to address what it now claims are material losses that support the abandonment of service for customers that have relied on pipeline transportation service westerly into Pittsburgh for sixty (60) years. It has neither sought the assistance of its customers like the Indicated Parties,[186] nor filed for rate increases or changes in its tariff design to address alleged loss of revenues or under-earnings on the portion of the Laurel pipeline between Eldorado and Pittsburgh. And, because Buckeye refuses to even

---

[183] Tr. at 242:11-14 (Arnold) and 257:23-24 to 258:1-6 (Arnold).

[184] Tr. at 247:12-17 (Arnold).

[185] Indicated Parties St. No. 1, at 12:13, 16.(showing Buckeye tariff rate of $2.9168/bbl (from Chicago to Pittsburgh) as compared to Laurel tariff rate of $0.614/bbl (from Chelsea to Pittsburgh)).

[186] Laurel witness Mr. Arnold testified that other than Giant Eagle, he considers all of the Indicated Parties to be "customers" of Laurel as a regulated public utility. Tr. at 241:20-23 (Arnold). Giant Eagle is not a shipper on the pipeline, but its GetGo brand retail stations supply approximately 20% of the Pittsburgh market, and a majority of the fuel sold at Pittsburgh-area GetGo stations originates from East Coast sources and is shipped westward via the Laurel pipeline. Giant Eagle St. No. 1, at 3:19-22.

consider Laurel on a standalone basis, it is impossible to determine whether there is any financial impact on Laurel as a Commission-regulated entity.

Having completely failed to satisfy the requirement of losses associated with the service it now seeks to abandon, Laurel is not entitled to abandon the much needed petroleum products pipeline transportation service west of Eldorado along the Laurel pipeline.

b. Laurel Has Not Demonstrated That The Public Will Not Use The Utility Service In The Future

To meet the Commission's abandonment of service standard, Laurel must also show by a preponderance of the evidence that the service to be abandoned lacks prospects of being used by customers in the future. Laurel has failed to meet this burden. After reviewing all the record evidence in this proceeding the Commission will likely be shocked that Laurel, a public utility with obligations to its customers and the public, persists in seeking approval of its proposed abandonment of service. The record shows that Laurel's customers covet and prize the access to the Pittsburgh market that service west of Eldorado provides to them and that Laurel's self-serving prediction of volumes declining to zero on this portion of its pipeline lack any credible underlying analysis.

There are three components to the issue of whether Laurel's shipments west of Eldorado justify abandoning the service. The first component is customer interest in continuing to have the service available for shipments from the East to points west of Eldorado. The second component is the historic data that shows the extent to which volumes travel west of Eldorado. The third component is whether it is reasonable to expect that volumes are about to decline to levels that justify Laurel abandoning the service. A fair and objective evaluation of these three issues leads to the conclusion that the facts do not justify abandonment of service. First, there is no question that refiners such as PESRM and Monroe Energy consider continuation of east to west service to the Pittsburgh market extremely important to their operations. And shippers and marketers such as Gulf, Sheetz and Giant Eagle also strongly oppose the proposal that would reverse flow on the Laurel pipeline and eliminate the opportunity for Pittsburgh to access supplies coming from eastern refiners. Accordingly, customer interest in continuing to use the service remains strong. Second. as far as historic data is concerned, the elephant in the room that Laurel does not wish to recognize is the data that shows historically and presently the Laurel pipeline is significantly utilized for shipments west of Eldorado, especially during summer months. In fact, for the most recent 12-months, volumes on Laurel supplied approximately half the consumption in the Pittsburgh market. Finally, with respect to projections of future volumes, after offering no real analysis of this issue in their case in chief, Laurel wishes the Commission to accept its prediction that years from now volumes shipped west of Eldorado will decline to zero.

In contrast to Laurel's position that volumes moving west of Eldorado are going to inevitably move to zero due to a claimed "trend", the Indicated Parties have presented expert, data-based, credible and realistic analysis showing that volumes on this portion of the Laurel pipeline, while fluctuating over time for observable reasons, are still robust, are likely to stay robust and may possibly increase in the future. To accept Laurel's position on this issue, the Commission must ignore indisputable historic data and endorse Laurel's unsupported projection that future levels of shipments are so certain to reach zero.

To keep Laurel's future volume prediction in context, consider what the Commission allows with respect to rate case future test years.[187] The Commission knows from experience when a public utility projects levels of service, it is prudent to project no more than 12 months into the future. In this case, Laurel asks the Commission to accept Dr. Webb's prediction that the

[187] 52 Pa. Code § 53.56. Under the Commission's future test year regulation, a public utility may only use a 12-month future test year projecting revenues, expenses and volume of service that only begins immediately after an experienced, historic 12 month period. And the utility must supplement the record of its rate case with actual results, as the future test year becomes historic during the rate proceeding.

average use of Laurel by shippers to reach the Pittsburgh market will hit zero in approximately 2025, seven years in the future.[188]

Laurel's desire to avoid any close scrutiny of the issue of volumes west of Eldorado is apparent from its remarkably sparse case in chief on this issue. The entire case consisted of Mr. Arnold stating that in calendar year 2016, Laurel transported 11,075,499 barrels of product under PaPUC rates from "Philadelphia origin points" to delivery points west of Eldorado. Mr. Arnold further testified that the total amount of product shipped from the east to points west of Eldorado has declined by about 20,000 BPD, or 7,300,000 annually, since 2006.[189] Finally, Mr. Arnold cross-referenced testimony from Dr. Webb for the proposition that demand for transportation to Pittsburgh from the east was expected to decline due to claimed price advantages possessed by Midwest petroleum supplies and the opening of ETP's (Sunoco) Allegheny Access project and Buckeye's Project Broadway.[190]

The first credible analysis of the issue came from the Indicated Parties, with Dr. Arthur's and Mr. Schaal's review of the volumes issue as presented in their Direct Testimony. In contrast to Laurel, these experts looked at data year by year and analyzed the underlying factors that contributed to the volumes increasing or decreasing during any given year. Dr. Arthur testified that volumes on the Laurel pipeline from Eastern origins to Pittsburgh destinations in 2016 were at a level similar to early 2013, which was an increase from 2012 levels when the Trainer refinery was shut down.[191] Volumes to the Pittsburgh area in 2014 and 2015 were temporarily increased because of the shutdown of ETP's (Sunoco) pipelines from Philadelphia and the Midwest. Total volumes to Pittsburgh destinations from the east have fluctuated seasonally over

[188] Laurel St. No. 5-R, at 44-45:1-8.

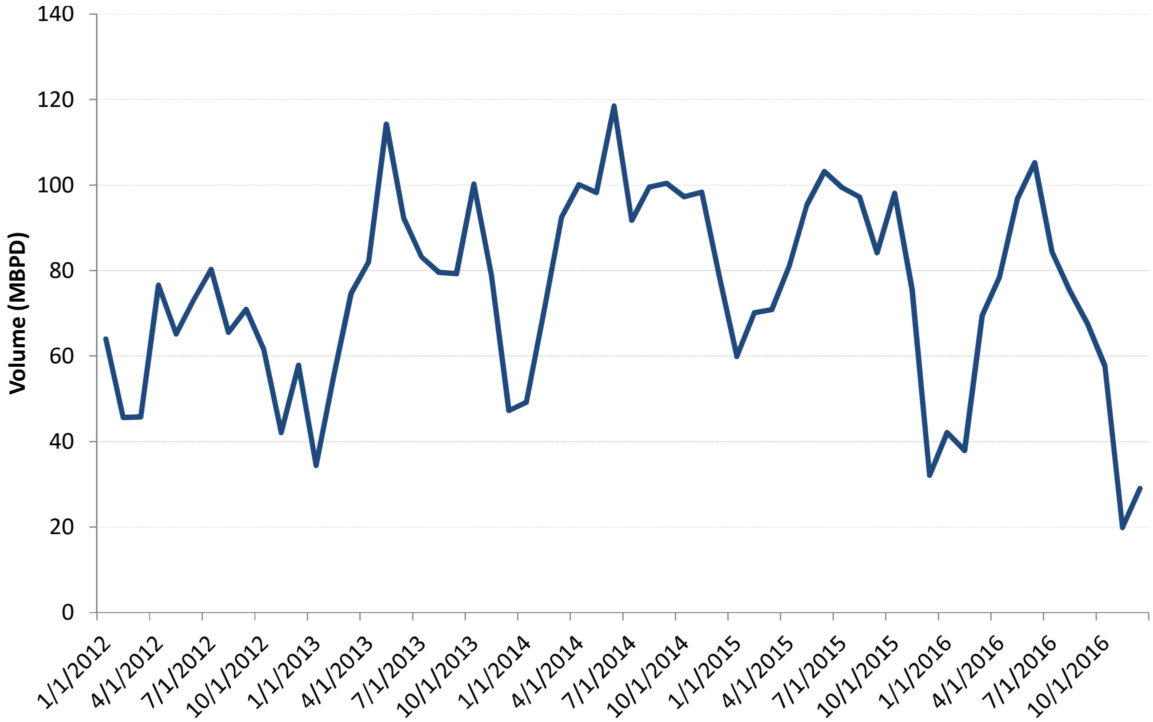
[189] Laurel St. No. 1, at 15, 3-18.

[190] Laurel St. No. 1, at 16:18-21, 17:1-9.

[191] Indicated Parties St. No. 1, at 7:3-6.

the five year period 2012-2016 with volumes in the summer months being in the 65,000 BPD to 119,000 BPD range, decreasing in the winter months to a range of 20,000 BPD to 100,000 BPD.[192] Mr. Arnold failed to explain that volumes since 2006 were impacted by refinery shutdowns that subsequently restarted, and that volumes have rebounded from 2012 levels with 2016 being consistent with 2013 levels as shown in the following figure, which relies on volume numbers provided by Laurel during discovery:[193]

Figure 1[194]
Volumes on the Laurel System from Eastern Origins to Pittsburgh Destinations MBPD



Sources/Notes:
Responses to data requests GLF-LAU-I-32 and GLF-LAU-I-33.

The fluctuations in volumes from the east to Pittsburgh since 2012 are illustrated by the following figure. There was an increase over 2012 levels through early 2015 and a decrease by the end of 2016 to a level similar to early 2013 with an average annual volume of over 60,000

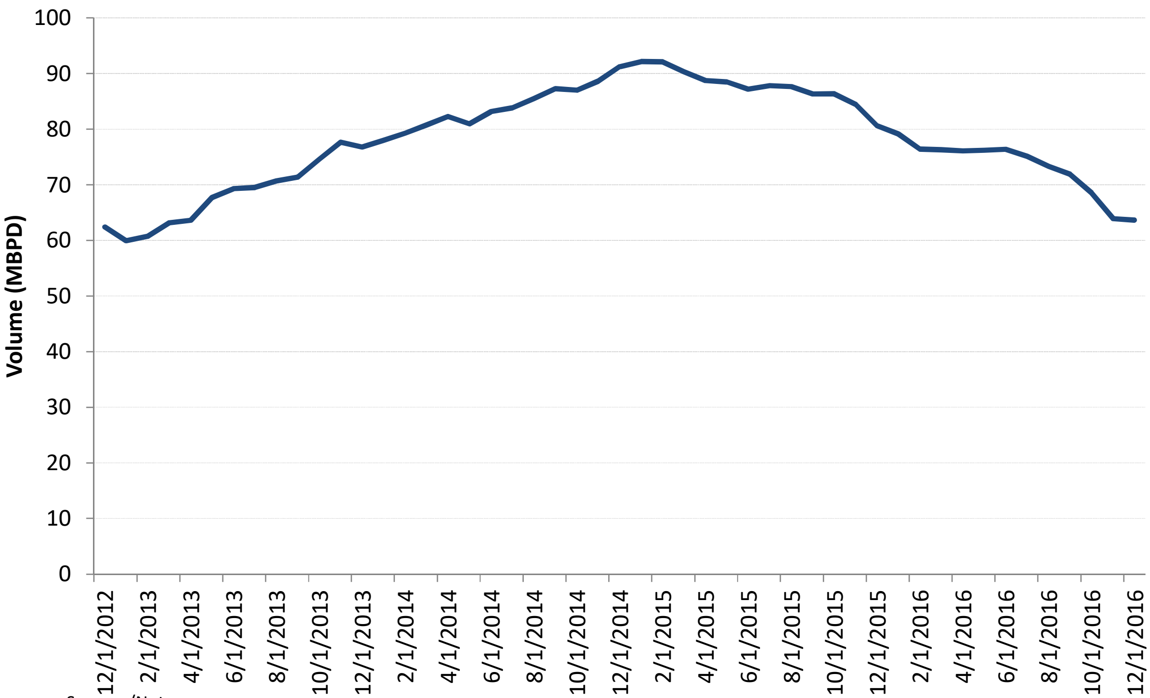
[192] Indicated Parties St. No. 1, at 2:16-20, 3:1-10.

[193] Indicated Parties St. No. 1, at 6.

[194] Indicated Parties St. No. 1, at 6: Figure 1.

BPD. Dr. Arthur explained that these fluctuations were driven by various factors, such as the shutdown of the Trainer refinery near Philadelphia in September 2011, the 2010-2011 shutdown of the Eagle Point and Marcus Hook refineries near Philadelphia by Sunoco, Inc., and the 2009-2011 shutdown of the Delaware City refinery now owned by PBF Holding Company LLC.[195]

Figure 2[196]
Volumes on the Laurel System from Eastern Origins to Pittsburgh Destinations
12-month Rolling Average
MBPD



Sources/Notes:
Responses to data requests GLF-LAU-I-32 and GLF-LAU-I-33.

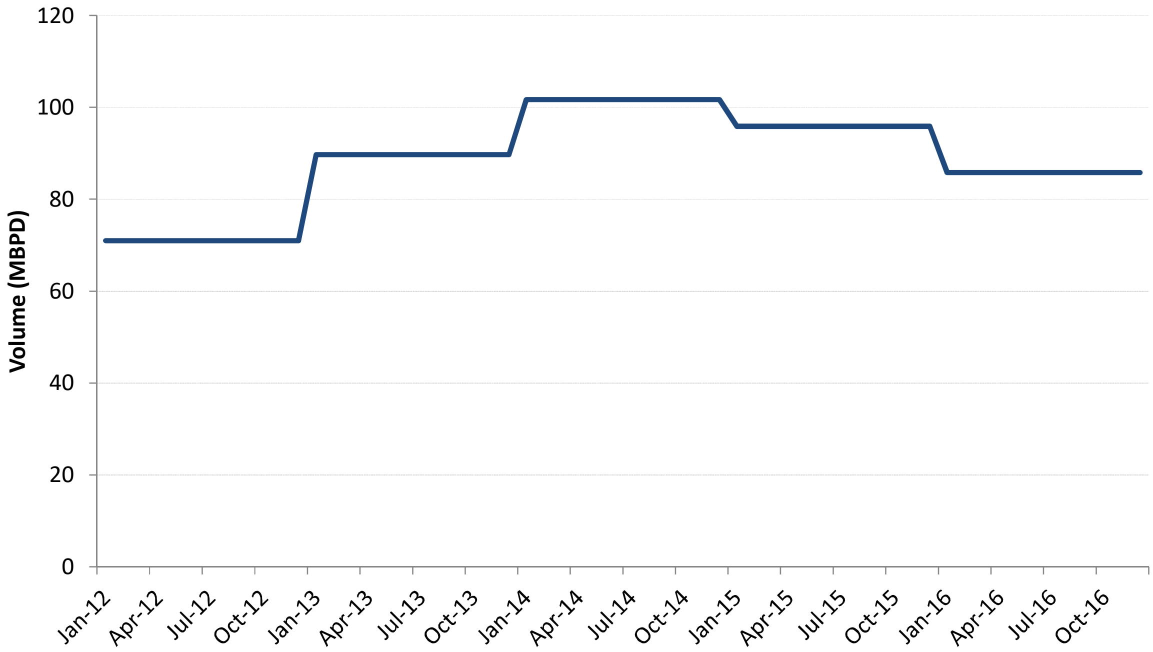
Dr. Arthur's Figure 3 demonstrates that average summer deliveries to Pittsburgh destinations from the east have been significant and relatively consistent from January 2012 through late 2016.[197]

[195] Indicated Parties St. No. 1, at 7-8.

[196] Indicated Parties St. No. 1, at 7: Figure 2.

[197] Indicated Parties St. No. 1, at 10.

Figure 3[198]
Volumes on the Laurel System from Eastern Origins to Pittsburgh Destinations
Annual Summer Average
(MBPD)



Sources/Notes:
Responses to data requests GLF-LAU-I-32 and GLF-LAU-I-33.
Summer months are May 1st through September 30th.

The volumes shown in Figure 3 are especially significant when one considers that the Pittsburgh market for refined petroleum products ranges from 103 MBPD to 113 MBPD.[199] The decline in shipments since 2006 that Mr. Arnold referenced occurred prior to 2013, and were due to the significant shutdown of Philadelphia area refining capacity. They are not a recent occurrence that justifies abandonment of this service.[200]

Laurel-Buckeye's internal documents acknowledge that shipment data does not make a strong case for authorizing the abandonment. As Dr. Arthur noted, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

---

[198] Indicated Parties St. No. 1, at 10: Figure 3.

[199] Indicated Parties St. No. 1, at 20:9-21. Mr. Schaal estimated western Pennsylvania petroleum product demand to be 144 MBPD from June to August and 108.6 MBPD during September to May. Indicated Parties St. No. 2, at 13:9-11.

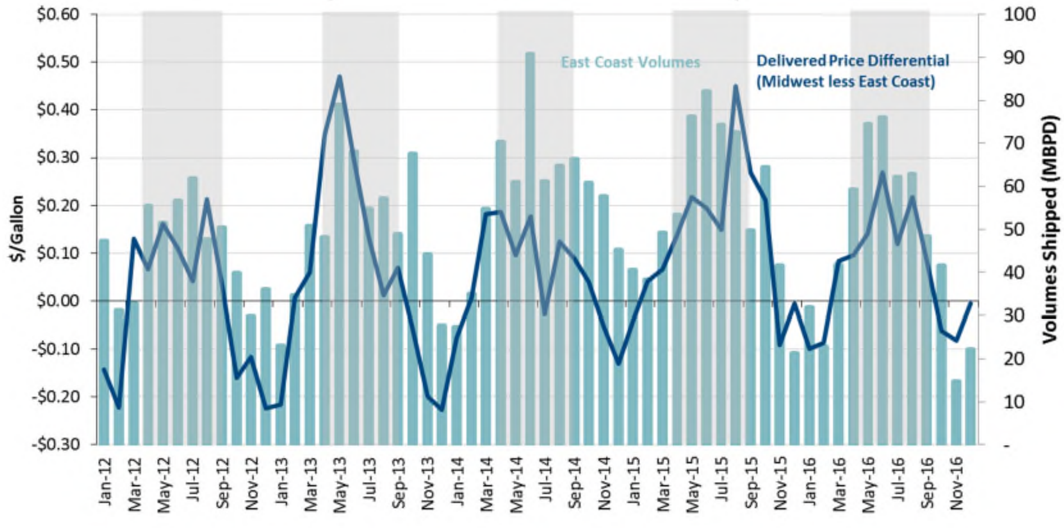
[200] Laurel St. No. 1, at 10:9-11, 11:1-4.

[redacted] **[END HIGHLY CONFIDENTIAL]** Laurel is motivated to pursue the reversal, however, because it would increase the revenues of Laurel's parent Buckeye through higher FERC tariff rates Buckeye stands to collect on the volumes delivered to Pittsburgh from Ohio and west.[201]

Dr. Arthur also observed that for 7-9 months of the year, volumes of gasoline sourced from the east to Pittsburgh increase when east coast supply is less expensive than Midwest supply, which, as further discussed in Section V.C.1.c(2)(a), *infra*, is a benefit Pittsburgh area consumers would lose if the reversal is approved.[202]

Figure 5[203]

Gasoline Volumes to Pittsburgh Sourced from the East Increase When East Coast Supply is Less Expensive than Midwest Supply Total Volumes of Gasoline Delivered to Pittsburgh from the East Compared to Differential in Delivered Prices (With Summer RVP Standard)



Sources/Notes:
Delivered prices calculated using Argus gasoline prices.
Shaded areas represent months when the Summer RVP Standard is in effect (Apr. 1st - Sept. 15).

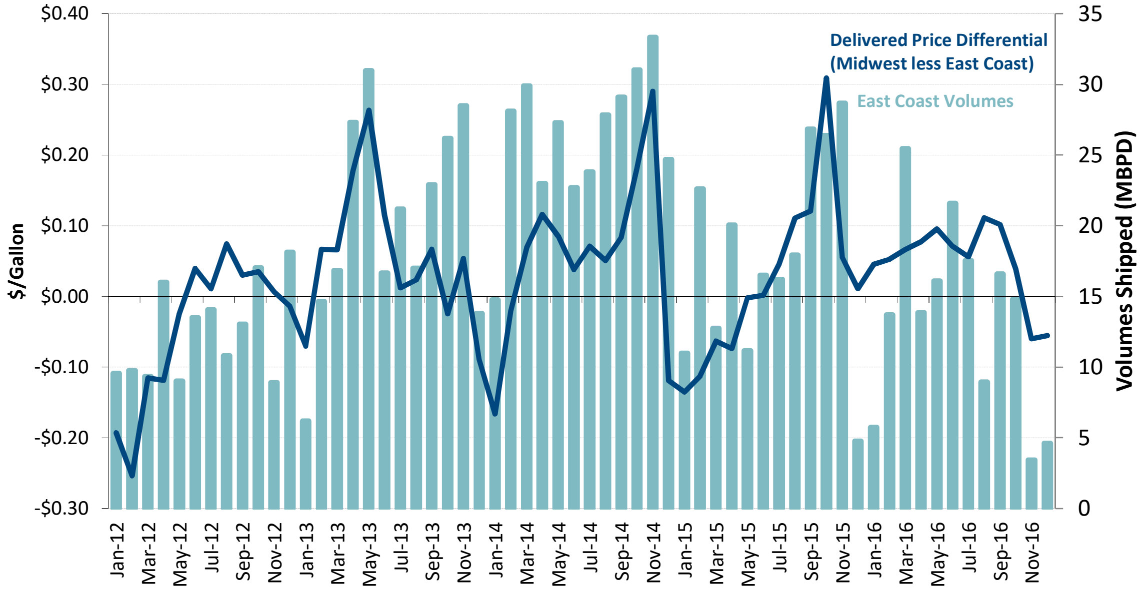
[201] Indicated Parties St. No. 1, at 11:19-23.

[202] Indicated Parties St. No. 1, at 25:1-7.

[203] Indicated Parties St. No. 1, at 25: Figure 5.

A similar pattern is shown in Dr. Arthur's Figure 8 for diesel volumes sourced from the east to the Pittsburgh market.[204]

Figure 8[205]
Diesel Volumes to Pittsburgh Sourced from Eastern Origins Increase When East Coast Supply is Less Expense than Midwest Supply
Total Volumes of Diesel Delivered to Pittsburgh from the East Compared to Differential in Delivered Prices



Sources/Notes:
Delivered prices calculated using Argus diesel prices.

In fact, Dr. Arthur's Figure 6a shows that the East Coast has historically been less expensive on average than the Midwest to supply gasoline to Pittsburgh. Consequently, it is not surprising that there were, and continue to be, significant volumes transported on the Laurel pipeline to Pittsburgh from East Coast origins.

[204] Indicated Parties St. No. 1, at 30: Figure 8.

[205] Indicated Parties St. No. 1, at 30: Figure 8.

Figure 6a[206]
Annual Gasoline Supply to Pittsburgh from East Coast Origins is Less Expensive than Midwest Origins
Average Annual Differential in Delivered Prices of Gasoline to Pittsburgh From East Coast Compared to Midwest Origins
(With Summer RVP Standard)
($/gallon)

			Pre-Reversal			Midwest less Pre-Reversal East Coast Delivered Prices		
Year		Chicago	Philadelphia (Intrastate)	Philadelphia (Interstate)	NY Harbor	Philadelphia (Intrastate)	Philadelphia (Interstate)	NY Harbor
		[1]	[2]	[3]	[4]	[5]=[1]-[2]	[6]=[1]-[3]	[7]=[1]-[4]
2012	[a]	$2.98	$2.99	$3.01	$3.00	-$0.02	-$0.03	-$0.02
2013	[b]	$2.90	$2.85	$2.87	$2.86	$0.05	$0.03	$0.04
2014	[c]	$2.69	$2.65	$2.66	$2.66	$0.04	$0.03	$0.03
2015	[d]	$1.77	$1.64	$1.65	$1.66	$0.13	$0.11	$0.11
2016	[e]	$1.45	$1.40	$1.41	$1.42	$0.06	$0.04	$0.04

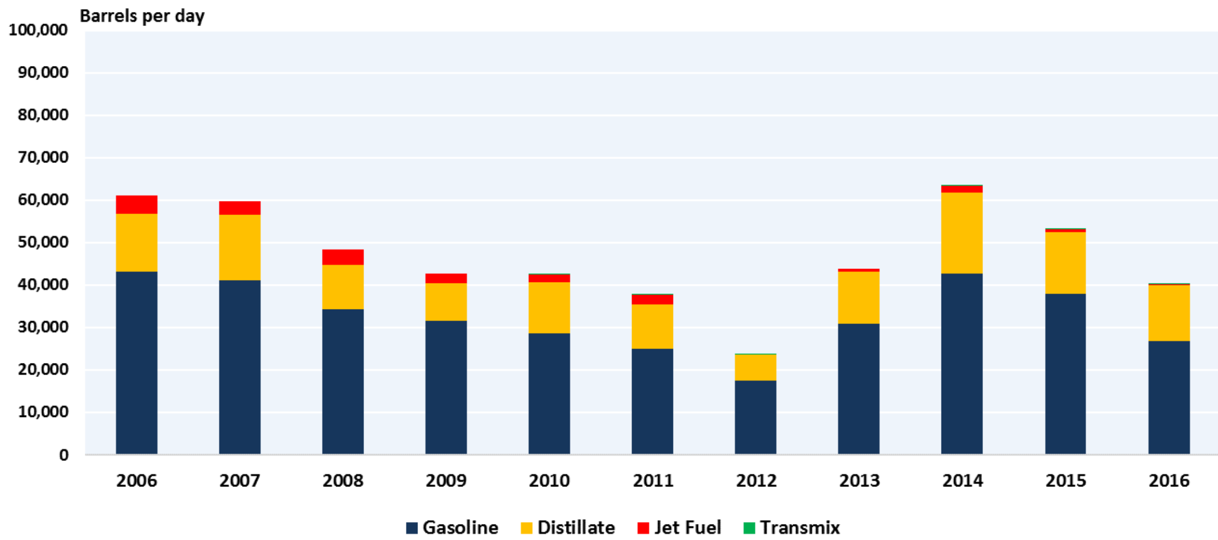
Sources/Notes:
Calculated using Argus gasoline prices and Buckeye/Laurel transportation rates.

Mr. Schaal's analysis is consistent with Dr. Arthur's analysis and shows that Laurel has overstated any decline in the utilization of the Laurel pipeline and mischaracterized non-material year-to-year variations in shipments from Philadelphia area origins into Pittsburgh from 2006-2016. Mr. Schaal's Figure 8 below shows that there have been no material and consistent declines in the flow of petroleum products to Pittsburgh from the three locations near Philadelphia refiners.[207]

[206] Indicated Parties St. No. 1, at 28: Figure 6a.

[207] Indicated Parties St. No. 2, at 18:13-15.

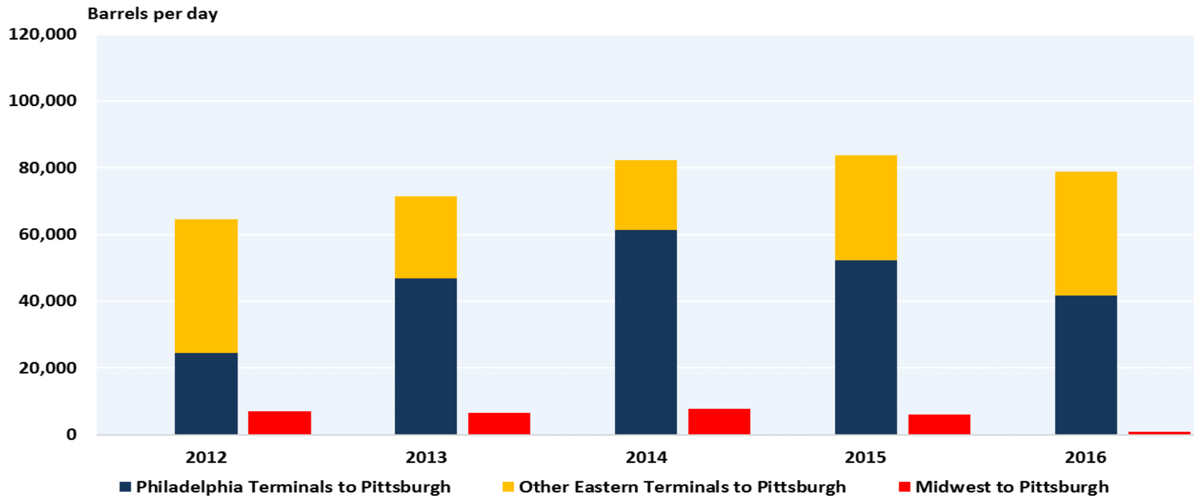
Figure 8 Movements along Laurel originating from three Philadelphia area terminals into Pittsburgh, 2006-2016[208]



In addition, Mr. Schaal presented 2012-2016 data seen in his Figure 9 below that shows there has been no significant decline in low Reid Vapor Pressure ("RVP") gasoline, the type of gasoline required by the Pittsburgh region during summer months, delivered to the Pittsburgh area despite assertions that Eastern Midwest refiners have the ability to produce the same type of gasoline. In fact, Figure 9 shows that summer movements from Midwestern refiners along the Buckeye Pipeline are not only extremely modest, but actually declined from 2014-2016.

[208] Indicated Parties St. No. 2, at 18:13-15.

Figure 9 Annual Summer blend gasoline movements along Laurel into Pittsburgh, 2012-2016[209]

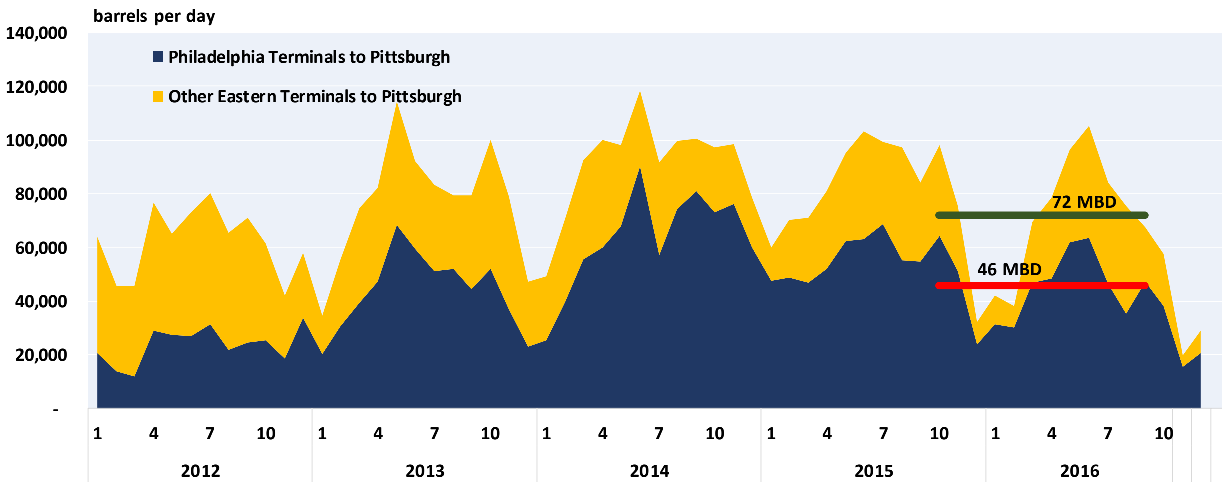


Mr. Schaal also highlighted the fact that Dr. Webb underestimated the number of barrels of product that were delivered to Pittsburgh between October 2015 and September 2016 from the east by asserting only 46,000 BPD from terminals connected to Philadelphia area refineries were delivered. However, Dr. Webb did not include, as illustrated in Figure 10 below, other volumes that flow into the Laurel pipeline into Pittsburgh from the east. In fact, based on data Laurel provided, 71,999 BPD of petroleum products were delivered into Pittsburgh from October 2015 to September 2016.[210]

[209] Indicated Parties St. No. 2, at 19:8-9.

[210] Indicated Parties St. No. 2, at 20:5-16. And for November 2015 to October 2016, the volume of petroleum products that were delivered into the Pittsburgh market along the Laurel pipeline was 68,573 BPD. *Id.*

Figure 10 Total monthly volume of movements along Laurel into Pittsburgh, 2012-2016[211]



These are material volumes that show customers significantly utilized the Laurel pipeline in the last few years.

Faced with historical data presented by Dr. Arthur and Mr. Schaal showing continuing significant usage of the Laurel pipeline by customers to delivery points west of Eldorado, Laurel resorted to Dr. Webb's theory that one could statistically project the point in time when shipper interest in the service would wane to the point that deliveries on the Laurel pipeline from the east to the Pittsburgh market would go to zero. Dr. Webb's Figure 4 below supposedly shows that "deliveries have been falling for approximately 10 years."[212]

[211] Indicated Parties St. No. 2, at 20:2-3.

[212] Laurel St. No. 5-R, at 33:13-15.

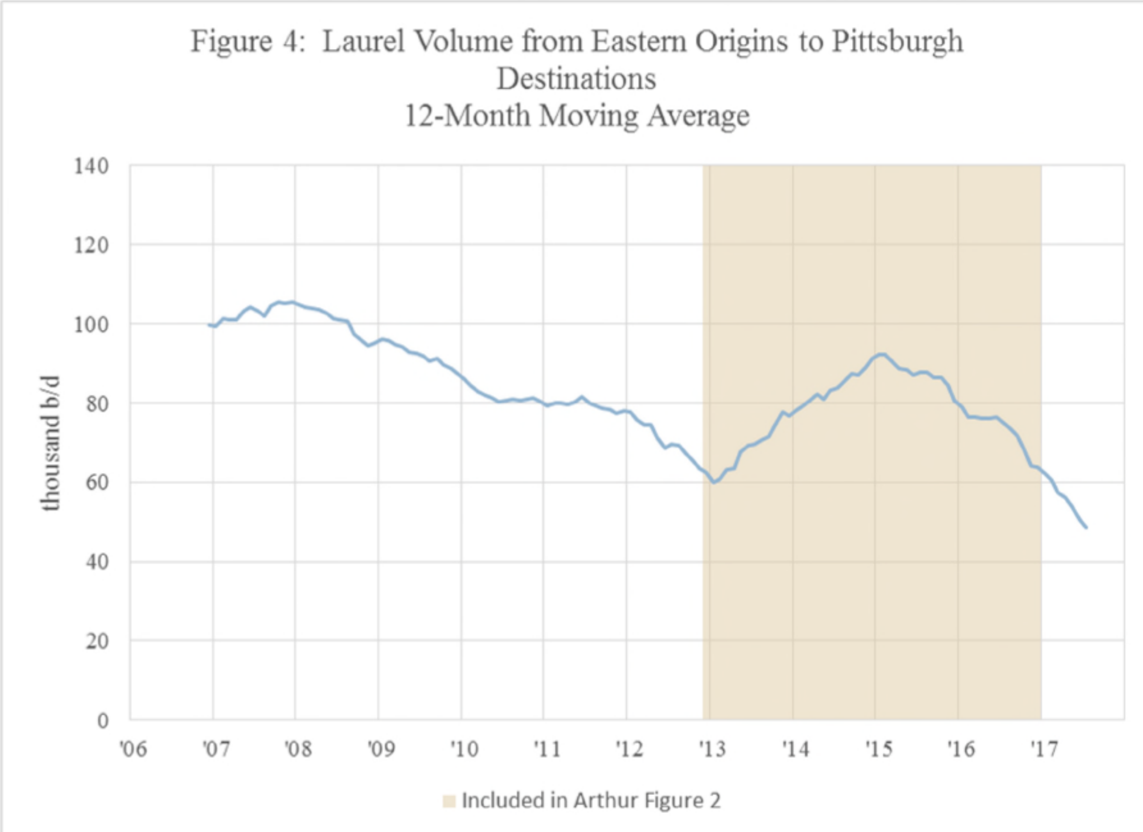
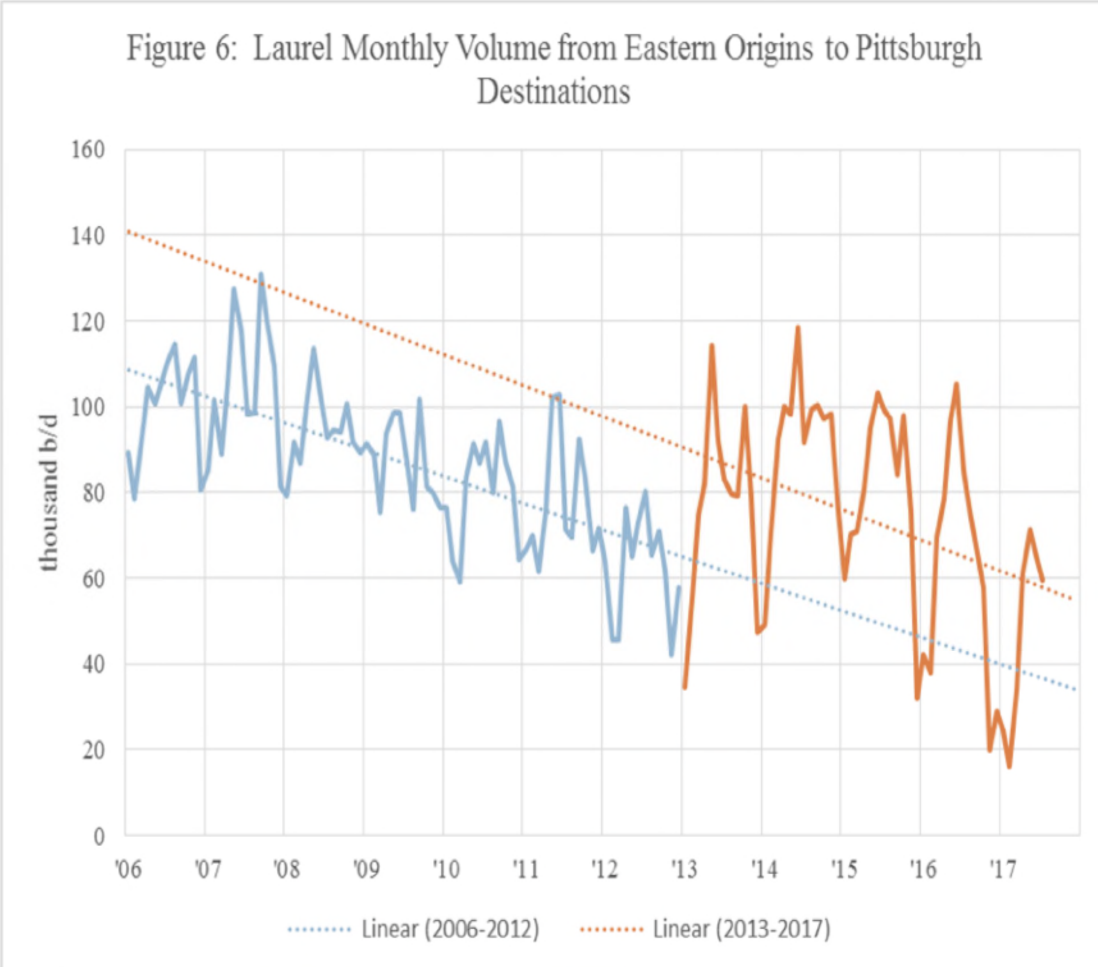


Figure 4 must be an optical illusion because rather than showing 10 years of consistent declines, it seems to show both downward and upward movements in volumes. Undeterred, Dr. Webb proceeds to mischaracterize Mr. Schaal's and Dr. Arthur's testimony by claiming their analysis did not "take account of" refinery closings and ETP's (Sunoco) shutdown of its pipeline transporting product from Philadelphia – the very shutdowns and closings referenced in Dr. Arthur's Direct testimony.[213]

Next, Dr. Webb presents "the trend". In Figure 6 below, Dr. Webb presents a regression analysis of deliveries to Pittsburgh originating from the east purportedly showing a dramatic downward slope.

[213] Laurel St. 5-R, at 35:3-16.



Dr. Arthur explained in his Surrebuttal testimony why Dr. Webb's portrayal of a single inevitable path for the future amounts of east to west volume flows on the Laurel pipeline is unrealistic and erroneous:

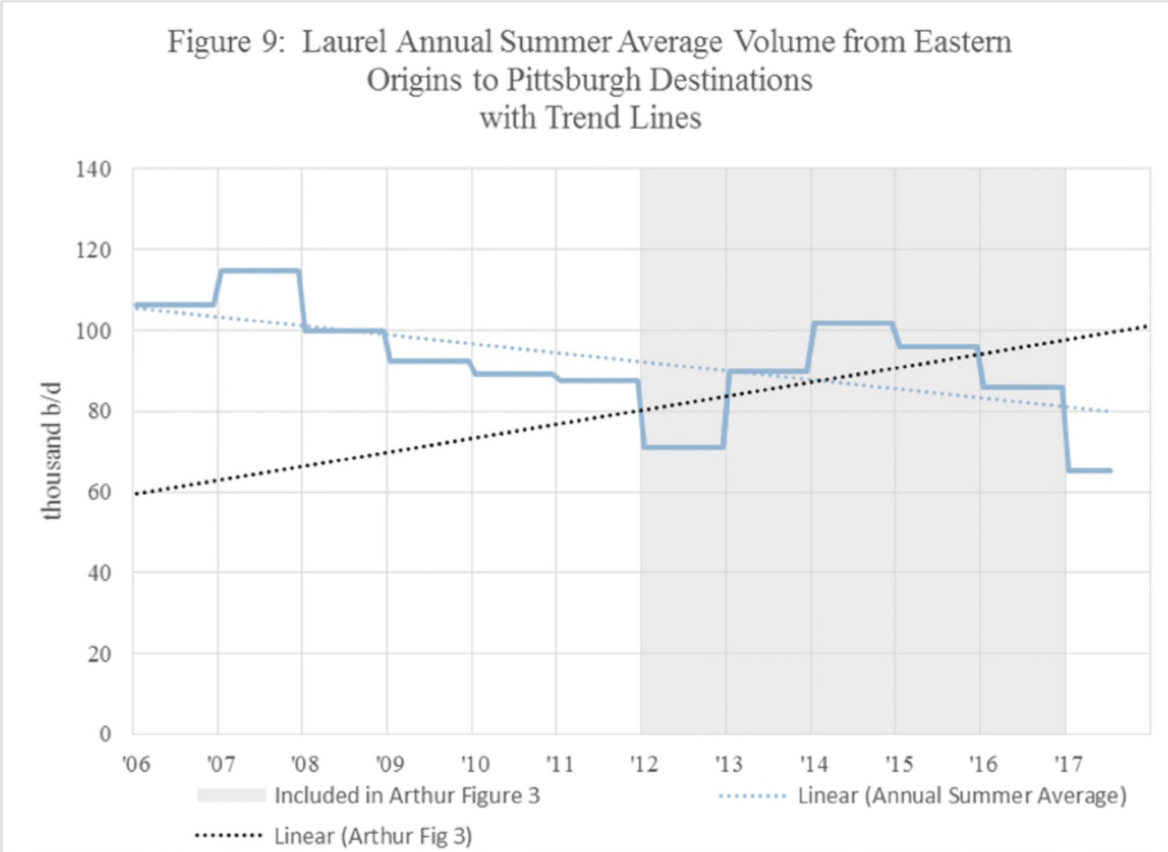
> Dr. Webb has performed an overly simplified and fundamentally flawed analysis that has no credibility in predicting volumes declining to zero on the Laurel pipeline. His "linear trend" is a form of regression analysis, a statistical technique used to measure the relationship between data observations. In this instance, Dr. Webb has used regression analysis on subsets of the data to measure how volumes delivered to Pittsburgh (what is known as the dependent variable in the regression equation) are related to the date (the independent variable). Dr. Webb suggests that the analysis proves volumes on the Laurel pipeline are declining to zero, yet he provides no evidence to support the accuracy or reliability of his regression model. In truth, Dr. Webb has not considered the underlying causes or drivers of historical volume trends along the Laurel pipeline, ignoring any underlying causes or

> drivers to instead rely just on the relationship of volume and date. This error has led to Dr. Webb's mistaken belief that he can accurately predict future volumes on the Laurel pipeline by simply plugging in a future date into his regression equation. Dr. Webb's regression analysis is inappropriate, and he offers no reliable support to his claims that volumes on Laurel pipeline will decline to zero. In other words, he unrealistically assumes based on too limited a number of variables that there is only one inevitable path for the amount of east to west volume flows on the Laurel pipeline to Pittsburgh.
>
> In truth, Dr. Webb has not identified the underlying causes or drivers of historical volume trends along the Laurel pipeline. He therefore offers no reliable support to his claims that volumes on Laurel pipeline will decline to zero.[214]

Still undeterred, Dr. Webb presents another consistently downward sloping trend line (despite data showing upward fluctuations) that supposedly shows summer deliveries to Pittsburgh on the Laurel pipeline are inevitably declining.[215]

[214] Indicated Parties St. No. 1-S, at 25:3-25.

[215] Laurel St. No. 5-R, at 47: Figure 9.



Again, Dr. Arthur explains how Dr. Webb's own Figure 9 shows that Laurel has transported significant amounts of product to the Pittsburgh area during summer months and that there is no indication these volumes will decline to zero by 2025.[216]

> Dr. Webb himself in Figure 9 makes it clear that the Laurel pipeline has transported significant volumes of refined petroleum products to Pittsburgh during summer months and that these volumes are not declining to zero by 2025.[217] Dr. Webb's Figure 9 shows that peak deliveries to Pittsburgh via the Laurel pipeline–during the summer months, when my delivered price analysis showed that supply from the East Coast had a significant cost advantage over supply from the Midwest[218]–have averaged approximately 85 MBPD since 2012. Based on the concept of "revealed preferences" as referenced by Dr. Webb, Pittsburgh market participants must have received "economic benefit" from being able to source these volumes from the east via the Laurel

[216] Indicated Parties St. No. 1-S, at 28:1-14.

[217] Laurel St. No. 5-R, at 47: Figure 9.

[218] Indicated Parties St. No. 1-S, at 28:1-14.

> pipeline. Notably, Dr. Webb makes no argument that these peak summer volumes are declining to zero in the near future, which suggests that Pittsburgh market participants would continue to receive benefits by sourcing products from the east via the Laurel pipeline. Removing this option by reversing the Laurel pipeline would therefore harm the Pittsburgh market participants.

In Table 1 of his Surrebuttal testimony, Dr. Arthur definitively put to rest the issue of whether the data shows that the Laurel pipeline still delivers meaningful volumes to the Pittsburgh area from the east, despite increased pipeline delivery capacity to Pittsburgh from the west.[219]

Table 1[220]
Volumes on Laurel from Eastern Origins to Pittsburgh

Year	Volume Shipped to Pittsburgh (MBPD)
2012	62.5
2013	76.9
2014	91.3
2015	80.6
2016	63.8
12 Months Ending July 2017	48.6

Source:
Data from EXCEL File 'Laurel Workpapers MJW-B (HC) (Opposition Volume Analysis).xlsx'

Table 1 presents data up through July 2017. As Dr. Arthur explained, this data does not show an inevitable decline in volumes to zero as predicted by Dr. Webb, but that deliveries to Pittsburgh are returning to prior levels (approximating 2012 levels) after being affected in an upward direction by (i) the 2013 Sunoco pipeline shutdowns and (ii) capacity constraints on Buckeye's line from the Midwest to Pittsburgh from 2013 to 2015. As new capacity from the Midwest became available with ETP's (Sunoco) Allegheny Access in late 2015 and Buckeye's Broadway I expansion in late 2016, volumes on the Laurel pipeline have declined to prior levels.

[219] Indicated Parties St. No. 1-S, at 27: Table 1.

[220] Indicated Parties St. No. 1-S, at 27: Table 1.

