

**From:** [corridoreiswebmaster@anl.gov](mailto:corridoreiswebmaster@anl.gov)  
**To:** [Corridoreisarchives;](#)  
**CC:**  
**Subject:** Energy Corridor Programmatic EIS Comment 80096  
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**Attachments:** [LPP - Final Corridor Comments 11-28-05 80096.doc](#)

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Thank you for your comment, John Clark.

The comment tracking number that has been assigned to your comment is 80096. Please refer to the tracking number in all correspondence relating to this comment.

Comment Date: November 28, 2005 09:23:33PM CDT

Energy Corridor Programmatic EIS Scoping Comment: 80096

First Name: John

Middle Initial: F

Last Name: Clark

Organization: Longhorn Partners Pipeline, L.P.

Address: 1301 K. Street NW

Address 2: Suite 600 East Tower

City: Washington

State: DC

Zip: 20005

Country: USA

Email: [jclark@sonnenschein.com](mailto:jclark@sonnenschein.com)

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Attachment: C:\LPP - Final Corridor Comments 11-28-05.doc

Comment Submitted:

Attached are the comments of Longhorn Partners Pipeline, L.P. submitted by John F. Clark, Counsel.

Questions about submitting comments over the Web? Contact us at:  
[corridoreiswebmaster@anl.gov](mailto:corridoreiswebmaster@anl.gov) or call the Energy Corridor Programmatic EIS

Before the  
OFFICE OF ELECTRICITY DELIVERY AND ENERGY RELIABILITY,  
DEPARTMENT OF ENERGY  
and the  
BUREAU OF LAND MANAGEMENT, DEPARTMENT OF THE INTERIOR

**Designation of Energy Corridors on Federal Land  
in the 11 Western States  
(DOE/EIS-0386)**

**Comments of**

**LONGHORN PARTNERS PIPELINE, L.P.**

Thomas C. Jensen  
John F. Clark  
Sonnenschein Nath & Rosenthal LLP  
1301 K Street, NW Suite 600  
Washington, D.C., 20005-

Richard Rabinow  
President  
Longhorn Partners Pipeline, L.P.  
3411 Richmond, Suite 500  
Houston, TX 77019-1600

## **Introduction and Summary**

Longhorn Partners Pipeline, L.P. (“Longhorn”) submits this response to the request by the above-identified agencies (the “Lead Agencies”) for comments on the proposal to designate corridors for oil, gas, and hydrogen pipelines and electricity transmission and distribution facilities (“energy corridors”) on Federal land in Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming (the “11 Western States”). The request for comment was published in the Federal Register on Sept. 28, 2005 (70 FR 56647) (the "Notice").

In order to address a serious problem affecting the cost and supply of refined petroleum products in Arizona and Nevada, Longhorn urges the Lead Agencies to adopt the “New Corridor Alternative” outlined in the Notice, and to designate two new corridors to accommodate the construction of new, high-capacity pipelines for refined-petroleum products, one to connect El Paso, Texas with Phoenix, Arizona and another to connect Phoenix with Las Vegas, Nevada. The problem to be solved is the artificially restricted, vulnerable and inflexible pipeline network currently supplying refined products to both Arizona and Nevada. This situation reduces reliability and may drive up the average cost of refined products not only in Arizona and Nevada, but also in California and much of the southwestern United States.

Arizona and Nevada are without oil refineries of their own. These two fast-growing states must obtain refined products from out-of-state, mostly imported by pipeline, and some by truck and rail. A considerable amount of the regional supply is imported into California by maritime tanker. Arizona sits at the end of two fuel supply chains, one from California in the west and one from Texas in the east. Southern Nevada consumers are supplied by a single pipeline from California. Pipeline capacity to supply refined products to Arizona from the west is adequate, but the cost of fuels from this market is high relative to the national average. In addition, California refining capacity is not adequate, even for California's needs let alone the additional needs of Arizona and Nevada, and today this refining capacity must be supplemented by ocean-borne imports of refined products from foreign suppliers.

Abundant supplies of domestic refined products are available to the Southwest from Gulf Coast refineries to the east, but the existing pipeline connecting El Paso to Tucson and Phoenix is too small to accommodate demand, and there