As Dr. Arthur testified, significant volumes are still being delivered from the east to the Pittsburgh market.[221]

Even with the additional capacity from the Midwest, the most recent data through July 2017, as shown in Table 1 above, shows that the Laurel pipeline is still delivering significant volumes of refined petroleum product to Pittsburgh. In fact, Laurel witnesses have indicated that the pipeline capacity from the Midwest to Pittsburgh is not being fully utilized at present, and has not been fully utilized since March 2016.[222] These recent volumes on the Laurel pipeline provide a strong indication that Pittsburgh market participants continue to receive significant benefits by having access to refined petroleum products from Eastern origins via the Laurel pipeline.

While neither PESRM witness Mr. Sadlowski nor Monroe Energy witness Ms. Sadowski could be specific about their companies' actual deliveries to Pittsburgh along the Laurel pipeline due to sales occurring FOB at the refinery, Dr. Webb's own numbers support substantial and continuous FOB deliveries into Pittsburgh. For example, the combined BPD delivered by PESRM and Monroe Energy into Pittsburgh continue to be substantial as illustrated by the following: **[BEGIN HIGHLY CONFIDENTIAL]**

[redacted]

[redacted]

[redacted]

[redacted]

[221] Indicated Parties St. No. 1-S, at 26:1-19.

[222] Indicated Parties Exhibit DSA-5.

[redacted] **[END HIGHLY CONFIDENTIAL]** These volumes of eastern deliveries into Pittsburgh demonstrate two important points made by Indicated Parties witnesses Dr. Arthur and Mr. Schaal. First, that volumes from eastern refineries into Pittsburgh along the Laurel pipeline fluctuate. Second, despite fluctuations, these volumes through 2017 remain substantial and robust, demonstrating a clear need for this service.

Mr. Schaal made similar criticisms of Dr. Webb's methodology and conclusions. Mr. Schaal observed that despite Dr. Webb arbitrarily selecting historical data and using a trend model to forecast declining volumes west of Eldorado, Dr. Webb still could not get a graph line that showed zero deliveries until 2023 to 2025.[224] In Mr. Schaal's opinion, market conditions will continue to evolve in a way that will reverse the contrived trend that Dr. Webb insists will remain uninterrupted into the future.[225] Specifically, Mr. Schaal notes that Laurel's witnesses have failed to acknowledge important market conditions that have a high likelihood of increasing east to west movements along the Laurel pipeline, such as:

- Midcontinent crude oils that supply Midwest refiners will become increasingly connected to global crude prices, eliminating any cost advantage.
- The diffusion of crude oil production technology to other U.S. and international crudes will keep crude prices low for all U.S. refineries.
- There will be continued erosion of price advantage for Eastern Midwest refiners.
- Central Atlantic [eastern] refiners will increasingly capitalize on their already existing waterborne access to a large number of crudes.[226]

To evaluate Dr. Webb's trend model, first presented in rebuttal, Mr. Schaal reviewed his linear trend analysis. This revealed that Dr. Webb used two separate time periods, which breaks

[223] Laurel St. No. 5-RJ, at 49:9-13; Laurel Exhibit MJW-30.

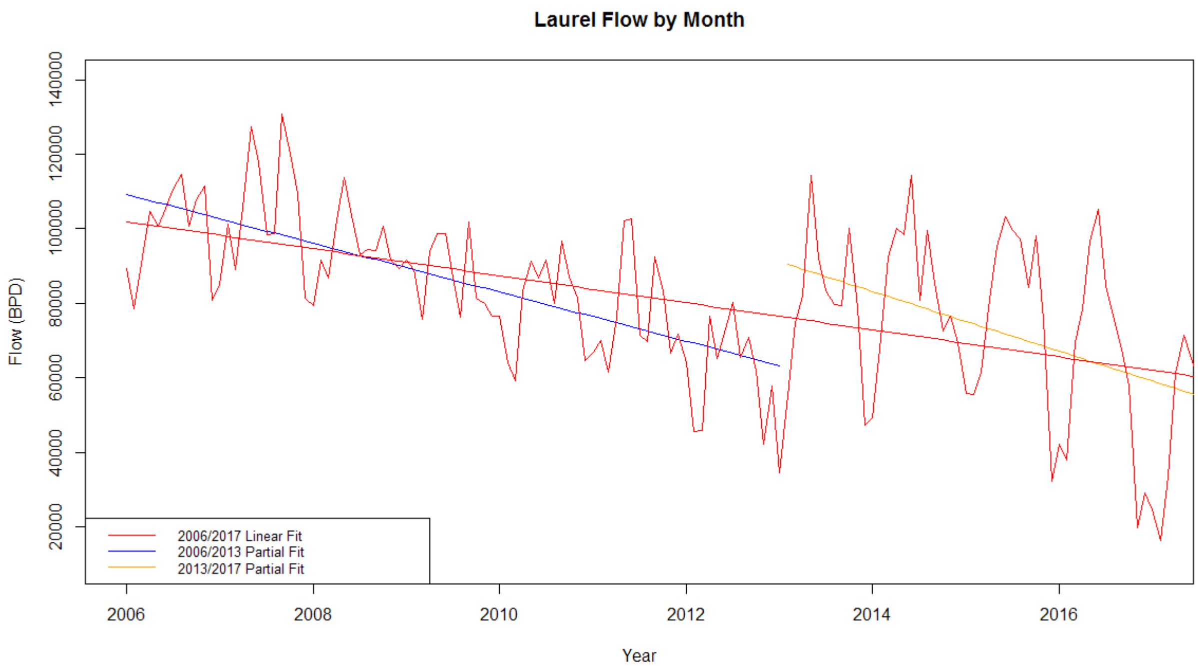
[224] Indicated Parties St. No. 2-S, at 3:4-10.

[225] Indicated Parties St. No. 2-S, at 3:10-12.

[226] Indicated Parties St. No. 2-S, at 5:17-22, 6:1-5.

the trend analysis, in order to eliminate the ETP (Sunoco) 2013 outage, which Dr. Webb apparently found unacceptable because it had a positive impact on Laurel pipeline flows. This use of two time periods gave Dr. Webb's trend analysis a sharper decline projection, a more aggressive slope, and moved his projection of zero flows closer to the present by around ten years as Mr. Schaal's Figure 1 below illustrates.

Figure 1 Laurel pipeline monthly movements into Pittsburgh showing multiple trend lines[227]

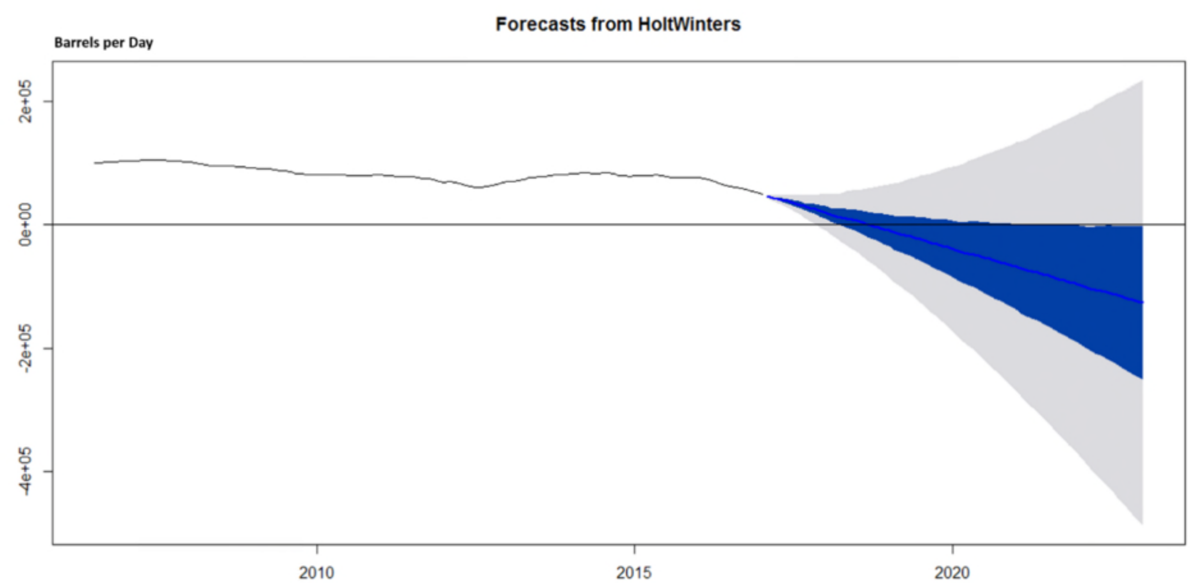


Unlike Dr. Webb, neither Dr. Arthur nor Mr. Schaal has presented a definitive forecast of future Laurel deliveries west of Eldorado because to do so would mislead the Commission. It is sufficient for purposes of deciding the issue of whether there is a prospect of the service being used in the future to examine the historical data and then, as Dr. Arthur and Mr. Schaal have done, analyze whether there is likelihood that customers will continue to desire and use the service. Mr. Schaal finds Dr. Webb's trend analysis showing a certain and inevitable decline in

[227] Indicated Parties St. No. 2-S, at 8:1-2.

Laurel volumes to zero to be incorrect because it assumes a single, precisely quantifiable future scenario for flows on the Laurel pipeline. To test whether there is any validity to Dr. Webb's simple trend projection, Mr. Schaal applied the Holt-Winters analysis, which involves an estimation of probability parameters for a forecast.[228] Similar to a "cone of certainty" used in hurricane tracking, the Holt-Winters analysis determines the probability of different future outcomes. The results of the analysis are depicted below and it shows that, contrary to Dr. Webb's results, an increase in the flow of products along the Laurel pipeline cannot be discounted.

Figure 3 "Cone of Uncertainty" for a trend forecast[229]



Mr. Schaal added seasonal data into the model so that seasonality and longer-term trends could be evaluated together. Unlike Dr. Webb's analysis, Mr. Schaal took into account probability bounds associated with his forecast.[230] Figure 5 below shows that an increase in

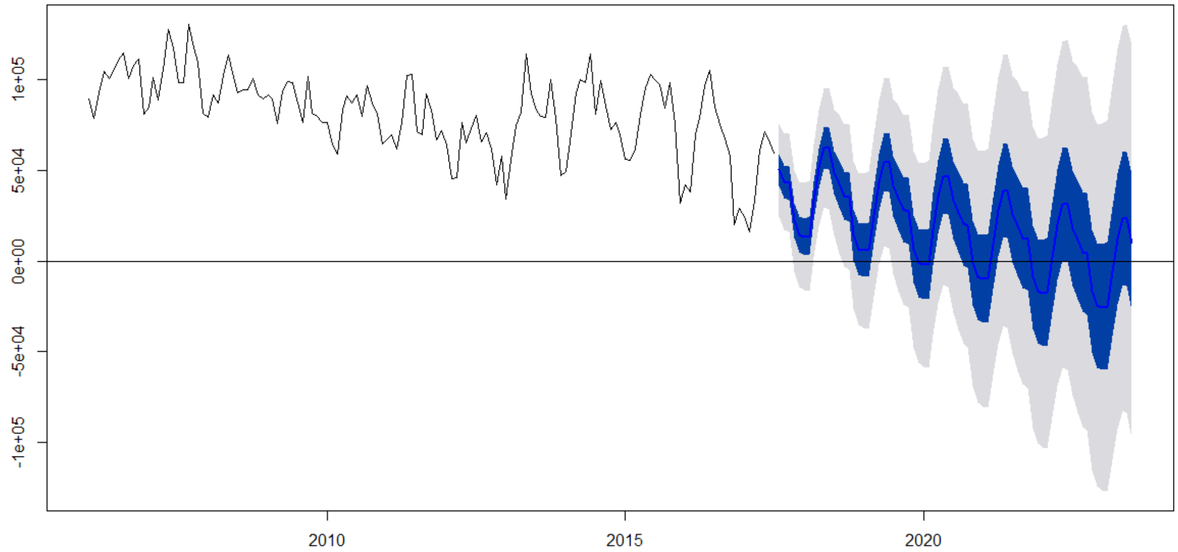
[228] Indicated Parties St. No. 2-S, at 9:5-21.

[229] Indicated Parties St. No. 2-S, at 10:5-6.

[230] Indicated Parties St. No. 2-S, at 13:15-23.

product shipments along the Laurel pipeline is a reasonable future outcome even when considering only historical data.[231]

Figure 5 Holt-Winters forecast of Laurel pipeline flows with 50% and 95% probability confidence bounds[232]



The most recent data available corroborates Mr. Schaal's conclusions regarding volume flows on the Laurel pipeline. In Figure 6 below, he updated the data on flows on the Laurel pipeline into Pittsburgh through August 2017. This data shows that while movements of summer blend gasoline have declined from prior year levels, they remain at a level approaching 60,000 BPD. Moreover, movements from Philadelphia refineries are making up a larger proportion of movements, reaching 57% of movements in 2017 compared to 53% for 2016. This is occurring despite the completion of Midwest region infrastructure additions.[233]

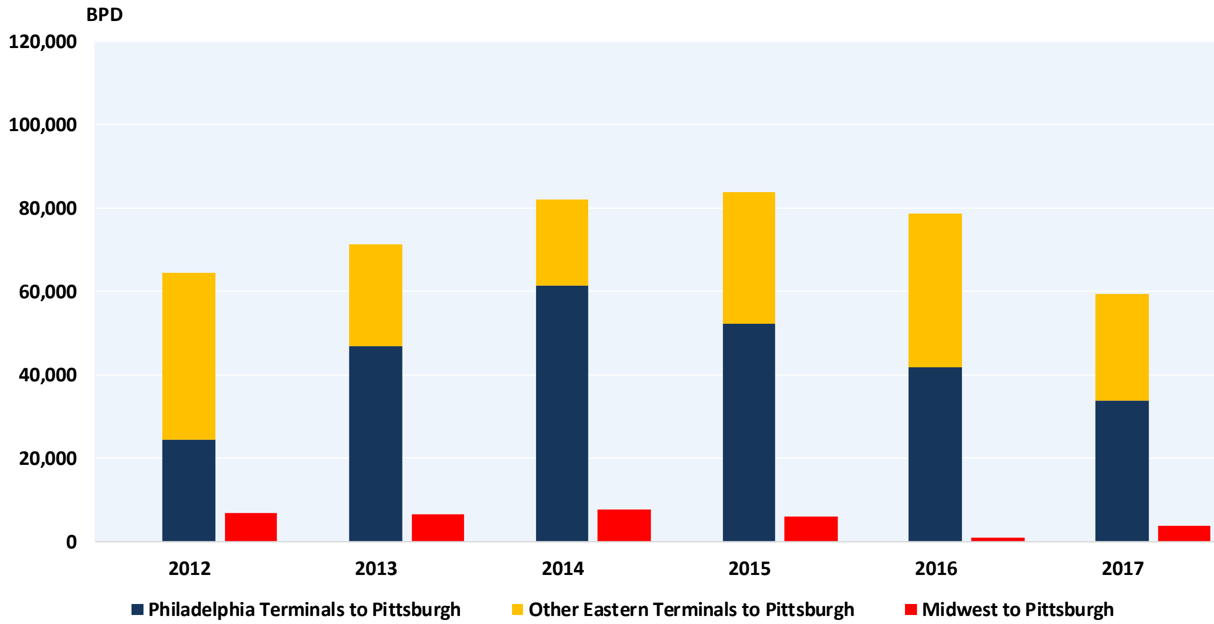
---

[231] Indicated Parties St. No. 2-S, at 11:1-18 and 12:1-7.

[232] Indicated Parties St. No. 2-S, at 12:4-6.

[233] Indicated Parties St. No. 2-S, at 13:1-13.

Figure 6 Annual Summer Blend gasoline movements along Laurel pipeline into Pittsburgh, 2012 through August 2017[234]



Source: Laurel data in response to PESRM-LAU-VII-1 and PESRM-LAU-VII-2.
Note: 2017 data is annualized to provide comparability.

Unlike Dr. Webb, the Indicated Parties' expert witnesses acknowledge that multiple factors, including uncertainty, can drive volumes on the Laurel pipeline. Laurel witness Kenneth M. Stern clearly agrees with this principle as well: "As I say in my report in many places, the petroleum industry is a dynamic industry, things are changing virtually all the time, not necessarily on a daily basis but sometimes on a daily basis and sometimes with other temporal characteristics."[235] The most recent example of the contrived nature of Dr. Webb's deterministic future forecast that does not acknowledge external effects and uncertainty is the 2017 increase in Laurel pipeline deliveries to Pittsburgh area delivery points over 2016, during the winter period when Midwest refiners are expected to "beat" Eastern refiners in the Pittsburgh market. Mr. Arnold's supplemental Exhibit DWA-15 shows that for four Pittsburgh area delivery points in October 2017 (i.e., Coraopolis, Delmont, Greensburg and Neville Island), deliveries from the

[234] Indicated Parties St. No. 2-S, at 14:1-3.

[235] Tr. at 607:16-20 (Stern).

east to Pittsburgh under Laurel's Commission tariff increased over 2016 levels. This data flatly contradicts Dr. Webb's inevitable decline to zero prediction and shows its fundamental lack of soundness.

Mr. Schaal noted that there will be a continued erosion of the crude price advantage for Midwest refiners, which removes the main advantage those refiners had over Eastern refiners to more cheaply produce refined petroleum products and economically move those products to eastern markets. The refinery cost to produce petroleum products is largely dependent on the cost for acquiring raw material input, i.e., crude oil. In the past, Midwest refiners enjoyed a crude oil price advantage over Eastern refiners due to their access to relatively cheaper Canadian and Bakken crude oils rather than international market crudes. Figure 15 in Mr. Schaal's Direct testimony[236] illustrates the decline in the Midwest refiner crude oil price advantage that occurred as refineries in the Gulf Coast began to increasingly access the same crude oils. Unlike Midwest refineries, Eastern refineries pay Brent crude oil prices. Figure 15 shows how Canadian and Bakken crudes have lost their price advantage when compared with Brent prices, thus significantly reducing the Midwest refiners crude acquisition advantage over Eastern refiners. As Dr. Webb lamented, the increase in production from the Bakken formation of North Dakota originally could only be brought to refineries through expensive crude oil transportation options.[237] However, Mr. Schaal noted that the continued build out of crude oil pipelines is increasingly connecting those crudes to the Gulf Coast,[238] which combined with the increase in crude oil production in Texas through the evolution of the "Shale Revolution"[239] and the lifting

[236] Indicated Parties St. No. 2, at 48:11-15.

[237] Laurel St. No. 5, at 5:3-9.

[238] Indicated Parties St. No. 2, at 48:3 to 49:7.

[239] Indicated Parties St. No. 2, at 49:19-22; and Indicated Parties St. No. 2-S, at 15:19 to 16-2.

of the ban on crude oil exports,[240] has now more closely connected those crudes to global crude oil markets.[241] One result of this phenomenon pointed out by PESRM witness Mr. Sadlowski is that Eastern refineries now enjoy an increase in competitively-priced crude supply options. This has improved PESRM's economics of production.[242] When one considers the transportation costs of those clean products, the overall effect is to eliminate the cost advantage of Midwestern product supplied through much of Pennsylvania. The net result of these changing dynamics is that Pittsburgh is being preferentially supplied from either the East or West on a seasonal basis. The lack of clear Midwest refiner price advantage is corroborated by the terms of the shipper TSA's that **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

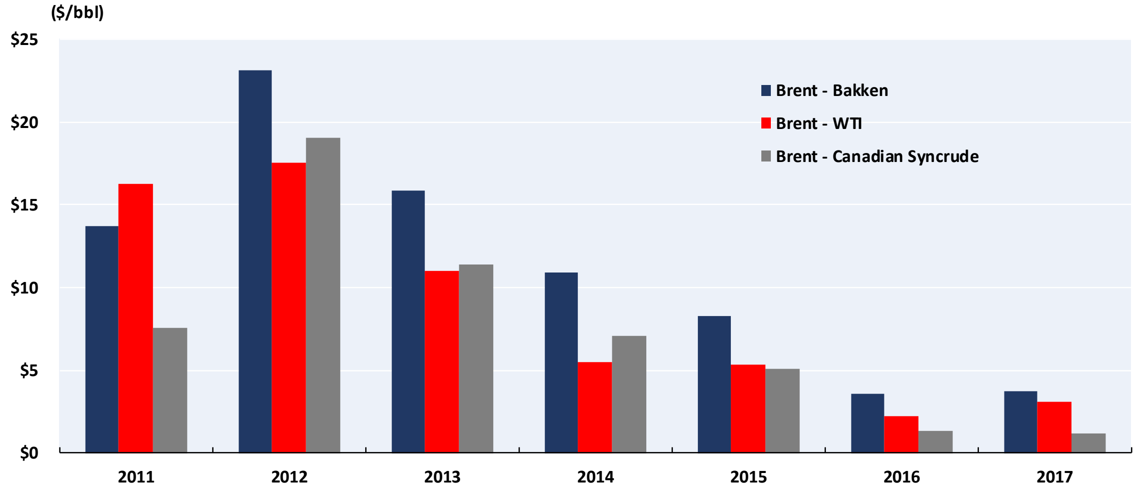
[240] Indicated Parties St. No. 2, at 50:8-51:2.

[241] Indicated Parties St. No. 2-S, at 16:3-5.

[242] PES St. No. 1-S, at 13:5-15.

[243] Tr. 303:8-19 (Arnold).

Figure 15 Monthly Brent Crude differentials to Bakken and WTI Crude prices, January 2010-April 2017[244]



Several witnesses in this case have presented testimony that removes any doubt as to whether customers of Laurel value its services and wish to maintain their availability west of Eldorado. Mr. Sadlowski explained that "[t]here are no growing markets into which PESRM currently sells product, [and] there are no alternative markets into which PESRM can place product. That is why (i) the Laurel pipeline is such a critical asset for delivering product out of PESRM's refinery and (ii) PESRM seeks to ship as much product as possible on the Laurel pipeline."[245]

Monroe Energy witness Ms. Sadowski, acknowledged that the total amount of Monroe Energy product that flows past Eldorado may be less that she estimated in her direct testimony, and because she is not privy to highly confidential data on specific shipments that enter Laurel pipeline through the Chelsea interconnection she cannot testify as to the precise volumes that reach the Pittsburgh market. However, Monroe Energy's deliveries into the Laurel pipeline at Chelsea have remained fairly consistent over time, and because alternative means of transporting

[244] Indicated Parties St. No. 2, at 48:11-15.

[245] PESRM St. No. 1-S, at 5:1-5.

product will be more costly, Ms. Sadowski still estimates there would be significant financial harm to Monroe Energy if Laurel can no longer deliver Monroe Energy's product to the Pittsburgh market.[246] Laurel has failed to meet its burden of proof to show that the prospects of future use of the Laurel pipeline for deliveries west of Eldorado are so small that the Commission should permit abandonment of that service. The record shows that current use of this portion of the Laurel pipeline is significant, there is potential for increases in volumes and customers clearly value the service and expect to use it in the future. Laurel has failed to meet this critical portion of the Commission's standard for permitting abandonment of service.

c. The Loss Of Convenience And Substantial Hardship To The Public Upon Discontinuance Of Service Outweigh, On Balance, Any Loss To The Utility

As noted earlier herein, in determining whether a proposed abandonment is in the public interest, the Commission considers the loss to the utility balanced with the convenience and hardship to the public upon discontinuance of such service.[247] The record in this proceeding demonstrates that Laurel's Application would substantially harm the public, including the shippers and stakeholders that rely on the Laurel pipeline and the general public that the pipeline indirectly serves. Approval of the reversal would reduce competition in the Pittsburgh area petroleum products market and expose the region to higher prices, more volatile prices, and supply shortages for petroleum products including low-RVP gasoline. The reversal would also trigger adverse consequences for the Philadelphia area by arbitrarily removing viable destination markets for Philadelphia area refineries and thus creating circumstances that could lead to reduced productions and job losses. The record also demonstrates that increases in truck traffic, which Laurel claims would be necessary for Midwest product to reach parts of Central

[246] Monroe Energy St. No. 1-SR, at 5:4 to 8:8.

[247] *Commuters' Comm. v. Pennsylvania Pub. Util. Comm'n*, 88 A.2d 420, 422 (Pa. Super. 1952) (abandonment of segment of rail line); *West Penn Rys. Co. v. Pennsylvania Public Util. Comm'n*, 15 A.2d 539, 544 (Pa. Super. 1940) (abandonment of rail line); *Re Avery Transp., Inc*. 64 Pa. P.U.C. 420 (Aug. 20, 1987) (abandonment of a bus route).

Pennsylvania from Altoona, or East Coast product to reach the Pittsburgh area from Altoona, would substantially burden local communities.

(1) Laurel Has Not Demonstrated Any Loss To The Utility

As indicated above, Laurel has not demonstrated any loss to the utility. It has made no attempt to show actual financial harm to the Commission-regulated public utility and has instead attempted to show potential financial harm by manufacturing an exaggerated narrative of declining volumes on the Laurel pipeline.[248] The Company has not overcome the data the Indicated Parties and individual intervenor witnesses presented showing that the Laurel pipeline remains a highly utilized artery for the supply of petroleum products to the Pittsburgh market from Eastern supply sources. Nothing in the record indicates that Laurel is currently unable to earn a reasonable rate of return for providing service on the Commission-regulated pipeline. Indeed, Laurel has made no efforts for more than a decade to modify any rates for its Commission-jurisdictional service.

(2) The Harms To The Public Are Substantial

The harms to the public are numerous and far-reaching. Laurel's proposed pipeline reversal, if approved, would adversely impact the Pittsburgh area, Pennsylvania's second-largest petroleum products market.[249] Laurel's proposed pipeline reversal will adversely impact marketers and consumers of petroleum products in Pittsburgh because it will increase supply costs and result in higher and more volatile prices. The proposed reversal also raises questions about the continued availability of low-RVP gasoline for the Pittsburgh market.

Additionally, the proposed reversal would eliminate the ability of Philadelphia-area refineries to serve Western Pennsylvania markets. As a result, Pennsylvania-based refinery

[248] *See* Section V.C.1.a., *supra.*

[249] Indicated Parties Exhibit DSA-10, at 2.

operations would cede market share to Midwestern refineries, not as a result of the competitive forces in play in the Pittsburgh market, but by Laurel's requested regulatory fiat that would cut off Pennsylvania-based refinery production from the Pittsburgh market.

Other harms would also follow from the proposed reversal, if approved. For example, despite claiming that Midwest refiners need the reversed pipeline to move their product, Laurel has repeatedly claimed that Philadelphia-area refiners will be able to supply the Pittsburgh area by delivering product by pipeline to Altoona and then trucking it to delivery locations further west into the Pittsburgh market.[250] Although relying on trucking as an alternative available to East Coast refiners seeking to continue supplying Pittsburgh, Laurel fails to address numerous public interest concerns, including safety impacts of increased petroleum product tankers on Pennsylvania's roadways. Laurel has also claimed that Midwest refiners strive to reach points in Central Pennsylvania east of Altoona, which would be feasible under Laurel's proposal only if product on the post-reversal pipeline reaches Eldorado (which appears unlikely) and then proceeds by truck to locations east of Eldorado. Just as with truck shipments westward from Eldorado, any eastward truck deliveries from Eldorado would burden Pennsylvania communities and threaten public safety.

These harms are discussed in more detail below. Weighing each of the above considerations, the Commission must concur that numerous and sweeping harms arise from the proposed reversal and deny Laurel's Application.

(a) The Pittsburgh Market Will Be Harmed

i) Impact On Availability Of Supply And Gasoline Prices In Pittsburgh

At a fundamental level, the proposed reversal will diminish the capacity and security of petroleum products supply available to the Pittsburgh market. Record evidence conflicts with

[250] Laurel Exhibit No. 1 (Application), at 11.

Laurel's pronouncements of benefits with little or no harm to Pennsylvania. The proposal would remove all pipeline supply from eastern supply sources to the Pittsburgh market without any guarantee of benefits for Central Pennsylvania. While Laurel has attempted to convolute the record with grandiose and conclusory declarations of market forces necessitating the reversal without *any* supporting analysis, the basic elements of the proposed reversal fail to produce a net benefit to market participants in the Pittsburgh area or Central Pennsylvania.

From a supply standpoint, the only guaranteed effect of the proposed reversal will be to eliminate pipeline access to the Pittsburgh market from Eastern supply sources, including Philadelphia-area refineries. Currently, Pittsburgh has excess pipeline capacity from both the Midwest and the East Coast.[251] Including the ETP (Sunoco)Allegheny Access line and Buckeye's recent capacity expansions on its interstate lines from the Midwest, total pipeline capacity to deliver Midwest supply into the Pittsburgh area is about 279.2 MBPD,[252] more than double the total Pittsburgh area demand of 103-113 MBPD.[253] Meanwhile, the Laurel pipeline has capacity to deliver 180 MBPD to the Pittsburgh area from eastern supply sources.[254] There has been available capacity to flow additional volumes into Pittsburgh both from Midwest origins as well as East Coast origins since March 2016.[255] The proposed reversal would unnecessarily add 40 MBPD of capacity from the Midwest into Pittsburgh and then further to Altoona, but at the cost of eliminating the 180 MBPD capacity into Pittsburgh from the East, for a net loss of 140 MBPD of total supply capability into Pittsburgh.[256] With 2017 shipments from

[251] Indicated Parties Exhibit DSA-5. (Showing Buckeye's pipeline from the Midwest is unallocated.)

[252] Indicated Parties St. No. 1, at 19: Figure 4 (showing capacity on Buckeye, ETP (Sunoco), and Marathon pipelines into Pittsburgh).

[253] Indicated Parties St. No. 1, at 20:20-21.

[254] Tr. at. 425:1-9 (Kelly).

[255] Indicated Parties Exhibit DSA-5 attached to Indicated Parties St. No. 1; Indicated Parties St. 1-S, at 29:22-24; *see also* Laurel St. No. 1-R, at 39:1-23.

[256] Tr. at 392:14 (Kelly); 396:1 (Kelly); 426:10-13 (Kelly).

the East Coast to Pittsburgh averaging approximately 50 MBPD,[257] this exchange, even without accounting for the adverse supply security and pricing impacts discussed below, amounts to a net loss for the Pittsburgh area.

Laurel's attempt to counter the unbalanced result of its proposal is to manufacture a narrative of unmet demand for Midwest supply in Pittsburgh and champion the extension of pipeline supply from the Midwest to Altoona as a primary benefit. The record proves these claims are unfounded.

Regarding Pittsburgh demand, Laurel has conjured a false narrative that the Pittsburgh market currently suffers from inadequate access to Midwest supply sources. Laurel witness Dr. Scott T. Jones articulated this narrative at the evidentiary hearings, stating that "it's a wave of product that's looking for a way out, and Pennsylvania offers – according to this activity, Pennsylvania offers the way to do that, an attractive way to do that."[258] But as noted above, Buckeye and ETP (Sunoco) have already completed recent expansions of pipeline capacity into the Midwest that increased total capacity from the Midwest into the Pittsburgh area to 297.2 MBPD,[259] far in excess of demand in the Pittsburgh area of 103-113 MBPD.[260] The record thus predictably shows Buckeye's existing pipeline from the Midwest as having available capacity since March of 2016.[261] **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

---

[257] Indicated Parties St. No. 1-S, at 27: Table 1; Tr. at 749:10 (Arthur) and 789:7-10 (Arthur). Volumes for the 12-months ending July 2017 delivered by Laurel to Pittsburgh area destinations averaged 48.6 MBPD, which is almost half of the supply to the Pittsburgh metro area which has estimated total consumption of 103 MBPD to 113 MBPD. Indicated Parties St. No. 1 at 20:20 through 21:2; Indicated Parties St. No. 1-S at 27: Table 1.

[258] Tr. at 695:5-8 (Jones).

[259] Indicated Parties St. No. 1, at 19: Figure 4.

[260] Indicated Parties St. No. 1, at 20:20 through 21:2.

[261] It is clear that Buckeye's capacity from the Midwest has not been fully utilized since March 2016, as the increased volumes in 2016 and 2017 are still below the increased capacity of 38 MBPD. Indicated Parties St. No. 1-S, at 29:22-24, *citing* Indicated Parties Exhibit DSA-5 and Laurel St. No. 1-R, at 12:10-15.

[redacted] **[END HIGHLY CONFIDENTIAL]**

Laurel has failed to show that the reduction in available supply to the Pittsburgh area will be offset by any alleged corresponding benefit elsewhere in the Commonwealth. Laurel has touted the benefits of the reversal for "Central Pennsylvania," with Laurel witnesses Mr. Hollis and Dr. Webb each presenting Laurel's apparent expectation that the reversal will allow Midwest petroleum products to reach Altoona and, from there, travel eastward by truck to serve other markets within Central Pennsylvania.[263] Without explanation, these witnesses couched such projections as mere possibilities rather than demonstrable affirmative benefits. Laurel witness Dr. Jones offered a more pointed and specific analysis of the anticipated outcome as follows:

> And so the fact that you've got a river of refined product coming through Pittsburgh, it's going to have an impact. Taking it every day all way to the Eldorado terminal and distributing to the Greater Altoona area is highly unlikely since that area itself will see competition from the east.[264]

So, according to Dr. Jones, the proposed reversal will not impact Altoona (or, by logical extension, Central Pennsylvania) at all, because available capacity on the post-reversal line

---

[262] Tr. at 1205:4-5 (Miller).

[263] Laurel St. No. 2-RJ, at 24:16; Laurel St. No. 3-R, at 13:7-14. For example, Mr. Hollis testified that:

> Laurel's proposal would allow for the generally lower-priced Midwestern petroleum products to penetrate further east, *i.e.* beyond Altoona and into Harrisburg, by reducing the distance these products would need to travel by truck to reach Central Pennsylvania. As such, Laurel's proposal will benefit Central Pennsylvania by providing increased access to generally lower-priced products supplies that would otherwise not reach Central Pennsylvania, except under limited circumstances.

Laurel St. No. 2, at 4:8-13. *See also* Laurel St. No. 2, at 8:12-14 ("Importantly, the proposed partial change in direction of flow on the western portion of Laurel's system will provide increased access to a new source of petroleum products by facilitating eastbound movements into Central Pennsylvania."); Laurel St. No. 2-R, at 13:9-12 ("Product delivered to Altoona is not solely consumed in Altoona; it is further transported by truck to various destinations in Western and Central Pennsylvania, including Johnstown, Indiana and State College. Approval of the Laurel partial reversal will bring an important second source of supply to Central Pennsylvania, not just Altoona."); Tr. 672:21-673:2 (Jones) (Laurel assumes that product from the Midwest that reaches Eldorado will reach consumers in Harrisburg via truck.); Tr. 316:4-9 (Hollis) (Laurel is proposing that Midwest supply can reach Harrisburg via truck from Eldorado after the reversal.).

[264] Tr. 704:2-7 (Jones).

would be consumed at the Pittsburgh area destination points given the competition posed by eastern suppliers in Altoona. It appears that Dr. Jones revealed more than he should have revealed given his role as Buckeye's (or Laurel's witness), but was at least straightforward in the likely impact of the proposed reversal. From Dr. Jones' testimony, one can logically infer the real anti-competitive motivation behind the Midwest suppliers' desire for the reversal – i.e., to create a physical barrier that prevents eastern supply from reaching Pittsburgh, increasing prices in Pittsburgh and thereby allowing Midwest refiners to capture greater market share in Pittsburgh under a higher-priced, post-reversal environment.

Consistent with Dr. Jones' comments on the competition between Midwest and East Coast supply, competition and price levels in Pittsburgh are clearly not providing the incentive for additional supply from the Midwest to flow to Pittsburgh currently, as demonstrated by the incoming volumes from the East Coast pushing prices down. This is evident from the fact that capacity is and has been available to deliver more volumes from the Midwest to Pittsburgh for the last 18-months, yet the market continues to source significant volumes from the east. However, if the Laurel pipeline were to reverse and eliminate Eastern supply to Pittsburgh, one would expect pipelines from the Midwest to Pittsburgh to experience increased utilization as Laurel's regulatory fiat knocks competitors out of the Pittsburgh market and prices begin to rise.

It is worth noting that the structure of Laurel's TSAs executed with each of the shippers committing to the Broadway II project reinforces Dr. Jones' candid assessment. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

[redacted]

[redacted]

[redacted]

[redacted] [**END HIGHLY CONFIDENTIAL**]

Similarly reflective of the empty claims of Midwest supply reaching Central Pennsylvania, Laurel made no effort to assess how many additional trucks would be necessary to move product arriving at Eldorado from the Midwest (post-reversal) to the rest of Central Pennsylvania.[267] On cross examination it was obvious that Dr. Jones did not even quantify, study, or learn the capacity of the terminals and truck racks in Eldorado that would need to be

[265] Tr. 303:8-19 (Arnold).

[266] Tr. 1204:6-24 (Miller).

[267] Tr. 350:16-351:5 (Hollis).

used for delivery by truck to "Central Pennsylvania" and/or the "Harrisburg area."[268] Laurel has provided no evidence or analysis of: 1) the capacity of these truck racks to accommodate any increased truck traffic that would result from the Laurel pipeline proposal; 2) who would need to make such investments; or, 3) how much it would cost.[269] Indeed, Dr. Jones admitted that he does not know how much petroleum can leave the terminals in Eldorado and reach the market on any given day:

> Q: Is it fair to say you don't know how much petroleum can leave the terminals from Eldorado and reach the market on any given day?
>
> A: No, I don't because I don't know the configuration of the truck racks. I just gave you a general estimate of how long it takes to load a truck.[270]

Dr. Jones also admitted that whether trucking can compete with or replace a pipeline is a factor of distance and "the factors to a particular given area."[271] However, Laurel has not studied the distance required to transport product by truck to various destinations from Altoona, nor the factors unique to particular routes, such as mountains, road capacity, or Turnpike tunnel restrictions.[272] At best, Laurel has put forth wholly unsupported testimony that *undetermined* regions in the Commonwealth may possibly benefit in an *undetermined* amount by virtue of an *undetermined* volume of gasoline reaching *undetermined* destinations in Central Pennsylvania at

---

[268] Tr. 685:13-21 (Jones).

[269] Gulf St. No. 1, at 6:13-16, 7:14-23, and 8:1-7; s*ee also* Laurel St. No. 1, at 14:5-7 (testifying that terminals connected to the pipeline are typically equipped with "truck racks where customers' trucks are loaded with product for distribution to service stations, truck stops, etc.").

[270] Tr. 685:22-686:2 (Jones).

[271] Laurel St. No. 7-R, at 34:8-14.

[272] Dr. Jones has not analyzed the transportation barriers that confront truck transportation of petroleum products from Eldorado to Harrisburg. Tr. 673:3-7 (Jones) ("I hadn't but I don't know that there would be any having driven that road myself."). Indeed, Laurel's assertion that the Harrisburg-area is within 100 miles of the terminal at Eldorado was done "as the crow flies", and not based on actual routes that trucks would have to travel to reach Harrisburg. See Laurel St. No. 5 at 39:26-40:1, Tr. 679:1-23 (Jones) (the 100 mile radius shown in Figure 13 is as the crow flies). The Indicated Parties have demonstrated that the only potentially viable routes from Eldorado to Harrisburg would require 132 miles (Northern Route) or 216 miles (Southern Route) of one-way travel, respectively. Indicated Parties St. No. 4, at 9:5-10:5.

undetermined prices via an *undetermined* number of tanker trucks traveling on *undetermined* routes.

The lack of a firm commitment or even reliable analysis of the potential to supply Altoona with product, viewed in context of the elimination of pipeline supply from the East Coast to the Pittsburgh area, strongly indicates that the purpose of the proposed reversal is to isolate Pittsburgh from East Coast pipeline supply and increase flows from Midwest refiners into Pennsylvania on Buckeye-owned pipelines, to the exclusive advantage of Buckeye and Midwest refiners, and to the detriment of Pittsburgh consumers, Pittsburgh market participants, and East Coast refineries.[273] Accordingly, the Commission should find and conclude that the proposed reversal would reduce available supply into the Pittsburgh area market with no corresponding benefits.

Approval of the proposed reversal would dramatically change the petroleum products market in the Pittsburgh area by isolating the area from East Coast refinery output. Laurel wants the Commission to believe that the current environment deprives the Pittsburgh area of access to purportedly lower cost Midwest supply sources. To the contrary, the Pittsburgh petroleum products market presently allows for competition between both Midwest and East Coast supply sources, to the benefit of wholesalers, retailers, and consumers in the market. Reversing the pipeline would reduce competition in the Pittsburgh market and increase prices.

Indicated Parties witness Dr. Arthur described the pricing advantages that the current availability of both Midwest and East Coast-sourced petroleum products supply provides in the

[273] Alternatively, as addressed by Indicated Parties witness Dr. Arthur and Sheetz witness Mr. Lorenz, the Altoona area is a far smaller market than is the Pittsburgh market. Indicated Parties St. No. 1, at 47:19-20; Sheetz St. No. 1, at 3:16-18. Dr. Arthur defines the Altoona area to include Clearfield, Centre, Cambria, Blair, Huntingdon, Mifflin, Juniata, Somerset, Bedford, Fulton, and Franklin Counties, which combined have a total demand for petroleum products of 36.7 MBPD compared to the 103-113 MBPD demand in the Pittsburgh area. Indicated Parties St. No. 1, at 47:19-20 *citing* Indicated Parties Exhibit DSA-10. Therefore, even if the reversal were to result in Midwest supply reaching Altoona via pipeline, any benefit from increasing competition in the Altoona area would pale in comparison to the greater harm from eliminating the ability of East Coast supply sources to compete in the Pittsburgh area.

Pittsburgh area. As Dr. Arthur stated, "Pittsburgh area consumers, wholesalers, and retailers currently have access via pipeline to obtain refined petroleum products from two major supply regions: the Midwest (via the Buckeye, ETP (Sunoco), and Marathon pipelines) and the East Coast (via Laurel)."[274] As a result, Pittsburgh wholesalers and retailers can compare the costs of petroleum products supply from each source and purchase the lowest delivered cost supply, which is the refined product commodity price at the respective location plus transportation costs to deliver product to the Pittsburgh area.[275] Dr. Arthur refers to the ability of Pittsburgh area wholesalers and retailers to obtain lowest cost supply from Midwest or East Coast sources as "arbitrage" opportunities, which create benefits for Pittsburgh area consumers, wholesalers, and retailers.[276]

Contrary to Laurel's claim that East Coast refineries cannot effectively compete with Midwest refineries, Dr. Arthur's analysis of delivered prices into the Pittsburgh market provides consistent data showing East Coast sources, on average, post lower delivered prices for the Pittsburgh market than their Midwest counterparts. Figures 6a and 6b in Dr. Arthur's Direct Testimony compare delivered costs to Pittsburgh-area destinations on the Laurel pipeline for both East Coast intrastate volumes (originating from Philadelphia) and East Coast interstate volumes (originating in Philadelphia and New York Harbor) to the delivered costs for Midwest volumes to Pittsburgh area destinations.[277] Notably, Figure 6a presents the data for parts of the Pittsburgh area subject to low-RVP regulations[278] and Figure 6b includes the data for the areas

---

[274] Indicated Parties St. No. 1, at 22:25-27.

[275] Indicated Parties St. No. 1, at 24, n.53.

[276] Indicated Parties St. No. 1, at 23:1-22.

[277] Indicated Parties St. No. 1, at 28: Tables 6a and 6b.

[278] See Section V.C.1.c.(2)(a)(i)(a) *infra* for a description of Pittsburgh's low-RVP requirements.

outside of the Pittsburgh metro that are not subject to low-RVP regulations.[279] The results are similar for the East Coast intrastate and interstate volumes, but for illustrative purposes, the differential between Midwest delivered prices into Pittsburgh and the intrastate Philadelphia-area origin delivered prices into Pittsburgh is shown below:

Excerpt from Figures 6a and 6b[280]

Year	Midwest less Pre-Reversal East Coast Delivered Prices Philadelphia (Intrastate) With Summer RVP Standard ($/gallon)	Midwest less Pre-Reversal East Coast Delivered Prices Philadelphia (Intrastate) Without Summer RVP Standard ($/gallon)
2012	$-0.02	$-0.02
2013	$0.05	$0.02
2014	$0.04	$0.01
2015	$0.13	$0.9
2016	$0.06	$0.03

Dr. Arthur's data empirically demonstrates that East Coast supply sources offer lower annual costs for supply of petroleum products into Pittsburgh, with East Coast gasoline supply being, on average, 3 to 6 cents per gallon less expensive than Midwest supply for 2016. Similar analyses are presented for diesel in Figure 9 of Dr. Arthur's Direct Testimony.

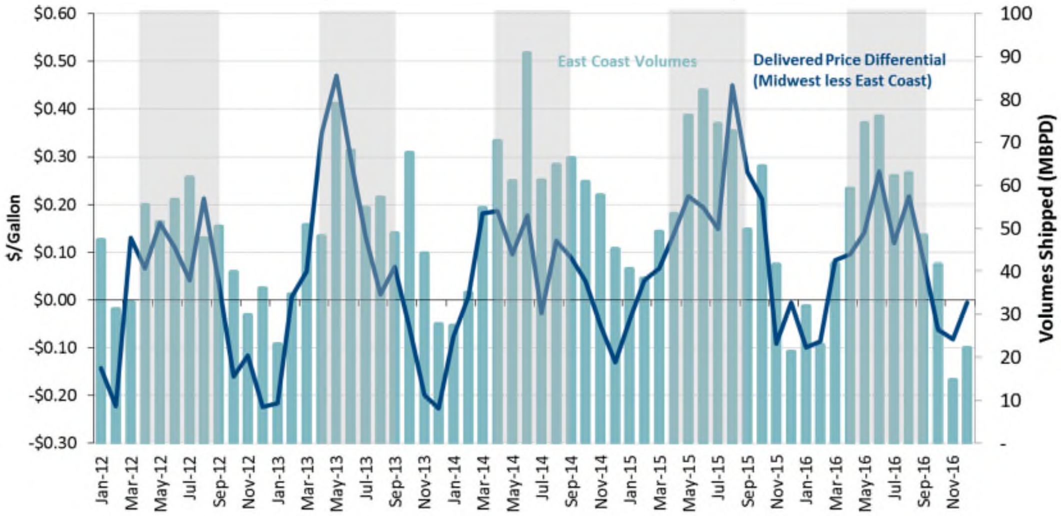
Beyond establishing lower annual costs for products supply, Dr. Arthur's delivered price analysis observes the seasonality of arbitrage opportunities benefitting Pittsburgh area wholesalers, retailers, and consumers. To test the impact of arbitrage opportunities on the Pittsburgh market, Dr. Arthur conducted a delivered price analysis tracking the monthly differential between delivered prices from the Midwest and East Coast. Over a five-year period from 2012 – 2016, Dr. Arthur's analysis (reproduced in Figure 5 below) shows gasoline supply

[279] Indicated Parties St. No. 1, at 28: Tables 6a and 6b.

[280] Indicated Parties St. No. 1, at 28: Tables 6a and 6b.

from the East Coast to Pittsburgh is historically less expensive than Midwest gasoline supply for 7-9 months out of the year, with Midwest gasoline supply generally providing lower delivered prices to Pittsburgh in the winter months.[281]

Figure 6[282]
Total Volumes of Gasoline Delivered to Pittsburgh from the East Compared to Differential in Delivered Prices (With Summer RVP Standard)



Sources/Notes:
Delivered prices calculated using Argus gasoline prices.
Shaded areas represent months when the Summer RVP Standard is in effect (Apr. 1st - Sept. 15).

In addition to illustrating the price differentials between Midwest and East Coast markets, Dr. Arthur's delivered price analysis also establishes the relationship between the price differentials and actual volumes shipped from East Coast sources. As the vertical bars in Figure 5 show, volumes shipped from the East Coast increase during the non-winter periods where the price differential between Midwest and East Coast delivered prices favors the East Coast. This pattern remains observable even for 2016, after ETP (Sunoco) and Buckeye completed projects expanding the capacity for pipeline shipments of Midwest-sourced petroleum products into the Pittsburgh area.[283] Therefore, with access to both Midwest and East Coast

[281] Indicated Parties St. No. 1, at 25:1-7.

[282] Indicated Parties St. No. 1, at 25: Figure 5.

[283] Indicated Parties St. No. 1, at 26:12-27:5.

petroleum products markets, Pittsburgh area wholesalers and retailers take advantage of the competitive arbitrage opportunities and shift volumes toward East Coast supply when the arbitrage favors the east, and shift volumes toward Midwest supply when the arbitrage favors the Midwest suppliers.

Having established that the Pittsburgh area currently benefits from the available arbitrage opportunities, Dr. Arthur additionally sought to quantify the impact of the proposed Laurel pipeline reversal. As discussed above, the proposed reversal would eliminate pipeline access from the east for the Pittsburgh market, such that only refineries in the Midwest would benefit from pipelines supplying petroleum products to the Pittsburgh market. With Pittsburgh forced to meet its total petroleum products demand of 103-113 MBPD solely with supply from the Midwest, Dr. Arthur calculates that the reversal would increase annual supply costs for the Pittsburgh area by $75 million.[284]

Indicated Parties' witness Mr. Schaal also reviewed historical gasoline prices and reached conclusions consistent with Dr. Arthur's as to the competitiveness of Midwest versus East Coast gasoline prices. Mr. Schaal compared wholesale gasoline prices for both New York Harbor (East Coast) and Chicago (Midwest) and found only a $0.01 per gallon difference for the year 2016. Contrary to Laurel's representations that Midwest products are the lower cost fuel source, Mr. Schaal found "no discernable trend toward lower wholesale gasoline prices in the Midwest as claimed by Laurel."[285] Mr. Schaal's findings that wholesale gasoline prices remain

[284]Indicated Parties St. No. 1, at 40:25. Dr. Arthur also calculates potential benefits for the Altoona and Harrisburg areas based on the potential, however unlikely, for wholesalers and retailers in the Altoona area to arbitrage between Midwest and East Coast supply sources. Indicated Parties St. No. 1, at 56:3-6, 62:6-9. Assuming volumes on the post-reversal pipeline reach Altoona, Dr. Arthur calculates that potential arbitrage benefits of approximately $7.4 million for the Altoona area. Indicated Parties St. No. 1, at 56:3-6. Assuming volumes from Altoona would be trucked to Harrisburg, Dr. Arthur calculates potential arbitrage benefits of approximately $900,000 for the Harrisburg area. *Id.* at 62:6-9. However, as discussed in Section V.C.1.c.(2)(a)(i)(a) *supra*, the likelihood of volumes reaching Altoona or Harrisburg on the post-reversal line does not appear to be a realistic possibility. *See* Tr. 704:2-7 (Jones).

[285] Indicated Parties St. No. 2, at 32:2-3.

competitive between the Midwest and the East Coast support Dr. Arthur's observation that Pittsburgh benefits from connectivity to both markets.

Testimony from market participants in Pittsburgh also supports Dr. Arthur's conclusion that the proposed reversal would increase prices for petroleum products in the Pittsburgh area. Gulf witness Mr. Johnston warns "[m]arket participants in the Pittsburgh area currently benefit from such arbitrage opportunities, but the proposed Laurel pipeline reversal would cut off supply from the East Coast and transform the Pittsburgh area into a captive market with no arbitrage opportunities to constrain pricing."[286] Sheetz witness Mr. Lorenz raises similar concerns, attesting that "[t]erminating service to the Pittsburgh area from the east on the Laurel pipeline would result in higher and more volatile prices for consumers and would significantly jeopardize the supply diversity and security of the Pittsburgh region."[287] Giant Eagle's witness Mr. Tomnay testified that "if the pipeline is reversed, retail prices in Western Pennsylvania are likely to be higher than they would absent the reversal"[288] and that "Giant Eagle's retail customers (representing approximately 20% of the Pittsburgh-area market) will likely pay more for their fuel than they otherwise would."[289] The Commission's assessment of pricing impacts should afford significant weight to such statements from some of the largest products purchasers in the Pittsburgh petroleum products market.

Laurel witnesses offer various critiques of Dr. Arthur's analysis, none of which effectively refute Dr. Arthur's findings. First, the Commission should note that despite bearing the burden of proof, no Laurel witness provided a study supporting their claims that Midwest

[286] Gulf St. No. 1, at 9:1-4.

[287] Sheetz St. No. 1, at 4:19-22.

[288] Giant Eagle St. No. 1-SR, at 2:9-10.

[289] Giant Eagle St. No. 1, at 5:14-16.

supply is the lowest cost supply source.[290] As Dr. Arthur stated, "[w]hile Dr. Jones and Dr. Webb address the estimates of changes in supply costs due to the proposed Laurel pipeline reversal that I presented in my direct testimony, neither witness presents their own analysis of any changes in supply costs due to the proposed Laurel pipeline reversal."[291] Rather, these witnesses argue that Dr. Arthur's delivered price analysis: (1) conflicts with economic principles establishing marginal cost as the driver of market prices; and (2) has no bearing on consumer pricing. As discussed below, Dr. Arthur's delivered price analysis reflects both the marginal cost supply into the Pittsburgh market and the prices charged to wholesalers and consumers. Accordingly, Laurel's concerns are completely incorrect.

First, Dr. Webb and Dr. Jones incorrectly dismiss Dr. Arthur's delivered price analysis for failure to address the economic principle that marginal cost supply, i.e., the most expensive supply, sets prices.[292] Dr. Jones alleges that increased supply costs would only affect wholesale or retail pricing if the supplier is the marginal supplier, i.e., the highest cost supplier.[293] Dr. Jones suggests that the Pittsburgh market consists of a single marginal cost supplier and several infra-marginal costs suppliers (i.e., suppliers with costs below marginal cost), such that supply costs changes for the infra-marginal suppliers would only impact their profits, but not the wholesale or retail prices, which would remain at the level set by the single marginal supplier.[294] However, Dr. Arthur addresses this point by explaining that in a market such as Pittsburgh, where supply is not capacity constrained, lower-cost suppliers in the market would be incentivized to increase output and push-out higher cost suppliers up to the point where their

---

[290] *See* Indicated Parties St. No. 1-S, at 7:1-13.

[291] Indicated Parties St. No. 1-S, at 4:1-4. Nor did Laurel witness Mr. Stern calculate any post-reversal Pittsburgh market retail prices for product originating from Midwest refiners. Tr. 598:15-18 (Stern).

[292] Laurel St. No. 5-R, at 15:20-22; Laurel St. No. 7-R, at 48-52.

[293] Laurel St. No. 7-R, at 48:8-20.

[294] Laurel St. No. 7-R, at 48:8-20.

marginal cost equals the marginal cost of another supplier.[295] As a result, the last barrel coming in from *any supply source active in the Pittsburgh market* "would be expected to have a similar marginal cost to the supply coming in from another source."[296] Therefore, in an unconstrained market with all existing suppliers expected to be serving the market at similar marginal cost levels for the last barrels delivered by that supply source, competition among wholesalers would cause wholesale prices in Pittsburgh to reflect the underlying supply cost. Similarly, competition among retailers would cause retail prices to consumers in Pittsburgh to reflect the underlying wholesale cost. Consequently, any increases or decreases in supply costs would be expected to impact both the wholesale prices and the retail prices paid by consumers in Pittsburgh.

Basic supply and demand principles also refute Dr. Jones' suggestion that East Coast volumes have no effect on market prices. Any volumes that are currently not supplying Pittsburgh would reasonably be expected to be more expensive than the current highest cost supply source to Pittsburgh, given that there are no current pipeline capacity constraints from East Coast and Midwest origins into Pittsburgh.[297] The fact that new volumes would have to replace the lost East Coast volumes caused by the proposed reversal means that a higher cost supply source than all existing supply sources to Pittsburgh would begin supplying Pittsburgh as a result of a Laurel pipeline reversal as there is no reason a lower-cost supply source would not already be supplying the unconstrained Pittsburgh market.[298] As Dr. Arthur discussed, an increase in supply costs puts upward pressure on the market price, and bringing in a new supply

---

[295] Tr. 737:22-738:17 (Arthur).

[296] Tr. 738:16-17 (Arthur).

[297] Indicated Parties St. No. 1-S, at 11:11 to 13:17; Laurel St. No. 1-R, at 39:1-18, 39:19-23.

[298] Indicated Parties St. No. 1, at 3:11-32, 17:3-15, 22:16 to 44:16.

source to Pittsburgh that is more expensive than all existing supply sources will undoubtedly cause market prices to increase.[299]

Second, Laurel also attempts to discredit Dr. Arthur's analysis through misguided claims that Dr. Arthur's delivered price analysis ignores consumer price impacts. Dr. Webb argues the delivered price analysis proffered by Dr. Arthur offers no evidence that wholesalers and retailers pass on any arbitrage benefits to consumers.[300] Dr. Webb also claims that witnesses for Sheetz and Gulf contradicted Dr. Arthur by testifying that retail prices are set based primarily on the **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** which Dr. Webb apparently believes would not incorporate arbitrage savings.[301]

Importantly, Dr. Arthur first rebuts the suggestion that the Commission should consider only increases to consumer prices.[302] Dr. Arthur recognizes that consumers will bear the part of any increased supply costs passed on by wholesalers and retailers, but also deems increased supply costs for wholesalers and retailers alone to be a relevant harm.[303] Consistent with Dr. Arthur's comments, Laurel witness Mr. Arnold refers to entities such as Gulf and Sheetz are "utility customers" served by Laurel, thereby indicating that Laurel and the Commission have a duty to consider the impacts of the proposed reversal on such customers.[304] Finally, as determined by the Commonwealth Court, service to the "public" under the Code does not require

---

[299] Indicated Parties St. No. 1, at 3:11-32, 17:3-15, 22:16 to 44:16.

[300] Laurel St. No. 5-R, at 21:1-12.

[301] Laurel St. No. 5-R, at 24:8-25:19.

[302] Indicated Parties St. No. 1-S, at 8:11-17.

[303] Indicated Parties St. No. 1-S, at 8:11-17.

[304] *See* Tr. 241:18-23 (Arnold).

service to end-use customers.[305] Thus, wholesalers and retailers are members of the public, such that increases in wholesale supply costs should concern the Commission in addition to increases to consumer prices.[306]

Further, Dr. Webb essentially answered his own inquiry regarding consumer price impacts when he commented that "[i]n fact, microeconomic theory suggests that the wholesalers and retailers would seek to retain as much of the margin from arbitraging *as possible*."[307] At most, Dr. Webb's testimony observes that wholesalers and retailers may not pass on *all* of the arbitrage benefits because of their interest in increasing their own profit margins. However, wholesalers and retailers must balance their interest in increasing profit margins against their interest in maintaining or expanding market share by offering competitive retail pricing, which requires wholesalers and retailers to pass on, at minimum, *some* arbitrage benefit. Sheetz witness Mr. Lorenz explains the effect of competition on margins and prices as follows:

> Firstly, gasoline retailing is a highly competitive business. We aren't setting prices in a vacuum but in the marketplace where consumers will change their behavior for as little as 3 cents per gallon. Furthermore, Dr. Webb ignores that replacement cost in most cases would be the rack or spot price for gasoline or diesel at the Pittsburgh-area terminals, and those prices reflect the price benefit that arises because wholesalers delivering product to the Pittsburgh racks can obtain products from the Midwest or the East Coast. Other suppliers, facing the same arbitrage opportunities as Sheetz faces, have the ability to undercut Sheetz pricing, forcing prices downward. Arbitrage opportunities generally cause wholesale prices and, in turn, retail prices to be lower. Conversely, a reduction of arbitrage opportunities generally causes wholesale prices to be higher and, in turn, causes retail prices to be higher.[308]

---

[305] *See UGI Utils. v. Pennsylvania PUC* 684 A.2d 225 (Pa. Commw. Ct. 1996) (finding the provision of intrastate pipeline service provided only to electric generators and not to end-use customers to be a "public need." *Id.* at 229.

[306] Indicated Parties St. No. 1-S, at 8:11-17; *see also UGI Utils. v. Pennsylvania PUC* 684 A.2d 225 (Pa. Commw. Ct. 1996) (finding the provision of intrastate pipeline service provided only to electric generators and not to end-use customers to be a "public need." *Id.* at p. 229.

[307] Laurel St. No. 5-R, at 21:10-12. (Emphasis added).

[308] Sheetz St. No. 1-S, at 5:15-6:2. Giant Eagle's witness, Mr. Tomnay, testified similarly that as wholesale prices increase, retail prices charged to customers will also increase. Giant Eagle St. No. 1, at 5:11-14.

As articulated by Mr. Lorenz, competitive market forces dictate that the competitive conditions afforded by the existing arbitrage opportunities in the Pittsburgh market serve to reduce supply costs and thus both wholesale and retail pricing.

Moreover, Laurel's own internal correspondence reveals a keen understanding of the pricing impact of eliminating arbitrage opportunities in the Pittsburgh market, which conflict with its representations in this proceeding. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

[redacted]

[END HIGHLY CONFIDENTIAL] So despite Laurel's current emphasis on allegedly lower costs in the Pittsburgh market, its initial assessment mirrors Dr. Arthur's present conclusions that eliminating pipeline access for East Coast suppliers currently meeting half of Pittsburgh products demand will increase prices in the region.

The record in this proceeding confirms what any reasonable mind would expect from the facts set out in Laurel's Application, that reducing competition in the Pittsburgh market will increase prices.

In addition to generally increasing petroleum product prices in the Pittsburgh area, the proposed reversal would also expose Pittsburgh area wholesalers, retailers, and consumers to increased price volatility. Indicated Parties Witness Mr. Schaal conducted Regional Petroleum Product Price analyses ("PPP Analyses") showing that the Pittsburgh market benefits from

[309] Indicated Parties St. No. 2, at 30:15-20.

access to stable Central Atlantic price markets and would experience higher price volatility due to greater exposure to more volatile prices in the Midwest.[310]

Mr. Schaal's analyses compared price differentials during historical supply shortage events to observe the relative price volatility of Midwest petroleum products markets and Central Atlantic petroleum products markets, as is illustrated in Figure 11. This Figure shows the differentials in daily retail gasoline prices between Pittsburgh and other cities from 2015 to 2016.[311] Figure 11 clearly shows retail price spikes due to specific outage events that affected the supply chains in the Eastern United States. Pittsburgh's connectivity to Philadelphia area refineries via the Laurel pipeline shielded Pittsburgh consumers from these spikes arising from supply-related events that would have otherwise occurred if they sourced their petroleum products solely from the Midwest. For example, Mr. Schaal's comparison of Pittsburgh area daily retail gasoline prices to pricing in Midwest cities such as Detroit, Chicago, Columbus, and Cleveland shows significant variance, with prices spiking by as much as $0.70 per gallon due to unplanned refinery outages in the Midwest (see the third chart in Figure 11).[312] Likewise, the second chart of Figure 11 shows the effect of the Colonial Pipeline explosion in September 2016, which triggered the price spikes in South Atlantic cities, including Atlanta, Raleigh, and Nashville—but did not negatively impact prices for Pittsburgh consumers. Mr. Schaal observed that Pennsylvania consumers enjoyed relatively consistent retail gasoline prices during that same time period, as Pittsburgh daily retail gasoline prices never varied more than $0.20 per gallon

[310] Mr. Schaal's testimony uses the term "Eastern Midwest" to refer to the six-state region including Illinois, Indiana, Kentucky, Michigan, Ohio, and Tennessee. Indicated Parties St. No. 2, at 5, n.7. For purposes of this brief, the term "Midwest" is synonymous with Mr. Schaal's definition of "Eastern Midwest."

[311] Indicated Parties St. No. 2, at 27:12-18, and Indicated Parties Exhibit MS-10.

[312] Indicated Parties St. No. 2, at 25:1-9, 26:12.

from pricing in cities such as Philadelphia, Altoona, Albany, and Buffalo (See to the first chart in Figure 11).[313]

In addition to the differentials from Pittsburgh area prices, Mr. Schaal also reviewed the daily retail gasoline prices in several cities to quantify the volatility of the Midwest petroleum products market that is readily apparent in Figure 11. As Mr. Schaal stated, "[t]he price volatility portion of the PPP Analyses involves quantifying the 'price risk' to consumers for gasoline purchases throughout the year by calculating the standard deviation of the daily price movements on an annual basis."[314] Using 2016 as an example, the analysis showed that consumers in Pittsburgh and Philadelphia paid retail gas prices within a bandwidth of 6.5% and 7.5% respectively by this measure of price risk.[315] By comparison, consumers in Chicago, Indianapolis, and Cleveland saw their retail gasoline price risk range from 10%, 47.5%, and 22.1%, respectively.[316]

Recent events further corroborate the value of pipeline supply from both the east and the west in the Pittsburgh market, both from a price volatility and reliability of supply perspective. As reported by OPIS, an information service relied upon by experts and market participants in the petroleum field,[317] an October 2017 price spike in the Chicago market had the effect of keeping supplies in the Midwest rather than using them for deliveries into western Pennsylvania.[318] The price spike prompted ExxonMobil to supply gasoline to Pittsburgh via the Laurel pipeline rather than drawing supply from its Joliet refinery in Illinois. Here, the availability of dual pipeline access into Pittsburgh allowed market participants to use the most

[313] Indicated Parties St. No. 2, at 23:17-24:1.

[314] Indicated Parties St. No. 2, at 27:20-22.

[315] Indicated Parties St. No. 2, at 28:12-16.

[316] Indicated Parties St. No. 2, at 28:12-16.

[317] Tr. at 604:1-5 (Stern).

[318] Indicated Parties Cross Exhibit. 13; Tr. at 610-612:1-25 (Stern).

cost-effective supply to meet Pittsburgh's needs in the wake of severe price spikes in the Midwest, an option that would not be available if the reversal were approved.

While Laurel's witnesses seek to minimize the importance of the volatility Mr. Schaal observed, these arguments fail to overcome the data establishing that the proposed Laurel pipeline reversal would subject Pittsburgh area wholesalers, retailers, and consumers to the higher price volatility presently impacting Midwest markets. Laurel witness Mr. Stern responded to Mr. Schaal's analysis by claiming supply costs have no impact on Midwest price volatility and attributing any observed price volatility to price cycling, where retailers decrease prices to undercut the market, before sharply increasing them to recoup margins.[319] Although price cycling exists in the Midwest, Mr. Stern's observation of this retail practice cannot overcome Mr. Schaal's PPP Analyses because the study shows severe retail price spikes of up to $0.70 per gallon[320] occurring immediately after wholesale supply disruptions.

Dr. Jones offers a similarly unpersuasive response, suggesting that Mr. Schaal's PPP Analyses fails to: (1) forecast the post-reversal supply prices; (2) establish that shipments on the Laurel pipeline have any impact on Pittsburgh prices; or (3) show that unplanned outages significantly impact consumers.[321] To the first point, Dr. Jones himself offers no analysis in response to Mr. Schaal's clear presentation of the volatility of Midwest markets and the relative price stability of East Coast markets. Having demonstrated the distinct volatility of Midwest prices and the relative stability of East Coast prices, Mr. Schaal addresses the necessity of producing a pricing model to confirm the reversal's impact on price volatility and finds "[t]here is no need to develop such a model where Pittsburgh's increased reliance on the Eastern Midwest region is self-evident once you eliminate one of the major pipeline transportation links (i.e., the

[319] Laurel St. No. 8-R, at 43:6-1.

[320] Indicated Parties St. No. 2, at 26:12.

[321] Laurel St. No. 7-R, at 69:1 – 71:24.

Laurel pipeline) into Pittsburgh and the only link to Eastern supply sources."[322] Second, the suggestion that Pittsburgh price stability must be caused by forces other than the Laurel pipeline, simply because volumes on the pipeline decreased during a Midwest outage in August 2015, overstates the significance of one isolated experience. Finally, Dr. Jones' insinuation that outages up to three weeks should be considered reasonable is a non-sequitur. The issue at hand remains the impacts of such outages on price volatility, not whether such outages are indicative of reasonable or unreasonable refinery operations.

The hard data cannot be overcome. If Pittsburgh is completely delinked from Eastern supply sources, as Laurel proposes with its reversal, Pittsburgh consumers then become completely exposed to the well-documented gasoline price volatility that dominates Midwest markets. Exposure to such price volatility constitutes one of several harms that would befall Pennsylvania consumers if the proposed reversal were to be approved.

ii) <u>The Proposed Reversal Adversely Impacts The Availability and Price of Low-RVP Gasoline In Pittsburgh</u>

The proposed reversal also raises unanswered questions about the availability and price of low-RVP gasoline for the Pittsburgh market. Pittsburgh, like many other large metropolitan cities, must comply with environmental regulations restricting gasoline sales to low-RVP blends during summer months. East Coast supply sources historically and presently account for most of the low-RVP gasoline supplied to the Pittsburgh area. Laurel has not met its burden of identifying adequate alternatives to replace the East Coast refineries that would no longer have pipeline access to ship low-RVP gasoline to Pittsburgh if the proposed reversal were to be approved. To ensure that compliance with low-RVP gasoline requirements does not subject

[322] Indicated Parties St. No. 2-S, at 27:9-12. Note that Mr. Schaal's comments relate to this assessment of price volatility. Regarding the specific pricing impacts, the Indicated Parties rely primarily on Indicated Parties witness Dr. Arthur. *See* Indicated Parties St. No. 1, at 63:6-64:9.

Pittsburgh area wholesalers, retailers, and consumers to unreasonably higher costs or potential supply shortages, the Commission should deny Laurel's Application and allow Midwest refiners to compete with East Coast low-RVP supply rather than forcing consumers to absorb the likely much higher costs of obtaining low-RVP volumes solely from Midwest refineries.

Low-RVP gasoline remains a requirement for Pittsburgh and must be considered as an essential compliance obligation regardless of pending administrative review within the Pennsylvania Department of Environmental Protection. Indicated Parties witness Dr. Arthur summarizes the intent of low-RVP regulations as follows:

> The RVP is a measure of the volatility of the gasoline that defines its evaporation qualities. A higher RVP, measured in pounds per square inch or psi, means that the gasoline is more volatile. In order to reduce evaporative emissions that lead to ground-level ozone, the United States Environmental Protection Agency restricts the sale of higher-RVP gasolines during the summer ozone season (June 1 through September 15, with standards taking effect on May 1) in certain locations. The Pittsburgh area is required to sell gasoline with an RVP of 7.8 psi [pounds per square inch] or lower from May 1 through September 15, which is a very specific grade of gasoline.[323]

As Dr. Arthur indicated, Pittsburgh is subject to a particularly onerous low-RVP mandate that limits gasoline sold from May through mid-September to 7.8 psi.[324] Moreover, Pittsburgh's low-RVP mandate must be met without the benefit of an ethanol waiver.[325] An ethanol waiver would exclude the psi impact of ethanol blended with the gasoline from the low-RVP threshold for compliance purposes.[326] As ethanol blending adds approximately 1 psi to gasoline, the lack of an ethanol waiver for Pittsburgh means suppliers must provide gasoline to Pittsburgh no higher

[323] Indicated Parties St. No. 1, at 25:10 – 26:4.

[324] Indicated Parties St. No. 1, at 26:2-4.

[325] Tr. at 1126:3 – 1127:17 (Sadowski).

[326] Tr. at 1126:3 – 1127:17 (Sadowski).

than 6.8 psi in order for the final product, after mandatory ethanol blending occurs, to meet the 7.8 psi low-RVP mandate.[327]

Additionally, Dr. Arthur's testimony noted and Sheetz witness Mr. Lorenz affirmed, East Coast supply sources have historically met most of the Pittsburgh area's demand for low-RVP gasoline and continue to do so.[328] Similarly, Dr. Arthur's Exhibit DSA-11 presents monthly gasoline shipments from East Coast origins showing gasoline volumes shipped on Laurel's pipeline consistently increasing during the Summer months. For 2016, Summer gasoline volumes shipped to Pittsburgh were as follows:

2016 Summer Shipments to Pittsburgh Area on Laurel Pipeline[329]

Month	Gasoline Shipped to Western PA from East Coast (MBPD)
May	75
June	76
July	62
August	63

Although the above excerpt shows data for 2016, historical data from 2012-2016 shows pronounced and consistent increases in volumes shipped on the Laurel pipeline from the East Coast during the Summer months.[330] With total demand for gasoline (excluding diesel, jet fuel, and other products) in Pittsburgh averaging approximately 67 MBPD,[331] Dr. Arthur's data indicates that East Coast refineries supply almost all of the gasoline to the Pittsburgh area during the low-RVP summer months.

Critically, if the Commission approves the proposed reversal, the Pittsburgh area will no longer have pipeline access to low-RVP gasoline that East Coast refineries produce. Laurel has

[327] Tr. at 1126:9-16 (Sadowski).

[328] Indicated Parties St. No. 1, at 26:4-6; Sheetz St. No. 1, at 9:5-6.

[329] *See* Indicated Parties Exhibit DSA-11, at 15.

[330] *See* Indicated Parties Exhibit DSA-11, at 13-15.

[331] *See* Laurel Exhibit MJW-11, at 5.

not established how or whether Midwest refineries can efficiently and economically produce sufficient volumes of low-RVP gasoline to supply the entirety of the Pittsburgh market demand for low-RVP gasoline during the Summer months.[332] In response to such valid concerns raised by the Indicated Parties, Laurel's witnesses resort to oversimplifying the process of producing low-RVP gasoline and unreasonably rely on the commitments of Midwest refiners through its Open Season for the Broadway II project[333] as evidence that Midwest refiners will figure out a way to supply Pittsburgh with low-RVP gasoline. Neither response adequately assures that low-RVP gasoline would remain available to the Pittsburgh market in sufficient volumes or at reasonable prices. And the absence of such guarantee constitutes one of several fatal flaws in Laurel's pipeline reversal proposal.

Laurel understates the complexity and expense of producing low-RVP gasoline in order to lull the Commission into a false sense of security concerning the availability of this federally mandated gasoline blend. In responding to concerns about the ability of Midwest refiners to produce low-RVP gasoline, Laurel witness Mr. Stern represents that "… production of low RVP gasoline merely requires refiners to reduce the butane levels in gasoline by replacing the butane with other blending components."[334] As concerns Pittsburgh, this is eminently false. Monroe Energy witness Ms. Sadowski clarified at the evidentiary hearings that Laurel's representation would be more appropriate for cities with ethanol waivers, but as discussed above, Pittsburgh's

---

[332] *See* Indicated Parties St. No. 2, at 30:25 – 31:5 (quoting correspondence from Laurel personnel asserting that the Pittsburgh market would no longer receive supply from the East Coast upon implementation of the proposed reversal).

[333] Note that Buckeye can, and has, expanded capacity to Pittsburgh independently from a reversal of Laurel as demonstrated by Buckeye's Broadway I project. In addition, the reversal of Laurel permits Midwest supply to flow to Altoona, which is not a low-RVP gasoline market, and Midwest suppliers' commitments on the Broadway II project were to Altoona, not Pittsburgh. Consequently, it simply does not make sense to claim that commitments for the Broadway II project is evidence that Midwest refiners will figure out a way to supply *Pittsburgh* with low-RVP gasoline unless it is the intent of Buckeye and the Midwest refiners to use the proposed Laurel reversal to increase prices in Pittsburgh and to supply Pittsburgh rather than Altoona with additional volumes that are not currently competitive. As discussed further below, that scenario is the only explanation that makes sense.

[334] Laurel St. No. 8-R, at 72:7-9.

low-RVP mandate must be met without a waiver of the 1 psi added by blending ethanol into gasoline.[335] As Ms. Sadowski testified, to meet Pittsburgh's 7.8 psi low-RVP standard, the refiner must produce gasoline with a 6.8 psi to leave sufficient headroom to comply with the 7.8 standard after blending ethanol with the gasoline.[336] The Achilles heel in Mr. Stern's and Laurel's positions is that no more butane can be removed from 7.8 psi gasoline to reach 6.8 psi because, quite simply, no more butane exists once the gasoline reaches 7.8 psi.[337] Ms. Sadowski fully explained the RVP reduction process and the effects on refinery operations and margins:

> Q. Okay. And how much butane would be present in 7.8 RVP?
> A. Absolutely none.
> Q. Okay. And so to get to 6.8 RVP to ship to Pittsburgh, butane removal isn't an option; is that correct?
> A. Right, and you have to make sure you have very few pentanes in there as well.
> Q. Okay. And so how do you reduce 7.8 RVP to 6.8 RVP?
> A. You have to do something with your pentanes, so whether that's – you can put them in a rail car and sell them like they're butanes, which is a really steep price discount, or you just make less of the lower vapor pressure material, because you need to absorb your pentanes somewhere.[338]

Contrary to Mr. Stern's position, producing low-RVP gasoline compliant with Pittsburgh mandates requires more than reducing the level of butanes in the gasoline blend. Other components such as pentane must be removed, which would reduce the refiner's total gasoline yields and increase yields of less valuable products, such as pentane.[339] The refiner must also incur operational costs to keep butanes and pentanes separated from the gasoline streams.[340] As a result of the increased costs, the refiner must charge a higher price per barrel of low-RVP

---

[335] Tr. 1126:3 – 1127:17 (Sadowski).

[336] Tr. 1127:3-17 (Sadowski).

[337] Indicated Parties St. No. 2-S, at 44:9-10.

[338] Tr. 1127:3-17 (Sadowski).

[339] Tr. 1127:8-17 (Sadowski).

[340] Tr. 1126:19 – 1127:2 (Sadowski).

gasoline to earn a margin equivalent to that from a barrel of standard-RVP gasoline. Indicated Parties witness Mr. Schaal conservatively estimates that the Midwest refineries would require an additional 3.7 MBPD of crude oil and experience increased production costs of 2.60 cents per gallon to produce even low-RVP gasoline at 7.8 psi.[341] Producing the 6.8 psi required for the Pittsburgh area would prove to be even more costly.

The operational and cost burden to produce low-RVP gas must be considered in assessing Laurel's conclusory off-hand assertions that Midwest refiners stand ready to meet Pittsburgh's demand for low-RVP gasoline. Laurel has pointed to correspondence from BP Products North America and ExxonMobil Oil Corporation claiming their respective Midwest refineries are capable of producing gasoline that meets the low-RVP specification for western Pennsylvania.[342] However, the correspondence fails to address the critical question of whether the refineries can produce low-RVP gasoline in sufficient volumes to supply the Pittsburgh area without exposing wholesalers, retailers, and consumers to unreasonably higher supply costs. As emphasized by both Sheetz witness Mr. Lorenz and Gulf witness Mr. Johnston, neither Laurel, nor intervenor Husky, as the only Midwest refiner active in this proceeding, has explained how the Commission can make a finding that Midwest refineries could capably supply Pittsburgh with sufficient volumes of reasonably-priced low-RVP gasoline when the Midwest refineries currently have the pipeline resources to supply low-RVP gasoline to the Pittsburgh area and are not currently supplying low-RVP gasoline to the Pittsburgh market.[343] The logical conclusion from the facts presented is that Midwest refiners cannot produce sufficient quantities of reasonably priced low-RVP gasoline to satisfy the Pittsburgh area demand.

---

[341] Indicated Parties St. No. 2-S, at 44:5-7. Mr. Schaal describes his projections of low-RVP cost impacts as conservative because he excludes capital investment costs and reduced prices for the extracted pentanes and butanes associated with an increased supply of those products on the market. Indicated Parties St. No. 2-S, at 44:14 – 45:3.

[342] *See* Laurel Exhibit KMS-13, at 2-3.

[343] Gulf St. No. 1-S, at 1:11-20, 19:12 – 20:12; Sheetz St. No. 1-S, at 1:11 – 2:2, 14:6 – 15:12.

In assessing the ability of Midwest refiners to produce reasonably priced low-RVP gasoline in sufficient quantities to meet Pittsburgh's demand, the Commission should primarily weigh the record evidence indicating that Midwest refiners lack the capability to fully meet Pittsburgh's demand for low-RVP gasoline and/or would unreasonably increase prices to produce increased volumes of low-RVP gasoline. Husky, the largest refiner in Ohio, provided its total volumes of low-RVP gasoline shipped to Pittsburgh in 2017, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** Even assuming that all of the volumes Husky sold originated from its Midwest refineries, which is not certain because Husky witness Jerome P. Miller confirmed that Husky purchases supply from both Midwest and East Coast origins, the total volumes Husky sold over the 138 day low-RVP compliance period from May 1 – September 15, translates to only **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** far short of Pittsburgh's total average gasoline demand of approximately 67 BPD.[344]

Notwithstanding the present circumstances where Midwest refiners are not producing sufficient quantities of low-RVP gasoline to meet Pittsburgh's demand, Laurel witness Mr. Arnold claims the Midwest refiners will ramp up production of low-RVP gasoline upon approval of the proposed reversal.[345] But Laurel has not directly answered the critical question that both Sheetz witness Mr. Lorenz and Gulf witness Mr. Johnston posed, which is why the Midwest refiners are not producing low-RVP gasoline and more effectively competing with East Coast

[344] *See* Indicated Parties Cross Exhibit No. 17; *cf.* Laurel Exhibit No. MJW-11, at 5. Although useful as a representation of Pittsburgh's low-RVP gasoline demand, the average annual gasoline demand is a conservative proxy for the summer months' low-RVP demand because the average does not reflect peak gasoline demand experienced in the summer. *See* Indicated Parties St. No. 1, at 5:8-11 (showing Pittsburgh area product demand peaking in the summer months).

[345] *See* Laurel St. No. 1-R, at 29:22 – 30:5.

low-RVP gasoline now.[346] Ironically, Mr. Arnold indirectly provided the answer when he correctly testified that "[r]efineries will sell product into markets that yield the highest netback (i.e. sales price net of transportation costs)…."[347] Thus, the observation that Midwest refiners are not producing sufficient volumes of low-RVP gasoline to serve the Pittsburgh market leads to the inescapable conclusion that Midwest refiners, when faced with competition from East Coast suppliers, do not believe they can currently earn a sufficient netback by producing higher volumes of low-RVP gasoline for sale in the Pittsburgh market. In order to provide any incentive for the Midwest refiners to produce higher volumes of low-RVP gasoline for the Pittsburgh market, the price in Pittsburgh would have to increase, which, as discussed above, would occur if the proposed Laurel reversal were to cut off the lower-cost East Coast supply currently supplying virtually all of the low-RVP gasoline market in Pittsburgh. And Laurel has no answer to the fundamental principles of chemistry (and common sense) that preclude removing a product (i.e., butane) that is not present. This overwhelming evidence confirms that, even if Midwest refiners were physically and operationally able to produce the low-RVP gasoline, Pittsburgh wholesalers, retailers, and consumers can expect to pay more for low-RVP gasoline supply from the Midwest if the Commission approves the proposed reversal.

Lastly, it bears noting that the Pennsylvania Department of Environmental Protection has engaged in proceedings to assess whether Pittsburgh's low-RVP mandate should be continued or rescinded, but such proceedings remained ongoing at this time of evidentiary hearings.[348] Therefore, the Commission must review the Application based on the current regulatory environment. Alternatively, even if the low-RVP requirement were waived, the Commission should consider that the Pittsburgh area still benefits from maintaining pipeline connections to

[346] Gulf St. No. 1-S, at 1:11-20, 19:12 – 20:12; Sheetz St. No. 1-S, at 1:11 – 2:2, 14:6 – 15:12.

[347] Laurel St. No. 1-R, at 38:12-13.

[348] Gulf St. No. 1, at 12:17-19; Indicated Parties St. No. 1, at 25:8 – 26:9; Laurel St. No. 1-R, at 31:1-4.

East Coast refineries experienced in producing high volumes of low-RVP gasoline because the low-RVP mandate could be reinstated as deemed appropriate by DEP.[349]

Laurel has failed to show how Pittsburgh would obtain sufficient volumes of low-RVP gasoline at all, or without subjecting wholesalers, retailers, and consumers to unreasonable price increases. Particularly as Laurel witnesses claim that Midwest supply is bursting to find a way to Pennsylvania markets,[350] the Commission should expect that Midwest refiners would already be furnishing Pittsburgh with high quantities of low-RVP gasoline at prices competitive enough to push most East Coast suppliers entirely out of the market. To the contrary, East Coast sources remain the primary supply of low-RVP gasoline in the Pittsburgh area, such that approving the proposed reversal places continued availability and supply of low-RVP gasoline for Pittsburgh in jeopardy.

(b) Eastern Pennsylvania Refineries Will Be Harmed

The record of this proceeding shows unambiguously that if the Laurel pipeline reverses at Eldorado, so that Eastern Pennsylvania Refineries[351] ("Refineries") can no longer move petroleum products into the Pittsburgh area on the Laurel pipeline, those Refineries will suffer material financial losses, and ultimately one or both may close.[352] As discussed below, the testimony of the two refinery witnesses, PESRM witness Mr. Sadlowski and Monroe Energy witness Ms. Sadowski, is clear and unrefuted – the Pittsburgh market, via the Laurel pipeline, receives and consumes a substantial amount of petroleum products today from Eastern Pennsylvania sources, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** and produces better margins on

[349] Gulf St. No. 1, at 12:19 – 13:2.

[350] Tr. at 695:5-8 (Jones).

[351] The Refineries are PESRM and Monroe Energy.

[352] PESRM St. No. 1, at 8:14-19; Monroe Energy St. No. 1, at 10:8-21; Monroe Energy Exhibit TS-2.

those products than the Refineries could obtain in other markets.[353] Forcing the Refineries, and their customers, to move those products into other markets (even if possible) will impose lasting and substantial economic harm on them.[354]

Apart from lower margins, Monroe Energy witness Ms. Sadowski testified that the next best option for Monroe Energy, post reversal, would likely be barging barrels that can no longer travel west of Eldorado into New York Harbor.[355] The increased transportation costs for barging would cause a net loss of between $7.2 million and $12 million [356] per year to Monroe Energy – not even considering the price impacts of adding that extra supply into the already saturated New York Harbor market and cost impacts of shifting the type of product sold.

Ms. Sadowski and PESRM witness Mr. Sadlowski agree that moving barrels displaced from the Pittsburgh area market into New York Harbor will almost certainly cause price erosion, which further negatively impacts margins.[357] The Refineries' witnesses agree that the net results of these diminished economics will likely be reduced production, reduced employment, and potentially closure.[358]

While Laurel has suggested there are alternative markets into which the Refineries' products can be sold; those alleged alternative markets: 1) are not connected via infrastructure today, requiring substantial capital to connect if that is possible at all; 2) are connected but are already being served with adequate supply; or, 3) are otherwise not viable.[359] The Laurel

[353] Tr. 749:10-12 (Arthur).

[354] Monroe Energy St. No. 1-SR, at 19:9-19.

[355] Monroe Energy St. No. 1, at 8:9-9:7.

[356] Monroe Energy St. No. 1-SR, at 5:1-13.

[357] Monroe Energy St. No. 1, at 10:1-5; PESRM St. No. 1, at 6:8-7:7.

[358] PESRM St. No 1-S, at 3:15-17, 15:3-15.

[359] Monroe Energy St. No. 1, at 9:8-9:20; Tr. 979:12-21 (Sadlowski).

witnesses' conjecture regarding potential connections[360] fails to recognize economic reality – i.e., the Refineries are not moving additional products into these "alternative" markets today because these Pennsylvania-based refineries will suffer substantial economic harm by earning less margin and less revenue than they do on sales along the Laurel pipeline to destinations west of Eldorado. To be clear, this harm impacts the Refineries, their local community, and the Commonwealth.[361]

Laurel would have this Commission believe that the adverse impacts of spending additional capital to produce the type of products appropriate for and get products to these less profitable and lower margin "alternative markets" is a mere "transition cost", or the result of "competition" in these new markets.[362] The stark reality, however, is that these costs will be not be transitory. Instead, these costs, which are the direct result of Laurel's proposed reversal, will permanently cordon off access to the Pittsburgh area market for the Refineries, that are the lowest cost suppliers into Pittsburgh nine months out of the year, and affirmatively remove the Refineries' access to compete in the Pittsburgh market in favor of the Midwestern refineries.[363] Dr. Arthur made the point abundantly clear that the reason the Midwestern refiners participated in Buckeye's open season was to move the arbitrage point far enough east to guarantee no products from the east could move into the Pittsburgh area, so that the Midwestern refiners could see increased profits as a result of the lack of competition from eastern refiners.[364] Ironically, Laurel's so-called "market solution" is to eliminate competition and thus guarantee the Midwestern refiners increased profits in the Pittsburgh market.

---

[360] Laurel St. No. 5-R, at 33, 82:17-84:7; Laurel St. No. 8-R, at 53-57.

[361] Monroe Energy St. No. 1-SR, at 12:1-12.

[362] Tr. 445:6-16 (Webb).

[363] Indicated Parties St. No. 1, at 25:1-7, 29:8-12; Monroe Energy St. No. 1-SR, at 20:15-21.

[364] Tr. 748:22-23 (Arthur).

i) <u>The Philadelphia Refineries Currently Ship Substantial Volumes On The Laurel Pipeline West Of Eldorado And Desire To Continue Doing So</u>

The Refineries ship on a combined basis **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** of the Pittsburgh market demand.[365] Neither PESRM nor Monroe Energy know exactly how much of their product is shipped west of Eldorado today,[366] because they sell most of their product "free on board" ("FOB") at the refinery gate. Under standard FOB terms, Monroe Energy and PESRM's customers take title to the product at the applicable refinery and are the shippers on any movements along the Laurel pipeline.[367] Accordingly, because of strict confidentiality and specific provisions of the Interstate Commerce Act, even though Monroe Energy and PESRM know in total how much product they deliver into the Laurel pipeline near Philadelphia, Laurel has not shared with them the amounts that it delivers west of Eldorado. Accordingly, both rely on other witnesses to provide this information. As noted in Section V. C. 1.b., *supra*, the combined FOB volumes from PESRM and Monroe Energy going into Pittsburgh along the Laurel pipeline are substantial.

Laurel's witness, Dr. Webb, has testified that Monroe Energy's volumes that flowed west of Eldorado were approximately **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** but curiously he did not testify as to Monroe Energy's volumes for any other years. Dr. Webb's testimony conflicts with another Laurel witness, Mr. Robert G.Van Hoecke, who testified that Monroe Energy's 2016 volumes past Eldorado were **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

---

[365] Tr. 740:21-741:3 (Arthur).

[366] Monroe Energy St. No. 1, at 7:15-16; Tr. 941:4 (Sadlowski).

[367] Monroe Energy St. No. 1, at 5:9-12; PESRM St. No. 1, at 3:4-4:7.

[368] Laurel St. No. 5-R, at 3:22.

[redacted] **[END HIGHLY CONFIDENTIAL]**[369] Neither Dr. Webb's nor Mr. Van Hoecke's conflicting volume numbers are consistent with Ms. Sadowski's analysis finding that Monroe Energy's volumes flowing past Eldorado, on average, should be approximately **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** Ms. Sadowski does not agree that either Mr. Van Hoecke or Dr. Webb are correct, stating that Monroe Energy's overall deliveries into Laurel pipeline have remained constant over time, which is consistent with Dr. Arthur's testimony that volumes on Laurel pipeline have been – on average – consistent over time.[370] Laurel's heavy reliance on Dr. Webb's testimony is undermined by recent findings by a Federal Energy Regulatory Commission ("FERC") Administrative Law Judge in a related case, recently upheld by the FERC, that Dr. Webb's testimony was rife with errors and was to be afforded "no weight."[371] Regardless of the veracity of Dr. Webb's testimony, the point is that the refineries are shipping a combined volume over 50 MBD on the Laurel pipeline west of Eldorado from Philadelphia today,[372] and intend to continue shipping consistent or greater volumes into the future.

Laurel's unsupported mantra that volumes on Laurel pipeline are decreasing and will soon reach zero simply cannot withstand the facts. If one looks at the data, it is clear that deliveries on the Laurel Pipeline have displayed some seasonal volatility over time, which tends

[369] Laurel St. No. 6-RJ at, 4:14-15.

[370] Monroe Energy St. No. 1, at 6:1.

[371] The FERC's recent decision in *Guttman Energy, Inc., et al. v. Buckeye Pipe Line Company, L.P.*; Docket Nos. OR14-4-000 and OR14-4-001(November 16, 2017) stated "The Presiding Judge reasoned that while "a certain degree of error is expected" Dr. Webb failed to make even "a cursory check of the data" that could have allowed the errors to be accounted for or corrected. The Presiding Judge concluded that "[c]onsidering the large number of errors in rates, omission of numerous tariffs, and misidentification of base versus incentive rates in the small sample of exhibits that Trial Staff cross-examined Dr. Webb on during the hearing, the reliability of the database is certainly called into question" and thus, found Dr. Webb's testimony should be afforded no weight. *Id.* at 73-79.

[372] Tr. 740:21-741:3 (Arthur).

to mirror the market in general.[373] However, that seasonality does not a trend make; Dr. Arthur and Mr. Schaal show that the overall trend for volumes on Laurel Pipeline west of Eldorado is neutral to increasing, in contrast to the manipulated trend Dr. Webb offered to show a rapid decline to zero volumes.[374] Dr. Webb's "trend" analysis is completely inconsistent with Dr. Arthur's Direct Testimony,[375] which undeniably confirms that the overall average of deliveries west of Eldorado along the Laurel Pipeline from Eastern Pennsylvania origins not only persists, but is robust at certain times of the year. Laurel's most recent data shows that nominations for November 2017, which one would expect to be lower than average volume months given historical patterns, are actually trending in the **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**[376] Dr. Arthur and Mr. Schaal also make clear that from a price perspective, the Refineries are positioned to continue this trend because they remain the lowest cost supplier in the Pittsburgh area seven to nine months out of the year, depending on the product.[377] There can be no doubt that the Refineries have been delivering at least half of the product consumed in the Pittsburgh market and that this trend, absent a reversal, will continue into the future.

ii) <u>Impact Of Laurel Pipeline Reversal On Economics Of Refineries</u>

If the Laurel pipeline reversal is approved and implemented, the utilization of the Laurel pipeline will change dramatically for the Refineries that now ship substantial amounts of product

[373] Indicated Parties St. No. 1, at 6, Fig. 1; Indicated Parties St. No. 1-S, at 27:3-13 and Table 1; Indicated Parties St. No. 2, at 18:6-21:6; Indicated Parties St. No. 2-S, at 7:6-14:2.

[374] Indicated Parties St. No. 1-S, at 25:5-25 and n. 72; Indicated Parties St. No. 2, at 18:6-21:6; Indicated Parties St. No. 2-S, at 7:6-14:2.

[375] Indicated Parties' St. No.1, at 6:Figure 1.

[376] Laurel Exhibit DWA-15.

[377] Tr. 739:8-15 (Arthur).

on the line for destinations west of Eldorado.[378] Both PESRM and Monroe Energy witnesses testified that Pittsburgh is a critically important market[379] and that new alternative markets/connections are few. Even Dr. Webb admitted that no new markets will result from the reversal.[380] PESRM and Monroe Energy's current Refinery operations are optimized today based upon the availability of crudes, market prices and transportation alternatives, among other factors, and therefore selling into any other markets will not be optimal and thus will produce less margin.[381] The Refinery witnesses also testified that markets east of Eldorado have not shown significant fluctuations in demand nor is there any reason to expect that demand will increase in those markets.[382] Reversal of the Laurel Pipeline will diminish substantially PESRM's and Monroe Energy's ability to move product out of their respective refineries.[383] For Monroe Energy, the Laurel pipeline currently moves **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**[385] As Dr. Arthur testified, industry index prices for product delivered into Laurel pipeline often track with New York Harbor prices but are not the same, providing a measure of market diversity for the Refineries.[386] It is not clear how the loss of the Pittsburgh market will impact that price, but it is almost certain to harm the Refineries.[387] If the Refineries were to continue to sell barrels on the Laurel pipeline, that over-

---

[378] PESRM St. No. 1, at 6:11-7:17; Monroe Energy St. No. 1, at 8:11-9:20.

[379] Monroe Energy St. No. 1, at 8:18; Monroe Energy St. No. 1-SR, at 6:8-17; PESRM St. No. 1, at 8:14-16.

[380] Tr. 482:5-9 (Webb).

[381] Monroe Energy St. No. 1, at 18:4-14; PESRM St. No. 1, at 8:14-15.

[382] Tr. 1079:13-17 (Sadowski).

[383] Tr. 1077:14-19 (Sadowski); PESRM St. No. 1, at 8:14-19.

[384] Monroe Energy St. No. 1, at 5:4-7.

[385] PESRM St. No. 1, at 4:3-7.

[386] Tr. 743:9 (Arthur).

[387] Tr. 1076:25-1077:9 (Sadowski).

supply would push prices and revenue down.[388] Similarly, if the Refineries, or their customers sought to move the barrels currently moved on the Laurel pipeline to other destinations, the combination of lower margins and higher transportation costs would push down margins directly. It is a classic lose/lose for the Refineries.[389]

Not only will the "backing up" of barrels into New York Harbor push down prices, it will also impact gasoline production at the Refineries. As Ms. Sadowski explains, Monroe Energy currently sells reformulated gasoline in Pittsburgh, and it can sell that product in New York Harbor. However, Monroe Energy sells conventional gasoline in other locations west of Eldorado that cannot be sold in New York Harbor today, without employing expensive and complex methodologies to remove the additional butane from the gasoline to meet the required standards.[390] As Ms. Sadowski noted on redirect:

> Q. And so how do you reduce 7.8 RVP to 6.8 RVP? A. You have to do something with your pentanes, so whether that's --you can put them in a rail car and sell them like they're butanes, which is a really steep price discount, or you just make less of the lower vapor pressure material, because you need to absorb your pentanes somewhere.[391]

In order to maintain its current optimized production slate, Monroe Energy would need to procure additional rail cars that are used to store the butane for blending back into the gasoline in winter when vapor pressure is not an issue, or to transport the butane to other markets where it can be sold for various uses – either way, it causes more harm to Monroe Energy.[392]

---

[388] Monroe Energy St. No. 1-SR, at 12:18-23.

[389] Monroe Energy St. No. 1-SR, at 6:21-7:8.

[390] Monroe Energy St. No. 1-SR, at 15:13-16-2.

[391] Tr. 1127:10-17 (Sadowski).

[392] Monroe Energy St. No. 1-SR, at 15:20-16:2.

Simply stated, the most economic transportation option for moving refined products out of a refinery is by pipeline.[393] PESRM and Monroe Energy are connected to the Laurel pipeline, which moves a significant amount of their products to markets that demand the product today, including Pittsburgh where half the market, on average, is supplied via the Laurel pipeline with products from the Refineries.[394] Taking away the ability to get product to Pittsburgh will be a severe blow to the Refineries, because the rest of the Laurel pipeline simply cannot absorb the displaced product.[395] The Refinery witnesses both testified that such changes would be structural and that such a structural change would create the potential for dire economic consequences for the refineries, including reduced production, lower employment, and other negative impacts to the eastern Pennsylvania region.[396]

iii) Reversing The Laurel Pipeline Eliminates A High Margin Market That Has No Realistic Substitute

It is undisputed that Pittsburgh is a critically important market, for both PESRM and Monroe Energy. [397] As PESRM witness Mr. Sadlowski specifically stated: "If the Pittsburgh market was cut off due to the Commission's approval of Laurel's proposed pipeline reversal, those sales could only be replaced by sales at lower margins or they would not be made at all, leading to revenue reductions and cuts in production, which could lead to workforce reductions."[398] As illustrated by PESRM witness James T. Rens, a one cent reduction in the price of a gallon of gasoline translates into a **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END**

[393] PESRM St. No. 1, at 4:5-7.

[394] Tr. 722:2-23 (Jones).

[395] PESRM St. No. 1-S, at 15:3-15.

[396] Monroe Energy St. No. 1-SR, at 19:13-19.

[397] Monroe Energy St. No. 1-SR, at 19:15.

[398] PESRM St. No 1, at 8:16-19.

HIGHLY CONFIDENTIAL] loss in profit to PESRM.[399] Additional financial pressure on PESRM due to the proposed reversal could have severe economic consequences for PESRM. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL][400]** The Refineries are currently moving product into markets that are physically available to them and that are *viable*.[401] A market is viable if it is able to absorb additional supply at a sustainable margin for those in the market. Nonetheless, Laurel contends that there are actual or potential pipeline connections to other markets, failing to acknowledge that such connections (i) do not exist today, (ii) are uneconomic today, or, (iii) relate only to markets that are not viable today.

Ms. Sadowski testified that Monroe Energy's options for moving product out of its refinery are limited, and the refinery is already moving the optimized amount of product to those connected markets.[402] She made it clear that Monroe Energy is not connected to the Colonial pipeline that flows into New York Harbor, as Laurel erroneously suggests.[403] She also testified about how Monroe Energy connects to all of these lines, including the Harbor line over which it does move some product today, but is limited by the capacity of the line to move product out of

---

[399] Tr. 1148:3-3 (Rens).

[400] PESRM St. No. 2-S, at 5:8-6:8.

[401] Monroe Energy St. No. 1-SR, at 6:3-17.

[402] Monroe Energy St. No. 1-SR, at 7:14-8:10.

[403] Laurel St. No. 6-RJ, at 15:23-16:6.

its refinery.[404] There is no simple solution for Monroe Energy to ship volumes displaced by the proposed reversal that would not involve significant capital outlay to reach highly saturated markets with flat demand. The best alternative for Monroe Energy, after putting as much additional supply into the pipelines as it can, would be to put product on barges to New York Harbor.[405] However, barging increases transportation costs by 3.5 cents per gallon, which directly and adversely impacts Monroe Energy's bottom line.[406] Based on Ms. Sadowski's estimate of Monroe Energy's movements west past Eldorado along the Laurel pipeline, that would result in $12 million per year less operating income for Monroe Energy, which is a 33% reduction.[407]

PESRM already ships to the alternative markets that Laurel suggests, and the demand in those markets, like upstate New York, is not growing. As PESRM witness Mr. Sadlowski noted:

> The markets that have been offered up [i.e., suggested by Laurel as alternatives] are markets that we're already in. So, assuming we could get there, I mean, how do you convince a guy to buy two umbrellas from [you] in a rainstorm? I don't know.[408]

He also made it clear that absorbing the combined excess production from Monroe Energy and PESRM post reversal would push down prices in the New York Harbor market, which could lead to refinery closures, as it did in 2008.[409] History has shown that while lower prices at the pump may seem attractive for consumers at the outset, if the Refineries cannot weather the reductions, over the longer period, they will be forced to close.[410]

---

[404] Monroe Energy St. No. 1-SR, at 9:18-10:4.

[405] Monroe Energy St. No. 1-SR, at 3:10-21.

[406] Monroe Energy St. No. 1, at 8:20-9:4.

[407] Monroe Energy St. No. 1-SR, at 14:8-15:6.

[408] Tr. 980:2-5 (Sadlowski).

[409] Tr. 960:18-961:15 (Sadlowski).

[410] Tr. 960.18-961:15 (Sadlowski).

iv) Reversing The Laurel Pipeline At Eldorado Will Severely Harm The Refineries

The evidence undeniably demonstrates that the proposed reversal will severely harm the Refineries, the existing users of the Laurel pipeline transportation service into Pittsburgh. While PESRM and Monroe Energy have had their share of economic challenges in recent history, both are now actively engaged in the market. The reversal threatens to end this. Laurel proposes to eliminate a key destination market for Monroe Energy and PESRM – the Pittsburgh area market. This market currently receives over half of its product from the Refineries. Eliminating access to this market harms Philadelphia in the form of lost refinery revenue which leads to reduced production and loss of jobs. As PESRM witness Mr. Sadlowski testified based on prior economic studies, if PESRM were to close, approximately 1,100 refinery jobs would be immediately lost and another approximately 12,000-21,600 jobs would be at risk.[411] The approval of the pipeline reversal would also materially impact the Philadelphia community as well. For example, during a period of extreme cold weather, PESRM's residual fuel supplies were utilized to avoid closure of several Philadelphia area hospitals, including Children's Hospital of Pennsylvania, which avoided the evacuation and relocation of critical patients. PESRM supplies were also crucial in supplying petroleum products in the wake of Superstorm Sandy when other East coast refiners were forced to halt operations. PESRM supplies kept the American Red Cross Disaster Relief trucks powered so they could assist victims of the hurricane disaster.[412]

And while it may be true that in the short run, the loss of one refinery may benefit the survivor, that does not help customers east of Eldorado, as the reduction in supply will almost certainly cause Eastern Pennsylvania and Central Pennsylvania prices to rise. Simply put, there

[411] PESRM St. No. 1, at 10:7-9.

[412] PESRM St. No. 1, at 11:15 -12:15.

are no winners in Pennsylvania if the proposed Laurel pipeline reversal is approved. The only winners will be Buckeye and its Midwest refinery allies that seek to capture unfettered access to the Pittsburgh market on their march east to Philadelphia.

(c) Trucking Obstacles And Safety Impacts

In support of its proposed reversal, Laurel has alleged benefits to communities *east* of Eldorado—what Laurel loosely calls "Central Pennsylvania" and/or the "Harrisburg area"—with assertions that Midwestern product shipped to Eldorado will be trucked further east, thereby bringing the alleged benefits of the reversal even deeper into Pennsylvania.[413] Laurel has also argued that petroleum products shipped westward on the Laurel pipeline to Eldorado (post-reversal) could be transported further west into the Pittsburgh market by truck.[414] Laurel, however, has provided no analysis whatsoever regarding the feasibility of either of these trucking options, nor has it estimated volumes to be transported by truck, or the impact on the roads and public safety associated with such trucking. Instead, the Indicated Parties presented the only evidence in this proceeding on trucking, which demonstrates a likelihood of substantial harm to the public from increased truck traffic. Moreover, even Laurel's witnesses admit that limitations on trucking over certain routes within Pennsylvania make it highly unlikely that the touted benefits of Laurel's Application (even if the Commission accepts those as benefits) can or will materialize.

Indicated Parties witness Rickard regarding the public safety and traffic concerns associated with the increased tanker truck traffic necessary to transport petroleum products

[413] As discussed in Section V.C.1.c.(2)(a)(i)(a) and V.C.1.c.(2)(b), *supra*, the record indicates that all of the product shipped on the post-reversal line will be delivered to Pittsburgh area destinations rather than Eldorado. Therefore, the Commission should consider arguments regarding the impact of trucking Midwest products East of Eldorado post-reversal to be contingent on Midwest product being delivered to Eldorado.

[414] *See* Laurel Hearing Ex. 1 (Application) at p. 11, ¶ 22, ¶ 43 ("affected Customers can continue to access the Pittsburgh destination market by transporting product to Eldorado and then transporting it via truck to the Pittsburgh area…"; Laurel St. No. 2, at 12:10-13.

throughout Pennsylvania if Laurel's Application is approved.[415] Laurel did not directly rebut Mr. Rickard's testimony regarding the public safety impacts of increased truck traffic; rather, and as further explained herein, Laurel's position, asserted *after* filing its Application and Direct Testimony, is that there will not likely be any increased truck traffic.

Mr. Rickard's testimony presents detailed, unrebutted evidence regarding the challenges and dangers associated with transporting petroleum products via truck both westward and eastward from the terminal at Eldorado.[416] The starting point for any analysis of truck routes from Eldorado is the Pennsylvania Turnpike ("Turnpike").[417] Trucks carrying hazardous materials must be "placarded"[418] and placarded trucks are prohibited from passing through the numerous tunnels on the Turnpike.[419] These restrictions render the Turnpike an inadequate and impractical supply route for tanker trucks to deliver petroleum across Pennsylvania from Eldorado.

There are limited alternative potential routes for trucks to transport petroleum products from Eldorado (Altoona) across Pennsylvania, and each of those options comes with its own significant safety and traffic concerns. Mr. Rickard's testimony analyzes the following routes, which are the most practical potential routes for transporting petroleum products from Altoona into Pittsburgh and from Altoona into Harrisburg given the above-referenced Turnpike restrictions.[420]

---

[415] Indicated Parties St. No. 4, at 3:10-12.

[416] *See generally*, Indicated Parties St. No. 4.

[417] Indicated Parties St. No. 4, at 4:14-15.

[418] Indicated Parties St. No. 4, at 4:15-18.

[419] Indicated Parties St. No. 4, at 4:18-22.

[420] Indicated Parties St. No. 4, at 5:9-8:2.

- **Altoona to Pittsburgh: The Northern Route.** The Northern Route from Altoona to Pittsburgh is via Interstate 99 to US Route 22 West to Interstate 76 to Interstate 279. This is a 134-mile route.[421]

- **Altoona to Pittsburgh: The Southern Route.** The Southern Route for trucking petroleum products from Altoona to Pittsburgh would require 215 miles of one-way travel and would pass through three states (Pennsylvania, Maryland, and West Virginia).[422]

- **Altoona to Harrisburg: The Northern Route.** The Northern Route from Altoona to Harrisburg would require 132 miles of one-way travel via Interstate 99 to US 322.[423]

- **Altoona to Harrisburg: The Southern Route.** The Southern Route from Altoona to Harrisburg would require 216 miles of one-way highway travel from Altoona to Harrisburg via Interstate 99 to US 220 to Interstates 68 and 70, to Interstate 81 (passing through Pennsylvania and Maryland).[424]

As discussed in Mr. Rickard's unrebutted testimony, there are significant safety concerns associated with the transportation of petroleum products on any of the above-described routes. Laurel has failed to address these safety concerns or even acknowledge them throughout this proceeding.

[421] Indicated Parties St. No. 4, at 5:9-16. This route requires a truck to exit Route 22 before reaching Monroeville, Pennsylvania (a suburb east of Pittsburgh) due to the prohibition on petroleum products in the Squirrel Hill Tunnel located on Interstate 376.

[422] The Southern Route from Altoona to Pittsburgh is via Interstate 99 to US 220 to Interstate 68 to Interstate 79. Indicated Parties St. No. 4, at 6:2-7:1. There is no practical alternate southern route from Altoona to Pittsburgh due to prohibitions on trucks hauling placarded loads on US 30 west of US 219. Indicated Parties St. No. 4, at 7:2-9:1.

[423] Indicated Parties St. No. 4, at 9:2-10:1. Laurel argues that if the Commission approves its Application, "Midwestern barrels would be delivered to Altoona, which is within 100 miles of Harrisburg, meaning the Midwestern barrels would be able to access this market." Laurel St. No. 5, at 17:15-17. Laurel proffered no evidence in support of this statement, and likely for good reason: *the routes for transporting petroleum products from Altoona to Harrisburg are longer than 100 miles and, as explained herein, contain significant obstacles to increased truck traffic.* Indicated Parties St. No. 4, at 9:2-6.

[424] Indicated Parties St. No. 4, at 10:3-6. Although it is technically possible for truck traffic to reach Harrisburg from Altoona by traveling south on Interstate 99, then east on Route 30, then north on Interstate 81, the Pennsylvania Department of Transportation advises that tanker trucks should avoid the mountainous terrain on US 30 near Bedford, Pennsylvania. Indicated Parties St. No. 4, at 15:14-19. Moreover, this route would require tanker trucks to pass through the middle of Chambersburg, Pennsylvania, which is generally congested (Indicated Parties St. No. 4, at 11:1-6) and has a number of traffic lights, overpasses, and at least one railroad crossing. Indicated Parties St. No. 4, at 15:14-19.

The **Altoona to Pittsburgh Northern Route** has many hills with steep inclines and declines, making truck travel difficult year-round.[425] Winter driving along this route is particularly dangerous due to whiteouts and snow-covered or icy hills.[426] On the **Altoona to Pittsburgh Southern Route**, which travels through *three* states, winter driving is also particularly dangerous due to snow covered and icy roadways.[427] Whiteouts are also common on this route (particularly in the West Virginia mountains).[428] Even without winter weather, the West Virginia mountains cause the highway to be dangerously steep in some areas with inclines and declines that are challenging to heavy vehicles.[429]

The potential routes eastward from Altoona to Harrisburg are also problematic. Truck travel is not advised on the **Altoona to Harrisburg Northern Route** due to (1) a very steep decline on US 322 heading south into Lewistown (making travel for heavy vehicles particularly hazardous in winter); and (2) the Potters Mills Gap Transportation Project along the section of Route 322 from the Centre County/Mifflin County line to west of the Route 322/Route 144 intersection at Potters Mills.[430] This project is not scheduled for completion until 2020.[431]

There are also significant safety concerns associated with travel eastward on the **Altoona to Harrisburg Southern Route** (which passes through *two* states). The area south of Bedford, Pennsylvania, is mountainous with significant downgrades on these sections of roadway.[432] Additionally, Interstate 81 between Hagerstown, Maryland and Harrisburg—a major route

[425] Indicated Parties St. No. 4, at 14:5-7.

[426] Indicated Parties St. No. 4, at 14:7-8.

[427] Indicated Parties St. No. 4, at 14:11-12.

[428] Indicated Parties St. No. 4, at 14:12-13.

[429] Indicated Parties St. No. 4, at 14:13-15.

[430] Indicated Parties St. No. 4, at 14:18-22.

[431] Indicated Parties St. No. 4, at 14:18-22.

[432] Indicated Parties St. No. 4, at 15:4-5.

leading to popular and well-populated destinations – has a significant amount of vehicular traffic, particularly truck traffic, which has led to a higher-than-normal number of accidents involving heavy trucks.[433] The amount of traffic and the number of accidents on Interstate 81 have increased dramatically over the past several decades and many of those accidents involve commercial tanker trucks.[434]

In addition to the specific issues identified on the routes above, there are many general safety concerns associated with increased trucking of petroleum products across Pennsylvania, none of which Laurel has considered in any detail. A typical tanker truck is five axles[435] and can transport approximately 8,500 gallons of gasoline or approximately 7,500 gallons of diesel fuel.[436] In 2016, there were approximately 6,740 accidents involving heavy vehicles in Pennsylvania, including 139 fatal accidents and 2,831 serious injury accidents.[437] If the proposed Laurel pipeline reversal is approved and tanker truck traffic increases, the number of heavy truck accidents is likely to increase as well.[438] Given the particularly dangerous nature of transporting hazardous materials, the percentage of such crashes involving serious injuries and/or death is also likely to increase.[439]

Not only would the *risk* of accidents increase with increased truck traffic, but the actual accidents involving tanker trucks carrying petroleum products are more dangerous and disruptive than accidents involving smaller vehicles without hazardous cargo. When accidents involve heavy commercial trucks, it is much more likely that there will be serious injuries and/or

[433] Indicated Parties St. No. 4, at 15:6-11.

[434] Indicated Parties St. No. 4, at 15:11-13.

[435] Indicated Parties St. No. 4, at 16:4-6.

[436] Indicated Parties St. No. 4, at 11:16-18.

[437] Indicated Parties St. No. 4, at 16:11-21.

[438] Indicated Parties St. No. 4, at 17:5-12.

[439] Indicated Parties St. No. 4, at 17:5-12.

fatalities.[440] When tanker trucks transporting petroleum products that are highly volatile and extremely flammable are involved in highway crashes, the risk of death or damage from fire and/or explosion occurring from the impact or from the tanker truck rolling over increases and poses a major hazard to the public, especially when the tanker trucks must travel through populated areas because they are unable to use the Turnpike.[441] In addition, accidents involving tanker trucks transporting hazardous materials in bulk can result in spills—cleanup and hazardous waste disposal from a single spill can cost hundreds of thousands of dollars, and can cause significant inconvenience or danger to motorists and/or residents when highways are closed and/or residents are forced to evacuate.[442]

The potential harms to the public are not limited to only a few vehicles per day on these routes; rather, as shown in the testimony of Indicated Parties witness Dr. Arthur, the potential volumes traveling by truck post-reversal could overburden Pennsylvania roads and endanger the public. Dr. Arthur estimates that the proposed reversal could require an additional 40 MBPD of petroleum products to be trucked from Altoona to Pittsburgh on average, with up to 88 MBPD trucked during peak summer months.[443] *Based on these volumes, the Altoona-Pittsburgh shipments would require an additional 202 tanker truck trips per day, with up to 447 tanker trucks trips per day during peak summer months*.[444] Depending on the selected route, each trip would result in round-trip highway travel of 268-430 miles traveled, per tanker truck.[445] Dr. Arthur further estimates that assuming some volumes shipped on the post-reversal pipeline reach

---

[440] Indicated Parties St. No. 4, at 22:3-5.

[441] Indicated Parties St. No. 4, at 22:5-10.

[442] Indicated Parties St. No. 4, at 22:11-14.

[443] Indicated Parties St. No. 4, at 12:5-8 (citing Indicated Parties St. No. 1, at 37).

[444] Indicated Parties St. No. 4, at 12:8-10. These estimates are based on 8,500 gallons of gasoline per tanker truck to stay within weight limitations. *See* Indicated Parties St. No. 4, at 11:9-18.

[445] Indicated Parties St. No. 4, at 12:10-12.

Altoona, the reversal could result in an additional 3.3 MBPD of petroleum products being trucked from Altoona to Harrisburg on average, with up to 18 MBPD trucked during peak winter months.[446] *These volumes would require 17 tanker truck trips per day on average on the Altoona to Harrisburg routes, with up to 90 tanker truck trips during peak winter months.*[447] Depending on the selected route, each trip would result in round-trip highway travel of 264-432 miles traveled, per tanker truck.[448]

In addition to unaddressed traffic and safety concerns, Laurel has also failed to adequately address concerns about the lack of available workforce and infrastructure to support additional tanker truck movements if the Laurel pipeline is reversed.

The increased trucking that could occur if the Laurel pipeline is reversed requires an abundant and sophisticated workforce, which includes having properly trained and certified drivers available to drive the required routes as the market dictates. In order to operate a tanker truck in intrastate or interstate commerce, a truck driver must have a valid commercial driver's license ("CDL") with the extensive endorsements and testing.[449] However, there is currently a shortage in both Pennsylvania and nationwide for CDL drivers with the proper qualifications and

[446] Indicated Parties St. No. 4, at 12:17 – 13:1 (citing Indicated Parties St. No. 1, at 62).

[447] Indicated Parties St. No. 4, at 13:1-3.

[448] Indicated Parties St. No. 4, at 13:3-5.

[449] Indicated Parties St. No. 4, at 17:18-20. The driver must obtain certain State-issued endorsements to his/her CDL in order to transport hazardous materials such as petroleum products (as defined in 49 CFR § 383.5). Indicated Parties St. No. 4, at 17:20 – 18:2. To receive a tank vehicle endorsement, drivers must pass a knowledge exam that requires a detailed understanding of the safe transportation of hazardous materials and applicable hazardous materials regulations. Indicated Parties St. No. 4, at 18:3 – 20:5. In addition, an operator of a vehicle must also have the knowledge to 1) operate emergency equipment in order to protect the public; 2) understand special precautions for equipment to be used in fires; and 3) use special precautions for use of emergency equipment when loading or unloading a hazardous materials laden motor vehicle, and use emergency equipment for tank vehicles. Indicated Parties St. No. 4, at 20:6-12. The operator must understand all pertinent emergency response procedures and operational practices and procedures that the Motor Carrier Safety regulations do not specify. Indicated Parties St. No. 4, at 20:10-12. In Pennsylvania, hazardous materials endorsement renewals are required every four years. Indicated Parties St. No. 4, at 20:16-17.

endorsements to operate a tanker truck transporting hazardous materials in bulk.[450] The current shortage would likely be an impediment to meeting any significant increase in demand post-reversal for truck drivers qualified to transport hazardous materials.[451] Laurel has not demonstrated (or even attempted to demonstrate) that the necessary infrastructure is in place within Pennsylvania, including a sufficient number of qualified drivers, to achieve that benefit.

Rather than addressing Mr. Rickard's testimony directly, Laurel's witness Dr. Webb argued that Mr. Rickard's testimony is "irrelevant" because it allegedly "completely ignores the fact that the final destination of all gasoline, diesel, and heating oil deliveries for shipments currently made by Laurel are via truck to hundreds of different destinations scattered across the Pittsburgh market."[452] This argument misses the point. As discussed above, implementation of the proposed reversal would result in trucks traveling distances beyond even what Laurel's own witnesses admit is the outer limit for tanker truck trips.[453] Moreover, no one is disputing that virtually all gasoline reaches its final destination by truck—rather, what the Indicated Parties have shown is that the reversal will *replace pipeline transportation* with additional truck movements over routes that are not currently being used today.[454] As addressed by Gulf witness Mr. Johnston, the fact that trucks at times can be employed to travel longer distances does not change the fact that trucks are more frequently utilized for shorter haul trips and should not be

[450] Indicated Parties St. No. 4, at 21:1-3.

[451] Indicated Parties St. No. 4, at 21:8-11.

[452] Laurel St. No. 5-R, at 87:9-12.

[453] Laurel's witnesses have said that 100 miles is the typical outer limit for trucks to compete with pipelines. *See* Laurel St. No. 5, at 17:8-12 ("…trucks typically do not travel more than 75-100 (or up to 125) miles from a terminal to a point of final consumption. This fact suggests that Midwestern supply in Pittsburgh would not go much further east than Altoona or State College unless price differentials supported longer truck trips."); Laurel St. No. 6, at 18:18-21 ("Because movement by truck is generally required at some point in the transportation cycle, trucks are often able to effectively compete with pipelines at distances of 75 to 100 miles, and sometimes in excess of 125 miles."). The routes discussed in Mr. Rickard's testimony range from 134 to 216 miles of one-way travel, respectively.

[454] For example, trucking product from Eldorado to Harrisburg (Highspire-area) would require bypassing *three* current pipeline terminals, which necessarily means longer truck trips than those occurring today. *See* DWA-3, attached to Laurel St. No. 1.

considered a reliable replacement for crucial supply sources such as the East Coast products shipped on the Laurel pipeline.[455]

Dr. Webb attempts to rebut evidence about increased truck transportation from Altoona to Pittsburgh by simply saying that such trucking will not occur post-reversal.[456] That observation is wrong for the reasons explained herein, but in any event, it is conspicuously incomplete: Dr. Webb's rebuttal testimony completely ignores the testimony about concerns associated with increased trucking from Eldorado *eastward* into Harrisburg.[457] Notwithstanding the later revelation that shipments on the post-reversal pipeline would be delivered only to Pittsburgh-area destinations, Laurel has specifically claimed that Harrisburg and other areas within "Central Pennsylvania" will benefit from the reversal, but has failed to even attempt to address how and whether product can safely and economically reach these areas from Eldorado by truck. Far from being irrelevant, the largely unrebutted testimony of Mr. Rickard provides a detailed analysis of the public safety impacts associated with any movements of petroleum products from Altoona to points East, something that Laurel itself has argued will happen in a post-reversal scenario.

Laurel has loosely, inconsistently, and sporadically offered "trucking" as an alternative to pipeline transportation, both as a mechanism for eastern product to reach Pittsburgh and for Midwestern product to reach into Central Pennsylvania (including Harrisburg). But Laurel has proffered no analysis that these are actually *feasible and safe* alternatives, nor has it rebutted, or

---

[455] Gulf St. No. 1-S, at 17:15-19.

[456] Laurel St. No. 5-R, at 86:19-23 ("They will not truck it from Eldorado to Pittsburgh.").

[457] *See*, e.g., Laurel St. No. 5-R, at 86:6-88:4 (purporting to rebut Indicated Parties' allegations of public safety concerns associated with trucking product westward from Altoona into Pittsburgh, but not addressing the Indicated Parties' testimony regarding trucking obstacles and public safety concerns associated with trucking product eastward from Altoona to Harrisburg, as alleged by Laurel).

even attempted to rebut, the Indicated Parties' testimony regarding the significant obstacles and potential public safety hazards associated with such truck traffic.

(d) Other Harms

These is at least one additional harm that warrants mentioning. Laurel overlooks its own concession that it, the public utility at issue in this proceeding, would be harmed by its own

[BEGIN HIGHLY CONFIDENTIAL] [redacted] **[END HIGHLY CONFIDENTIAL]**[458]

d. Laurel Has Not Demonstrated The Availability And Adequacy Of Any Service To Be Substituted

As noted earlier herein, in determining whether a proposed abandonment is in the public interest, the Commission considers the availability and adequacy of the service to be substituted.[459] Laurel, in its Application, listed numerous options allegedly available to both Pittsburgh area wholesalers, retailers, and consumers seeking East Coast products and Philadelphia area refiners seeking to identify new markets to replace sales displaced by the

---

[458] Indicated Parties Statement No. 3, Exhibit No. 2 (Arnold Deposition), at 145:20 – 146:7; *see also infra* Section V.F.1. (explaining proposed Capacity Agreement imposes needless financial risk to Laurel resulting from the reduction in Laurel's revenue associated with the flow reversal).

[459] *Commuters' Comm. v. Pennsylvania Pub. Util. Comm'n*, 88 A.2d 420, 422 (Pa. Super. 1952) (abandonment of segment of rail line); *West Penn Rys. Co. v. Pennsylvania Public Util. Comm'n*, 15 A.2d 539, 544 (Pa. Super. 1940) (abandonment of rail line); *Re Avery Transp., Inc.*, 64 Pa. P.U.C. 420 (Aug. 20, 1987) (abandonment of a bus route).

pipeline reversal. As demonstrated below, the alternative sources of obtaining supply would fail to replicate the benefits of service currently provided to the public[460] via Laurel's pipeline.

(1) Trucking

Trucking is not a feasible alternative to transporting petroleum products to Pittsburgh via the Laurel pipeline. First, trucking petroleum products from local refineries in the Pittsburgh area cannot suitably replicate the benefits of the service the Laurel pipeline currently provides. Second, several logistical and economic constraints make trucking petroleum products from Eldorado to Pittsburgh impractical. Third, trucking generally presents significant public safety concerns because of the increased tanker truck traffic that would result from the number of additional tanker trucks needed to transport petroleum products if the Laurel pipeline is reversed.[461] Accordingly, Laurel's allegation that trucking is a practical alternative to transporting petroleum products via the Laurel pipeline lacks merit and cannot be considered a viable alternative mode of shipping petroleum products.

(a) Trucking Petroleum Products From Local Refineries In The Pittsburgh Area Cannot Suitably Replicate The Benefits Of Service Currently Provided By The Laurel Pipeline

As an initial matter, there are no local refineries in the Pittsburgh area from which meaningful volumes of petroleum products could be efficiently trucked. Refineries in or around the Pittsburgh area, including the Ergon refinery, in Newell West Virginia, the Marathon Petroleum Company refinery in Canton, Ohio, and the United Refining Company refinery in Warren, PA, are relatively small and geographically remote, only serving their surrounding

[460] *UGI Utils. v. Pennsylvania PUC*, 684 A.2d 225, 229 (Pa. Commw. Ct. 1996) (finding the provision of intrastate pipeline service provided only to electric generators and not to end-use customers to be a "public need.").

[461] For purposes of this Main Brief, the terms "tanker trunk" and "petroleum products" hold the same meanings as defined Indicated Parties St. No. 4, at 3, n.1.

markets and forming part of the base or the sole supply for those regions.[462] These facilities lack the ability to produce additional petroleum products or transfer volumes to Pittsburgh in any meaningful quantities.[463] As such, these local refineries could not provide the Pittsburgh area with volumes sufficient to replace volumes lost as a result of the Laurel pipeline reversal and cannot be considered reasonable alternatives to Laurel's current service.[464]

(b) Several Economic And Logistical Constraints Make Trucking Petroleum Product From Eldorado To Pittsburgh An Unsuitable Alternative To Shipping That Product To Pittsburgh Via The Laurel Pipeline

Throughout this proceeding, Laurel maintained that trucking will remain an adequate alternative for delivering supply originating from the East Coast to the Pittsburgh area.[465] Several economic and logistical constraints make trucking product from Eldorado to Pittsburgh an impractical alternative to shipping that product to Pittsburgh via the Laurel pipeline. Presently, Pittsburgh and Eldorado both are able to receive shipments of petroleum products from the East Coast.[466] If the Laurel pipeline were to be reversed and only Eldorado could receive petroleum products from the East Coast, then trucking petroleum products to Pittsburgh would become the only alternative for transporting East Coast supply to the Pittsburgh area. However, for the reasons referenced below and more fully discussed in Section V.C.1.c(2)(c), *supra*, trucking alternatives remain economically impractical and undesirable from a public safety standpoint.[467]

---

[462] Sheetz St. No. 1, at 6:5-17.

[463] Sheetz St. No. 1, at 6:14-15.

[464] Sheetz St. No. 1, at 6:15-17.

[465] *See, e.g.* Indicated Parties St. No. 4-S, at 2:21 – 3:21; Gulf St. No. 1-S, at 17:4-19; and Sheetz St. No 1, at 5:6-10.

[466] Sheetz St. No. 1, at 7:2-18.

[467] Indicated Parties St. No. 4, at 13:15 – 23:3.

First, restrictions on transportation of hazardous materials on the Pennsylvania Turnpike complicate the feasibility of trucking products in Central and Western Pennsylvania, as discussed more fully in Section V.C.1.c(2)(c), *supra*. Trucking also increases delivered costs in comparison to pipeline shipments. Dr. Arthur calculates that trucking product from Altoona to Pittsburgh would increase shipping costs in comparison to shipments on Laurel's pipeline between Altoona and Pittsburgh as follows:[468]

> Trucking is significantly more costly than transporting through the Laurel pipeline. For example, Laurel's incremental rate from Altoona (Eldorado) to Pittsburgh terminals is 0.30 cents/gallon, while the incremental cost of trucking the same distance is 4.93 cents per gallon.[469]

Additionally, as again detailed in Section V.C.1.c(2)(c), *infra* transporting petroleum products via tanker truck in compliance with these restrictions would pose a greater risk to public safety than pipeline shipments.

(2) Rail

Rail transportation is also an impractical alternative to shipping volumes from the East Coast on Laurel's pipeline. First, Laurel has provided no details whatsoever regarding rail transportation among points in Western Pennsylvania and Central Pennsylvania, making only passing references to the possibility of rail transportation.[470] Second, loading gasoline rail cars requires a rail yard that is connected to a vapor recovery unit ("VRU").[471] Most existing rail yards were built to offload, and as a result VRUs can be installed only as an additional, substantial equipment expense typically in excess of $1 million per unit.[472] Laurel does not rebut

[468] *See* Indicated Parties St. No. 1, at 35:6-9.

[469] Indicated Parties St. No. 1, at 35:6-9.

[470] Gulf St. No. 1, at 5:7-23.

[471] Gulf St. No. 1, at 5:8-9. A VRU is an expensive system that captures the vapors that are displaced when product is pumped into a tank or other storage or transport apparatus. Gulf St. No. 1, at 5:9-10.

[472] Gulf St. No. 1, at 5:10-12.

this point. Third, rail offloading requires the availability of offloading equipment at the destination.[473] While some Pittsburgh locations are equipped with this capability, gasoline offloading must compete for capacity with other inbound receipts of biofuels, which are highly competitive for rail transport services because they are not transported via pipeline in Pennsylvania.[474] Fourth, because rail loading and offloading is highly labor intensive and expensive, rail transportation becomes less economically competitive over shorter distances.[475] Finally, rail movements, and the labor that supports them, are susceptible to weather events, which in turn impacts punctuality and can prompt rail congestion and scheduling delays.[476]

(3) Alternative Pipelines

There are no alternative pipeline resources available to replace the service the Laurel pipeline currently provides. The Laurel pipeline is the only pipeline source of product connecting the East Coast to the Pittsburgh area.[477] If reversed, the Pittsburgh market will have no pipeline alternatives to access East Coast supply sources and Philadelphia-area refiners will similarly have no pipeline access to continue competing with Midwest refiners in the Pittsburgh market.

The opportunity to obtain petroleum products from the eastern market via the Laurel pipeline is crucial to ensuring reliable and cost-effective supply for the Pittsburgh region.[478] As fully discussed in Section V.C.1.c.(2)(a)-(b), *supra*, the proposed reversal would isolate eastern refineries from the Pittsburgh market, removing arbitrage opportunities and converting the

[473] Gulf St. No. 1, at 5:12-15.

[474] Gulf St. No. 1, at 5:16-19.

[475] Gulf St. No. 1, at 5:19-21.

[476] Gulf St. No. 1, at 5:21-23.

[477] Gulf St. No. 1, at 3:5-10 and 3:15 – 4:1.

[478] Sheetz St. No. 1, at 3:8-9.

Pittsburgh area into a captive market that only Midwest pipelines supply.[479] The continued availability of competing pipelines from the Midwest does not adequately replace the loss of connectivity to East Coast supply because Pittsburgh currently enjoys full pipeline connectivity to both East Coast and Midwest supply sources.[480] Supply from western pipelines cannot protect the Pittsburgh market from higher and more volatile prices resulting from the loss of pipeline supply from the East Coast.[481]

Similarly, as discussed at length in Section V.C.1.c.(2)(a)-(b), *supra*, the availability of pipeline systems connecting the Philadelphia area refiners to markets in Eastern Pennsylvania, Upstate New York, or New York City cannot adequately replace service Laurel's pipeline currently provides. As discussed above, eliminating the Pittsburgh area destination market for Philadelphia area refineries will reduce the market diversity for refinery output and eliminate markets for gasoline blends currently shipped to destinations west of Eldorado that cannot be sold to other markets such as New York Harbor.[482] While the availability of additional pipelines to other markets would allow Philadelphia markets to deliver some product at increased costs and reduced margin, these alternatives would likely deteriorate the financial viability of the Pennsylvania-based refineries and threaten the jobs of Pennsylvania residents.[483] Similar to the errant suggestion that Midwest supply can replace the loss of East Coast supply for Pittsburgh area wholesalers, retailers, and consumers, the pipeline connections to northern markets cannot replace the loss of the Pittsburgh-area destination market for Philadelphia-area refiners.

[479] Gulf St. No. 1, at 9:1-6; Sheetz St. No. 1, at 11:3-5.

[480] Gulf St. No. 1, at 8:12-19.

[481] Gulf St. No. 1, at 8:12 to 9:6; Sheetz St. No. 1, at 3:4 to 4:1.

[482] *See* Section V.C.1.c.(2)(a)-(b), *supra*.

[483] *See* Section V.C.1.c.(2)(a)-(b), *supra*.

(4) Barges

Barging is not an adequate shipping option to replace shipments on Laurel's pipeline. Barge movements depend on severable variables, including economics, product availability, emission limit restrictions at discharge, river conditions, and weather.[484] These external factors make barge supply sporadic at best and thus an unreliable alternative source of baseline supply for service into the Pittsburgh area.[485] Generally, barge transportation is more expensive and labor intensive than pipeline alternatives.[486] Most importantly, the availability of barge facilities in Pittsburgh, regardless of capacity, would not adequately replace the loss of East Coast supply sources because barges cannot reach Pittsburgh from Philadelphia.

Although Laurel suggested barged shipments comprise as much as 16 percent of total refined petroleum product supplied to the Pittsburgh area, Laurel witness Dr. Webb derived that figure from outlier data observed in 2013, when barges supplied 15,600 BPD of refined petroleum products into the Pittsburgh market. In other years such as 2012, 2014, and 2015, barges delivered approximately 11,300, 8,500, and 10,000 BPD, respectively into the Pittsburgh market.[487] These volumes do not indicate significant capacity to economically absorb significant proportions of the 50+ MBPD shipped from East Coast origins to the Pittsburgh area on the Laurel pipeline. These volumes corroborate the testimony of Sheetz witness Mr. Lorenz, who testified that barges have historically played a minor role in supplying the Pittsburgh area with petroleum products.[488] Gulf witness Mr. Johnston similarly commented that marketers in the Pittsburgh area cannot rely on barge deliveries for baseline supply and utilize these services only

---

[484] Sheetz St. No. 1, at 5:15-17; Sheetz St. No. 1-S, at 12:21 – 13:1.

[485] Sheetz St. No. 1-S, at 12:21 to 13:1.

[486] Gulf St. No. 1, at 5:2-3.

[487] Sheetz St. No. 1-S, at 13:11-13; Gulf St. No. 1-S, at 16:19 – 17:3.

[488] Sheetz St. No. 1, at 5:19-22.

to supplement pipeline deliveries.[489] As a result, efforts to expand barge capabilities in the Pittsburgh area would require tremendous risk tolerance for uncertainties in product availability and supply reliability in addition to requiring substantial capital investment to increase barging capacity and meet emission limits.[490]

Moreover, even expanding the capacity for barge shipments into the Pittsburgh area would fail to provide an adequate alternative to replace shipments on Laurel's pipeline for the same reason as the availability of pipelines from the Midwest. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**[491] These shipments would not restore the arbitrage opportunities, supply security, or balancing effect on price volatility enjoyed by the Pittsburgh market as a result of the current availability of both Midwest and East Coast supply.

(5) Product Exchanges

Throughout this proceeding, Laurel alleged that product exchanges would be available to supply the Pittsburgh area with petroleum products following implementation of the reversal. Husky makes similar assertions. However, as detailed below, neither Laurel nor Husky was able to establish that product exchanges are a viable or practical option for marketers in the Pittsburgh area. As a result, the Commission should disregard allegations that product exchanges are a feasible alternative to shipping flows on the Laurel pipeline to Pittsburgh.

---

[489] Gulf St. No. 1, at 4:17 to 5:2.

[490] Sheetz St. No. 1, at 5:19-22.

[491] *See* Tr. 1207:1 to 1208:7 (Miller), *but see* Laurel St. No. 5-R, at 91:3-5**.**

A product exchange is a transaction between two wholesalers where both parties agree to supply each other's obligations in two different geographical markets rather than having each party ship product to the other party's location.[492] Product exchanges are useful when geographical differences exist, but price and product differences do not.[493] As a result, product exchanges work best when both suppliers are subject to the same pricing hub and the product quantities and qualities are identical.[494] Absent these circumstances, agreeing on a product exchange would be difficult and/or ill-advised because the nuisance or financial exposure could outweigh the benefits.[495] Simply stated, the cost to the parties of accounting for the variances in pricing hubs and product requirements outweighs any benefit of pursuing a product exchange opportunity.[496]

Laurel alleges that product exchanges are available to marketers in the Pittsburgh area, but those allegations are based upon a failure to distinguish between the theoretical availability of product exchanges and the actual viability of product exchanges in the Pittsburgh market.[497] Notably, Laurel has not provided an example of an actual exchange agreement that has been executed in the Pittsburgh market.[498]

Laurel's claims regarding the availability of product exchanges in the Pittsburgh market unpersuasively rely on theoretical explanations of how product exchanges could work in general without addressing whether they actually do work in the Pittsburgh market.[499] Laurel's

[492] Sheetz St. No. 1, at 11:15-16.

[493] Sheetz St. No. 1, at 11:17-18.

[494] Sheetz St. No. 1, at 11:22 – 12:2.

[495] Sheetz St. No. 1, at 12:2-4.

[496] Sheetz St. No. 1, at 12:2-4.

[497] Sheetz St. No. 1-S, at 10:14 – 12:5.

[498] Sheetz St. No. 1-S, at 10:22 – 11:6 see also Gulf St. No. 1, at 10:17-18.

[499] Gulf St. No. 1, at 10:17 to 11:23; Sheetz St. No. 1-S, at 10:19 – 12:5.

testimony asserts that "… product exchanges are an option available to a product owner in the east as a means to for example to exchange product in Philadelphia for product in Pittsburgh."[500] However, product exchanges do not work in the Pittsburgh market because as extensively explained by Gulf witness Mr. Johnston and Sheetz witness Mr. Lorenz, the prospect of exchanging Chicago-priced barrels from the Midwest with New York-priced barrels from the East would result in an uneconomic contract due to the potentially extreme differentials between Chicago and New York pricing.[501] Moreover, a product exchange allows marketers to swap product that already exists in that marketplace and doesn't create or add new/additional product to the marketplace.[502] If product exchanges were such beneficial alternatives to transporting product via the Laurel pipeline, the Midwest refineries would already be using them to access the Pittsburgh market and would have little need for the pipeline reversal.[503] However, the record shows that market participants have not successfully entered into a product exchange for supply in the Pittsburgh area.[504] Laurel's repeated insistence of the availability of product exchanges in Pittsburgh as an alternative to service on the Laurel pipeline is completely unsupported by the record.

The experience of the actual marketers participating in this proceeding confirms the unavailability of product exchanges within the Pittsburgh market. Husky witness Mr. Miller confirmed that he has not completed a product exchange in the Pittsburgh market within at least

[500] Laurel St. No. 1-R, at 46:14-16.

[501] Gulf St. No. 1, at 10:17 to 11:23; Sheetz St. No. 1-S, at 11:11-18.

[502] *See* Tr. 327:16 (Hollis).

[503] Gulf St. No. 1-S, at 13:17-19.

[504] Sheetz St. No. 1, at 12:6-10; Gulf St. No. 1, at 10:17-18. Laurel witnesses Dr. Webb and Mr. Stern alleged that **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** As Laurel witness Mr. Arnold agreed that a product exchange would not "move physical barrels," the above-referenced agreement cannot be characterized as a product exchange. *See* Tr. 327:16.

the past 10 years.[505] Sheetz witness Mr. Lorenz, with 17 years of petroleum products supply experience in the Pittsburgh market, confirmed he has never completed a product exchange in Pittsburgh and that to his knowledge, "no market participants have ever successfully entered into a products exchange for supply to Western Pennsylvania."[506] Gulf witness Mr. Johnston, who similarly has over 20 years of experience in petroleum products terminal and rack operations in the Pittsburgh market confirmed that entering in to a product exchange in the Pittsburgh market would be too risky because of the potential variance between the Midwest Chicago-based price and the East Coast-New York Harbor based price.[507]

As with the other proffered alternatives, Laurel has failed to meet its burden of proving that product exchanges can serve as an adequate alternative to delivery of East Coast-sourced petroleum products to the Pittsburgh market.

(6) Conclusion

Whether by truck, barge, rail, pipeline, or product exchange, Laurel has not identified adequate alternatives to replace 60 years of pipeline service connecting East Coast refineries to Pittsburgh-area destination markets. The Commission must recognize that granting the proposed reversal would eliminate access to East Coast refinery output for Pittsburgh area wholesalers, retailers, and consumers despite the clear evidence that the market currently chooses East Coast supply to meet approximately half of its product demand. With the demonstrated lack of adequate alternatives to continue supplying the Pittsburgh area with East Coast refinery output, the proposed reversal would harm both the Pittsburgh and Philadelphia economies. Therefore, consideration of adequate alternatives strongly favors denying Laurel's request to abandon service to destinations west of Eldorado.

---

[505] Tr. 1195:11-12 (Miller).

[506] Sheetz St. No. 1, at 12:6-8.

[507] Gulf St. No. 1, at 11:17-18.

D. **Has Laurel Met Any Alternative Standard For Evaluating The Proposed Reversal?**

The Indicated Parties have shown that the appropriate legal standard for evaluating the proposed Laurel pipeline reversal is the Commission's four-part abandonment of service test.[508] And, as further shown, Laurel has failed to satisfy its burden of proof entitling it to abandon west bound petroleum products transportation service from Eldorado to Pittsburgh along the Laurel pipeline.[509] Instead, Laurel claims that different standards apply. However, even if either of the standards Laurel proposes are adopted, Laurel has not satisfied the requirements of either of them. Laurel cannot meet *The City of York*[510] substantial affirmative benefits standard because it has not proved the proposed reversal will result in *any* substantial affirmative benefits that outweigh the many harms the proposed reversal will cause. Further, Laurel cannot meet the just and reasonable standard applicable to tariff revisions because: (1) Laurel failed to submit the information required for "a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered" pursuant to 52 Pa. Code § 53.52; (2) removing delivery points from the tariff for deliveries from the east "unreasonably benefits the utility's investors at the expense of the utility's ratepayers";[511] and (3) removing delivery points from the tariff for current ratepayers to benefit Midwestern refineries is an unreasonable preference to Midwestern refineries and an unreasonable prejudice to the Indicated Parties in violation of 66 Pa. C.S. § 1502.[512]

---

[508] *Supra* Section V.B.1.

[509] *Supra* Section V.C.

[510] *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972).

[511] *See Pennsylvania Pub. Util. Comm'n. v. Factoryville Water Co.*, 67 Pa. P.U.C. 68 (Pa.P.U.C. Apr. 21, 1988) (quoting *National Fuel Gas Distribution Corp. v. Pennsylvania Pub. Utility Commission*, 464 A.2d 546 (Pa. Cmwlth. 1983)).

[512] *See Com. Util. Consultants*, C-20027172, 2006 WL 327261 (Pa.P.U.C. Jan. 17, 2006); *Barbara M. Berkley v. Borough of Berlin*, 96 Pa. P.U.C. 351 (Pa.P.U.C. Oct. 15, 2001); *Borough of Sewickley*, 212 P.U.R.4th 181 (Pa.P.U.C. Aug. 9, 2001).

1. Laurel Has Not Met *The City Of York* Substantial Affirmative Benefit Standard

The *City of York* substantial affirmative benefits standard requires that before Laurel is entitled to obtain a CPC, it must show that the proposed reversal will "affirmatively promote the 'service, accommodation, convenience, or safety of the public' in some substantial way."[513] This evidence must be "more than the mere absence of any adverse effect upon the public."[514]

Moreover, "when the 'public interest' is considered, it is contemplated that the benefits and detriments of the acquisition be measured as they impact on *all affected parties*, and not merely on one particular group or geographic subdivision"[515]

Accordingly, Laurel must show that, when considering the public as all potentially impacted parties, the proposed reversal will result in substantial benefits to the public that outweigh the harms to the public.[516] Laurel has not and cannot make this showing.

Laurel relies on *Sunoco 2013 Application Order*for its formulation of the substantial public benefits test.[517] However, rather than supporting Laurel's position, the *Sunoco 2013 Application Order* instead highlights that the reversal here will not result in substantial public benefits. First, none of the substantial public benefits that the Commission recognized in the *Sunoco 2013 Application Order* apply here, and the other benefits Laurel alleges (but has not proven) inure to its affiliate Buckeye and Midwestern shippers, thus not benefiting all affected parties in this proceeding. Second, the Indicated Parties have shown many harms exist to consumers, shippers, and refiners here that did not exist in the *Sunoco 2013 Application* case.

[513] 295 A.2d at 828.

[514] 295 A.2d at 828.

[515] *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 682 (Pa. Cmwlth. 1984).

[516] *See Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 682 (Pa. Cmwlth. 1984); *see also Sunoco 2013 Application Order*, at 7 (weighing benefits against impact on customers); *Popowsky v. Pennsylvania Pub. Util. Comm'n*, 937 A.2d 1040, 1057 (Pa. 2007) (discussing "net affirmative benefits").

[517] *See* Laurel St. No. 9-R, at 6:16-7:8 (Thomas).

a. *Sunoco* Benefits Do Not Apply Here And Laurel Has Not Proven Any Other Substantial Public Benefits

In the *Sunoco 2013 Application Order*, the Commission recognized two benefits, neither of which are applicable here because this case has nothing to do with Pennsylvania Shale Region production: (1) "enhanced delivery options for the abundant supply of natural gas liquids" and (2) "the moderation of commodity costs due to the injection of a new supply of ethane and propane into existing natural gas liquids markets."[518] Both of these benefits relied on the policy "to provide pipeline capacity to help Pennsylvania shale gas attain its full potential."[519] Neither of these benefits are present here, where there is no evidence that the proposed reversal will enhance production of or access to Pennsylvania Marcellus Shale products and instead "would enable the transportation of 'Midwestern products' rather than enhance the transportation of natural gas or any other products from Pennsylvania wells."[520]

Moreover, the benefits discussed in the *Sunoco 2013 Application Order* focused on injections of *new* supply into markets,[521] while here there will be no injection of *new* supply into markets because the relevant market (the Pittsburgh area market) already has access to Midwest supplies. The reversal will allow Midwest supply to enter Pittsburgh and Altoona via pipeline but, as Laurel witnesses Mr. Hollis and Dr. Webb admitted, there is currently excess capacity available from the Midwest into Pittsburgh.[522] Moreover, as Laurel Witness Dr. Jones stated, it is unlikely volumes will reach Altoona from the west because the Altoona area will have

[518] *Sunoco 2013 Application Order*, at 7.

[519] Indicated Parties St. No. 5-S, at 8:4-7; *Sunoco 2013 Application Order*. at 2-3.

[520] Indicated Parties St. No. 5-S, at 8:7-9 (quoting Laurel St. No. 10-R, at 12:16).

[521] *Sunoco 2013 Application Order* at 7.

[522] Tr. 481:5-9 (Webb); 339:18-22 (Hollis); Laurel St. No. 5, at 17:2-5 (Webb); *see also supra* Section V.C.1.c.(2)(a) i) a).

competition from the east, thus it is likewise unlikely any new supply will reach the Altoona area market.[523]

The *Sunoco 2013 Application Order* was clearly a policy-based decision that found a public benefit in promoting pipeline capacity to help Pennsylvania shale gas attain its full potential.[524] In contrast, the benefits Laurel alleges in this this proceeding will only benefit the Midwest refiners and Buckeye to the detriment of the Pennsylvania public.

Laurel has, up to this point,[525] alleged the following benefits, none of which Laurel has proven will provide a substantial public benefit and none of which outweigh the substantial harms the proposed reversal will cause:

(1) Utilization Of Laurel's Pipeline Between Eldorado And Pittsburgh

Laurel asserts that because it claims the portion of its pipeline from Eldorado to Pittsburgh is currently and will continue to be "severely underutilized"[526] it is a "stranded asset"[527] and thus, reversing this segment will increase utilization of the asset and provide a public benefit. As explained below, Laurel's argument fails because it has not proven that the asset is stranded or underutilized, or that utilization post-reversal will increase.

Mr. Hollis was the only witness to claim Laurel's pipeline asset is "stranded."[528] However, he expressly admitted that he was not using "stranded" as a term of art or in any accounting or regulatory context or even asking the Commission to find that Laurel has a

[523] Tr. 703:22-704:10 (Jones).

[524] Indicated Parties St. No. 5-S, at 8:4-7; *Sunoco 2013 Application Order*, at 2-3.

[525] Given Laurel's consistent sandbagging throughout this case, it is unclear exactly which public benefits it will assert in its brief and which testimony it may use in support of its arguments. Accordingly, the Indicated Parties reserve their right to fully respond to Laurel's alleged public benefits as argued in Laurel's Main Brief.

[526] Laurel St. No. 1-R, at 22:6-15, 37:9, 39:23-40:1.

[527] Laurel St. No. 2-R, at 10:6-7.

[528] Laurel St. No. 2-R, at 10:6-7.

stranded asset.[529] Instead, Mr. Hollis is claiming that the "capacity is kind of sitting there and getting increasingly unused."[530]

As to underutilization or unused capacity, Laurel's argument is inconsistent and specious. Laurel claims on the one hand that volumes from Eldorado west to Pittsburgh have decreased to a level showing demand from the east is not sufficient.[531] Laurel claims that "insufficient" volume level is 46,000 BPD as of 2015-2016.[532] Yet, when considering what shipper commitments would be "sufficient" to reverse the line, Laurel had no specific number in mind,[533] but then considered shipper commitments from the Midwest of **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** to be sufficient[534] even though they are *lower* than shipments currently coming from the east. Moreover as Dr. Arthur explained, "Laurel's own witness, Dr. Webb, presents data showing that the Laurel pipeline has delivered between 64 and 95 MBPD annually to the Pittsburgh market over the past five years. These volumes delivered by [the] Laurel [pipeline] supplied over half of the Pittsburgh area's consumption."[535]

As to Laurel's arguments based on Dr. Webb's testimony that movements from east to west on the Laurel pipeline will reach zero in the future, Dr. Arthur and Mr. Schaal disproved Dr. Webb's theory.[536] Dr. Arthur and Mr. Schaal explained Dr. Webb's theory that volumes will decline to zero is unreliable and inappropriate because it is technically wrong, based on flawed

---

[529] Tr. 345:13-347:8 (Hollis).

[530] Tr. 345:13-347:8 (Hollis).

[531] Tr. 290:10-15 (Arnold).

[532] Laurel St. No. 5, at 28:12-13.

[533] Tr. 306:8-307:9 (Arnold).

[534] Tr. 307:1-9 (Arnold) (referring to DWA-11 at page 3 of 17, which provides total Midwestern shipper commitments).

[535] Indicated Parties St. No. 1-S, at 28:20-23.

[536] Indicated Parties St. No. 1-S, at 24:22-28:14; Indicated Parties St. No. 2-S, at 5:12-17:10.

assumptions and fails to take into account the underlying causes of historical volume trends.[537] As Dr. Arthur and Mr. Schaal explained, volumes along the Laurel pipeline from the East are not declining,[538] and as Mr. Schaal concluded, "petroleum markets will continue to evolve in a way that will result in increases in east to west movements along the Laurel pipeline."[539] The fact that current shipments from the east are expected to increase and currently shipments from the east are greater than post-reversal commitments to ship from the Midwest exposes the fallacies of Laurel's underutilization claims.

This fact also shows that Laurel has not proven that the reversal will cause utilization of this segment of the line to increase. The committed volume alone is smaller than the current utilization of the line, demonstrating shipments over this portion of the line if the reversal were approved could actually decrease. Moreover, that decrease could be more than just the difference between current shipments from the east and committed shipments from the Midwest. The shipper commitments from the Midwest are shipments over the entire segment of the Laurel line west of Eldorado – not just between Pittsburgh and Eldorado (the segment Laurel claims is currently underutilized).[540] As Laurel witness Dr. Jones explained, many of the committed shipments may not go to Altoona because Altoona will face competition from the east.[541] Moreover, these shipper "commitments" are merely contracts that a shipper will either ship the committed amount of product into the line or will make an alternative payment – there is no commitment to in fact ship product on this segment of the line and no evidence that shippers will

[537] Indicated Parties St. No. 1-S, at 24:22-28:14; Indicated Parties St. No. 2-S, at 5:12-17:10.

[538] Indicated Parties St. No. 1, at 4–11; Indicated Parties St. No. 1-S, at 23:5-24:1; Indicated Parties St. No. 2, at 18:3-19:5.

[539] Indicated Parties St. No. 2-S, at 5:19-6:5.

[540] Tr. 1203:25-1204:5 (Miller) **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** *See also* Tr. 1205:23-1206:2 (Miller); Tr. 303:8-19 (Arnold).

[541] Tr. 703-704 (Jones).

in fact ship product on this portion of the line.[542] Thus, Laurel has not shown utilization of this claimed underutilized segment of the pipeline will increase if the Commission approves the reversal, and thus has not demonstrated any public benefits of this nature.

Even assuming arguendo Laurel does show the proposed reversal would increase utilization of this segment of the Laurel pipeline, the only sectors of the public that increased utilization benefits are Buckeye and Midwestern refineries and shippers. Incredibly, not even Laurel would benefit. As Dr. Arthur explained, only Laurel's affiliate Buckeye, which is not a Pennsylvania public utility, would be the beneficiary.[543] In fact, the reversal will harm Laurel.[544] This Commission should not let benefits to Midwestern interests outweigh the harms to Pennsylvania.

(2) <u>Increased Supply Of Refined Products From The Midwest To Pennsylvania</u>

Laurel's argument that increased supply of refined products from the Midwest to Pennsylvania will provide substantial public benefits suffers from many flaws, but none more glaring than the persistence of excess capacity from the Midwest into Pennsylvania, which indicates the market does not demand more product from the Midwest.[545]

Laurel repeatedly claims that market forces should dictate the direction of flow on its pipeline and that following the signals of these market driven forces will benefit the public.[546] Laurel then argues that the "market" dictated its decision to reverse the flow of the pipeline based

---

[542] Tr. 1203:25-1204:5 (Miller) **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** *See also* Tr. 1205:23-1206:2 (Miller) Tr. 303:8-19 (Arnold).

[543] Indicated Parties St. No. 1, at 11:21-23 ("A reversal of the Laurel pipeline would increase the revenues of Laurel's affiliate Buckeye through increased tariff rates Buckeye collects on the volumes delivered to Pittsburgh.").

[544] Indicated Parties St. No. 1, at 14:12-23.

[545] Indicated Parties St. No. 1-S, at 29:22-31:14 (Arthur).

[546] *See, e.g.*, Application at PP 34-35; Laurel St. Nos. 10-R, at 9:17-12:5 (Kleit), 9-R, at 9:15-10:17 (Thomas), 1-R, at 16:10-11 (Arnold), 5-RJ, at 23:15-24:7 (Webb).

on shipper commitments to deliver into the reversed segment of the line (or make alternative payment for) product volumes of merely **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**,[547] which is less than half of the volumes currently flowing on this segment of the line from the east.[548] However, Laurel's argument ignores that, as Mr. Hollis and Dr. Webb have admitted, there is currently plenty of excess capacity for products to reach Pittsburgh via pipeline from the Midwest.[549] Because this capacity has gone unused the Pittsburgh market clearly does not desire to fully acquire its supply from the Midwest, and forcing them to do so would be contrary to market signals.[550] As Dr. Arthur explained:

> Available unused capacity from Midwest origins to Pittsburgh indicates that the market has not demanded more product from the Midwest or else more would have been shipped from the Midwest to Pittsburgh. The Pittsburgh market clearly is benefitting from having the ability to source supply from both the East Coast and the Midwest. Dr. Webb asserts that "[i]f Midwest supply were more expensive…it should not be flowing into Pittsburgh as pipeline constraints are eliminated." Pipeline constraints on the Buckeye system to Pittsburgh have been eliminated since March 2016 and the market has only increased its supply from the Midwest by a portion of the total capacity available. If Midwest supply to Pittsburgh were as cost-competitive and as much in demand as Laurel has asserted, then the Buckeye pipeline from the Midwest to Pittsburgh should be fully utilized. The fact that available capacity exists from Midwest origins to Pittsburgh contradicts Laurel's claim that reversing the Laurel pipeline would cause no harm to the wholesalers, retailers, and consumers in Pittsburgh as the current market participants are sourcing a significant amount of supply from East Coast origins while not choosing to source from Midwest origins when the capacity exists to do so. A reversal of the Laurel pipeline would force these

[547] Tr. 307:1-9 (Arnold) (referring to DWA-11 at page 3 of 17, which provides total midwestern shipper commitment number).; Indicated Parties St. No. 1-S, at 29:22-30:12.

[548] Indicated Parties St. No. 1-S, at 28:20-23.

[549] Tr. 481:5-9 (Webb); 339:18-22 (Hollis); Laurel St. No. 5, at 17:2-5 (Webb); *see also supra* Section V.C.1.c.(2)(a) i) a).

[550] Indicated Parties St. No. 1-S, at 30:15-31:14.

> current market participants in Pittsburgh to shift to higher cost supply alternatives that they are not choosing to use currently.[551]

As to Laurel's repeated arguments that the "market" favors reversal, shipper commitments **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** are not a very strong signal, especially where those same shippers could already ship those volumes on existing pipelines to Pittsburgh, and have not committed to ship *any* volumes past Pittsburgh.

Thus, because the proposed reversal is *not* consistent with market signals, even under Laurel's framework, Laurel has not shown a substantial public benefit. The only benefit Laurel has shown is to Midwestern shippers and refineries that will gain a competition-free Pittsburgh market, and Buckeye, which this Commission should *not* weight heavier than the detriments to Pennsylvania stakeholders.

(3) Impact On Gasoline Prices In Pennsylvania

As explained more fully in Section V.C.1.c.(2)(a) *supra*, the record is clear that the proposed reversal will harm Pittsburgh area consumers with increased supply costs. While various Laurel witnesses have asserted that the proposed reversal will benefit Pennsylvania consumers with lower gasoline prices, Laurel's own expert witness on this subject admitted that he "did not quantify the prices given all the variables at play."[552] Dr. Webb admitted that his own workpapers show that the New York Harbor price, on which prices for refined products coming from the East are based, is the lowest price more often than Chicago prices, the prices on which Midwestern supplies are based.[553] Dr. Arthur has rebutted Dr. Webb's[554] allegations that

---

[551] Indicated Parties St. No. 1-S, at 30:15-31:14.

[552] Tr. 504:8-9 (Webb); *see also* Laurel St. No. 1-R, at 16:19 ("future refined products prices are not reliably forecasted").

[553] Tr. 464:11-15 (Webb) (discussing Indicated Parties Cross Exhibit 6, Dr. Webb's workpapers).

prices in the Pittsburgh area will decrease,[555] and has presented substantial evidence quantifying that costs in the Pittsburgh area will increase due to the loss of competition from Eastern refineries and shippers, including Philadelphia area refineries.[556] Specifically, Dr. Arthur has explained that, assuming trucking from Altoona to Pittsburgh is not an option, costs would increase as follows:[557]

Figure 11
Annual Cost to Pittsburgh Consumers, Wholesalers, and Retailers
Due to Laurel Pipeline Reversal,
Assuming No Trucking from Altoona (Eldorado) to Pittsburgh
($)

Year		Product: Gasoline	Product: Diesel	Total
		[1]	[2]	[3]=[1]+[2]
2012	[a]	$26,657,757	$1,067,168	$27,724,925
2013	[b]	$68,698,431	$18,683,098	$87,381,529
2014	[c]	$38,460,472	$17,437,247	$55,897,719
2015	[d]	$85,636,966	$15,856,522	$101,493,489
2016	[e]	$54,482,911	$11,077,353	$65,560,265
Average Historical Cost	[f]	**$54,787,308**	**$12,824,278**	**$67,611,585**
Annual 2016 Cost	[g]	$54,482,911	$11,077,353	$65,560,265
Increased Annual Long-Term Contract Supply Costs	[h]	$7,576,620	$1,985,247	$9,561,867
Total Annual Going-Forward Cost	[i]	**$62,059,532**	**$13,062,600**	**$75,122,132**

Sources/Notes:
Argus gasoline and ultra-low sulfur diesel prices.
Costs are calculated assuming a summer RVP standard in Pittsburgh, PA.
[f] = Average([a]:[e])
[i]=[g]+[h]

---

[554] On November 16, 2017, FERC found that Dr. Webb is not a reliable witness by wholly rejecting his analysis and conclusions. *See Guttman Energy, Inc., d/b/a Guttman Oil Company, PBF Holding Company, LLC v. Buckeye Pipe Line Company, L.P. Laurel Pipe Line Company, L.P.*, Opinion No. 558, 161 FERC ¶ 61,180 PP 164-168 (2017).

[555] Indicated Parties St. No. 1-S, at 6:1-17:6.

[556] Indicated Parties St. No. 1, at 17:24-44:16 (Arnold).

[557] Indicated Parties St. No. 1, at 42, Figure 11.

Dr. Arthur has unequivocally testified that under no scenario post-reversal will wholesalers, retailers, and consumers in the Pittsburgh area be better off.[558]

As to the Altoona and Harrisburg area markets, while Dr. Arthur testified that there will be some reduction in supply costs in these areas, further review of Laurel's TSAs and additional testimony from the evidentiary hearings indicates that Altoona and Harrisburg would not see any benefit from the proposed reversal because all volumes shipped on the proposed line are expected to be delivered to Pittsburgh area destinations.[559] However, even assuming some volumes are shipped to Altoona, any benefits would be of "a significantly smaller magnitude than the increased supply costs and increased expected consumer prices to the Pittsburgh area that the Laurel pipeline reversal will cause."[560] Dr. Arthur quantified the net costs to Pennsylvania consumers by subtracting the maximum benefits to Altoona and Harrisburg from the costs to Pittsburgh:[561]

[558] Indicated Parties St. No. 1-S, at 16:13-17:6.

[559] *See supra* Section V.C.1.c.(2)(a) i) a).

[560] Indicated Parties St. No. 1, at 44:18-65:23; Indicated Parties St. No. 1-S, at 19:22-20:22.

[561] Indicated Parties St. No. 1, at 64, Figure 18.

Figure 18
Combined Increased Costs and Benefits
to Pennsylvania Consumers, Wholesalers, and Retailers
Due to Laurel Pipeline Reversal

Market		No Trucking	With Trucking
		[1]	[2]
Pittsburgh (Cost)	[a]	$75,122,132	$33,965,247
Altoona (Benefit)	[b]	-$7,384,197	*
Harrisburg (Benefit)	[c]	$0	-$877,619
Net Cost	[d]	**$67,737,935**	**$33,087,628**

Sources/Notes:
Delivered price analyses.
[2][b]: Benefit to Altoona is the incremental transportation rate saved by switching volumes which are currently delivered to Pittsburgh from Midwest sources and trucked to the Altoona area, to direct deliveries into Altoona via the Laurel reversal project.
[d] = Sum([a]-[c])

Thus, on net, the record shows there is substantial evidence that the proposed reversal will *not* benefit Pennsylvania through lower gasoline prices.

(4) Impact On National Energy Policy

It is unclear which alleged National Energy Policy Laurel is referring to, as none of its witnesses has used this term. Assuming arguendo Laurel is claiming the proposed Laurel pipeline reversal will benefit the public by assisting Pennsylvania in becoming "an international energy leader" as Mr. Thomas claims,[562] Laurel's argument is not compelling. Mr. Thomas provides a laundry list of natural gas-related Pennsylvania production, and then asserts "moving these energy feedstocks to market is essential in order for this production to continue to expand."[563] However, the Laurel pipeline reversal has *nothing* to do with Pennsylvania produced

[562] Laurel St. No. 9-R, at 7:10.

[563] Laurel St. No. 9-R, at 7:17-8:13.

natural gas products, including crude. As Indicated Parties witness Lloyd pointed out, Laurel witness Dr. Kleit testified that the purpose of the proposed reversal is to facilitate delivery into Pennsylvania of Midwestern products, which "is significantly different from facilitating transportation of products from Pennsylvania wells or Pennsylvania refineries."[564] Therefore, as Mr. Lloyd concluded, Laurel's proposed reversal will "provide no apparent boost to Pennsylvania wells or refineries."[565] Mr. Thomas' claims related to promoting the policy of the Governor's Pipeline Infrastructure Task Force is likewise a canard. As Mr. Lloyd demonstrated, "the goal of the Task Force actually was to promote collaboration in developing pipelines to transport natural gas from Pennsylvania wells.[566] Laurel has provided no evidence that its proposed reversal will facilitate transportation of natural gas or natural gas products from Pennsylvania wells.

Assuming arguendo Laurel is arguing that the Commission should find a public benefit in increased reliance on crude from North America that Midwestern refiners utilize and decreased reliance on European and West African crude that Philadelphia refiners utilize,[567] Laurel's argument is baseless. The Commission has no such policy and it is well outside the realm of policies the Commission should consider. The Commission is not tasked with setting (or following) alleged policies concerning the use of crude. Moreover, Laurel has not shown how the Commission favoring such any of these policies will benefit any Pennsylvania interests.

---

[564] Indicated Parties St. No. 5-S, at 8:17-20.

[565] Indicated Parties St. No. 5-S, at 8:17-20.

[566] Indicated Parties St. No. 5-S, at 9:1-8 (citing Department of Environmental Protection, Pennsylvania Pipeline Portal, "Pennsylvania Infrastructure Task Force Report," at files.dep.state.pa.us/ProgramIntegration/PITF/PITF%20Report%20Final.pdf).

[567] *See, e.g.*, Laurel St. No. 2, at 5:1-4 (Hollis).

(5) Other Benefits

To the extent Laurel is alleging environmental benefits from not building another pipeline,[568] this argument is disingenuous. There is no record evidence that any entity, let alone Laurel, is currently considering building a new pipeline to carry products from the Midwest to Pennsylvania, or that such a pipeline is needed. Given the construction of the Allegheny Access and the Marathon pipelines, which already provide excess capacity for Midwestern supplies into Pennsylvania,[569] building a new pipeline would "make no sense."[570] As Laurel witness Mr. Arnold stated, "it would make no commercial sense for the Buckeye companies to build costly new greenfield pipeline facilities".[571] Not building a pipeline that Laurel never intended to build is not a public benefit.

(a) The *Sunoco 2013 Application Order* Highlights The Harms That Will Occur Here

In the *Sunoco 2013 Application Order*, when the Commission found that the harms there did not outweigh the benefits of abandonment to enhance natural gas delivery capabilities, no one protested the abandonment, no hearing was held, and the largest customers served were Sunoco Pipeline affiliates, who submitted letters of non-opposition.[572] In contrast, here, as Mr. Lloyd testified, the Indicated Parties (each of which, except Giant Eagle, Laurel considers a customer)[573] "oppose the abandonment and have presented extensive evidence of the harm that may occur to shippers, refiners, and customers if the current east-to-west flow direction on the

---

[568] *Cf.* Laurel St. 1-R, at 19:3-4 ("Use of Laurel also avoids the environmental, landowner and land-use issues inherent in constructing new pipelines.") (Arnold).

[569] Tr. 339:18-22 ("The capacity of those main line systems, Allegheny Access, ours, the Marathon Pipeline, I think if you add the capacity of those together, they exceed the demand in metropolitan Pittsburgh. Again, I think our expert witnesses actually address that, but that is my belief.") (Hollis); *see also* Tr. 338:12-16 (Hollis).

[570] Tr. 249:12-18 (Arnold).

[571] Laurel St. No. 1-R, at 18:23-19:2 (Arnold).

[572] *Sunoco 2013 Application Order*, 2.

[573] Tr. 241:18-23 (Arnold).

Laurel pipeline between Eldorado and the Pittsburgh area is reversed."[574] Likewise, as Mr. Lloyd testified, in the *Sunoco 2013 Application Order* the Commission, in finding there would not be harm to the public, "explicitly relied on the fact that the Laurel pipeline would be available to replace all of the service the applicant in Sunoco was seeking to abandon."[575] Here, Laurel "is seeking to eliminate the *very alternative* that was part of the Commission's rationale for approving the applicant's request in *Sunoco*."[576] (emphasis added).

As explained at length in Section V.C.1.c.ii *supra*, eliminating the only alternative[577] to reach the Pittsburgh market from the east will result in substantial harm on all affected Pennsylvania parties, including Pennsylvania consumers, shippers such as Gulf and Sheetz, gasoline purchasers such as Giant Eagle, and Philadelphia refineries such as Monroe Energy and PESRM. Importantly, Laurel's current customers[578] (Sheetz, Gulf, Giant Eagle, PESRM and Monroe Energy) oppose the proposed reversal and will be harmed. Current utility customers have an interest that the Commission must protect in considering whether an application for a CPC is in the public interest, and where, as here, there would be an adverse impact on current customers, the Commission has denied such applications.[579]

---

[574] Indicated Parties St. No. 5-S, at 7:12-19. Though Laurel does not consider Giant Eagle a “customer,” the majority of gasoline sold at Giant Eagle’s Pittsburgh-area GetGo stations originates from East Coast sources and is shipped westward via the Laurel pipeline. Giant Eagle St. No. 1, at 3:20-22.

[575] Indicated Parties St. No. 5-S, at 7:20-23; *see also* Tr. 461:14-20 (Webb).

[576] Indicated Parties St. No. 5-S, at 7:23-8:3.

[577] Tr. 444:14-19 (no pipeline alternative), 447:24-448:1 (no trucking alternative), 448:4-4 (admitting no way for eastern shippers to get to Pittsburgh) (Webb).

[578] Tr. 241:18-23 (Arnold).

[579] *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 683 (Pa. Cmwlth. 1984) ("Upon a review of all of the testimony presented and the evidence introduced at the hearings before the ALJ we conclude that there was substantial evidence upon which the Commission could have concluded that the issuance of a certificate of public convenience to Middletown Township was not in the public interest. More specifically, there existed substantial evidence upon which to base a finding that an acquisition would have an adverse impact on the Water Company's remaining customers whose interest was to be protected and considered.").

Moreover, the proposed Laurel pipeline reversal will have anti-competitive effects on the Pittsburgh market, which will no longer have access to east coast supply, as explained in Section V.C.1.c.ii.(a) *supra*. The Commission is required to consider anti-competitive effects in an application for a certificate of public convenience and whether those anti-competitive effects may offset or negate the benefits of a proposal.[580]

The significant harms to Pennsylvania consumers, Laurel, and Laurel's customers clearly outweigh any benefits to Buckeye and Midwestern refineries. Laurel has not demonstrated substantial public benefits under its proposed *Sunoco 2013 Application Order* standard, and its Application should be denied.

2. Laurel Has Not Met The Just And Reasonable Standard Applicable To Tariff Revisions

Tariff revisions subject to Commission review must be just and reasonable.[581] Here, Laurel's proposed tariff changes removing destination points for delivery from the east to points west of Eldorado are not just and reasonable for three reasons. First, Laurel failed to submit the information required for "a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered" pursuant to 52 Pa. Code § 53.52.[582] Second, removing these delivery points for deliveries from the east "unreasonably benefits the utility's investors at the expense of the utility's ratepayers."[583] Third, removing these delivery points for current Laurel customers and beneficiaries to benefit Midwestern refineries grants an

[580] *Lloyd v. Pennsylvania Pub. Util. Comm'n*, 17 A.3d 425, 430 (Pa. Cmwlth. 2011) ("*anti-competitive* effects of a merger may offset or negate the advantages of a merger.").

[581] *See, e.g.*, *Sunoco Pipeline L.P. Request for Approval of Tariff Pipeline-Pa P.U.C. No. 16 and Waiver of 52 Pa. Code s53.52(b)(2) and (c)(1) through (5),* Docket No. R-2014-2426158 (Order entered Aug. 21, 2014) (*Sunoco 2014 Tariff Order*, at 3.).

[582] *Cf. Sunoco Tariff Order*, at 3.

[583] *See Pennsylvania Pub. Util. Comm'n.*, 67 Pa. P.U.C. 68 (Pa.P.U.C. Apr. 21, 1988).

unreasonable preference to Midwestern refineries and imposes an unreasonable prejudice upon the Indicated Parties in violation of 66 Pa. C.S. § 1502.[584]

First, Laurel has not submitted the information the Commission requires pursuant to 52 Pa. Code § 53.52 for approval of tariff revisions that effects changes to the conditions of service to be rendered. In the *Sunoco 2014 Tariff* proceeding, Sunoco Pipeline submitted tariff revisions to the Commission for approval that added new origin and destination points for its pipeline and did not increase or decrease tariff rates.[585] Sunoco Pipeline submitted most of the information required under section 53.52, but requested waiver of certain subsections ((b)(2) and (c)(1) through (5)). The Commission granted the requested waiver, and allowed the tariff supplement to go into effect.

Here, while Laurel's proposed revisions constitute an abandonment to which the four-part abandonment of service standard applies, even if that standard does not apply, the Commission has jurisdiction to determine whether the proposed revisions are just and reasonable, as evidenced by the scope of the information the Commission requires to be filed with tariff revisions pursuant to 52 Pa. Code § 53.52:

> (a) Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered, it shall submit to the Commission, with the tariff, revision or supplement, statements showing all of the following:
>
> (1) The specific reasons for each change.
>
> (2) The total number of customers served by the utility.
>
> (3) A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.

[584] *See Com. Util. Consultants*, C-20027172, 2006 WL 327261 (Pa.P.U.C. Jan. 17, 2006); *Berkley*, 96 Pa. P.U.C. 351 (Pa.P.U.C. Oct. 15, 2001); *Borough of Sewickley*, 212 P.U.R.4th 181 (Pa.P.U.C. Aug. 9, 2001).

[585] *Sunoco Tariff Order, at* 3-4.

(4) The effect of the change on the utility's customers.

(5) The direct or indirect effect of the proposed change on the utility's revenue and expenses.

(6) The effect of the change on the service rendered by the utility.

(7) A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308 (relating to voluntary changes in rates).

(8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa.C.S. § 1308.

(9) Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.

(10) Plans the utility has for introducing or implementing the changes with respect to its ratepayers.

(11) FCC, FERC or Commission orders or rulings applicable to the filing.

(b) Whenever a public utility other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement which will increase or decrease the bills to its customers, it shall submit in addition to the requirements of subsection (a), to the Commission, with the tariff, revision or supplement, statements showing the following:

(1) The specific reasons for each increase or decrease.

(2) The operating income statement of the utility for a 12-month period, the end of which may not be more than 120 days prior to the filing. Water and wastewater utilities with annual revenues under $100,000 and municipal corporations subject to Commission jurisdiction may provide operating income statements for a 12-month period, the end of which may not be more than 180 days prior to the filing.

> (3) A calculation of the number of customers, by tariff subdivision, whose bills will be increased.
>
> (4) A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.
>
> (5) A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.
>
> (6) A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.[586]

Laurel's proposal effects a change in the conditions of service pursuant to subsection (a) because under the current tariff, eastern shippers have almost twice as many destination points available as they will have under the proposed tariff. Laurel's proposal also effects a change in customer bills under section (b) since eastern shippers will no longer be able to ship to destinations west of Eldorado and thus will no longer pay tariffed rates to those destinations and Midwestern shippers' bills will be under Buckeye's FERC tariffed rates. Laurel did not submit the required information under subsections (a) and (b) with its Application and did not request waiver of the requirement to submit the information. For this reason alone, Laurel's Application should be denied.

Second, Laurel's proposal is unjust and unreasonable because it removes delivery point options current customers presently utilize for deliveries from the east, which "unreasonably benefits the utility's investors at the expense of the utility's ratepayers."[587] The proposal unreasonably benefits Laurel's investor, its parent company Buckeye, because post-reversal Midwestern shippers will pay FERC tariff rates to Buckeye to reach the delivery points from western Pennsylvania to Eldorado, which are higher than the rates eastern shippers currently pay

---

[586] *Sunoco Tariff Order, at* 3-4.

[587] *See Pennsylvania Pub. Util. Comm'n. v. Factoryville Water Co.*, 67 Pa. P.U.C. 68 (Pa.P.U.C. Apr. 21, 1988) (quoting *National Fuel Gas Distribution Corp. v. Pennsylvania Pub. Utility Commission,* 464 A.2d 546 (Pa. Cmwlth. 1983)).

under Laurel's PUC tariff, resulting in higher revenues to Buckeye.[588] This is an unreasonable benefit for Buckeye at the expense of current Laurel customers, shippers, and beneficiaries because those stakeholders will be harmed by not being able to reach the Pittsburgh area market from the east.

Third, Laurel's proposed tariff is unjust and unreasonable because it removes delivery points for current ratepayers in the Pittsburgh market to benefit Midwestern refineries, granting an unreasonable preference to Midwestern refineries and imposing an unreasonable prejudice upon the Indicated Parties in violation of 66 Pa. C.S. § 1502.[589] Section 1502 states:

> No public utility shall, as to service, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to service, either as between localities or as between classes of service, but this section does not prohibit the establishment of reasonable classifications of service.[590]

The Commission has held that utility actions are unreasonably discriminatory and violate section 1502 where: (1) a utility gives its affiliates a competitive advantage;[591] (2) a utility refuses to offer some customers within its territory service that it offers other customers in its territory;[592] and (3) a utility treats customers in one geographic region differently than it treats customers in another geographic region to protect its competitive, financial and business interests.[593] Here, Laurel's pipeline reversal proposal is a mix of unreasonable preferences and discriminations.

---

[588] Tr. 248:23-249:7 (Arnold).

[589] *See Com. Util. Consultants*, C-20027172, 2006 WL 327261 (Pa.P.U.C. Jan. 17, 2006); *Berkley*, 96 Pa. P.U.C. 351 (Pa.P.U.C. Oct. 15, 2001); *Borough of Sewickley*, 212 P.U.R.4th 181 (Pa.P.U.C. Aug. 9, 2001).

[590] 66 Pa. C.S. § 1502.

[591] *Com. Util. Consultants*, C-20027172, 2006 WL 327261 (Pa.P.U.C. Jan. 17, 2006).

[592] *Berkley*, 96 Pa. P.U.C. 351 (Pa.P.U.C. Oct. 15, 2001).

[593] *Borough of Sewickley*, 212 P.U.R.4th 181 (Pa.P.U.C. Aug. 9, 2001).

(1) Laurel is giving its affiliate, Buckeye, a competitive advantage at the expense of current customers because, as Mr. Arnold testified, one of the reasons for the reversal is the concern that a competitor would beat Buckeye to the chase in providing interstate access to Pennsylvania for Midwestern refiners.[594]

(2) Laurel is refusing to offer some customers, ie., eastern refiners and shippers, service to Pittsburgh area markets that it will provide to its affiliate Buckeye's customers in the Midwest.

(3) Laurel is treating eastern shippers and refiners differently from Midwestern shippers and refiners by giving Midwestern refiners exclusive access to the Pittsburgh market to protect Laurel's affiliate Buckeye's competitive, financial, and business interest in gaining interstate deliveries into Pennsylvania before a competitor could acquire these customers.[595]

Accordingly, because Laurel's proposed tariff revisions are unreasonable discriminatory and prejudicial in violation of 66 Pa. C.S. § 1502, the proposed tariffs are unjust and unreasonable and should be rejected.

E. Disposition of the Indicated Parties' Offer of Proof

1. Indicated Parties' Offer of Proof Should be Admitted to the Record

At the November 13, 2017 evidentiary hearing, the presiding ALJ granted a Motion of Laurel Pipe Line Company, L.P. to Submit a Supplemental Affidavit or, Alternatively Exclude Certain Cross Examination Exhibits and Testimony ("Motion"). The Motion sought to: (1) exclude from the record a Greater Ohio Valley Market Study prepared by IHS on behalf of Husky ("IHS Study") and served on all parties by Husky Witness Mr. Miller in response to a discovery request from Gulf and Sheetz; or (2) admit an affidavit prepared by Husky witness Dr. Webb and attached to the Motion.[596] The ALJ excluded the IHS Study from evidence, but permitted the Indicated Parties to submit the study to the record as an offer of proof pursuant to Section 5.414 of the Commission's regulations.[597] As grounds for declining to admit the IHS

[594] Laurel St. No. 1-R, at 10:12-18.

[595] Laurel St. No. 1-R, at 10:12-18.

[596] Motion, at 2.

[597] 52 Pa. Code § 5.414.

Study to the record, the ALJ ruled the document to be hearsay and untimely. Both determinations were in error and must be reversed in Order to preserve the Indicated Parties' due process rights.

Importantly, the Indicated Parties did not produce or prepare the IHS Study. Husky provided the document on September 28, 2017, under cover of an interrogatory response sponsored by Husky witness Mr. Miller. Consistent with the Commission's regulations, all parties were served with copies of Husky's discovery response, including Laurel. On October 6, 2017, the Indicated Parties submitted Surrebuttal Testimony. Laurel and Husky submitted Written Rejoinder testimony on October 21, 2017, with Laurel submitting one Supplemental Rejoinder Statement on November 1, 2017.

At the November 8, 2017 evidentiary hearing, Indicated Parties witness Dr. Arthur referred to the IHS Study, at which point the ALJ inquired into the origin of the document.[598] Counsel for Gulf and Sheetz informed the ALJ that the IHS Study had not been submitted with pre-served written testimony, but that Gulf and Sheetz had copies available in the hearing room because the parties had intended to reference the document in cross-examination of Mr. Miller and submit it to the record as a cross examination exhibit.[599]

On Sunday, November 12, 2017, the afternoon before the last day of evidentiary hearings, Laurel filed the Motion. In the Motion, Laurel argued that the introduction of the IHS Study into evidence would deprive Laurel of its due process rights because the Indicated Parties had not previously attached the IHS Study as an exhibit to surrebuttal testimony. Laurel claims it could not otherwise address the IHS Study in its Rejoinder Testimony. At the November 13, 2017 evidentiary hearing, following review of Laurel's Motion and limited oral argument, the

[598] Tr. 783:19 – 785:8 (Arthur).

[599] At the evidentiary hearing on November 8, 2017, counsel for Gulf and Sheetz informed the ALJ that copies of the document were available in the hearing room for submission as an exhibit. Tr. 786:5-8 (Arthur).

ALJ deemed the IHS Study to be hearsay and untimely offered into evidence.[600] Accordingly, the ALJ excluded the IHS Study from the evidentiary record.

The ALJ's decision was in error and must be reversed to preserve the Indicated Parties' procedural due process rights. The Indicated Parties' cross-examination of Husky's witness on the contents of a study prepared at the direction of and on behalf of Husky and submitted in response to discovery established a sufficient foundation for its admission as evidence. While the Commission's regulations authorize the ALJ to exclude evidence that would cause a party to suffer undue prejudice, admission of the IHS Study would not unduly prejudice Laurel.[601] To the contrary, the ALJ's exclusion of the study on grounds of hearsay and untimely presentation would deprive the Indicated Parties of procedural due process.[602]

Pennsylvania courts define hearsay evidence as "in-court evidence of an out-of-court declaration, whether oral or written, which is offered to show the truth of the out-of-court assertion."[603] Notably, the IHS Study is not evidence of an out-of-court declaration, but rather evidence of the intentions and motivations driving Husky's support for Laurel's Application. At a September 26, 2017 deposition and at the November 13, 2017 evidentiary hearing, Husky's witness Mr. Miller repeatedly affirmed his reliance on various studies, including the IHS Study. In response to questions about Husky's analysis of current petroleum products pricing, Mr. Miller stated as follows:

[600] Tr. 1233: 19-33 (Miller).

[601] See 52 Pa. Code § 5.401(2).

[602] *Smith v Pennsylvania Public Utility Commission* 192 Pa Superior Ct 424, 162 A. 2d 80 (1969) (affirming that 14th Amendment due process rights extend to administrative proceedings).

[603] *Commonwealth v. Lewis*, 424 Pa. Super. Ct. 531, 534, 623 A.2d 355, 357 (1993); *accord* Pennsylvania Rules of Evidence (Pa.R.E.) 801.

> We've looked at a variety of reports which we make available to you in discovery, including the EIA, or the Energy Administration reporting, some reports sanctioned by Wood Mackenzie, *and IHS*.[604]

In response to questions about Husky's analysis of future pricing and competitiveness of Midwest petroleum products in Pennsylvania, Mr. Miller similarly referenced the same reports, saying:

> The main reports are the same reports I referenced earlier, which will be given to you in discovery, and that's the EIA, the Wood Mackenzie, *and the IHS*.[605]

Additionally, in explaining that he relied on written studies to support his testimony on refinery capacity in the Midwest, Mr. Miller again affirmed reliance on the IHS Report as follows:

> Reports I drew from, which will be given in discovery, include the EIA Report, Wood Mackenzie report, *and the IHS report*.[606]

Finally, while Mr. Miller referenced numerous reports relied upon in preparing his testimony for this proceeding, he further confirmed the IHS Report as the only referenced study **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **END HIGHLY CONFIDENTIAL]**[607] Therefore, the IHS Report is not evidence of an out of court statement, but rather a critical internally-sourced document forming the basis for Husky's participation in this proceeding. Excluding the IHS Study from the record deprives the Indicated Parties of their procedural due process right to rely on relevant evidence to address the credibility of claims made by Husky's witness.

Additionally, use of the IHS Study for cross-examination and submission of the IHS Study as a cross-examination exhibit falls within the Indicated Parties' rights as parties of record in these proceedings. Laurel has not, and cannot, point to any requirement under the

---

[604] Tr. 1241:24 – 1242:1, 1242:16-19 (emphasis added) (Miller).

[605] Tr. 1243:9-11 (emphasis added) (Miller).

[606] Tr. 1244:13-14 (Miller).

[607] Tr. 1245:5 (Miller) **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

Commission's regulations limiting admissible evidence to that previously appended to pre-served written testimony. Although Laurel sets forth a general argument that parties must be afforded due process, none of the cases to which Laurel cites in the Motion address circumstances where all parties in a proceeding had access to the subject documents through discovery prior to their submission to the evidentiary record.[608] To the contrary, the only cases cited by Laurel addressing submission of an exhibit into evidence concerned one party's attempt to submit revised cost of service calculations, late in a proceeding, when those calculations were not previously made available to other parties.[609] These cases have no bearing on circumstances where the document offered for admission into the record was previously made available to all parties through discovery. As a result, failure to reverse the ALJ's decision would create an entirely new procedural requirement forcing parties to include any documents potentially intended for use during cross-examination as exhibits to pre-served written testimony.

Admission of the IHS Study to the record would not unduly prejudice Laurel. As previously stated, Laurel received the IHS Study in discovery over a month before the evidentiary hearings. Counsel for Laurel attended the September 26, 2017 deposition where Mr. Miller first referenced the study and his reliance on it. Laurel had an opportunity to review the IHS Study upon receipt on September 28, 2017, and to conduct further discovery on Husky concerning the contents of the study. Indeed, the following comments from counsel for Laurel at the November 13, 2017, evidentiary hearing confirm that Laurel had reviewed the study:

> We are familiar with the study; and actually, in the event that it were to be introduced in the record by the Intervenors, we were planning on addressing it. We were quite surprised that they have not submitted it as part of their surrebuttal, and we would have an opportunity to address it on rejoinder.

[608] Motion, at 5.

[609] *See* Motion, at 5 *citing Pa. Pub. Util. Comm'n v. Duquesne Light Company,* 1985 Pa. PUC LEXIS 68, *10-11 (1985).

> And we certainly have our own comments on this study including the timing and the contents of it, and Husky itself has a witness as well who might be able to address it.[610]

Therefore, the record distinguishes Laurel's circumstances from cases where a party sought to introduce exhibits at hearings without any prior notice to, or opportunity for review by, other parties. Here, because the study was provided in discovery well in advance of the start of the hearing, Laurel had ample notice that the study was in the possession of all parties and could be subsequently referenced in testimony or presented as a cross-examination exhibit.

Laurel's claim that it would be prejudiced by the introduction of the exhibit after presentation of the Laurel witnesses must also fail. Laurel claims that it could not address the IHS Study in its Rejoinder Testimony because the Indicated Parties did not present it in their Surrebuttal Testimony. However, to the extent Laurel believed the IHS Study to be relevant or injurious to its case, it could have propounded discovery on Husky or even submitted supplemental testimony, as its witnesses reserved the right to do so as necessary or appropriate, including upon receipt of new *discovery*.[611] Instead, on the afternoon of the day (a Sunday) before the last day of evidentiary hearings, Laurel sought to introduce an affidavit from Dr. Webb after learning several days earlier that the Indicated Parties intended to cross-examine Mr. Miller on the IHS Study.[612] However, while Laurel had every opportunity to review the IHS Study as received on September 28, 2017, the Indicated Parties had no opportunity to review Dr. Webb's affidavit or conduct any discovery on it. Accordingly, introduction of Dr. Webb's affidavit into the record would unduly burden the Indicated Parties.

Finally, allowing the Indicated Parties to conduct cross-examination about the IHS Study, but not allowing its admission as evidence, does not cure the due process violation. Mr. Miller

---

[610] Tr. 786:13-12 (Arthur).

[611] *See* Laurel St. No. 5-R, at 102:4-5; *see also* Laurel St. No. 7-R, at 73:1-2.

[612] Tr. 1216:3-20.

testified, on multiple occasions, that the IHS Study was commissioned by and relied on by Husky in its evaluation of the proposed reversal of the Laurel pipeline. The parties to this proceeding, and the Commission, are entitled to have included into the record such a critical document. There seems to be no question that, if the Indicated Parties had attached the IHS Study as an exhibit to their surrebuttal testimony, the IHS Study would have been admitted. Introducing the the Study at the cross-examination stage does not in any way impair its admissibility. Its relevance and applicability to the issues in this proceeding are beyond question.

For the reasons set forth above, the Indicated Parties submit that exclusion of the IHS Study from the evidentiary record deprives the Indicated Parties of procedural due process. To cure this deficiency, the IHS Study should be admitted to the evidentiary record.

F. Has Laurel Satisfied Its Burden To Demonstrate That The Proposed Capacity Use Agreement Should Be Approved If The Proposed Reversal Is Approved?

1. Laurel Has Failed To Satisfy Its Burden To Demonstrate That The Proposed Capacity Use Agreement Should Be Approved As Reasonable And In The Public Interest If The Proposed Reversal Is Approved

There is no reason for the ALJ or the Commission to consider the proposed revised Capacity Agreement Laurel and Buckeye filed to affect the revised arrangements between these affiliates *if* the proposed Laurel pipeline reversal is rejected. As noted and demonstrated throughout this brief, Laurel has failed to satisfy its burden of proof that it is entitled to abandon petroleum products transportation service from Eldorado to Pittsburgh and reverse the flow on its pipeline between those two destinations. Accordingly, there is no reason for the Commission to consider the terms and conditions of the revised Capacity Agreement, which are predicated upon the approval and implementation of the proposed Laurel pipeline reversal. Nevertheless, the Indicated Parties are addressing the Capacity Agreement without prejudice to their view that no such consideration is necessary.

Laurel has filed the Capacity Agreement under Code Chapter 21, which addresses Commission consideration of agreements between public utilities and their "affiliates."[613] Under Code Section 2102(a), no contract or arrangement for the provision of various services between "affiliates" shall be valid and effective until the contract or arrangement has been approved by the Commission:

> § 2102. Approval of contracts with affiliated interests.
>
> (a) General rule.--No contract or arrangement providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial, or similar services, and no contract or arrangement for the purchase, sale, lease, or exchange of any property, right, or thing or for the furnishing of any service, property, right or thing other than those above enumerated, made or entered into after the effective date of this section between a public utility and any affiliated interest shall be valid or effective unless and until such contract or arrangement has received the written approval of the commission. If such contract is oral, a complete statement of the terms and conditions thereof shall be filed with the commission and subject to its approval.

Under Code Section 2102(b), "[t]he commission shall approve such contract or arrangement made or entered into after the effective date of this section only if it shall clearly appear and be established upon investigation that it is reasonable and consistent with the public interest." As discussed below, the proposed Capacity Agreement exposes Laurel to additional financial risk and provides it fewer options than it currently has to make up lost revenue, and is therefore neither reasonable nor consistent with the public interest.

The proposed Capacity Agreement is between Laurel and its affiliate Buckeye. Buckeye currently uses Laurel's pipeline system to transport petroleum products in interstate commerce to locations throughout Pennsylvania, pursuant to FERC-approved tariffs and an existing Commission-approved pipeline Capacity Agreement. The Capacity Agreement is intended to

---

[613] 66 Pa. C. S § 2102(a).

supersede and replace the terms of Laurel and Buckeye's 1994 Pipeline Capacity Agreement ("1994 Agreement") and a 2015 Amendment, which extended the 1994 Agreement and changed certain pricing terms. The Commission approved the 1994 Agreement on or about December 15, 1994, and approved the 2015 Amendment on or about May 4, 2015, at Docket No. G-00940417.

As noted by Indicated Parties witness Rosenthal, there are two primary differences between the current and proposed Capacity Agreements.[614] First, the term (Section 2 of the proposed Capacity Agreement) is re-determined as an initial 10 year term followed by a year to year renewal term to create an "evergreen" agreement until a 30 day notice cancellation. The existing Capacity Agreement has an initial term of 13 and one half months, followed by an extension term of 19 successive years which concluded in December 2015. The 2015 First Amendment modified the extension terms to create an "evergreen" type arrangement that provides Buckeye an option to extend the Capacity Agreement annually. Second, the proposed Capacity Agreement disaggregates the current shipping capacity reservation of 31,025,000 barrels (85,000 BPD) between Sinking Spring (Berks County) and Coraopolis (Allegheny County) into two segments. Buckeye is reserving 16,425,000 barrels (45,000 BPD) of capacity between Sinking Spring and Eldorado (Blair County) as one segment and 14,600,000 barrels (40,000 BPD) of capacity between Eldorado and Midland (Beaver County) as the other segment. Under both Capacity Agreements, Buckeye is reserving 21,900,000 barrels (60,000 BPD) for use of a Laurel pipeline segment between Eagle Point, Chelsea Junction or Booth and Sinking Spring.

The proposed Capacity Agreement imposes needless financial risk to Laurel resulting from the reduction in Laurel's revenue associated with the flow reversal.[615] And, as noted by

[614] Indicated Parties St. No. 3, at 30:1-16-

[615] Indicated Parties St. No. 3, at 30:20-23.

Indicated Parties witness Rosenthal, the financial risk to Laurel is exacerbated because Laurel has no recourse to recover this lost revenue from other shippers, in part because post-reversal it will lose the ability to serve to destinations between Eldorado and Pittsburgh. Importantly, the cannibalization of Laurel's revenues is not fully offset by this arrangement. Laurel's financial risk is heightened by a provision that is contained in both the existing and proposed Capacity Agreement, but whose adverse impact is magnified under the latest agreement.

As Mr. Rosenthal observed, both under the new and existing Capacity Agreement Buckeye's payment to Laurel is refundable to Buckeye if Buckeye does not actually use the capacity in a segment of the Laurel pipeline. The refund is reflected as a credit against a subsequent month's payment. The problem is that Laurel is obligated to make and keep capacity available to Buckeye, but Buckeye is not obligated to use the capacity and actually obtains a credit if the capacity is unused. Laurel's revenue risk is increased under the proposed Capacity Agreement because Laurel will not be able to contract with another shipper to fill in the western segment pipeline should Buckeye not use that capacity. Under the current Capacity Agreement, product from another shipper could fill the underutilized capacity with additional shipments from the eastern origin locations.[616]

Laurel would benefit if Buckeye's capacity use payment to Laurel was not refundable when the capacity on the Laurel pipeline that Buckeye reserved is under-utilized. As Mr. Rosenthal concluded, this type of payment structure "would convert the payment to a more conventional capacity reservation fee and protect Laurel from upstream problems at refineries or on the Buckeye system that reduce usage of the purchased capacity."[617]

[616] Indicated Parties St. No. 3, at 31:4-13.

[617] Indicated Parties St. No. 3, at 31:16-20.

Finally, Mr. Rosenthal noted two other issues with the proposed Capacity Agreement.[618] First, as currently structured, Laurel is ceasing delivery service at its highest Pennsylvania tariffed rates and substituting service to its affiliate Buckeye at a much reduced rate. As Laurel witness Mr. Arnold noted at page 15 of his testimony, 11,075,499 barrels of product were shipped west of Eldorado in 2016.[619] The current tariff rates for service west of Eldorado are in excess of $0.50 a barrel and run as high as $0.784 a barrel. However, under the proposed Capacity Agreement, for service in excess of 40,000 BPD, Buckeye compensates Laurel at $0.15 barrel as updated by the Consumer Price Index ("CPI") in the initial period. At that rate, Buckeye must move more than 33,000,000 excess barrels in the western pipeline segment from Midland to Eldorado for Laurel not to lose revenue compared to its current operations. At the index adjusted rate of $.28, Buckeye must move more than 19,777,000 excess barrels to keep Laurel "even". Second, Mr. Rosenthal noted that the capacity reservation fee in the existing and proposed Capacity Agreement has not been updated since 1994 and there is no way to determine if that fee is or remains just and reasonable.[620]

Irrespective of the final outcome on the proposed Laurel pipeline reversal, the proposed Capacity Agreement is not just and reasonable. It does not appear to be an arms-length arrangement and is biased against the interest of Laurel, the regulated Pennsylvania utility, and in favor of its corporate affiliate and counterparty, Buckeye.

[618] Indicated Parties St. No. 3, at 32:1-11.

[619] Laurel St. No. 1, at 15:6-8.

[620] Indicated Parties St. No. 3, at 32:14-22.

VI. CONCLUSION

WHEREFORE, Gulf Operating, LLC ("Gulf"), Sheetz Inc. ("Sheetz"), Philadelphia Energy Solutions Refining & Marketing LLC ("PESRM"), Monroe Energy, Inc. ("Monroe"), and Giant Eagle, Inc. ("Giant Eagle") (collectively the "Indicated Parties") respectfully request that the Commission:

1. Deny the application of Laurel Pipe Line Company, L.P. to change the direction of petroleum products transportation service to delivery points west of Eldorada;

2. Reject the Laurel Pipe Line Company, L.P. capacity agreement with Buckeye Pipe Line Company, L.P.

Respectfully submitted,

By ______________________________

Robert A. Weishaar, Jr. (Pa. I.D. No. 74678)
McNees Wallace & Nurick LLC
1200 G Street, NW, Suite 800
Washington, DC 20005
Phone: (202) 898-0688
Fax: (717) 260-1765
bweishaar@mcneeslaw.com

Susan E. Bruce (Pa. I.D. No. 80146)
Adeolu A. Bakare (Pa. I.D. No. 208541)
Kenneth R. Stark (Pa. I.D. No. 312945)
McNees Wallace & Nurick LLC
100 Pine Street
P. O. Box 1166
Harrisburg, PA 17108-1166
Phone: (717) 232-8000
Fax: (717) 237-5300
sbruce@mcneeslaw.com
abakare@mcneeslaw.com
kstark@mcneeslaw.com

Counsel to Gulf Operating, LLC and Sheetz, Inc.

By John F. Povilaitis

Alan M. Seltzer (I.D. #27890)
John F. Povilaitis (I.D. 28944)
Buchanan Ingersoll & Rooney PC
409 North Second Street, Suite 500
Harrisburg, PA 17101-1357
Phone: 717 237 4800
Fax: 717 233 0852
E-mail: john.povilaitis@bipc.com
E-mail: alan.seltzer@bipc.com

Counsel to Philadelphia Energy Solutions Refining and Marketing LLC

By ______________________

Kevin J. McKeon (PA ID 30428)
Todd S. Stewart (PA ID 75556)
Whitney E. Snyder (PA ID 316625)
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
Phone: (717) 236-1300
Fax: (717) 236-4841
kjmckeon@hmslegal.com
tsstewart@hmslegal.com
wesnyder@hmslegal.com

Counsel to Monroe Energy, LLC

By

Jonathan D. Marcus (PA ID No. 312829)
Daniel J. Stuart (PA ID No. 321011)
MARCUS & SHAPIRA LLP
One Oxford Centre, 35th Floor
301 Grant Street
Pittsburgh, PA 15219
Phone: (412) 471-3490
Fax: (412) 391-8758
jmarcus@marcus-shapira.com
stuart@marcus-shapira.com

Counsel to Giant Eagle, Inc.

Dated: December 4, 2017

APPENDIX A

Proposed Findings of Fact,

Conclusions of Law and Ordering Paragraphs

FINDINGS OF FACT

I. STATEMENT OF THE CASE

A. Background of Gulf

1. Gulf is a distributor, wholesaler, and retailer of gasoline and diesel for branded outlets (*i.e.*, Gulf brand gas stations) an a distributor and wholesaler of private label retail outlets (*i.e.*, non-Gulf gas stations), as well as a supplier of heating oil, lubricants, and bio-fuels. (Gulf St. No. 1, at 1:9-11).

2. As a distributor and wholesaler, Gulf operates Pittsburgh area terminals in Coraopolis, North Neville Island, South Neville Island, and Delmont. Gulf operates additional Pennsylvania terminals in Altoona, Mechanicsburg, Highspire, Northumberland, Allentown, Dupont, Sinking Spring, and Fullerton. (Tr. 1047:24 – 1048:2).

3. Gulf also supplies both its branded retail gas operations and various unbranded retail gas outlets with petroleum products. (Laurel Exhibit MJW-11, at 28).

4. The Laurel pipeline is the only pipeline connecting Gulf's Pittsburgh area terminals to East Coast refineries. (Gulf St. No. 1, at 3:7-8).

5. Gulf relies on the Laurel pipeline to supply its terminals with East Coast product desired by Gulf for its wholesale and retail operations. (Gulf St. No. 1, at 3:7-8).

6. As a terminal operator, Gulf values optionality in the market. With access to diverse supply sources, Gulf and its terminal customers can obtain low cost supply with a high degree of supply reliability. (Gulf St. No. 1, at 2:20-23, 3:1-10, 9:17-19, 10:10-12).

7. Retail gasoline outlets in the Pittsburgh market, including Gulf branded retail outlets, benefit from diverse supply options. (Gulf St. 1-S, at 4:16-18).

8. Gulf is a high-volume shipper of petroleum products on the Laurel pipeline. (Indicated Parties Exhibit MS-8, at 7).

9. Gulf is concerned that the proposed reversal would reduce the total number of refineries with access to Gulf's Pittsburgh-area terminals and subject the Pittsburgh petroleum market and its many consumers to higher and more volatile prices. (Gulf St. No. 1, at 3:7-6 and 8:12-10:12; Gulf St. No. 1-S, at 8:18-19-9:9).

B. Background on Sheetz

10. Sheetz is a family-owned business with more than 17,000 employees in six states, the majority of whom work in Pennsylvania. (Sheetz St. No. 1, at 2:8-9).

11. Sheetz owns and operates over 250 stores in Pennsylvania and over 550 total stores nationwide. (Sheetz St. No. 1, at 2:9-10).

12. Sheetz sells gasoline and diesel products at substantially all of its 250 retail locations throughout Pennsylvania, more than half of which are located west of Altoona. (Sheetz St. No. 1, at 2:11-12).

13. Sheetz is a high-volume shipper of petroleum products on the Laurel pipeline. (Sheetz St. No. 1, at 2:12-13; Indicated Parties Exhibit MS-8, at 7).

14. Sheetz participates directly in the wholesale petroleum products market to procure gasoline, diesel, and other products for sale at its retail locations. (See generally, Sheetz St. No. 1 and Sheetz St. No. 1-S).

15. Sheetz sources petroleum products from the east on the Laurel pipeline and from the Midwest on Buckeye and ETP/Sunoco-owned pipeline systems. (Sheetz St. No. 1, at 10:21-22).

16. Sheetz benefits from the opportunity to supply its stores in the Pittsburgh area with gasoline and diesel from the Midwest and the East Coast in accordance with seasonal pricing dynamics generally favoring East Coast products in the summer months and Midwest products in the winter months. (Sheetz St. No. 1, at 11:1-2).

17. If the Commission approves the proposed reversal, Sheetz and other market participants in the Pittsburgh area will lose the ability to obtain supply from the East Coast. (Sheetz St. No. 1, at 4:15-16; 11:2-3).

18. Sheetz strives to supply its retail outlets with the most economical fuel supply. (Laurel Exhibit No. MJW-6, at 4).

19. Reducing the number of competitive refineries connected to the Pittsburgh market by pipeline directly frustrates Sheetz's goal of providing high quality fuel at the lowest market cost. (Sheetz St. No. 1, at 4:19-5:2).

20. Sheetz is concerned that eliminating pipeline access to the Pittsburgh market would leave the region more vulnerable to price spikes or supply shortages because Pittsburgh-area marketers could no longer rely on East Coast supply options when planned or unplanned events result in outages at Midwest refineries. (Sheetz St. No. 1, at 12:16-16:14).

C. Background on Giant Eagle

21. Giant Eagle is a privately-held corporation headquartered in Pittsburgh, Pennsylvania that owns and operates a chain of corporate-owned and independently-owned retail supermarkets, food distribution facilities, and fuel and convenience stores in the Western Pennsylvania, Ohio, north central West Virginia, Indiana, and Maryland region—although the majority of stores are located in Pennsylvania and Ohio. (Giant Eagle St. No. 1, at 2:8-13).

22. Giant Eagle's fuel and convenience stores are operated under the trade name "GetGo". (Giant Eagle St. No. 1, at 2:13-14).

23. GetGo is one of the largest fuel retailers in Western Pennsylvania (Giant Eagle St. No. 1, at 2:14-15) with approximately 20% of the market share in the Pittsburgh area. (Giant Eagle St. No. 1, at 3:19-20).

24. Giant Eagle, through its GetGo stations, supplies gasoline and diesel to retail consumers in Pennsylvania. (Giant Eagle St. No. 1, at 2:15-16).

25. Giant Eagle purchases fuel that travels through the Laurel Pipeline in Pennsylvania as well as fuel that originates in the Midwest. (Giant Eagle St. No. 1, at 2:16-18).

26. A majority of the fuel sold at Pittsburgh-area GetGo stations originates from East Coast sources and is shipped westward via the Laurel Pipeline. (Giant Eagle St. No. 1, at 3:20-22).

27. Giant Eagle's business objective, through its GetGo retail stations, is to provide its customers with an uninterrupted supply of fuel at a competitive price. (Giant Eagle St. No. 1, at 2:18-20). As such, Giant Eagle has a strong interest in ensuring the competitiveness of the fuel market in Western Pennsylvania and the security and reliability of fuel supply. (Giant Eagle St. No. 1, at 3:17-19).

28. Giant Eagle's witness Mr. Richard Tomnay testified that if the pipeline is reversed, retail prices in Western Pennsylvania are likely to increase, and that Giant Eagle's retail customers (representing approximately 20% of the Pittsburgh-area market) will likely pay more for their fuel than they otherwise would. (Giant Eagle St. No. 1, at 5:8-16).

29. In addition, Mr. Tomnay testified that if the Western Pennsylvania market is limited to obtaining fuel via pipeline from Midwest sources, the market will be more vulnerable to a disruption on the pipeline or a Midwest refinery. (Giant Eagle St. No. 1, at 5:20-23).

30. Mr. Tomnay, who is responsible for fuel pricing at approximately 200 GetGo locations, also testified that he disagreed with Laurel's assertions that consumers do not benefit from arbitrage opportunities presented by the current configuration of the Laurel pipeline. (Giant Eagle St. No. 1-S, at 2:20-22).

31. Mr. Tomnay testified that the continued supply of the Pittsburgh market from *both* the east and the west is a benefit to consumers that the Commission should recognize. (Giant Eagle St. No. 1-S, at 3:6-8).

D. Background on Philadelphia Energy Solutions Refining and Marketing (PESRM)

32. PESRM's refinery in Philadelphia has a 335,000 barrel per day capacity. It is the largest refining complex in PADD 1 and the 10th largest in the United States. (PESRM St. No. 1, at 3:6-8).

33. PESRM is connected to the eastern portion of the Laurel pipeline and relies upon its transportation services to deliver petroleum products from the Philadelphia area west to the Pittsburgh area via a pipeline. (PESRM St. No. 1, at 3:12-15).

34. In 2016, PESRM delivered twenty percent (20%) of its total production with Laurel pipeline which amounted to 4,057,812 barrels of product with the shipper as PESRM and 16,964,831 barrels for third parties. For the period January through May 2017, 23% of PESRM's total production was going into the Laurel pipeline, which is a 3% increase over 2016. (PESRM St. No. 1, at 3:17-4:4).

35. PESRM has nearly 1,100 employees and an additional 500 contractors. (PESRM St. No. 1, at 4:11-12).

36. The proposed pipeline reversal to Altoona will deprive PESRM of access to the Pittsburgh market to which it has been delivering products and desires to continue to deliver products. (PESRM St. No. 1, at 5:21-6:2).

37. PESRM has substantial concerns about its ability to deliver petroleum products if the flow of the Laurel pipeline is reversed to Eldorado because there are few viable alternatives. PESRM and other east coast refineries will have to sell barrels that the reversal displaces into markets that already have sufficient supply, resulting in lower margins. Those markets could include significantly higher transportation costs such as truck or barge under the Jones Act, which are far more expensive than pipeline and which also lower margins. (PESRM St. No. 1, at 6:1-7:7).

38. PESRM is concerned that this flow reversal is a first step in a process that will reverse the Laurel pipeline all the way to Philadelphia, which would have additional devastating effects on PESRM. If PESRM were to lose the ability to ship product west of Eldorado *i.e.* Pittsburgh, it would substantially impact its ability to continue doing business. If PESRM were to close, approximately 1100 refinery jobs would be lost and a substantial number of other jobs would be at risk. The damage to the Philadelphia region alone could be dramatic. (PESRM St. No. 1, at 10:1-10).

39. PESRM optimizes its product slate to capture economic opportunities offered by prevailing market conditions. (PESRM St. No. 2-S at 3:14-16).

40. The key markets PESRM currently accesses include (i) a large local market, (ii) a wholesale rack business in central and western Pennsylvania and upstate New York which PESRM accesses through third-party pipelines, storage terminals and truck loading racks, (iii) New York Harbor, which PESRM accesses through pipeline connections, including a connection to the Colonial Pipeline, (iv) other PADD I markets, which PESRM accesses by

barge, and (v) international markets which PESRM accesses via exports from a third-party terminal on the Delaware River. (PESRM St. No. 2-S at 3:18-24).

41. PESRM uses and plans to continue to use the necessary and valuable transportation service currently available on the Laurel pipeline to bring its refined petroleum products to Pittsburgh from the east either as a shipper or as a seller to its customers that ship PESRM's products along the Laurel pipeline to all points west of the Philadelphia area. (PESRM St. No. 1 at 2:19-23).

42. PESRM primarily sells products to wholesalers and retailers of transportation fuels, commodities trading companies and other refiners, as well as marketers and distributors of home heating oil. (PESRM St. No. 1 at 4:15-17).

43. There are no realistic and economically viable alternatives for PESRM to access the Pittsburgh market if the Laurel pipeline reversal takes place. (PESRM St. No. 1 at 7:16-17).

44. The Pittsburgh market continues to be an important historic and future market for PESRM that it can only access through the Laurel pipeline. PESRM has continued to vigorously compete in the Pittsburgh market despite multiple pipelines moving product from the Midwest into Pittsburgh. (PESRM St. No. 1 at 7:21-23-8:1).

45. PESRM seeks the highest margin within which to sell its products and therefore ensure its viability. (PESRM St. No. 1 at 9:14-16).

46. PESRM and previous owners of the refinery have utilized the Laurel pipeline since the Commission authorized service in 1957. (PESRM St. No. 1 at 9:16-17).

47. The Laurel pipeline has and continues to be a necessary transportation source for PESRM to enable it to supply and compete in various markets west of Eldorado, including Pittsburgh. (PESRM St. No. 1 at 9:17-19).

48. PESRM does not currently have the logistical infrastructure to clear/sell all the production from its refineries without access to the Laurel pipeline, and using that pipeline provides PESRM its best netback market. (PESRM St. No. 1-S at 4:3-5).

E. Background on Monroe Energy

49. Monroe Energy has been the owner and operator of the Trainer refinery near Philadelphia, PA, since 2012 when it purchased the refinery, which was closed at the time, from Phillips 66. (Monroe Energy St. No. 1 at 3:2-12).

50. At its Trainer refinery, Monroe Energy refines various crude and other feedstocks into a variety of refined petroleum products, including: gasoline (50%), diesel fuel (24%), jet fuel (19%), and other products such as residual fuel, and liquefied petroleum gas (7%). (Monroe Energy St. No. 1 at 3:2-12).

51. These refined products are then sold into bulk wholesale markets throughout Pennsylvania, Delaware, New York, New Jersey, Connecticut, Rhode Island, and Massachusetts. (Monroe Energy St. No. 1 at 3:2-12).

52. The vast majority of products (84%) leave the Trainer facility via Monroe Energy's wholly-owned 55-mile pipeline system ("MIPC"). Most of Monroe Energy's products are delivered out of the refinery via pipeline. Increases in transportation costs are reflected in the

revenue that Monroe Energy receives from its customers. (Monroe Energy St. No. 1, at 3:16-4:3).

53. MIPC transports products to other pipeline systems such as the Laurel Pipeline (46%), Harbor Pipeline, or various Sunoco Pipelines (38% combined).

54. For most of the pipeline shipments, Monroe Energy transfers title to the buyer at the point where the product enters the non-MIPC pipe, and so it is not the shipper.

55. Monroe Energy transports approximately 15% of its product via barge and a limited amount (approximately 1%) via rail. (Monroe Energy St. No. 1 at 4:15-20).

56. Monroe Energy is a vital citizen of the Philadelphia area and Delaware County community, and directly employs approximately 500 people at the Trainer facility, which indirectly supports approximately 9,000 jobs in southeast Pennsylvania and approximately 11,000 jobs across the Commonwealth of Pennsylvania in the form of contractors and suppliers providing goods and services to the Trainer facility.[1] (Monroe Energy St. No. 1 at 10:3-15).

57. Monroe Energy's operating income has averaged $36 million per year since 2013. A loss of even half of the $12 million Ms. Sadowski estimated due to increased shipping costs, especially due to a structural change such as the reversal of the Laurel pipeline, would be extremely harmful to Monroe Energy. (Monroe Energy St. No. 1-SR, at 19:9-19).

[1] Monroe Energy St. No. 1 at 10:3-15

II. FLAWS IN LAUREL'S CASE IN CHIEF

58. The Laurel pipeline is an essential public utility facility over which Laurel cannot change the flow direction and resulting "service" without Commission authorization and confirmation that to do so is in the public interest. (Indicated Parties St. No. 3 at 3:24-4:1-3).

59. [**BEGIN HIGHLY CONFIDENTIAL**] [redacted]

> [redacted] [**END HIGHLY CONFIDENTIAL**] (Indicated Parties St. No. 2-S, at 50:11-51:3.)

60. Laurel's 1957 CPC Application represented to the Commission that the "route to be followed" was "*from* the vicinity of Philadelphia *to* the vicinity of Pittsburgh." (Indicated Parties Exhibit No. RAR-1, p. 2).

61. From the mid-1950s to today, the flow of petroleum products on the Laurel pipeline has been consistently and uniformly in a westerly direction originating in Eastern Pennsylvania with points of delivery in Central and Western Pennsylvania (Application, ¶ 15; Indicated Parties St. No. 3 at 6:1-4).

62. When the courts in Pennsylvania have considered Laurel pipeline's flow of petroleum products, the Laurel pipeline has been viewed as providing *westerly* service. (Indicated Parties St. No. 3 at 6:9-10).

63. Nothing in Laurel's current Commission tariff provides for, or contemplates, eastward service. The provisions in the tariff align with the east-to-west service authorized in the CPC. (Indicated Parties St. No. 3 at 7:20-22).

64. The movement of petroleum products from Eldorado to Pittsburgh along the Laurel pipeline is an existing *service* Laurel provides to a variety of shippers. (Indicated Parties St. No. 3 at 13:13-15).

65. Laurel's proposed tariff that removes the availability and pricing of service from the two origin points of the tariff to the service delivery points west of Eldorado, indicating that post-reversal such service would no longer be available. (Indicated Parties St. No. 3 at 13:22-25).

66. Laurel has not demonstrated any basis for abandoning the service that it has been continuously provided between Eldorado and Pittsburgh along the Laurel pipeline for over sixty (60) years. (Indicated Parties St. No. 3 at 14:4-6).

67. Laurel has not alleged or shown any "loss" it has incurred in continuing to provide the petroleum transport services along the Laurel pipeline between Eldorado and Pittsburgh. (Indicated Parties St. No. 3 at 14:7-9).

68. Laurel has *not* provided any quantification of the claimed loss in revenue and return on its investment in the Laurel pipeline allegedly resulting from fewer shipments between Eldorado and Pittsburgh. (Indicated Parties St. No. 3 at 14:10-13).

69. Laurel has not indicated why any claimed reduction in revenue and return on its used and useful Laurel pipeline assets cannot be addressed through a rate increase, which is the typical way for utilities to ensure they have an opportunity to earn a market return on invested capital. (Indicated Parties St. No. 3 at 14:13-16).

70. Laurel is proposing to abandon both its existing service and its existing customers who are clearly still using the Laurel pipeline between Eldorado and Pittsburgh for westerly movements. (Indicated Parties St. No. 3 at 15:2-4).

71. Laurel has not presented evidence supporting the basic requirements for abandonment of a public utility service. (Indicated Parties St. No. 3 at 16:5-7).

72. Laurel/Buckeye undertook no direct analysis of the impacts of the Laurel Pipeline reversal on Philadelphia consumers. (Indicated Parties Exhibit No. RAR-2 p. 23: line 18, p. 24: line 3; Indicated Parties St. No. 3 at 17:12-14).

73. Laurel/Buckeye undertook no quantitative analysis of the impact of the proposed reversal to Eldorado on consumers in Pittsburgh, central Pennsylvania, and Philadelphia. (Indicated Parties Exhibit No. RAR-2, at 24:9; Indicated Parties St. No. 3 at 17:15-17).

74. Laurel/Buckeye undertook no specific analysis of the impacts of the reversal to Eldorado on the shippers on the Laurel pipeline. (Indicated Parties Exhibit No. RAR-2, at 24:25; Indicated Parties St. No. 3 at 17:18-20).

75. Laurel/Buckeye undertook no specific analysis of the impacts of the reversal to Eldorado on the owners of terminals along the Laurel pipeline. (Indicated Parties Exhibit No. RAR-2, at 25:19; Indicated Parties St. No. 3 at 17:21-23).

76. Laurel/Buckeye undertook no specific analysis of the impacts of the reversal to Eldorado on retailers on the Laurel pipeline. (Indicated Parties Exhibit No. RAR-2, at 26: 11; Indicated Parties St. No. 3 at 17:24-26).

77. Laurel/Buckeye cannot recall if any analysis of the impacts of the reversal to Eldorado on Midwest refiners (individually or in the aggregate) was performed. (Indicated Parties Exhibit No. RAR-2, at 38:18-22 and at 4:17-19; Indicated Parties St. No. 3 at 18:1-4)

78. Laurel/Buckeye undertook no specific quantitative analysis of the impacts of the reversal to Eldorado on Philadelphia refiners. (Indicated Parties Exhibit No. RAR-2, at 42: 9-10; Indicated Parties St. No. 3 at 18:5-7).

79. In deciding to reverse flow on the Laurel pipeline, Laurel/Buckeye did not take into consideration the possibility of increased truck traffic from Eldorado to the Pittsburgh market. (Indicated Parties Exhibit RAR-2, at 53:8; Indicated Parties St. No. 3 at 18:8-10).

80. In deciding to reverse flow on the Laurel pipeline, Laurel/Buckeye did not take into consideration the possibility of increased cost of maintaining roads, impacts on community safety, or impacts on quality of life in communities as a result of potential increased

truck traffic from Eldorado to the Pittsburgh market. (Indicated Parties Exhibit No. RAR-2, at 56: 2; Indicated Parties St. No. 3 at 18:11-15).

81. In deciding to reverse flow on the Laurel pipeline, Laurel/Buckeye did not take into consideration the possibility of increased truck traffic from Eldorado to Harrisburg. (Indicated Parties Exhibit No. RAR-2, at 58: 8; Indicated Parties St. No. 3 at 18:16-18).

82. In deciding to reverse flow on the Laurel pipeline, Laurel/Buckeye was unaware of any Laurel/Buckeye quantitative analysis of the impact of the reversal on other pipeline competitors. (Indicated Parties Exhibit No. RAR-2, at 63: 12; Indicated Parties St. No. 3 at 18:19-22).

83. In deciding to reverse flow on the Laurel pipeline, Laurel/Buckeye did not specifically take into consideration the impact on crude oil imports into the United States. (Indicated Parties Exhibit No. RAR-2, at 60:17; Indicated Parties St. No. 3 at 18:23-25).

84. Laurel/Buckeye conducted no quantifiable analysis to support their view that the pipeline reversal to Eldorado was appropriate, **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

85. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

86. The Laurel pipeline reversal project "was looked at in its entirety. There's no discrete analysis as far as its impacts on Buckeye Pipe Line" (Indicated Parties Exhibit No. RAR-2, at 30:21-23); the impacts on Laurel and Buckeye were considered together (Indicated Parties Exhibit No. RAR-2, at 31:8-11); and the reversal project was looked at "in the aggregate," which meant "Buckeye and Laurel together." (Indicated Parties Exhibit No. RAR-2, at 31: 18-21; Indicated Parties St. No. 3 at 20:12-19).

87. Nowhere in Laurel's justification for the decision to reverse the flow on the Laurel pipeline was there any mention – let alone discussion – about Laurel's overall return on its assets devoted to serving the public. (Indicated Parties St. No. 3 at 21:12-15).

88. Buckeye effectively evaluated the Laurel pipeline reversal in a manner that combines or aggregates the operations and economics of affiliates, with the effect of decreasing revenues to Laurel while increasing revenues to its non-jurisdictional affiliate, Buckeye, which is improper cross-subsidization. (Indicated Parties St. No. 3 at 21:20-23-22:3).

89. "Service" in one direction is a distinct service from service in the other direction. Therefore, a reversal is the abandonment of service on one direction and the commencement of an entirely new service in the other direction. (Indicated Parties St. No. 3-S at 6:22-25).

90. Laurel has *removed* various western Pennsylvania delivery points from its proposed tariff filed in this proceeding. (Indicated Parties St. No. 3-S at 7:8-9).

91. The Indicated Parties are not using this proceeding to undermine competition, subvert the public interest, or seek rents. (Indicated Parties St. No. 3-S at 16:8-12).

92. Laurel stated in both its 1957 application for incorporation, organization, and creation and in its 1957 application for a certificate of public convenience that its proposed pipeline would create "competitive conditions," i.e., create competition, only for a list of pipelines that, according to the applications, "carry petroleum products in a *westerly* direction across the southern half of the Commonwealth of Pennsylvania from the vicinity of Philadelphia to the vicinity of Pittsburgh and beyond." (Indicated Parties St. No. 5-S, at 3:17-4:4).

93. The 1957 Laurel pipeline proceeding evidences what the applicant actually intended and what the Commission actually understood the applicant to be requesting in 1957. The pipeline segments were numbered from east to west (starting in the Philadelphia area), the microwave communication system was proposed to run from Birney Station (in the Philadelphia area) to the vicinity of Pittsburgh, and the control equipment was to be sequenced westward from Birney Station. Similarly, the delivery points for construction began in the east and ended in the west. (Indicated Parties St. No. 5-S, at 4:12-20).

94. Laurel's current tariff provides rates for shipments originating at points in the Philadelphia area and delivered to Eldorado and other points west of Eldorado. These tariffed rates are a statement of current *services* available. (Indicated Parties St. No. 5-S, at 4:23-5:2..

95. The flow reversal in this proceeding would enable the transportation of Midwestern products rather than enhance the transportation of natural gas or any other products from Pennsylvania wells. (Indicated Parties St. No. 5-S, at 8:7-9).

96. Dr. Kleit confirmed that the purpose of the proposed flow reversal on the Laurel Pipeline is to facilitate delivery into Pennsylvania of Midwestern products. That purpose

is significantly different from facilitating transportation of products from Pennsylvania wells or Pennsylvania refineries. The flow reversal requested by Laurel would provide no boost to Pennsylvania wells or refineries. (Indicated Parties St. No. 5-S, at 8:17-22).

97. Although Mr. Thomas claimed that the creation of the Governor's Pipeline Infrastructure Task Force supports the flow reversal on the Laurel pipeline, the goal of the Task Force actually was to promote collaboration in developing pipelines to transport natural gas from *Pennsylvania* wells. Mr. Thomas provided no evidence that reversing the flow of the Laurel pipeline would facilitate the transportation of natural gas from Pennsylvania wells. (Indicated Parties St. No. 5-S, at 9:1-13).

98. The Laurel pipeline was specifically engineered to support petroleum product deliveries from the east to west as seen by the progressive pipe diameter reductions that start at 24 inches in diameter in the east, and then "telescopes" through reductions in diameter along its length until it reaches a size of 18 inches in diameter. (Indicated Parties St. No. 2, at 15:2-5).

99. The Laurel pipeline's diameters have largely been unchanged since its original CPC application to the Commission in 1957. (Indicated Parties St. No. 2, at 15:9-11).

100. The proposed Laurel pipeline partial reversal would result in the abandonment of 180,000 barrels per day of capacity into Pittsburgh that is currently supplied through the pipeline from the east. (Indicated Parties St. No. 2, at 16:4-6).

101. Mr. Schaal's Direct and Surrebuttal testimonies establish that (i) the current utilization of the Laurel pipeline between Altoona and Pittsburgh is not declining to zero;

(ii) the proposed partial reversal of the Laurel pipeline will result in higher and more volatile fuel prices for Pittsburgh and western Pennsylvania consumers; and (iii) the proposed partial reversal and potential full reversal of the Laurel pipeline will cause significant harm to Philadelphia refineries and increased risk to East Coast consumers. (Indicated Parties St. Nos. 2, 2-S).

III. FLAWS IN LAUREL'S VOLUME ANALYSIS

102. Witness Webb uses a trend model which arbitrarily selects from historical data to forecast a declining trend of volumes along the Laurel pipeline west of Eldorado. Laurel's witnesses do not claim that petroleum product movements along the Laurel pipeline are presently at zero, or will reach that level for several years in the future. Dr. Webb admits that Laurel pipeline movements will not approach zero until sometime between 2023 through 2025. (Laurel St. No. 5-R, at 43-44, and Figure 7, at 44.) Market conditions will continue to evolve in a way that will reverse the current trend that Dr. Webb insists will remain uninterrupted into the future. (Indicated Parties St. No. 2-S, at 3:2-12).

103. Laurel overstates the decline in the utilization of its pipeline between Altoona and Pittsburgh. (Indicated Parties St. No. 2, at 18:6-7).

104. There have been no material and consistent declines in the flow of petroleum products to Pittsburgh on the Laurel pipeline from the three terminals located near Philadelphia refiners. Rather, there are only non-material year-to-year variations in these shipments. (Indicated Parties St. No. 2, at 18:9-12).

105. There has been no decline in the low Reid Vapor Pressure ("RVP")[2] gasoline deliveries along the Laurel pipeline that are required by the region during the Summer months. (Indicated Parties St. No. 2, at 19:1-3).

106. The total volume of products moved along the Laurel pipeline into the Pittsburgh market is *higher* than what Laurel has acknowledged. (Indicated Parties St. No. 2, at 19:10-11).

107. 71,999 barrels per day of petroleum products were delivered into the Pittsburgh market along the Laurel pipeline during the time period October 2015 to September 2016. For the time period November 2015 to October 2016, the volume of petroleum products that were delivered into the Pittsburgh market along the Laurel pipeline was 68,573 barrels per day. (Indicated Parties St. No. 2, at 20:12-16).

108. Laurel witnesses minimize the harm to Philadelphia refiners, and thereby impacts to East Coast consumers, by incorrectly underestimating the volumes that would be displaced as a consequence of the Laurel pipeline reversal. The proposed Laurel pipeline reversal will displace large volumes of petroleum products across the Central Atlantic region, and not just the volumes directly attributable to the PESRM and Monroe Energy refineries. (Indicated Parties St. No. 2-S, at 4:15-21).

109. Dr. Arthur has testified eastern refineries today are delivering more than 50,000 barrels per day on average west of Eldorado. (Tr. 749:10-12).

[2] Reid vapor pressure ("RVP") is a common measure of the volatility of gasoline. It is defined as the absolute vapor pressure exerted by a liquid at 37.8 °C (100 °F) as determined by the test method ASTM-D-323.

110. Dr. Arthur testified on cross-examination that over the past 12 months the eastern refineries have been supplying an average of 50,000 BPD on Laurel pipeline west of Eldorado and that at times in 2016 it was as high as 60,000 BPD, which is approximately half of the consumption of the Pittsburgh market. (Tr. 749:10-12).

111. Dr. Webb's contention that volumes being transported on the Laurel pipeline west of Eldorado are in steep decline is false. His methodology is fatally flawed according to Dr. Arthur and Mr. Schaal. (Indicated Parties St. No. 1-S, at 25:5-25 and n. 72; Indicated Parties St. No. 1, at 6, Fig. 1, Indicated Parties St. No. 1-S, at 27:3-13 and Table 1; Indicated Parties St. No. 2, at 18:6-21:6; Indicated Parties St. No. 2-S at 7:6-14:2).

112. Nominations on Laurel pipeline for destinations west of Eldorado for the months of October and November 2017 rose to over 60 MBD. (Laurel Exhibit DWA-16.)

113. Dr. Webb's disputed estimate of Monroe Energy's product that was shipped west of Eldorado in 2016 is 16 MBD. (Laurel St. No. 5-R at 3:22).

[BEGIN HIGHLY CONFIDENTIAL] [redacted] **[END HIGHLY CONFIDENTIAL]** of the output of Monroe Energy's Trainer Refinery is moved by the Laurel pipeline. (Monroe Energy St. No. 1 at 5:4-7) Approximately **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** of PESRM's production is moved by the Laurel pipeline. (PESRM St. No. 1, at 4:3-5).

115. All the product originating at Monroe Energy's Trainer Refinery and most of the product originating from PESRM are shipped by customers. (Monroe Energy St. No. 1, at 5:9-12; PESRM St. No. 1, at 3:4-4:7).

116. Monroe Energy's total product volumes that moved through the Laurel pipeline have been consistent since 2013. (Monroe Energy St. No. 1, at 6:1).

117. Because Monroe Energy is not the shipper for the products it moves on Laurel pipeline, it does not know where the products it ships are delivered. (Monroe Energy St. No. 1, at 7:15-16; Tr. 941:4).

118. According to Dr. Arthur, over the past 12 months, the average amount of product that Laurel pipeline has delivered to destinations west of Eldorado from eastern Pennsylvania origins, has been 50 MBD out of a consumption of 100 to 120 thousand barrels per day. (Tr. 740:21-741:3).

119. The utilization of the Laurel pipeline between Altoona and Pittsburgh is not declining. (Indicated Parties St. No. 2, at 4:17-18).

120. Actual volumes on the Laurel pipeline do not support a conclusion that there is a definite long-term continuous decline in the volumes being shipped on the Laurel pipeline west of Eldorado. The data shows that the volumes on the Laurel pipeline vary through time, and periods of average decline have been offset by marked increases in product shipments. (Indicated Parties St. No. 2-S, at 6:9-13).

121. Dr. Webb performed a simple linear time trend analysis to estimate the future utilization of the Laurel pipeline. Dr. Webb's time trend analysis improperly attributes the sudden increase in Laurel pipeline volumes between two decline periods solely to the Sunoco 2013 pipeline reversal event, and then proceeds to disregard this increase from his analysis. (Indicated Parties St. No. 2-S, at 6:21-7:4).

122. Dr. Webb relies entirely on a linear trend analysis to establish a pattern of use for the Laurel pipeline. The trend analysis is broken when an event on the market, such as the Sunoco 2013 outage, has a positive effect on the level of flows in the pipeline. Dr. Webb's methodology uses this event to skew the trend of the historical pipeline flows in favor of his argument. (Indicated Parties St. No. 2-S, at 6:21-7:4).

123. Dr. Webb's methodology excludes essential information contained within the data and misuses statistical theory to draw erroneous conclusions. The simple trend analysis Dr. Webb presented does not take into consideration these external factors that can influence the flows, confidence intervals associated with the estimation, and out of year seasonality effects. (Indicated Parties St. No. 2-S, at 8:7-9:3).

124. Dr. Webb's claim of declining volumes is wrong because it assumes there is only one future scenario for flows on the Laurel pipeline. A full consideration of future outcomes will necessarily also involve an estimation of probability parameters around such a forecast. These bounds are akin to a cone of uncertainty popularly used in hurricane track predictions. (Indicated Parties St. No. 2-S, at 9:15-19).

125. Mr. Schaal's Holt Winters model takes into consideration much more about projected flows on the Laurel pipeline than Dr. Webb's straight-line trend methodology and is therefore a better representation of the flows. (Indicated Parties St. No. 2-S, at 11:12-14).

126. The Holt Winters model takes into consideration much more about projected flows on the Laurel pipeline than Dr. Webb's straight-line trend methodology and is therefore a better representation of the flows. By adding seasonal data into the model, both seasonality and longer-term trends can be evaluated together. Figure 5, shows that an increase in

product shipments along the Laurel pipeline is a reasonable future outcome even when considering only historical data. (Indicated Parties St. No. 2-S, at 11:9-18).

127. While movements of Summer Blend gasoline have declined from prior-year levels, they remain at a level approaching 60,000 barrels per day. Importantly, movements from Philadelphia refineries are making up a larger proportion of those movements, up to 57% of movements through August 2017 as compared to 53% for 2016. This level of movements continues to occur despite the infrastructure additions that have been completed in the Eastern Midwest region. (Indicated Parties St. No. 2-S, at 13:3-10).

128. By focusing only on the movements from the three Philadelphia terminals to destinations West of Eldorado, Dr. Webb ignored movements from those terminals that were delivered to other points along the Laurel pipeline. Mr. Schaal performed a calculation of the aggregated movements along the Laurel pipeline that originate from Philadelphia area terminals that includes both Pittsburgh and Altoona as a destination. Mr. Schaal calculated that 72,212 barrels per day originated from those three terminals that was moved to both Pittsburgh and Altoona during the time period in question. (*See* Laurel St. No. 5-R, Laurel Workpapers MJW-B (HC) (Opposition Volume Analysis)) This volume is similar to the 72,092 barrels per day that was cited in Figure 10 of Mr. Schaal's Direct testimony that included all eastern terminals delivered to Pittsburgh. In addition, more product moved on the Laurel pipeline than that amount since the data provided by Laurel excludes those destinations east of Eldorado. (Indicated Parties St. No. 2-S, at 46:1-11).

129. Volumes for the 12-months ending July 2017 delivered by Laurel to Pittsburgh area destinations averaged 48.6 MBPD. Indicated Parties St. No. 1 at 20:20 through 21:2.

130. The Pittsburgh area has estimated total consumption of 103 MBPD to 113 MBPD. Indicated Parties St. No. 1-S at 27:Table 1.

131. Historical data from 2012 to 2016 shows pronounced and consistent increases in volumes shipped on Laurel from the East Coast during the summer months. See Indicated Parties Exhibit DSA-11 at 13-15.

IV. FLAWS IN LAUREL'S PRICE/SUPPLY ANALYSIS

132. Historically, the Pittsburgh, Pennsylvania, market in PADD 1 has acted as a balancing point for product supply between PADD 2 and PADD 1 supply sources. (Indicated Parties Exh. MS-3, at 11; Indicated Parties St. No. 2-S, at 49:16-18).

133. The proposed partial reversal of the Laurel pipeline will result in higher and more volatile fuel prices for Pittsburgh and western Pennsylvania consumers. (Indicated Parties St. No. 2, at 4:19-20).

134. There has been an overbuilding of heavy crude upgrading capability in the Eastern Midwest that has eroded the hoped-for price advantage for Eastern Midwest region refiners. This overbuilding in heavy crude oil processing capability has meant that producers of heavy crude oil have many options for selling their product which has, in turn, eroded the price advantage that had existed for Eastern Midwest refineries. (Indicated Parties St. No. 2-S, at 16:11-18).

135. Dr. Kleit's rebuttal testimony on rent seeking relied on conclusions that the Midwest constitutes a "low priced region," and the western and central Pennsylvania is a "high-priced region," based solely on two charts of *volumes* provided within Mr. Stern's testimony. (Laurel St. No. 10-R, at 7:19-8:6). Dr. Kleit excluded consideration of *consumer prices* for gasoline and other petroleum products in making his determination. Dr. Kleit's testimony is not based on reliable evidence and he did not seek to verify that evidence through more direct means. (Indicated Parties St. No. 2-S, at 51:15-23.)

136. The pipeline reversal will lead to higher prices for Pittsburgh consumers based on the facts that: (i) there currently exist flows from East to West along the Laurel pipeline, a situation that can be expected to last for years in the future as described above, and (ii) the Laurel pipeline flow reversal proposal would eliminate pipeline transportation services into Pittsburgh from the East. The effect of these facts would be to raise the cost of supply for Pittsburgh and Western Pennsylvania, which will result in Pittsburgh consumers having to pay higher prices for supply than they do currently. (Indicated Parties St. No. 2-S, at 19:15-21).

137. Mr. Stern was incorrect that Mr. Schaal did not take into account both scheduled and unscheduled refinery downtime in his Summer refinery utilization assumptions. The definition of "refinery utilization" used in Mr. Schaal's analysis clearly includes provisions for both "scheduled" and "unscheduled" downtime. (Indicated Parties St. No. 2-S, at 41:4-28).

138. The availability of a process to remove butane does not guarantee there will be an increase in summer blend fuel from Midwest refineries that arrives in the Pittsburgh market. The removal of butane from gasoline to produce a Summer Blend fuel that can be sold into the Pittsburgh market requires replacing the volume of removed butane with additional

refined products. This, in turn, will increase the Midwest refineries' cost of refining and utilization to produce the lower-RVP gasoline. (Indicated Parties St. No. 2-S, at 43:15-20.)

139. Moving additional low-RVP gasoline supply from the Gulf Coast through the Eastern Midwest region into the Pittsburgh market is a credible result of the proposed Laurel pipeline reversal and corroborates the lack of sufficient, reliable, and low cost supply from Eastern Midwest refineries during the Summer. (Indicated Parties St. No. 2-S, at 43:20-44:2).

140. Mr. Schaal conservatively estimated that it would cost Eastern Midwest region refineries 2.60 cents per gallon more to produce 7.8 RVP gasoline than to produce 9.0 RVP gasoline. This cost increase for Eastern Midwest refiners is likely a conservative estimate, because the regional price for butane will likely decline due to the increase in butane supplies in that region. (Indicated Parties St. No. 2-S, at 44:5-16).

141. Laurel's assumption that the movement of products from the Gulf Coast through the Eastern Midwest and then into Pennsylvania would benefit Pennsylvania consumers is incorrect because the price of Gulf Coast supply is set by global markets for petroleum products, which are in turn driven by alternatively sourced supply. (Indicated Parties St. No. 2-S, at 20:12-22:2).

142. Gasoline prices in Chicago have been higher than Philadelphia and Pittsburgh during the past two years, while Cleveland prices had a small discount as compared to Pittsburgh, due primarily to a trucking discount. (Indicated Parties St. No. 2, at 29:1-11).

143. Mr. Schaal's analysis of price levels on a monthly basis shown in Figure 8 and Figure 9 present the differences in the monthly average price for wholesale gasoline that

retail gasoline stations paid for wholesale supply before taxes or other fees. (Indicated Parties St. No. 2-S, at 22:9-21).

144. The proposed Laurel pipeline reversal puts Pennsylvania consumers generally, and specifically Pittsburgh consumers, at the mercy of a long supply chain for petroleum product supply with no price benefit. Long supply chains typically result in higher prices and higher price volatility because they are subject to interruptions along the longer path. (Indicated Parties St. No. 2, at 39:1-7). (Indicated Parties St. No. 2-S, at 24:13-17).

145. In its Annual Energy Outlook 2013, the EIA shifted from using West Texas Intermediate ("WTI") to Brent as the benchmark for characterizing world oil prices because U.S. gasoline prices appeared to be driven more by Brent crude oil price. In a subsequent and more detailed report, the EIA noted that "Brent crude oil prices are more important than WTI crude oil prices as a determinant of U.S. gasoline prices in all four regions studied, including the Midwest." (Indicated Parties St. No. 2-S, at 25:1-6).

146. Retail prices in Pennsylvania and New York do not require the same level of price spikes to induce products to move where they are needed, as compared to those observed price spikes in the Eastern Midwest or the Lower Atlantic regions. (Indicated Parties St. No. 2-S, at 25:17-20).

147. While, in principal, price cycling *could* result in lower average prices due to prices falling faster than they might otherwise do so, this esoteric price phenomenon is not sufficient to overcome other factors that are *more likely* to cause large price spikes in the Midwestern market, such as sudden supply and demand shifts or refinery outages. (Indicated Parties St. No. 2-S, at 26:7-11).

148. Petroleum markets will continue to evolve in a way that will result in increases in east to west movements along the Laurel pipeline because (i) midcontinent crude oils (i.e. crude oil production sourced from the Bakken fields in North Dakota and heavy crude oil from the Alberta region in Canada) which supply Midwest refiners will become increasingly connected to global crude prices, (ii) the diffusion of crude oil production technology to other U.S. and international crudes will keep crude prices low for all U.S. refineries, (iii) there will be continued erosion of the price advantage for Eastern Midwest region refiners, and (iv) Central Atlantic refiners will increasingly capitalize on their already existing advantage of waterborne access to a large number of crudes. (Indicated Parties St. No. 2-S, at 5:19-6:5).

149. Prices to Pittsburgh consumers will be higher if the proposed pipeline reversal were to proceed. This is due to the fact that Central Atlantic region refinery production and other supply from the East is still being moved into Pittsburgh along the Laurel pipeline, which is indicative of that supply being equal to or lower in cost than any other supply that may be available from the Eastern Midwest or Gulf Coast regions—a condition that will continue for many years in the future, if not longer. (Indicated Parties St. No. 2-S, at 3:17-23).

150. The Eastern Midwest region does not have sufficient supply within that region to meet its own needs. Laurel witnesses Stern, and Jones attempted to minimize the potential for Pittsburgh consumers to experience gasoline price volatility and price spikes and conclude without any basis that consumer complaints associated with price spikes and volatility will be minimal and not a significant concern. (Laurel St. No. 8-R, at 26:4-15; 44:7-11.)(Indicated Parties St. No. 2-S, at 4:5-10).

151. In the current market environment Midwestern refineries no longer enjoy deep discounts on midcontinent crude oil as compared to those crudes that are available to coastal refineries, such as those located in the Central Atlantic and Gulf Coast regions. (Indicated Parties St. No. 2, at 48:5-7).

152. Eastern Midwest refineries imported 66% of their total refinery inputs in 2017, with most of this crude oil originating from Canada. This "crude oil import dependency" of Eastern Midwest refineries has increased in recent years as those refineries had imported 57% of their total refinery inputs in 2015. (Indicated Parties St. No. 2, at 53:11-15).

153. Laurel does not intend to support simultaneous receipts of products into Eldorado from both the West and East. (Indicated Parties St. No. 2, at 16:11-12).

154. Laurel's proposed pipeline reversal will result in higher prices for western Pennsylvania consumers because they will have access to products sourced from just one direction – the Midwest. (Indicated Parties St. No. 2, at 21:14-15).

155. The Laurel pipeline reversal will isolate the Pittsburgh market from eastern supply, which will cause prices to rise to levels to induce additional movements into that market from the West, a situation that will benefit Buckeye and not consumers. (Indicated Parties St. No. 2, at 21:16-18).

156. Post reversal, western Pennsylvania gasoline prices to consumers will become more volatile and more prone to price spikes, as has been observed in Eastern Midwest gasoline prices. (Indicated Parties St. No. 2, at 21:19-21).

157. The retail petroleum product price analyses ("PPP Analyses") show how supply in a densely populated region like the East Coast with a concentrated set of refineries leads to more moderate retail prices than interior portions of the United States, including the Midwest. (Indicated Parties St. No. 2, at 22:11-13).

158. The PPP Analyses quantitatively demonstrate how the proposed partial reversal of flow on the Laurel pipeline would (i) increasingly isolate Pittsburgh and western Pennsylvania from Eastern supplies and (ii) result in retail gasoline prices in the Pittsburgh area that are more volatile and prone to price spikes than would be the case absent the proposed reversal. (Indicated Parties St. No. 2, at 22:13-17).

159. The PPP Analyses involved (i) the construction of retail gasoline price differentials between Central Atlantic cities and other regions, including the Midwest and the Lower Atlantic regions, (ii) qualitatively identifying the association between retail petroleum production price spikes and historical supply shortage events (i.e., refinery outages and pipeline incidents) and (iii) quantifying the price fluctuations of each region's retail petroleum product prices by calculating the annualized volatility of those prices for cities across the regions. (Indicated Parties St. No. 2, at 22:19-22-23:1-3).

160. Daily retail gasoline prices for Eastern Midwest cities spike more frequently than Pittsburgh retail gasoline prices. (Indicated Parties St. No. 2, at 26:2-4).

161. The price volatility portion of the PPP Analyses involved quantifying the "price risk" to consumers for gasoline purchases throughout the year by calculating the standard deviation of the daily price movements on an annual basis. This calculation is often referred to as the "annualized volatility of daily prices." (Indicated Parties St. No. 2, at 27:20-23).

162. Between 2007 and 2016, the average volatility is 35% for Indianapolis, and 20% for Cleveland. In direct contrast, Central Atlantic region cities, such as Pittsburgh, have average volatility of around 6.5%, which indicates the greater dependability of gasoline prices to which those consumers have become accustomed. (Indicated Parties St. No. 2, at 28:8-11).

163. Pittsburgh and Altoona consumers benefit from the *current* operation of the Laurel pipeline in providing stable petroleum product prices as compared to consumers in the Eastern Midwest. (Indicated Parties St. No. 2, at 29:14-16).

164. If the partial reversal were to be approved and implemented, (i) Pittsburgh and Altoona gasoline prices would more closely track the more volatile gasoline prices of the Eastern Midwest cities with very little potential benefit with respect to the average prices that those consumers would end up paying; and (ii) Pittsburgh and Altoona customers would be subject to spikes in gasoline prices to a degree that they have not previously experienced. (Indicated Parties St. No. 2, at 29:16-19-30:1-2).

165. Laurel/Buckeye understood as early as July 2015 that, post a Laurel pipeline reversal, prices would necessarily rise in the Pittsburgh market to attract the supply needed to replace what was no longer available from the East. (Indicated Parties St. No. 2, at 30:6-27-31:1-5).

166. There is no discernible trend toward lower wholesale gasoline prices in the Midwest compared to the East as claimed by Laurel. (Indicated Parties St. No. 2, at 32:1-3).

167. If the proposed Laurel pipeline reversal were to be approved, both the Eastern Midwest and Western Pennsylvania regions will be more susceptible to petroleum

product price spikes during the Summer months that will be greater in magnitude as a result of future unplanned refinery outages or other similar events. (Indicated Parties St. No. 2, at 32:8-11).

168. The Eastern Midwest region lacks the capacity to supply both the Eastern Midwest region and the portion of the Central Atlantic region that would be served by pipeline from the West under even the most optimistic assumptions about refinery reliability during Summer months. (Indicated Parties St. No. 2, at 32:11-14).

Dr. Webb agreed that the reversal will not provide access to any new markets that refineries cannot already serve. (Tr. 482:5-9).

Dr. Arthur explains that "you take away the East Coast supply into Pittsburgh, which is coming there of its own choice, which indicates that it's lower cost than other sources of supply including the Midwest, if you take away the East Coast supply, it has to be replaced with higher cost supply." The East Coast supply is over half the supply into Pittsburgh and if you take it away, Pittsburgh prices will go up. Husky did a study like this before entering into contracts and concluded that prices were going to increase in Pittsburgh. (Tr. 748:2-23).

169. Dr. Arthur testified that supplies from the East Coast are the lowest cost supply for much of the year. (Tr. 739:8-15).

170. Dr. Arthur agrees that the New York Harbor and Laurel prices are correlated. (Tr. 743:9).

171. Husky did a study before entering into the open season contracts and concluded that prices were going to increase in Pittsburgh. (Tr. 748:22-23).

172. The proposed partial reversal will affect the price and availability of gasoline and other petroleum products within and beyond Pennsylvania. (Indicated Parties St. No. 2, at 5:7-8).

173. Historically, the Pittsburgh, Pennsylvania, market in PADD 1 has acted as a balancing point[3] for product supply between PADD 2 and PADD 1 supply sources. (Indicated Parties Exhibit MS-3, at 11; Indicated Parties St. No. 2, at 9:17-18).

174. The proposed Laurel pipeline reversal would result in potentially reducing Pittsburgh's role as balancing point between PADD 2 and PADD 1. (Indicated Parties St. No. 2, at 9:4-6).

175. The Eastern Midwest region does not currently produce petroleum products in excess of its regional demand on an annual average basis. (Indicated Parties St. No. 2, at 9:18-19).

176. There is little or no excess refinery capacity on an annual basis to supply petroleum products to other regions from the Eastern Midwest region. (Indicated Parties St. No. 2, at 11:5-6).

177. Due to the small size of its market and equipment limitations, Eldorado is not capable of becoming a regional balancing point. (Indicated Parties St. No. 2, at 11:7-11).

178. Pittsburgh losing its status as a regional balancing point post-Laurel pipeline reversal will necessarily magnify price spikes as products would have to be trucked or barged over greater distances. (Indicated Parties St. No. 2, at 11:16-18).

[3] A balancing point is a location that allows for displacement of flows within hours to a few days in response to outage events and sudden shifts in supply and demand.

179. Because of higher (i.e., average annual of 90%) refinery utilization, Eastern Midwestern refineries cannot supply Central and Western Pennsylvania with petroleum products during the Summer months if the proposed Laurel pipeline reversal were to be approved. (Indicated Parties St. No. 2, at 12:9-11 and at 13:2-4).

180. Western Pennsylvania petroleum products demand is about 144,300 barrels per day during June to August and 108,600 barrels per day during September to May. (Indicated Parties St. No. 2, at 13:10-11).

181. Currently, Pittsburgh has excess pipeline capacity from both the Midwest and the East Coast. Indicated Parties Exhibit DSA-5.

182. Including Sunoco Logistics' (now Energy Transfer Partners' ("Sunoco/ETP") Allegheny Access line and Buckeye's recent capacity expansions on its interstate lines from the Midwest, total pipeline capacity to deliver Midwest supply into the Pittsburgh area is about 279.2 MBPD compared to total Pittsburgh area demand of 103-113 MBPD. Indicated Parties St. No. 1 at 19:Figure 4 (showing capacity on Buckeye, ETP (Sunoco), and Marathon pipelines into Pittsburgh) and at 20:20-21.

183. The Laurel pipeline currently has capacity to deliver 180 MBPD to the Pittsburgh area from eastern supply sources. Tr. at. 425:1-9.

184. There has been available capacity to flow additional volumes into Pittsburgh both from Midwest origins as well as East Coast origins since March 2016. Indicated Parties Exhibit DSA-5 attached to Indicated Parties St. No. 1; Indicated Parties St. 1-S at 29:22-24; see also Laurel St. No. 1-R at 39:1-23.

185. The proposed reversal will add 40 MBPD of capacity from the Midwest into Pittsburgh and then further to Altoona, but at the cost of eliminating the 180 MBPD capacity into Pittsburgh from the East, for a net loss of 140 MBPD of total supply capability into Pittsburgh. Tr. at 392:14; 396:1; 426:10-13.

186. With 2017 shipments from the East Coast to Pittsburgh averaging at approximately 50 MBPD, this exchange, even without accounting for the adverse supply security and pricing impacts, amounts to a net loss for the Pittsburgh area. Indicated Parties St. No. 1-S, at 27:Table 1; Tr. at 749:10 and 789:7-10.

187. Buckeye's capacity from the Midwest has not been fully utilized since March 2016, as the increased volumes in 2016 and 2017 are still below the increased available capacity of 38 MBPD. Indicated Parties St. No. 1-S at 29:22-24, citing Indicated Parties Exhibit DSA-5 and Laurel St. No. 1-R at 12:10-15.

188. [**BEGIN HIGHLY CONFIDENTIAL]** [redacted] [**END HIGHLY CONFIDENTIAL]**

189. The proposed reversal will not impact Altoona at all because available capacity **on** the post-reversal line would be consumed at the Pittsburgh area destination points given the competition posed by eastern suppliers. *See* Tr. 704:2-7.

190. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

[redacted] **[END HIGHLY CONFIDENTIAL].**

191. **[BEGIN HIGHLY CONFIDENTIAL]** N[redacted]**[END HIGHLY CONFIDENTIAL].**

192. The Pittsburgh petroleum products market presently allows for competition between both Midwest and East Coast supply sources, to the benefit of wholesalers, retailers, and consumers in the market. Indicated Parties St. No. 1, at 22:18-24.

193. Reversing the pipeline will reduce competition in the Pittsburgh market and increase prices. Indicated Parties St. No. 1, at 22:18-24; Gulf St. No. 1, at 9:1-6; Sheetz St. No. 1, at 3:4 to 4:21.

194. Analysis of delivered prices into the Pittsburgh market provides consistent data showing East Coast sources, on average, post lower delivered prices for the Pittsburgh market than their Midwest counterparts. Indicated Parties St. No. 1 at 28: Figures 6a and 6b.

195. The Pittsburgh area or market consists of Lawrence, Butler, Armstrong, Indiana, Beaver, Allegheny, Westmoreland, Washington, Greene, and Fayette Counties. See Indicated Parties Exhibit DSA-10.

196. The Altoona area or market consists of Clearfield, Centre, Cambria, Blair, Huntingdon, Mifflin, Juniata, Somerset, Bedford, Fulton, and Franklin Counties. See Indicated Parties Exhibit DSA-10.

197. The Harrisburg area or market consists of Perry, Dauphin, Lebanon, Cumberland, Adams, York, and Lancaster Counties. See Indicated Parties Exhibit DSA-10.

198. With Pittsburgh forced to meet its total petroleum products demand of 103-113 MBPD with supply from the Midwest, the reversal would increase annual supply costs for the Pittsburgh area by $75 million. Indicated Parties St. No. 1 at 40:25.

199. Assuming volumes on the post-reversal pipeline reach Altoona, Dr. Arthur calculates potential arbitrage benefits of approximately $7.4 million for the Altoona area. Id. at 56:3-6.

200. Assuming volumes from Altoona would be trucked to Harrisburg, Dr. Arthur calculates potential arbitrage benefits of approximately $900,000 for the Harrisburg area. Id. at 62:6-9.

201. The likelihood of volumes reaching Altoona or Harrisburg on the post-reversal line does not appear to be a realistic possibility. See Tr. 704:2-7.

202. There is no discernable trend towards lower wholesale gasoline prices in the Midwest; wholesale gasoline prices remain competitive between the Midwest and the East Coast. Indicated Parties St. No. 2 at 32:2-3.

203. No Laurel witness provided a study supporting their claims that Midwest supply is the lowest cost supply source. See Indicated Parties St. No. 1-S at 7:1-13.

204. Any volumes that are currently not supplying Pittsburgh would reasonably be expected to be more expensive than the current highest cost supply source to Pittsburgh, given

that there are no current pipeline capacity constraints from East Coast and Midwest origins into Pittsburgh. Indicated Parties St. No. 1-S at 11:11 to 13:17; Laurel St. No. 1-R at 39:1-14 and 39:19-23.

205. In addition to generally increasing petroleum product prices in the Pittsburgh area, the proposed reversal would also expose Pittsburgh area wholesalers, retailers, and consumers to increased price volatility. Sheetz St. No. 1, at 4:4-5; Indicated Parties St. No. 2 at 21:11-28:11.

206. Pittsburgh, like many other large metropolitan cities, must comply with environmental regulations restricting gasoline sales to low-RVP blends from May 1 through September 15. Indicated Parties St. No. 1 at 25:10 – 26:4.

207. Pittsburgh's low-RVP mandate must be met without the benefit of an ethanol waiver. Tr. at 1126:3 - 1127:17.

208. As ethanol blending adds approximately 1 psi to gasoline, the lack of an ethanol waiver for Pittsburgh means suppliers must provide gasoline to Pittsburgh no higher than 6.8 psi in order for the final product to meet the 7.8 psi low-RVP mandate. Tr. at 1126:9-16.

209. No more butane may be removed from 7.8 psi gasoline to reach 6.8 psi because, quite simply, no more butane exists once the gasoline reaches 7.8 psi. Indicated Parties St. No. 2-S, at 44: Figure 13.

210. Producing low-RVP gasoline compliant with Pittsburgh mandates requires more than reducing the level of butanes in the gasoline blend. Other components such as pentane

must be removed, which would reduce the refiner's total gasoline yields and increase yields of less valuable products, such as pentane. Tr. 1127:8-17.

211. To produce low-RVP gasoline, the refiner must also incur operational costs to keep butanes and pentanes separated from the gasoline streams. Tr. 1126:19-1127:2.

212. Conservative estimates indicate Midwest refineries would require an additional 3.7 MBPD of crude oil and experience increased production costs of 2.60 cents per barrel to produce even low-RVP gasoline at 7.8 psi. Indicated Parties St. No. 2 at 44:5-7.

213. 2016 shipments of gasoline on Laurel for the period May – August 2016 totaled 75, 76, 62, and 63 MBPD, respectively. Indicated Parties Exhibit DSA-11 at 15.

214. Total demand for gasoline (excluding diesel, jet fuel, and other products) in Pittsburgh averages approximately 67 MBPD. Laurel Exhibit MJW-11, at 5.

215. .East Coast supply sources historically and presently account for most of the low-RVP gasoline supplied to the Pittsburgh area. Indicated Parties St. No. 1 at 26:5-6; Sheetz St. No. 1 at 9:5-6; Indicated Parties Exhibit DSA-11 at 15.

216. Laurel has pointed to correspondence from BP Products North America and ExxonMobil Oil Corporation claiming their respective Midwest refineries are capable of producing gasoline that meets the low-RVP specification for western Pennsylvania. See Laurel Exhibit KMS-13 at 2-3.

217. Neither Laurel, nor intervenor Husky, as the only Midwest refiner active in this proceeding, has explained how the Commission can make a finding that Midwest

refineries could capably supply Pittsburgh with sufficient volumes of reasonably-priced low-RVP gasoline when the Midwest refineries currently have the pipeline resources to supply low-RVP gasoline to the Pittsburgh area and choose not to supply it. Gulf St. No. 1-S at 1:11-20, 19:12 – 20:12; Sheetz St. No. 1-S at 1:11 – 2:2, 14:6 – 15:12.

218. Refineries in or around the Pittsburgh area, including the Ergon refinery, in Newell West Virginia, the Marathon Petroleum Company refinery in Canton, Ohio, and the United Refining Company refinery in Warren, PA, are relatively small and lack the ability to produce additional petroleum products or transfer volumes to Pittsburgh in any meaningful quantities. Sheetz St. No. 1 at 6:5-15.

V. HARMS TO REFINERIES

219. The impact of the proposed Laurel pipeline reversal is likely to result in structural changes to the petroleum market which can severely affect the continuity of operations by Philadelphia refiners like PESRM and Monroe Energy, among others. (Indicated Parties St. No. 2, at 33:11-13).

220. The proposed reversal of the Laurel pipeline to Altoona could potentially reduce Philadelphia refinery operations by an average of 132,000 barrels per day during the non-Summer months. (Indicated Parties St. No. 2, at 34:7-9).

221. Post Laurel pipeline reversal, Central Atlantic refinery production would have to be *reduced* in order to increase the utilization of Eastern Midwest refineries rather than reducing gasoline imports from other countries. (Indicated Parties St. No. 2, at 36:1-3).

222. Post Laurel pipeline reversal, it is wrong to assume petroleum product imports will be reduced because imported gasoline products coming into the United States are very low in price. (Indicated Parties St. No. 2, at 37:14-15).

223. European gasoline is priced to levels necessary to assure that it will be imported into the Central Atlantic and New England markets. (Indicated Parties St. No. 2, at 38:2-3).

224. If the Laurel pipeline were to be reversed to Altoona as proposed, it is more likely that reduced production will occur at southeastern Pennsylvania refineries like PESRM and Monroe Energy than reduced foreign imports of gasoline. (Indicated Parties St. No. 2, at 38:5-8).

225. The direct result of the proposed reversal to Altoona would be the loss of 132,000 barrels per day of refinery capacity during part of the year. This reduction would result in the shutdown of that amount of refinery capacity, which would then eventually lead to increased prices and increased susceptibility to price spikes for consumers of gasoline. This low annual refinery utilization is precisely what East Coast refineries experienced in 2008-2012, which led to the last round of refinery closures. (Indicated Parties St. No. 2, at 38:16-21).

226. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] [**END HIGHLY CONFIDENTIAL]** (Indicated Parties St. No. 2, at 39:20-22).

227. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

[redacted] [**END HIGHLY CONFIDENTIAL]** (Indicated Parties St. No. 2, at 40:16-19).

228. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] [**END HIGHLY CONFIDENTIAL]** **(**Indicated Parties St. No. 2, at 41:7-10).

229. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **END HIGHLY CONFIDENTIAL]** **(**Indicated Parties St. No. 2, at 42:9-14).

230. A full reversal of the Laurel pipeline to Philadelphia would saddle consumers with higher prices and Philadelphia refineries with potential refinery capacity reductions or shutdowns, and an overall increased risk to the reliability of supply to east coast consumers. **(**Indicated Parties St. No. 2, at 43:20-23).

231. About 286,500 barrels per day of refinery capacity is likely to be closed in the Central Atlantic region if a full reversal of the Laurel were to proceed. (Indicated Parties St. No. 2, at 45:17-18).

232. The proposed partial reversal and potential full reversal of the Laurel pipeline will cause significant harm to Philadelphia refineries and increased risk to East Coast consumers. (Indicated Parties St. No. 2, at 4:21-23).

233. Ms. Sadowski estimates that the increased transportation costs due to barging a significant amount of product into New York Harbor that Monroe Energy currently delivers into Laurel pipeline would be somewhere between $7.2 million and $12 million per year. These increased costs are harm to Monroe Energy. (Monroe Energy St. No. 1-SR, at 5:1-13).

234. Moving substantial additional barrels into the New York Harbor market will push down prices and reduce margins for refiners. (Monroe Energy St. No. 1, at 10:1-5; PESRM St. No. 1, at 6:8-7 – 7:7).

235. The loss of revenue to the Philadelphia Refineries that would be associated with the Laurel reversal will lead to production cuts, reduced output, and reduced employment. (PESRM St. No. 1, at 8:14-19; Monroe Energy St. No. 1, at 10:8-21).

236. If the products that Monroe Energy and PESRM's and/or their customers ship west of Eldorado on Laurel pipeline are no longer able to reach those destinations due to the proposed reversal, and as a result Monroe Energy and PESRM are required to sell those products into the New York Harbor market, to the extent they are able to do so, basic economics suggests that prices in that market will fall and these refineries margins will be reduced. (Monroe Energy St. No. 1, at 10:1-5; PESRM St. No. 1, at 6:8-7:7).

237. Both Refinery witnesses testified that they operate their refineries on an optimized basis based upon: price and availability of crudes, production costs and capabilities, transportation options and costs, market prices and other factors. Optimization means that these factors are all considered and the product slate is tailored to produce the optimal returns to the refinery. Therefore, if as a result of the reversal, the refineries are compelled to produce different products and/or deliver those products to markets other than those where they are sent today, the refineries will earn less revenue that is earned today. (Monroe Energy St. No. 1-SR, at 18:4-14; PESRM St. No. 1, at 8:14-15).

238. The Pittsburgh market currently is a high margin market for products sold by PESRM and Monroe Energy. (Monroe Energy St. No. 1, at 8:18; Monroe St. No. 1-SR, at 6:8-17; PESRM St. No. 1, at 8:14-16).

239. Monroe Energy's options for moving its product, post-reversal, are limited physically and economically because the other pipelines to which it currently is connected have "little spare capacity" and the markets to which they are connected are not as profitable and have different product demand. The consequence of these limitations is that Monroe Energy's "best" option post reversal would be to barge some percentage of the product that it currently ships on Laurel pipeline to New York Harbor. The increased transportation costs of this option are $7.5 to $12 million per year which directly impacts Monroe Energy's bottom line. (Monroe Energy St. No. 1, at 8:9 – 9:7).

240. Neither PESRM nor Monroe Energy have feasible and economic options for clearing their refineries post reversal. Both Refinery witnesses stated that due to a combination of lower prices, non-viable markets and poor alternative transportation options, that

production cutbacks are likely if Laurel pipeline is reversed. (Tr. 979:12-21; Tr. 1129:18-1130:16).

241. Even if Monroe Energy could ship its products to New York Harbor at pipeline transportation prices as Laurel witnesses have conjectured it could, Monroe Energy would still have to lower its price to meet the competition from Europe where gasoline is a byproduct of the production of the more favored diesel fuel. (Monroe Energy St. No. 1-SR, at 12:1-12). Lowering its prices in the face of such competition could ultimately lead to an unsustainable price war. (Monroe Energy St. No. 1-SR, at 12:18-23).

242. While barging is an available transportation option for Monroe Energy, post reversal, the costs are significantly higher than pipeline transportation and moving the volumes displaced by the proposed reversal would cause substantial harm to Monroe Energy, without considering price impacts. (Monroe Energy St. No. 1-SR at 14:14 – 15:6).

243. Monroe Energy currently produces conventional and reformulated gasoline that is destined for markets on Laurel pipeline west of Eldorado. Ms. Sadowski testified that, post-reversal, Monroe Energy would be able to move the reformulated gasoline into New York Harbor, but that the conventional gasoline that currently ships west of Eldorado would not be fungible in New York Harbor and would require the acquisition of additional railcars to store or move the additional butane and pentanes that would need to be removed from the conventional gasoline to make the appropriate reformulated gasoline for those new markets. (Monroe Energy St. No. 1-SR, at 15:13-16-2; Tr. 1126:2-1127:17; Tr. 1076:25-1077:9).

244. The reversal of the Laurel pipeline would be a structural change to Monroe Energy's business requiring Monroe Energy to seek to ship product to New York Harbor

via barge at an annual loss of up to **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** due to higher transportation costs alone. A loss in that order of magnitude would be significant. (Monroe Energy St. No. 1-SR, at 19:13-19).

245. Ms. Sadowski explains that the lower margins Monroe Energy would realize by moving products into markets such as New York Harbor, post reversal, would not translate into lower prices at the pump, but rather, the lower margins would be the result of Monroe Energy paying higher transportation costs to reach these different marketsor of having to lower its prices (relative to Pittsburgh) to create demand for its products. (Monroe Energy St. No. 1-SR, at 6:21-7:8).

246. Because Eastern Pennsylvania Refineries continue to be competitive with Midwest prices for most of the year, Monroe Energy would expect to continue to sell product west of Eldorado. Eliminating its ability to do so will cause Monroe Energy harm. Laurel is picking winners and losers and decided who gets to serve the Pennsylvania markets west of Eldorado. (Monroe Energy St. No. 1-SR, at 7:14 – 8:10).

247. Mr. Sadlowski testified that any loss of access to markets into which PESRM currently sells would diminish its marketing options. Loss of its most profitable market – Pittsburgh – would be devastating. Loss of the Pittsburgh market and PESRM's resulting inability to move sufficient volumes out of its refinery could result in a refinery closure. (PESRM St. No 1-S, at 3:15-17; 15:3-15).

248. PESRM relies on the Laurel pipeline to enable the efficient operation of the refined petroleum products market. The Laurel pipeline increases the value of PESRM

products but also provides for lower and more reliable prices for consumers. (PESRM St. No. 1, at 4:3-7).

249. PESRM does not believe it has viable alternative markets post reversal. Mr. Sadlowski is skeptical that the Altoona market, the central Pennsylvania, or the New Jersey and/or Upstate New York markets, markets in which PESRM already operates, will be viable alternatives for Pittsburgh. (PESRM St. No. 1, at 6:11-7:17).

250. Ms. Sadowski testified that if east coast refineries are unable to sell product west of Eldorado, they would have the same amount of supply, but less demand so prices would necessarily fall, causing harm. Mr. Sadlowski agrees that the diminished demand would lead to lower prices, revenue reductions and cuts in production. (Tr. 1077:14-19; PESRM St. No. 1, at 8:14-19).

251. Ms. Sadowski testified on cross that the proposed reversal would cause demand along the Laurel pipeline to decline. (Tr. 1079:13-17).

252. Ms. Sadowski explains that in order to reduce 7.8 Reid Vapor Pressure ("RVP") gasoline to 6.8 RVP, you most remove the pentanes from the fuel, which is expensive, or make less of the lower RVP gasoline. (Tr. 1127:10-17).

253. Dr. Webb agreed that the reversal will not provide access to any new markets that refineries cannot already serve. (Tr. 482:5-9).

254. After the economic collapse of 2008, there was a significant supply and demand imbalance in the Northeast United states and the means by which that oversupply imbalance was resolved was that several refineries closed. Despite the oversupply, imports

remained constant and perhaps even increased. Based on this, Mr. Sadlowski concludes that the impact of the reversal of Laurel will be similar, in that refineries will have to reduce outputs and close, rather than backing out imports. (Tr. 960:18-961:15).

255. PESRM Form S-1, prepared in connection with potential public stock offering, was based on market conditions in 2014/2015, when the proposed Laurel pipeline reversal was not known. (PESRM St. No. 2-S at 2:21-23).

256. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

257. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

258. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

259. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

[redacted]

[redacted] **[END HIGHLY CONFIDENTIAL]**

260. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

261. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

262. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

263. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

264. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted]

[redacted] **[END HIGHLY CONFIDENTIAL]**

265. Reversal of the Laurel pipeline as proposed will provide a material impediment to eastern refiners of summer gasoline like PESRM from delivering their products to the Pittsburgh market in an economic and safe way. (PESRM St. No. 1 at 7:2-3).

266. PESRM would be adversely impacted by the higher costs associated with transporting products from Eldorado and points further to the east of Eldorado to Pittsburgh should the flow reversal be granted. (PESRM St. No. 1 at 7:4-7).

267. PESRM is concerned that the proposed flow reversal may be the first phase of additional flow reversals in the future that reverse flows further east on the Laurel pipeline, completely abandoning the service that the Commission authorized in 1957, and further limiting the ability of PESRM and others to access the Pittsburgh market or markets west of Philadelphia with their petroleum products. (PESRM St. No. 1 at 7:8-12).

268. The Pittsburgh market continues to be an important historic and future market for PESRM that it can only access through the Laurel pipeline. PESRM has continued to vigorously compete in the Pittsburgh market despite multiple pipelines moving product from the Midwest into Pittsburgh. (PESRM St. No. 1 at 7:21-23-8:1).

269. If the Pittsburgh market was cut off due to the Commission's approval of Laurel's proposed pipeline reversal, PESRM's sales into that market could only be replaced by sales at lower margins or they would not be made at all, leading to revenue reductions and cuts in production, which could lead to workforce reductions. (PESRM St. No. 1 at 8:16-19).

270. If PESRM were to close, approximately 1,100 refinery jobs would be immediately lost and, based on various economic studies, another 12,000 – 21,600 jobs would be at risk, resulting in an economic impact exceeding $1.8 trillion to the Philadelphia regional economy alone. (PESRM St. No. 1 at 10:7-10).

271. A full reversal of the Laurel pipeline would lead to a forced reduction in the output of PADD 1 refiners, which includes PESRM. (PESRM St. No. 1 at 10:19-20-11:1).

272. A full reversal of the Laurel pipeline would significantly jeopardize the supply and demand balance in the Northeastern region of the United States and threaten PESRM's continued operations. (PESRM St. No. 1 at 11:12-15).

273. Regardless of whether PESRM sells directly into the destination market like Pittsburgh on a delivered basis or FOB at the refinery to a party selling into the destination market, PESRM receives the full value of net back price for that destination that includes adjustments for transportation cost. (PESRM St. No. 1-S at 2:12-15).

274. Any loss of access to markets into which PESRM currently sells product would decrease PESRM's sales and marketing options. (PESRM St. No. 1-S at 3:15-16).

275. Since PESRM has historically supplied Upstate New York via the Sunoco Logistics pipeline network out of Philadelphia into the Buckeye system, Laurel has not presented PESRM any new market alternative to sell product into if the reversal were to be approved and implemented. (PESRM St. No. 1-S at 3:17-21).

276. Given there are no growing markets into which PESRM currently sells product, there are no alternative markets into which PESRM can place product if the Laurel pipeline were to be reversed. (PESRM St. No. 1-S at 5:1-3).

277. Imported foreign crude barrels would not be displaced if PESRM is unable to deliver product into Pittsburgh. History suggests that it is Northeast United States refining capacity that balances the market – not foreign imports. (PESRM St. No. 1-S at 7:17-19).

278. Pittsburgh consumers currently enjoy the benefit of being able to buy from the cheapest source from a multitude of suppliers in both the East and the West. (PESRM St. No. 1-S at 9:3-5).

279. According to a conservative view by the Acadian group in its study of the impact of a Philadelphia refinery closure, "[i]n the first year after operations the economy would contract by more than 10,000 jobs, more than $1 billion in labor income, $2.4 billion in value added, $6.4 billion in output and $175 million in state and local tax revenues would be lost." (PESRM St. No. 1-S at 10:8-11).

280. European gasoline is a byproduct of diesel production and is therefore viewed by European refiners as a product that must be sold even at a loss, if necessary. For that reason the volume of European imports will not be displaced regardless of the competitiveness of U.S. domestic refiners. (PESRM St. No. 1-S at 13:2-5).

281. PESRM is currently competitively selling into the Pittsburgh market despite Laurel's claims that Midwest refining is more efficient. (PESRM St. No. 1-S at 14:11-12).

282. The proposed Laurel pipeline reversal will eliminate delivery options into the Pittsburgh area for petroleum products via pipeline from the east. (Indicated Parties St. No. 3 at 10:7-9).

283. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

284. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

285. Dr. Webb's approach of only considering Philadelphia movements to Pittsburgh completely and improperly underestimates the harm to Philadelphia area refineries. A harm analysis of this type requires consideration of all the flows from the region where the refineries are located. It is necessary to consider all regional flow from the Central Atlantic into Pittsburgh due to the high level of interconnectivity in this market. Any reduction in flows from the Laurel pipeline will have a "backing up" displacement effect that will place downward pressure on pricing upstream of the pipeline which in turn will reduce the market clearing price for product at the tailgate of the Philadelphia refineries. (Indicated Parties St. No. 2-S, at 31:3-17).

286. Dr. Webb's position that the value of Philadelphia refinery petroleum products is solely a matter of where the product either transfers title and/or where it is ultimately consumed fails to recognize that the value of a supplier's products is based on the entire market

into which it sells products. His analysis fails to demonstrate any understanding of "displacement." If the region's demand were to change for all Eastern suppliers, the product that previously had been moved to Pittsburgh, for example, would then have to displace other volumes supplied elsewhere in the region and/or, refineries would need to reduce their output of product. (Indicated Parties St. No. 2-S, at 31:21-32:6).

287. Both PESRM and Monroe Energy have products marketed into the Laurel pipeline, and recognize that the only difference among the prices at terminals along the Laurel pipeline is the incremental transportation fee to move those products. That is because if, at any point in time, there was an arbitrage opportunity between any two points along the Laurel pipeline, market participants (e.g., marketers/refiners) would act to move volumes until the differential between and among those terminals went away. Therefore, prices at any point along the Laurel pipeline reflect the 'best price' or 'market clearing price' for supply and demand for every point along the pipeline. (Indicated Parties St. No. 2-S, at 32:10-17).

288. Mr. Stern looked only at volumes being moved into Pittsburgh by PESRM and Monroe Energy via the Laurel pipeline in their own names. He attempted to further justify the insignificance of any impacts of any other volumes produced by those refineries by stating that each refinery is being paid for the majority of its production at the refinery gate to third parties which has no relation to the market where the production is sold. These two theories of volume minimization and insensitive "plant gate" pricing combine to give an erroneous impression that the Laurel pipeline reversal will have an insignificant impact for Philadelphia refineries. (Indicated Parties St. No. 2-S, at 32:19-33:6.)

289. Mr. Stern argued that gasoline imports, particularly those from Europe, are the marginal source of supply to the East Coast (PADD 1). (Laurel St. No. 8-R, at 33:4-39:13). Gasoline imports into the Central Atlantic region reflect byproduct economics that affect the volume and price of imports into the Central Atlantic region. Thus imports into the region are driving gasoline prices, instead of vice versa. Mr. Stern's tracking of imports on a daily, weekly, or monthly basis, ignores the realities of how refineries handle their operations. (Indicated Parties St. No. 2-S, at 33:11-34:2).

290. Mr. Stern's Figure 16 attempts to demonstrate that imports are the marginal supply into the East Coast market. (Laurel St. No. 8-R, at 33). Mr. Stern's Figure 16 is not fully accurate or complete because it excludes gasoline blendstocks that must also be counted with finished gasoline volumes. This is a very significant oversight, since finished gasoline volumes are the primary product at issue in the proposed pipeline reversal. In Mr. Schaal's Figure 10, he shows that Mr. Stern's claim that gasoline imports are falling in response to increased U.S. production is completely unsupported because he has failed to appreciate that a significant portion of what was formerly accounted for as "Finished Motor Gasoline" has become "Motor Gasoline Blendstocks," whose volumes he did not take into account. Once blendstock volumes are added to imports, which is indisputably appropriate to do, the decline in imports he claims disappears. The trend that Mr. Stern believes he has detected disappears when blendstocks are included in imported volume flows. (Indicated Parties St. No. 2-S, at 34:4-35:4).

291. Mr. Stern cited the statements of EIA, The Brattle Group, and PESRM, to support his contention that gasoline import volumes into the East Coast (PADD 1) respond to price signals, (Laurel St. No. 8-R, at 36:6-37:16.) and how European gasoline prices are often the lowest priced volumes at New York Harbor. He does not acknowledge the magnitude of the

effects that diesel demand and diesel production in Europe have on the pricing of gasoline. (Indicated Parties St. No. 2-S, at 35:10-36:6).

292. Mr. Schaal's Figure 11 illustrates the trade of petroleum products between the European and U.S. markets. In Europe, the demand for diesel outstrips the demand for gasoline, even though the production of diesel through the refining of crude oil also results in the production of large quantities of gasoline. Given the level of European diesel demand, there can often be instances where the need for Europe to supply diesel results in the additional production of European gasoline as a co-product of diesel, and/or the need for Europe to import more diesel product from the U.S. Gulf Coast. Figure 12 shows that gasoline imports into the Central Atlantic occur even when European gasoline costs are less than NYH which contradicts Laurel's position that imports are the marginal barrel of fuel on the east coast. (Indicated Parties St. No. 2-S, at 36:6-37:3).

293. Refineries could either reduce output or accept lower prices in response to the reduction in demand represented by the loss of pipeline service into Pittsburgh. However, on an annual basis such reductions in volumes or prices will impact annual net revenues. Refineries can be likened to retail shops, where many shops operate at a loss for much of the year with the expectation that the Christmas shopping season, the summer, will more than make up for the losses in operations incurred the other months of the year. Therefore, even if Philadelphia refinery volume impacts may occur only seasonally, the harm from the reversal will have a cumulative effect on refinery revenues throughout the year or years which could lead to refinery closures, the net result of these closures being the increase of imports from overseas into the region. (Indicated Parties St. No. 2-S, at 39:5-16.)

294. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] [**END HIGHLY CONFIDENTIAL**] (Indicated Parties St. No. 2-S, at 39:22-40:10).

295. The value that Monroe Energy receives for its products is based on the margin it receives at its origin—whether or not Monroe Energy's margin is negotiated on a daily, weekly, monthly, annual, or longer time frame. The ultimate customers of Monroe Energy's products in the Pittsburgh area would have to access alternative suppliers if the proposed reversal were to proceed, which would diminish the value that Monroe Energy's wholesale customers would place on its products at the tailgate of Monroe Energy's refinery. (Indicated Parties St. No. 2-S, at 47:1-12.)

VI. HARMS TO OTHER CUSTOMERS OF THE LAUREL PIPELINE

296. Pittsburgh consumers benefit from competition in petroleum products and are able to buy from the lowest priced offer for product in the market. (PESRM St. No. 1-S at 11:1-2).

297. Should the Commission approve the proposed reversal, consumers in Pittsburgh will lose supply optionality (i.e., the ability to receive product from both the east and west via petroleum pipelines) and no longer be able to buy from East coast suppliers like PESRM. (PESRM St. No. 1-S at 11:2-5).

VII. HARM TO LAUREL

298. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

299. There is a substantial difference in rates for service on Buckeye's interstate pipeline system compared to Laurel's Pennsylvania rates (i.e., $1.00/barrel versus $0.60/barrel). (Indicated Parties Exhibit No. RAR-2, at 107: 10-13; Indicated Parties St. No. 3 at 22:16-20).

300. When Laurel is losing revenues under the reversal, other portions of the Buckeye system are receiving higher revenues, at least in part, that are more than offsetting the revenue loss to Laurel. (Indicated Parties Exhibit No. RAR-2, at 146: 21-25; Indicated Parties St. No. 3 at 23:7-10).

301. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

302. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] [redacted] **[END HIGHLY CONFIDENTIAL]**

303. **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]**

304. Buckeye believes that the Laurel pipeline reversal will "deter a major pipeline build," which is another way of characterizing the "threat." (Indicated Parties St. No. 3 at 27:13-15).

305. Buckeye currently uses Laurel's pipeline system to transport petroleum products in interstate commerce to locations throughout Pennsylvania, pursuant to FERC-approved tariffs and an existing Commission-approved pipeline capacity agreement. (Indicated Parties St. No. 3 at 29:11-14).

306. Section 2 of the proposed Capacity Agreement contains an initial 10 year term followed by a year to year renewal term to create an "evergreen" agreement until a 30 day notice cancellation is provided. (Indicated Parties St. No. 3 at 30:1-4).

307. The proposed Capacity Agreement disaggregates the current shipping capacity reservation of 31,025,000 barrels (85,000 BPD) between Sinking Spring (Berks County) and Coraopolis (Allegheny County) into two segments. (Indicated Parties St. No. 3 at 30:8-10).

308. The proposed Capacity Agreement contains financial risk exposure for Laurel due to a probable reduction in revenue resulting from the flow reversal and the overall operation of the Capacity Agreement. This risk is exacerbated because Laurel has no recourse to recover offsetting revenue from other shippers. (Indicated Parties St. No. 3 at 30:20-23).

309. In both the existing and proposed Capacity Agreements, Laurel is obligated to make and keep capacity available to Buckeye, but Buckeye is not obligated to use the capacity and actually obtains a credit if the capacity is unused. (Indicated Parties St. No. 3 at 31:6-9).

310. The revenue risk to Laurel under both the existing and proposed Capacity Agreements can be eliminated if the refund component of the capacity use payment is eliminated. (Indicated Parties St. No. 3 at 31:16-20).

311. Laurel is agreeing under the proposed Capacity Agreement to cease delivery service at its highest Pennsylvania tariffed rates and substitute service to its affiliate Buckeye at a much reduced rate. (Indicated Parties St. No. 3 at 32:1-2).

312. The capacity reservation rate in the current Capacity Agreement was established in 1994, equates to a rate of $.17 a barrel, that rate has not been adjusted in years, and therefore may not be just and reasonable. (Indicated Parties St. No. 3 at 32:15-22).

313. Buckeye/Laurel would have a greater incentive to prioritize flows from the West over flows from the East into Eldorado post-reversal due to the higher revenues generated under its FERC tariff compared to Laurel's existing Pennsylvania intrastate service tariff. (Indicated Parties St. No. 2, at 16:18-21).

VIII. ALTERNATIVES TO LAUREL PIPELINE [SECTION V.C.1.C.(2)(C)]

314. In support of its proposed reversal, Laurel has alleged benefits to communities *east* of Eldorado—what Laurel calls "Central Pennsylvania" and/or the "Harrisburg area"—with assertions that Midwestern product shipped to Eldorado will be trucked further east, thereby bringing the alleged benefits of the reversal even deeper into Pennsylvania. (Laurel St. No. 2-RJ, at 24:16; Laurel St. No. 3-R, at 13:7-14; Laurel St. No. 2, at 4:8-13; Laurel St. No. 2, at 8:12-14; Laurel St. No. 2-R, at 13:9-12; Tr. 672:21-673:2; Tr. 316:4-9).

315. Laurel has also argued that petroleum products shipped westward on the Laurel pipeline to Eldorado (post-reversal) could be transported further west into the Pittsburgh market by truck. (Laurel Hearing Ex. 1 (Application) at p. 11, ¶ 22, ¶ 43; Laurel St. No. 2, at 12:10-13).

316. The Indicated Parties presented the only evidence in this proceeding on trucking, which demonstrates a likelihood of substantial harm to the public from increased truck traffic. (Indicated Parties St. No. 1; Indicated Parties St. No. 4).

317. Steven W. Rickard testified on behalf of the Indicated Parties regarding the public safety and traffic concerns associated with the increased tanker truck traffic necessary to transport petroleum products throughout Pennsylvania if Laurel's Application is approved. (Indicated Parties St. No. 4, at 3:10-12).

318. Mr. Rickard's testified regarding the challenges and dangers associated with transporting petroleum products via truck both westward and eastward from the terminal at Eldorado. (*See generally*, Indicated Parties St. No. 4).

319. Mr. Rickard testified that the Pennsylvania Turnpike is an inadequate and impractical supply route for tanker trucks to deliver petroleum across Pennsylvania from Eldorado because trucks carrying hazardous materials must be "placarded" (Indicated Parties St. No. 4, at 4:15-18) and placarded trucks are prohibited from passing through the numerous tunnels on the Turnpike. (Indicated Parties St. No. 4, at 4:18-22).

320. There are limited alternative potential routes for trucks to transport petroleum products from Eldorado (Altoona) across Pennsylvania, and each of those options comes with its own significant safety and traffic concerns. Mr. Rickard testified that there are four potential routes for transporting petroleum products from Altoona into Pittsburgh and from Altoona into Harrisburg given the above-referenced Turnpike restrictions. (Indicated Parties St. No. 4, at 5:9-8:2).

a. **Altoona to Pittsburgh: The Northern Route.** The Northern Route from Altoona to Pittsburgh is via Interstate 99 to US Route 22 West to Interstate 76 to Interstate 279. This is a 134 mile route. (Indicated Parties St. No. 4, at 5:9-16).

b. **Altoona to Pittsburgh: The Southern Route.** The Southern Route for trucking petroleum products from Altoona to Pittsburgh would require 215 miles of one-way travel and would pass through three states (Pennsylvania, Maryland, and West Virginia). The Southern Route from Altoona to Pittsburgh is via Interstate 99 to US 220 to Interstate 68 to Interstate 79. (Indicated Parties St. No. 4, at 6:2-7:1). There is no practical alternate southern route from Altoona to Pittsburgh due to prohibitions on trucks hauling placarded loads on US 30 west of US 219. (Indicated Parties St. No. 4, at 7:2-9:1).

c. **Altoona to Harrisburg: The Northern Route.** The Northern Route from Altoona to Harrisburg would require 132 miles of one-way travel via Interstate 99 to US 322. (Indicated Parties St. No. 4, at 9:2-10:1).

d. **Altoona to Harrisburg: The Southern Route.** The Southern Route from Altoona to Harrisburg would require 216 miles of one-way highway travel from Altoona to Harrisburg via Interstate 99 to US 220 to Interstates 68 and 70, to Interstate 81 (passing through Pennsylvania and Maryland). (Indicated Parties St. No. 4, at 10:3-6). Although it is technically possible for truck traffic to reach Harrisburg from Altoona by traveling south on Interstate 99, then east on Route 30, then north on Interstate 81, the Pennsylvania Department of Transportation advises that tanker trucks should avoid the mountainous terrain on US 30 near Bedford, Pennsylvania. (Indicated Parties St. No. 4, at 15:14-19). Moreover, this route would require tanker trucks to pass through the middle of Chambersburg, Pennsylvania, which is generally congested (Indicated Parties. St. No. 4, at 11:1-6) and has a number of traffic lights, overpasses, and at least one railroad crossing. (Indicated Parties St. No. 4, at 15:14-19).

321. Mr. Rickard testified that there are significant safety concerns associated with the transportation of petroleum products on any of the above-described routes. (*See generally* Indicated Parties St. No. 1).

322. The Altoona to Pittsburgh Northern Route has many hills with steep inclines and declines, making truck travel difficult year-round. (Indicated Parties St. No. 4, at 14:5-7). Winter driving along this route is particularly dangerous due to whiteouts and snow-covered or icy hills. (Indicated Parties St. No. 4, at 14:7-8).

323. On the Altoona to Pittsburgh Southern Route, which travels through *three* states, winter driving is also particularly dangerous due to snow covered and icy roadways. (Indicated Parties St. No. 4, at 14:11-12). Whiteouts are also common on this route (particularly in the West Virginia mountains). (Indicated Parties St. No. 4, at 14:12-13). Even without winter weather, the West Virginia mountains cause the highway to be dangerously steep in some areas with inclines and declines that are challenging to heavy vehicles. (Indicated Parties St. No. 4, at 14:13-15).

324. Mr. Rickard also testified regarding trucking obstacles on the potential routes eastward from Altoona to Harrisburg. Truck travel is not advised on the Altoona to Harrisburg Northern Route due to (1) a very steep decline on US 322 heading south into Lewistown (making travel for heavy vehicles particularly hazardous in winter); and (2) the Potters Mills Gap Transportation Project along the section of Route 322 from the Centre County/Mifflin County line to west of the Route 322/Route 144 intersection at Potters Mills. (Indicated Parties St. No. 4, at 14:18-22). This project is not scheduled for completion until 2020. (Indicated Parties St. No. 4, at 14:18-22).

325. Mr. Rickard also testified regarding significant safety concerns associated with travel eastward on the Altoona to Harrisburg Southern Route (which passes through *two* states). The area south of Bedford, Pennsylvania, is mountainous with significant downgrades on these sections of roadway. (Indicated Parties St. No. 4, at 15:4-5). Additionally, Interstate 81 between Hagerstown, Maryland and Harrisburg—a major route leading to popular and well-populated destinations—has a significant amount of vehicular traffic, particularly truck traffic, which has led to a higher-than-normal number of accidents involving heavy trucks. (Indicated Parties St. No. 4, at 15:6-11). The amount of traffic and the number of accidents on Interstate 81 have increased dramatically over the past several decades and many of those accidents involve commercial tanker trucks. (Indicated Parties St. No. 4, at 15:11-13).

326. Mr. Rickard also testified about the many general safety concerns associated with increased trucking of petroleum products across Pennsylvania. A typical tanker truck is five axles (Indicated Parties St. No. 4, at 16:4-6) and can transport approximately 8,500 gallons of gasoline or approximately 7,500 gallons of diesel fuel. (Indicated Parties St. No. 4, at 11:16-18). In 2016, there were approximately 6,740 accidents involving heavy vehicles in

Pennsylvania, including 139 fatal accidents and 2,831 serious injury accidents. (Indicated Parties St. No. 4, at 16:11-21).

327. Mr. Rickard testified that if the proposed Laurel pipeline reversal is approved and tanker truck traffic increases, the number of heavy truck accidents is likely to increase as well. (Indicated Parties St. No. 4, at 17:5-12). Given the particularly dangerous nature of transporting hazardous materials, the percentage of such crashes involving serious injuries and/or death is also likely to increase. (Indicated Parties St. No. 4, at 17:5-12).

328. Mr. Rickard testified that the accidents involving tanker trucks carrying petroleum products are more dangerous and disruptive than accidents involving smaller vehicles without hazardous cargo. (Indicated Parties St. No. 4, at 21:12-22:14). When accidents involve heavy commercial trucks, it is much more likely that there will be serious injuries and/or fatalities. (Indicated Parties St. No. 4, at 22:3-5). When tanker trucks transporting petroleum products that are highly volatile and extremely flammable are involved in highway crashes, the risk of death or damage from fire and/or explosion occurring from the impact or from the tanker truck rolling over increases and poses a major hazard to the public, especially when the tanker trucks must travel through populated areas because they are unable to use the Turnpike. (Indicated Parties St. No. 4, at 22:5-10). In addition, accidents involving tanker trucks transporting hazardous materials in bulk can result in spills—cleanup and hazardous waste disposal from a single spill can cost hundreds of thousands of dollars, and can cause significant inconvenience or danger to motorists and/or residents when highways are closed and/or residents are forced to evacuate. (Indicated Parties St. No. 4, at 22:11-14).

329. Indicated Parties witness Dan Arthur testified regarding the potential volumes of fuel and amount of trucks that could be needed post-reversal. Dr. Arthur estimates that the proposed reversal could require an additional 40 MBPD of petroleum products to be trucked from Eldorado (Altoona) to Pittsburgh on average, with up to 88 MBPD trucked during peak summer months. (Indicated Parties St. No. 4, at 12:5-8 (citing Indicated Parties St. No. 1, at 37)). Based on these volumes, the Altoona-Pittsburgh shipments would require an additional 202 tanker truck trips per day, with up to 447 tanker trucks trips per day during peak summer months. (Indicated Parties St. No. 4, at 12:8-10). These estimates are based on 8,500 gallons of gasoline per tanker truck to stay within weight limitations. (Indicated Parties St. No. 4, at 11:9-18). Depending on the selected route, each trip would result in round-trip highway travel of 268-430 miles traveled, per tanker truck. (Indicated Parties St. No. 4, at 12:10-12).

330. Dr. Arthur further estimates that assuming some volumes shipped on the post-reversal pipeline reach Eldorado (Altoona), the reversal could result in an additional 3.3 MBPD of petroleum products being trucked from Altoona to Harrisburg on average, with up to 18 MBPD trucked during peak winter months. (Indicated Parties St. No. 4, at 12:17-13:1 (citing Indicated Parties St. No. 1, at 62)). These volumes would require 17 tanker truck trips per day on average on the Altoona to Harrisburg routes, with up to 90 tanker truck trips during peak winter months. (Indicated Parties St. No. 4, at 13:1-3). Depending on the selected route, each trip would result in round-trip highway travel of 264-432 miles traveled, per tanker truck. (Indicated Parties St. No. 4, at 13:3-5).

331. Indicated Parties' witness Mr. Rickard further testified regarding concerns about the lack of available workforce and infrastructure to support additional tanker truck movements if the Laurel pipeline is reversed. The increased trucking that could occur if the

Laurel pipeline is reversed requires an abundant and sophisticated workforce, which includes having properly trained and certified drivers available to drive the required routes as the market dictates. (Indicated Parties St. No. 4, at 17:13-21:11).

332. In order to operate a tanker truck in intrastate or interstate commerce, a truck driver must have a valid commercial driver's license ("CDL") with the extensive endorsements and testing. (Indicated Parties St. No. 4, at 17:18-20). The driver must obtain certain State-issued endorsements to his/her CDL in order to transport hazardous materials such as petroleum products (as defined in 49 CFR § 383.5). (Indicated Parties St. No. 4, at 17:20-18:2). To receive a tank vehicle endorsement, drivers must pass a knowledge exam that requires a detailed understanding of the safe transportation of hazardous materials and applicable hazardous materials regulations. (Indicated Parties St. No. 4, at 18:3-20:5). In addition, an operator of a vehicle must also have the knowledge to 1) operate emergency equipment in order to protect the public; 2) understand special precautions for equipment to be used in fires; and 3) use special precautions for use of emergency equipment when loading or unloading a hazardous materials laden motor vehicle, and use emergency equipment for tank vehicles. (Indicated Parties St. No. 4, at 20:6-12). The operator must understand all pertinent emergency response procedures and operational practices and procedures that the Motor Carrier Safety regulations do not specify. (Indicated Parties St. No. 4, at 20:10-12). In Pennsylvania, hazardous materials endorsement renewals are required every four years. (Indicated Parties St. No. 4, at 20:16-17).

333. Mr. Rickard testified that there is currently a shortage in both Pennsylvania and nationwide for CDL drivers with the proper qualifications and endorsements to operate a tanker truck transporting hazardous materials in bulk. (Indicated Parties St. No. 4, at 21:1-3). The current shortage would likely be an impediment to meeting any significant increase

in demand post-reversal for truck drivers qualified to transport hazardous materials. (Indicated Parties St. No. 4, at 21:8-11).

334. Presently, Pittsburgh and Eldorado both are able to receive shipments of petroleum products from the East Coast. Sheetz St. No. 1 at 7:2-18.

335. Restrictions on transportation of hazardous materials on the Pennsylvania Turnpike complicate the feasibility of trucking products in Central and Western Pennsylvania. Indicated Parties St. No. 4 at 4:5-13:12.

336. Trucking generally presents significant public safety concerns because of the increased tanker truck traffic that would result from the number of additional tanker trucks needed to transport petroleum products if the Laurel pipeline is reversed. Indicated Parties St. No. 4, at 13:17-17:12.

337. Trucking is significantly more costly than transporting through the Laurel pipeline. For example, Laurel's incremental rate from Altoona (Eldorado) to Pittsburgh terminals is 0.30 cents/gallon, while the incremental cost of trucking the same distance is 4.93 cents per gallon. Indicated Parties St. No. 1 at 35:6-9.

338. Laurel has provided no details whatsoever regarding rail transportation among points in Western Pennsylvania and Central Pennsylvania, making only passing references to the possibility of rail transportation. Gulf St. No. 1 at 5:7-23.

339. Loading gasoline rail cars requires a rail yard that is connected to a vapor recovery unit ("VRU"). Gulf St. No. 1, at 5:8-9.

340. Most existing rail yards were built to offload, and as a result VRUs can be installed only as an additional, substantial equipment expense typically in excess of $1 million per unit. Gulf St. No. 1 at 5:10-12.

341. Rail offloading requires the availability of offloading equipment at the destination. While some Pittsburgh locations are equipped with this capability, gasoline offloading must compete for capacity with other inbound receipts of biofuels, which are highly competitive for rail transport services because they are not transported via pipeline in Pennsylvania. Gulf St. No. 1 at 5:16-19.

342. Because rail loading and offloading is highly labor intensive and expensive, rail transportation becomes less economically competitive over shorter distances. Gulf St. No. 1 at 5:19-21.

343. Rail movements, and the labor that supports them, are susceptible to weather events, which in turn impacts punctuality and can prompt rail congestion and scheduling delays. Gulf St. No. 1 at 5:21-23.

344. The Laurel pipeline is the only pipeline source of product connecting the East Coast to the Pittsburgh area. Gulf St. No. 1 at 3:5-10 and 3:15 to 4:1.

345. The opportunity to obtain petroleum products from the eastern market via the Laurel pipeline is crucial to ensuring reliable and cost-effective supply for the Pittsburgh region. Sheetz St. No. 1 at 3:8-9.

346. Supply from western pipelines cannot protect the Pittsburgh market from higher and more volatile prices resulting from the loss of pipeline supply from the East Coast. Gulf St. No. 1 at 8:12 to 9:6; Sheetz St. No. 1 at 3:4 to 4:1.

347. Barge movements depend on severable variables, including economics, product availability, emission limit restrictions at discharge, river conditions, and weather. Sheetz St. No. 1 at 5:15-17; Sheetz St. No. 1-S at 12:21 to 13:1.

348. Susceptibility to numerous external factors such as weather and river conditions make barge supply sporadic at best and thus an unreliable alternative source of baseline supply for service into the Pittsburgh area. Sheetz St. No. 1-S at 12:21 to 13:1.

349. Generally, barge transportation is more expensive and labor intensive than pipeline alternatives. Gulf St. No. 1 at 5:1-3.

350. Shippers cannot move product from Philadelphia refiners to Pittsburgh via barge. Tr. 321:5-7.

351. During 2012, 2014, and 2015, barges delivered approximately 11,300, 8,500, and 10,000 barrels per day, respectively, into the Pittsburgh market. Sheetz St. No. 1-S at 13:11-13; Gulf St. No. 1-S at 16:19 to 17:3.

352. Efforts to expand barge capabilities in the Pittsburgh area would require tremendous risk tolerance for uncertainties in product availability and supply reliability in addition to requiring substantial capital investment to increase barging capacity and meet emission limits. Sheetz St. No. 1 at 5:19-22.

353. Expanding the capacity for barge shipments into the Pittsburgh area would fail to provide an adequate alternative to replace shipments on Laurel's pipeline for the same reason as the availability of pipelines from the Midwest. See Tr. 1207:1 to 1208:7, but see Laurel St. No. 5-R at 91:3-5.

354. Neither Laurel nor Husky was able to establish that product exchanges are a viable or practical option for marketers in the Pittsburgh area. Sheetz St. No. 1-S at 10:22 to 11:6 see also Gulf St. No. 1 at 10:17-18.

355. A product exchange is a transaction between two wholesalers where both parties agree to supply each other's obligations in two different geographical markets rather than having each party ship product to the other party's location. Sheetz St. No. 1 at 11:15-16.

356. Product exchanges are useful when geographical differences exist, but price and product differences do not. Sheetz St. No. 1 at 11:17-18.

357. Product exchanges work best when both suppliers are subject to the same pricing hub and the product quantities and qualities are identical. Sheetz St. No. 1 at 11:22-12:2.

358. Absent the circumstances where both suppliers are subject to the same pricing hub and the product quantities and qualities are identical, a product exchange would be difficult and/or ill-advised because the nuisance or financial exposure could outweigh the benefits. Sheetz St. No. 1 at 12:2-4.

359. Laurel has not provided an example of an actual exchange agreement that has been executed in the Pittsburgh market. Sheetz St. No. 1-S at 10:22 to 11:6 see also Gulf St. No. 1 at 10:17-18.

IX. Offer of Proof

360. The Motion of Laurel Pipe Line Company, L.P. to Submit a Supplemental Affidavit or, Alternatively Exclude Certain Cross Examination Exhibits and Testimony ("Motion") sought to: (1) exclude from the record a Greater Ohio Valley Market Study prepared by IHS on behalf of Husky ("IHS Study") and served on all parties by Husky Witness Jerome Miller in response to a discovery request from Gulf and Sheetz; or (2) admit an affidavit prepared by Husky witness Dr. Webb and attached to the Motion. Motion, at 2.

361. Laurel filed the Motion on the afternoon of the day (a Sunday) before the last day of evidentiary hearings, including its request to introduce an affidavit from Mr. Webb after learning several days earlier that the Indicated Parties intended to cross-examine Mr. Miller on the IHS Study. Tr. 1121:2-11.

362. The Indicated Parties had no opportunity to review Dr. Webb's affidavit or conduct any discovery on it. See id.

363. The ALJ excluded the IHS Study from evidence, but permitted the Indicated Parties to submit the study to the record as an offer of proof pursuant to Section 5.414 of the Public Utility Code. 52 Pa. Code § 5.414.

364. At the evidentiary hearing on November 8, 2017, Indicated Parties witness Dr. Arthur made reference to the IHS Study, at which point the ALJ inquired into the origin of the document. Tr. 783:19 – 785:8.

365. Counsel for Gulf and Sheetz informed the ALJ that the IHS Study had not been submitted with pre-served written testimony, but that Gulf and Sheetz had copies available

in the hearing room because the parties had intended to reference the document in cross-examination of Mr. Miller and submit it to the record as a cross examination exhibit. Tr. 786:5-8.

366. At the evidentiary hearing on November 13, 2017, following review of Laurel's Motion and limited oral argument from both parties, the ALJ deemed the IHS Study to be hearsay and untimely offered into evidence. Tr. 1233: 19-33.

367. At a September 26, 2017, deposition and at the November 13, 2017, evidentiary hearing, Husky's witness Mr. Miller repeatedly affirmed his reliance on various studies, including the IHS Study. Tr. 1241:24 – 1242:1, 1242:16-19.

368. In response to questions about Husky's analysis of future pricing and competitiveness of Midwest petroleum products in Pennsylvania, Mr. Miller similarly referenced the same IHS Study. Tr. 1243:9-11.

369. Additionally, in explaining that he relied on written studies to support his testimony on refinery capacity in the Midwest, Mr. Miller again affirmed reliance on the IHS Study. Tr. 1244:13-14.

370. The IHS Study is **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **END HIGHLY CONFIDENTIAL]** Tr. 1245:5

371. To the extent Laurel believed the IHS Study to be relevant or injurious to its case, it could have propounded discovery on Husky or even submitted supplemental testimony, as its witnesses reserved the right to do so as necessary or appropriate, including upon

receipt of new *discovery*. *See* Laurel St. No. 5-R, at 102:4-5; *see also* Laurel St. No. 7-R, at 73:1-2.

CONCLUSIONS OF LAW

BURDEN OF PROOF

1. As the proponent of a rule or order, the Applicant in this proceeding, Laurel, bears the burden of proof pursuant to 66 Pa.C.S. § 332(a).

2. To satisfy this burden, Laurel must demonstrate that it has met the Abandonment of Service test[1] by a preponderance of the evidence. *Patterson v. Bell Telephone Company of Pennsylvania*, 72 Pa. PUC 196 (1990).

3. "Preponderance of the evidence" requires Laurel to present evidence that is more convincing than that presented by the other parties. *Samuel J. Lansberry, Inc. v. Pa. Pub. Util. Comm'n,* 578 A.2d 600 (Pa.Cmwlth. 1990) *alloc. den.*, 529 Pa. 654, 602 A.2d 863 (1992).

4. While the burden of persuasion may shift back and forth during a proceeding, the burden of proof never shifts. The burden of proof always remains on the party seeking affirmative relief from the Commission, here, Laurel. *Milkie v. Pa. Pub. Util. Comm'n*, 768 A.2d 1217 (Pa.Cmwlth. 2001).

COMMISSION JURISDICTION AND APPLICABLE STANDARD

5. Laurel is an intrastate petroleum pipeline that is a public utility under the Public Utility Code. Indicated Parties St. No. 3 at 8:4-5 *citing* 66 Pa. C.S. § 102.

6. The Public Utility Code does not limit the scope and nature of the Commission's regulation of intrastate petroleum pipeline utilities like Laurel in terms of rates (66 Pa. C.S. Ch. 13), service (66 Pa. C.S. Ch. 15) and facilities (66 Pa. C.S. Ch. 11). Indicated Parties St. No. 3, at 8:21-23 *citing In re Condemnation by Sunoco Pipeline, L.P.*, 143 A. 3d

[1] Laurel bears the same burden of proof regardless of the legal standard that is ultimately selected to apply in this proceeding.

1000 (Pa. Cmwlth.), *petition for allowance of appeal denied*, (Pa., Nos. 571, 572, 573 MAL 2016, filed December 29, 2016.

7. Laurel's existing CPC only supports an east to west flow of product along the pipeline and Laurel was conferred no unilateral right to change the flow direction. Indicated Parties St. No. 3, at 3:19-20; *see also* Indicated Parties Exhibit No. RAR-1 *attaching In re Application of Laurel Pipe Line Company*, Docket No. 84093, Folder 2 (Report and Order entered March 18, 1957).

8. Laurel's 1957 CPC Application confirms that the service the Laurel pipeline intended to provide was to move petroleum products westerly from Philadelphia to Pittsburgh. Indicated Parties St. No. 3, at 5:15-17; *see also* Indicated Parties Exhibit No. RAR-1 *attaching In re Application of Laurel Pipe Line Company*, Docket No. 84093, Folder 2 (Application filed January 31, 1957).

9. The proposed reversal of flow along the Laurel pipeline between Eldorado and Pittsburgh, Pennsylvania constitutes an abandonment of service by Laurel, a regulated public utility. 66 Pa. C.S § 102 (emphasis added) (defining service to include "any and all acts done, rendered, or performed, *and any and all things furnished or supplied, and any and all facilities used, furnished, or supplied by public utilities*, or contract carriers by motor vehicle, in the performance of their duties under this part to their patrons, employees, other public utilities, and the public"); Indicated Parties St. No. 3 at 4:4-6; *Application for Approval of Abandonment of a Portion of Sunoco Pipeline, LP 's Petroleum Products Pipeline Transportation Service,* 2004 WL 5854823, (Jan. 25, 2005).

10. Laurel is required to file an application and obtain Commission authorization before it abandons service pursuant to 66 Pa. C.S. § 1102(a)(2):

> **§ 1102. Enumeration of acts requiring certificate.**
>
> **(a) General rule.--***Upon the application of any public utility and the approval of such application by the commission, evidenced by its certificate of public convenience first had and obtained,* and upon compliance with existing laws, it shall be lawful:
>
> (1) For any public utility to begin to offer, render, furnish or supply within this Commonwealth service of a different nature or to a different territory than that authorized by:
>
> (i) A certificate of public convenience granted under this part or under the former provisions of the act of July 26, 1913 (P.L.1374, No.854), known as "The Public Service Company Law," or the act of May 28, 1937 (P.L.1053, No.286), known as the "Public Utility Law."
>
> (ii) An unregistered right, power or privilege preserved by section 103 (relating to prior rights preserved).
>
> (2) *For any public utility to abandon or surrender, in whole or in part, any service*, except that this provision is not applicable to discontinuance of service to a patron for nonpayment of a bill, or upon request of a patron.[2]

11. Before granting a CPC allowing a utility to abandon service to some or all of its customers, the Commission must determine that "the granting of such certificate is

[2] *Id*. at § 1102 (emphasis added).

necessary or proper for the service, accommodation, convenience or safety of the public." 66 Pa. C.S. § 1103(a); Indicated Parties St. No. 3 at 11:13-16.

12. A CPC issued by the Commission is prima facie evidence that the Commission has determined there is a public need for the proposed service. Indicated Parties St. No. 3 at 9:15-17 *citing In re Condemnation by Sunoco Pipeline, L.P.*, 143 A. 3d 1000 (Pa. Cmwlth.), *petition for allowance of appeal denied,* (Pa., Nos. 571, 572, 573 MAL 2016, filed December 29, 2016.

13. This pre-existing and longstanding "need" cannot and should be not overturned absent evidence to the contrary, particularly as Laurel has historically benefitted from the powers derived from its status as a certificated public utility by exercising eminent domain authority and obtaining exemption from local authority over its operations. *See Jerome v. Laurel Pipe Line Co.*, 177 A.2d 150 (Pa. Super. Ct. 1962) (noting Laurel's use of eminent domain power to condemn a 30-foot right of way in Allegheny County, PA); *see also Appeal of Independence Twp. Sch. Dist*., 194 A.2d 437, 438 (Pa. 1963) (recognizing Laurel's exemption from local taxation from school district in Beaver County, PA, due to Laurel's public utility status).

14. The courts and the Commission have expressly acknowledged when granting CPCs that "enhancing delivery options" is a relevant and material factor in assessing whether a CPC application satisfies the standard of being "necessary and proper for the service, accommodation, and convenience of the public." *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013), at 7.

15. The Commission must consider all the facts related to potential plans for the Laurel pipeline **[BEGIN HIGHLY CONFIDENTIAL MATERIAL]** [redacted] **[END HIGHLY CONFIDENTIAL MATERIAL]** now in this proceeding in order to evaluate the broad "public interest" standards necessary for the granting of a CPC under Code Chapter 11 to abandon existing public utility service. Indicated Parties St. No. 3 at 25:19-23.

16. It is not sound regulatory policy for Laurel to have unilateral discretion to make decisions regarding the direction of the flow on the Laurel pipeline in the absence of clear, Commission-approved standards. Indicated Parties St. No. 3-S at 7:8-9.

17. Adopting some form of non-traditional or light-handed regulation in this proceeding would be inconsistent with how the Commonwealth has transitioned to non-traditional regulation of other utilities. Indicated Parties St. No. 5-S, at 10:1-3.

18. Should the Commission adopt light-handed regulation of intrastate pipelines without waiting for specific authorization from the General Assembly, it should do so through a generic proceeding. With a generic proceeding, all interested pipelines, refiners, terminal owners, shippers, and consumer representatives would have the opportunity to participate in setting the parameters for the new form of regulation. Indicated Parties St. No. 5-S, at 11:9-14.

STANDARD APPLICABLE TO THIS CASE

19. In the context of common carriers, the PUC has developed a multi-factor test to assess the merits of a proposed abandonment of public utility service. *Borough of Duncannon v. Pa. Public Utility Comm'n,* 713 A.2d 737, 740 (Pa. Commw. Ct. 1998).

20. To determine whether a proposed abandonment is in the public interest, the Commission considers the following: (1) The extent of loss to the utility; (2) the prospect of the system being used in the future; (3) the loss to the utility balanced with the convenience and hardship to the public upon discontinuance of such service; and (4) the availability and adequacy of the service to be substituted. *Commuters' Comm. v. Pennsylvania Pub. Util. Comm'n*, 88 A.2d 420, 422 (Pa. Super. 1952) (abandonment of segment of rail line); *West Penn Rys. Co. v. Pennsylvania Public Util. Comm'n*, 15 A.2d 539, 544 (Pa. Super. 1940) (abandonment of rail line); *Re Avery Transp., Inc.*, 64 Pa. P.U.C. 420 (Aug. 20, 1987) (abandonment of a bus route); Indicated Parties St. No. 3 at 11:18-19-12:1-5.

21. The service provided by Laurel pipeline to shippers constitutes a "public need" even though shippers are not typical end-use customers. *UGI Utils. v. Pennsylvania P.U.C.*, 684 A.2d 225, 229 (Pa. Commw. Ct. 1996).

APPLICATION OF MULTI-FACTOR ABANDONMENT OF SERVICE TEST

22. Laurel fails to demonstrate any loss to the utility. *UGI Utils. v. Pennsylvania P.U.C.*, 684 A.2d 225, 229 (Pa. Commw. Ct. 1996); Indicated Parties St. No. 3 at 14:7-9.

23. Laurel fails to demonstrate that the public will not use the utility service in the future. *UGI Utils. v. Pennsylvania P.U.C.*, 684 A.2d 225, 229 (Pa. Commw. Ct. 1996).

24. The loss of convenience and substantial hardship to the public upon discontinuance of service outweigh, on balance, any loss to the utility. *UGI Utils. v. Pennsylvania P.U.C.*, 684 A.2d 225, 229 (Pa. Commw. Ct. 1996).

25. Laurel has not demonstrated the availability and adequacy of any service to be substituted. *UGI Utils. v. Pennsylvania P.U.C.*, 684 A.2d 225, 229 (Pa. Commw. Ct. 1996).

26. Laurel fails to meet the Commission's standards for an abandonment of service. 66 Pa. C.S. § 1102(a)(2).

ALTERNATIVE STANDARDS

27. While the abandonment of service multi-factor test applies to Laurel's application, even if the Commission finds a different standard is applicable, Laurel has not met either the just and reasonable or the substantial public benefits standards and its Application should be denied. *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972); *Pennsylvania Pub. Util. Comm'n. v. Factoryville Water Co.*, 67 Pa. P.U.C. 68 (Pa.P.U.C. Apr. 21, 1988) (quoting *National Fuel Gas Distribution Corp. v. Pennsylvania Pub. Utility Commission*, 464 A.2d 546 (Pa. Cmwlth. 1983)).

SUBSTANTIAL PUBLIC BENEFITS LEGAL STANDARDS

28. The *City of York* substantial affirmative benefits standard requires that for Laurel to obtain a certificate of public convenience, Laurel must show that the proposed reversal will "affirmatively promote the 'service, accommodation, convenience, or safety of the public' in some substantial way." *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972).

29. Under the *City of York* substantial benefits standard, Laurel must show "more than the mere absence of any adverse effect upon the public." *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972).

30. The *City of York* substantial benefits standard requires the Commission to consider the benefits and the detriments to all affected parties, and not merely on one particular group or geographic subdivision. *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 682 (Pa. Cmwlth. 1984).
31. The *City of York* substantial benefits standard requires that customers' interests be protected and considered and where the effect would be an adverse impact on current customers, the Commission has denied an application for a certificate of public convenience. *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 683 (Pa. Cmwlth. 1984).
32. The *City of York* substantial benefits standard also requires the Commission to consider anti-competitive effects and whether those anti-competitive effects may offset or negate the benefits of a proposal. *Lloyd v. Pennsylvania Pub. Util. Comm'n*, 17 A.3d 425, 430 (Pa. Cmwlth. 2011) ("*anti-competitive* effects of a merger may offset or negate the advantages of a merger.").
33. Under the *City of York* substantial benefits standard, the Commission must consider both the detriments and benefits to all potentially affected parties, and on net, must find that issuing a certificate of public convenience will result in substantial benefits to the public. *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 682 (Pa. Cmwlth. 1984). *See also Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (weighing benefits against impact on customers); *Popowsky v. Pennsylvania Pub. Util. Comm'n*, 937 A.2d 1040 (Pa. 2007) (discussing "net affirmative benefits").

34. In *Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013), the Commission applied the *City of York* substantial benefits test and found two public benefits: "enhanced delivery options for the abundant supply of natural gas liquids and the moderation of commodity costs due to the injection of a new supply of ethane and propane into existing natural gas liquids markets." *Id.*, at 7. Both of these benefits relied on the policy to provide pipeline capacity to help Pennsylvania shale gas attain its full potential. *Id.*, at 2-3. Both of these benefits focused on injections of new supply into markets. *Id.*, at 7.

35. In *Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013), when the Commission found that the harms there did not outweigh the benefits of abandonment to enhance natural gas delivery capabilities, no one protested the abandonment, no hearing was held, and the largest customers served were Sunoco affiliates, who submitted letters of non-opposition. *Id.*, at 2.

36. In *Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013), the Commission, in finding there would not be harm to the public, explicitly relied on the fact that the Laurel pipeline would be available to replace all of the service the applicant in Sunoco was seeking to abandon. *Id.*, at 3.

APPLICATION OF SUBSTANTIAL PUBLIC BENEFITS STANDARD

37. Laurel has not met its burden to show its Application meets the substantial public benefits standard because the only benefits it has demonstrated are to its parent,

Buckeye, and Midwestern refineries, and these benefits do not outweigh the significant harms to Laurel's customers, the Pittsburgh market and consumers, the safety of Pennsylvania's roadways and travelers, and competition. *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards); *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 682 (Pa. Cmwlth. 1984) (explaining interest of all affected parties must be considered and upholding Commission denial of certificate of public convenience where current customers would be harmed); *Lloyd v. Pennsylvania Pub. Util. Comm'n*, 17 A.3d 425, 430 (Pa. Cmwlth. 2011) ("*anti-competitive* effects of a merger may offset or negate the advantages of a merger.").

38. The benefits the Commission cited in finding substantial public benefits in *Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013), relied on the policy to provide pipeline capacity to help Pennsylvania shale gas attain its full potential and focused on injections of new supply into markets. *Id.*, at 2-3, 7. Those benefits are not present here because there is no evidence that the proposed reversal will enhance production of or access to Pennsylvania Marcellus Shale products and there is no new injection of supply into the relevant market, the Pittsburgh area market.

39. Laurel has not shown the portion of its pipeline between Eldorado and Pittsburgh is a stranded asset or that it is underutilized and thus has not shown if utilization were increased as a result of the proposed pipeline reversal that the public would benefit.

See Application of Sunoco Pipeline, L.P., Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

40. Laurel has not shown utilization of its pipeline between Eldorado and Pittsburgh will increase as a result of the proposed Laurel pipeline reversal and therefore has not shown reversing the pipeline will benefit the public. *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

41. Assuming Laurel could show that utilization of its pipeline between Eldorado and Pittsburgh would increase if the proposed pipeline reversal were approved, the only affected parties this would benefit are Buckeye and Midwestern refineries. *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

42. Laurel's proposed pipeline reversal providing increased capacity for refined products from the Midwest to reach Pennsylvania is not a public benefit because the persistence of excess capacity from the Midwest into Pennsylvania indicates the Pittsburgh market does not demand more product from the Midwest and the record shows Midwest product is unlikely to reach the Altoona area. *See Application of Sunoco Pipeline, L.P.*,

Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

43. Laurel has not shown its proposed pipeline reversal will result, on net, in lower gasoline prices and thus has not shown lower gasoline prices will be a public benefit. *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

44. Laurel has not presented compelling evidence of any impact on national energy policy that shows a public benefit as a result of its proposed pipeline reversal because the proposed reversal has nothing to do with Pennsylvania produced natural gas products, including crude. Indicated Parties St. No. 5-S, at 8:17-20; Indicated Parties St. No. 5-S, at 9:1-8 (citing Department of Environmental Protection, Pennsylvania Pipeline Portal, "Pennsylvania Infrastructure Task Force Report," at files.dep.state.pa.us/ProgramIntegration/PITF/PITF%20Report%20Final.pdf); *see also Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

45. Laurel has not demonstrated any impact on national energy policy that shows a public benefit as a result of its proposed pipeline reversal because the Commission has no

policy to favor reliance on crude from North America that Midwestern refiners utilize and disfavor reliance on European and West African crude that Philadelphia refiners utilize, and the Commission is not tasked with setting or following such a policy. *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

46. Laurel has not shown how the Commission favoring any alleged national energy policy will provide a public benefit to any Pennsylvania interests. *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

47. Laurel's proposed pipeline reversal will not result in an environmental public benefit due to not building another pipeline because Laurel never intended to build another pipeline as an alternative to the proposed pipeline reversal. *See Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013) (applying *City of York* standard); *City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972) (setting forth substantial public benefits standards).

48. In contrast to *Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013), where the Commission, in finding there would not be harm to the public, explicitly relied on the

fact that the Laurel pipeline would be available to replace all of the service the applicant in Sunoco was seeking to abandon, *id.*, Slip Op. at 3, here, there is harm to the public because Laurel "is seeking to eliminate the *very alternative* that was part of the Commission's rationale for approving the applicant's request in *Sunoco*." Indicated Parties St. No. 5-S, at 7:23-8:3.

49. In contrast to *Application of Sunoco Pipeline, L.P.*, Docket Nos. A-2013-2371789, P-2013-2371775, 2013 WL 4761154 (Order entered Aug. 29, 2013), where the Commission found that the harms there did not outweigh the benefits of abandonment to enhance natural gas delivery capabilities, and no one protested the abandonment, no hearing was held, and the largest customers served were Sunoco affiliates, who submitted letters of non-opposition, *Id.*, at 2, here, there is harm to the public because Laurel's customers, "oppose the abandonment and have presented extensive evidence of the harm that may occur to shipper, refiners, and customers if the current east-to-west flow direction on the Laurel pipeline between Eldorado and the Pittsburgh area is reversed." Indicated Parties St. No. 5-S, at 7:12-19.

50. Because the Indicated Parties' have shown that Laurel's proposed pipeline reversal will result in substantial harm on all affected Pennsylvania parties, including Pennsylvania consumers, shippers such as Gulf and Sheetz, gasoline purchasers such as Giant Eagle, and Philadelphia refineries such as Monroe Energy and PESRM, Laurel cannot meet the *City of York* substantial benefits standard. *See, e.g., City of York v. Pennsylvania Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972).

51. The Commission should not grant Laurel a CPC to reverse its pipeline under the substantial benefits test because it will result in harm to customers, whose interests

must be protected and considered. *Middletown Twp. v. Pennsylvania Pub. Util. Comm'n*, 482 A.2d 674, 683 (Pa. Cmwlth. 1984).

52. The Commission should not grant Laurel a CPC to reverse its pipeline under the substantial benefits test because the proposed Laurel pipeline reversal will have anti-competitive effects on the Pittsburgh market. *Lloyd v. Pennsylvania Pub. Util. Comm'n*, 17 A.3d 425, 430 (Pa. Cmwlth. 2011) ("*anti-competitive* effects of a merger may offset or negate the advantages of a merger.").

JUST AND REASONABLE LEGAL STANDARDS

53. The scope of the information the Commission requires to be filed with tariff revisions pursuant to 52 Pa. Code § 53.52 shows that the Commission has jurisdiction to determine whether proposed tariff revisions are just and reasonable.

54. Changes to public utility tariffs or conditions of service that unreasonably benefit the utility's investors at the expense of the utility's ratepayers are not just and reasonable. *See Pennsylvania Pub. Util. Comm'n. v. Factoryville Water Co.*, 67 Pa. P.U.C. 68 (Pa.P.U.C. Apr. 21, 1988) (quoting *National Fuel Gas Distribution Corp. v. Pennsylvania Pub. Utility Commission*, 464 A.2d 546 (Pa. Cmwlth. 1983)).

55. Utility actions are unreasonably discriminatory and violate 66 Pa. C.S. § 1502, and thus are unjust and unreasonable, where: (1) a utility gives its affiliates a competitive advantage, *Com. Util. Consultants*, C-20027172, 2006 WL 327261 (Pa.P.U.C. Jan. 17, 2006); (2) a utility refuses to offer some customers within its territory service that it offers other customers in its territory, *Berkley*, 96 Pa. P.U.C. 351 (Pa.P.U.C. Oct. 15, 2001); and (3) a utility treats customers in one geographic region differently than it treats customers in another geographic region to protect its competitive, financial

and business interests, *Borough of Sewickley*, 212 P.U.R.4th 181 (Pa.P.U.C. Aug. 9, 2001).

APPLICATION OF JUST AND REASONABLE LEGAL STANDARDS

56. Laurel's proposal effects a change in the conditions of service pursuant to 52 Pa. Code § 53.52(a) because under the current tariff, eastern shippers have almost twice as many destination points available as they will have under the proposed tariff.
57. Laurel's proposal also effects a change in customer bills pursuant to 52 Pa. Code § 53.52(b) because eastern shippers will no longer be able to ship to destinations west of Eldorado and thus will no longer pay tariffed rates to those destinations and Midwestern shippers' bills will be under Buckeye's FERC tariffed rates.
58. Laurel has not shown its proposed tariff revisions effecting reversal of its pipeline are just and reasonable and the Commission should reject its proposed tariff revisions because Laurel failed to submit all of the information the Commission requires for tariff revisions under 52 Pa. Code § 53.52.
59. Laurel's proposed pipeline reversal is not just and reasonable because it unreasonably benefits its parent company Buckeye, via payment of higher FERC tariffed rates in lieu of lower Commission tariffed rates, at the expense of its customers, the Indicated Parties, who will be harmed by not being able to reach the Pittsburgh market. *See Pennsylvania Pub. Util. Comm'n. v. Factoryville Water Co.*, 67 Pa. P.U.C. 68 (Pa.P.U.C. Apr. 21, 1988) (quoting *National Fuel Gas Distribution Corp. v. Pennsylvania Pub. Utility Commission,* 464 A.2d 546 (Pa. Cmwlth. 1983)).
60. Laurel's proposed pipeline reversal is unjust and unreasonable because it is unreasonably discriminatory pursuant to 66 Pa. C.S. § 1502 by giving its parent

company, Buckeye a competitive advantage, at the expense of its current customers, the Indicated Parties, who have shown they will be harmed by the proposed reversal. *See Com. Util. Consultants*, C-20027172, 2006 WL 327261 (Pa.P.U.C. Jan. 17, 2006).

61. Laurel's proposed pipeline reversal is unjust and unreasonable because it is unreasonably discriminatory pursuant to 66 Pa. C.S. § 1502 by refusing to offer the Indicated Parties service to Pittsburgh that it offers Midwestern refiners. *See Berkley*, 96 Pa. P.U.C. 351 (Pa.P.U.C. Oct. 15, 2001).

62. Laurel's proposed pipeline reversal is unjust and unreasonable because it is unreasonably discriminatory pursuant to 66 Pa. C.S. § 1502 by treating customers in one geographic region (the Indicated Parties) differently than it treats customers in another geographic region (Midwestern Refineries) by only offering transportation service into Pittsburgh to Midwestern refineries, to protect its competitive, financial and business interests in gaining interstate deliveries into Pennsylvania before a competitor could acquire these customers. *See Borough of Sewickley*, 212 P.U.R.4th 181 (Pa.P.U.C. Aug. 9, 2001).

OFFER OF PROOF

63. 14th Amendment due process rights extend to adjudications before the Commission. *Smith v Pennsylvania Public Utility Commission* 192 Pa Superior Ct 424, 162 A.2d 80 (1969).

64. Exclusion of the IHS Study from the evidentiary record on grounds of hearsay and untimely presentation would deprive the Indicated Parties of procedural due process. *Smith v Pennsylvania Public Utility Commission* 192 Pa Superior Ct 424, 162 A.2d 80

(1969) (affirming that 14th Amendment due process rights extend to administrative proceedings).

CAPACITY AGREEMENT

65. No contract or arrangement for the provision of services between affiliates is valid and effective until approved by the Commission. 66 Pa. C.S. § 2102(a).

66. The Commission will be approved "only if it shall clearly appear and be established upon investigation that it is reasonable and consistent with the public interest." 66 Pa. C.S. § 2102(a).

67. The terms of the proposed Capacity Agreement between Laurel and its affiliate Buckeye does not reflect an arm's length relationship between the provider of services, Laurel, and the user of the services, Buckeye, and thus is not reasonably and consistent with the public interest and should not be approved by the Commission in its present form. 66 Pa. C.S. § 2102(b); Indicated Parties St. No. 3 at 4:11-15.

PROPOSED ORDERING PARAGRAPHS

IT IS ORDERED:

1. That the Application filed by Laurel Pipe Line Company, L.P. for All Necessary Authority, Approvals, and Certificates of Public Convenience to Change the Direction of Petroleum Products Transportation Service to Delivery Points West of Eldorado, Pennsylvania, as filed on November 14, 2016, at Docket No. A-2016-2575829, is denied.

2. That the proposed Pipeline Capacity Agreement between Laurel Pipe Line Company, L.P. and Buckeye Pipe Line Company, L.P., as filed on February 6, 2017 at Docket No. G-2017-2587567, is denied.

APPENDIX B

Definition of Acronyms

AEO	Annual Energy Outlook (Published by the EIA).
ARA	Amsterdam-Rotterdam-Antwerp refers to a combined petroleum market delivery point within Europe.
Bakken	An oil and natural gas formation underlying parts of Montana, North Dakota, Saskatchewan and Manitoba.
BPD	Barrels per day.
Brent	A light sweet grade of crude oil that is used as a benchmark price for those crudes where the delivery point is Sullom Voe, United Kingdom.
Buckeye	Buckeye Pipe Line Company, L.P.
Canadian Syncrude	A processed form oil produced from Canadian oil sands that allows for its sale as a light sweet crude oil via pipeline and other transportation modes.
Central Atlantic	Region consisting of Delaware, District of Columbia, Maryland, New Jersey, New York, and Pennsylvania.
CDL	Commercial driver's license.
Code	The Pennsylvania Public Utility Code, 66 Pa. C. S. § 101 *et seq.*
Commission	Pennsylvania Public Utility Commission.
CPC	Certificate of Public Convenience issued by the Commission
Domestic movements	(or "movements") The transportation of crude oil or petroleum products from one region within the U.S. to another region within the U.S.
Eastern Midwest	Region consisting of Illinois, Indiana, Kentucky, Michigan, Ohio, and Tennessee.
EIA	U.S. Energy Information Administration.
EVA	Energy Ventures Analysis, Inc.
FOB	Free on board.
Giant Eagle	Giant Eagle, Inc.

Gulf	Gulf Operating, LLC.
Gulf Coast	Region consisting of Alabama, Arkansas, Louisiana, Mississippi, New Mexico, and Texas.
Imports	The receipt of crude oil or petroleum products into the U.S. that originate from locations outside the U.S.
IEA	International Energy Agency.
Laurel	Laurel Pipe Line Company, L.P.
LPG	(Liquefied Petroleum Gases) A group of hydrocarbon gases, primarily propane, normal butane, and isobutane, derived from crude oil refining or natural gas processing.
Lower Atlantic	Region consisting of Florida, Georgia, North Carolina, South Carolina, Virginia, and West Virginia.
MBPD	Thousand barrels per day.
MMBD	Million barrels per day.
Monroe Energy	Monroe Energy, LLC.
New England	Region consisting of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.
NGL	(Natural Gas Liquids) A group of hydrocarbons including ethane, propane, normal butane, isobutane, and natural gasoline. Includes natural gas plant liquids and all liquefied refinery gases except olefins.
NGPL	(Natural Gas Plant Liquids) Those hydrocarbons in natural gas that are separated as liquids at natural gas processing, fractionating, and cycling plants. Products obtained include ethane, liquefied petroleum gases (propane, normal butane, and isobutane), and natural gasoline. Component products may be fractionated or mixed. Lease condensate and plant condensate are excluded.
PADD	Petroleum Administration for Defense Districts.
Permian	An oil and natural gas formation underlying more than 75,000 square miles in 43 counties of western Texas and southeastern New Mexico.
PESRM	Philadelphia Energy Solutions Refining and Marketing, LLC.

Rack prices	Prices for wholesale truckload sales or smaller amounts of gasoline or other petroleum products where title transfers at a terminal.
Refineries	Eastern Pennsylvania Refineries.
RVP	Reid vapor pressure ("RVP") is a common measure of the volatility of gasoline. It is defined as the absolute vapor pressure exerted by a liquid at 37.8 °C (100 °F) as determined by the test method ASTM-D-323.
Sheetz	Sheetz, Inc.
STEO	Short Term Energy Outlook (Published by the EIA).
Tight oil	Oil produced from petroleum-bearing formations with low permeability such as the Eagle Ford, the Bakken, and other formations that must be hydraulically fractured to produce oil at commercial rates. Shale oil is a subset of tight oil.
VRU	Vapor recovery unit.
WTI	(West Texas Intermediate) A light sweet grade of crude oil that is used as a benchmark price for those crudes where the delivery point is Cushing, Oklahoma.

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of Section 1.54 (relating to service by a participant).

VIA E-MAIL AND FIRST CLASS MAIL

Anthony D. Kanagy, Esq.
Garrett P. Lent, Esq.
Christopher J. Barr, Esq.
Jessica R. Rogers, Esq.
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
akanagy@postschell.com
glent@postschell.com
cbarr@postschell.com
jrogers@postschell.com
Laurel Pipe Line Company LP

David B. MacGregor, Esq.
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
dmacgregor@postschell.com
Laurel Pipe Line Company LP

Michael Swindler, Esq.
Heidi L. Wushinske, Esq.
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265
mswindler@pa.gov
hwushinske@pa.gov

Richard E. Powers, Jr., Esq.
Joseph R. Hicks, Esq.
Venable LLP
575 7th Street, NW
Washington, DC 20004
repowers@Venable.com
jrhicks@Venable.com
Monroe Energy, LLC

Whitney E. Snyder, Esq.
Todd S. Stewart, Esq.
Kevin J. McKeon Esq.
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
wesnyder@hmslegal.com
tsstewart@hmslegal.com
kjmckeon@hmslegal.com
Monroe Energy, LLC

Carl Shultz, Esq.
Karen O. Moury, Esq.
Eckert Seamans Cherin & Mellott LLC
213 Market Street 8th Floor
Harrisburg, PA 17101
cshultz@eckertseamans.com
kmoury@eckertseamans.com
Husky Marketing and Supply Company

John F. Povilaitis, Esq.
Alan Michael Seltzer, Esq.
Buchanan Ingersoll & Rooney
409 North Second Street Suite 500
Harrisburg, PA 17101-1357 Yes
John.Povilaitis@BIPC.com
Alan.Seltzer@BIPC.com
Philadelphia Energy Solutions

Joseph Otis Minott, Esq.
Ernest Logan Welde, Esq.
Clean Air Council
135 S. 19th Street, Suite 300
Philadelphia, PA 19103
joe_minott@cleanair.org
lwelde@cleanair.org
via e-mail only
NO CONFIDENTIAL MATERIALS

Andrew Levine, Esq.
Stradley Ronon
2600 One Commerce Square
Philadelphia, PA 19103
alevine@stradley.com
Sunoco LLC

Jonathan Marcus, Esq.
Daniel J. Stuart, Esq.
Marcus & Shapira
One Oxford Centre 35th Floor
301 Grant Street
Pittsburgh, PA 15219
jmarcus@marcus-shapira.com
stuart@marcus-shapira.com
Giant Eagle Inc.

Adeolu A. Bakare

Counsel to Gulf Operating, LLC and Sheetz, Inc.

Dated this 4th day of December, 2017, in Harrisburg, Pennsylvania.

RECEIVED
2017 DEC -4 PM 3:49
PA PUC
SECRETARY'S BUREAU
FRONT DESK

McNees
Wallace & Nurick LLC

ne Street • PO Box 1166 • Harrisburg, PA 17108-1166

VIA HAND DELIVERY
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120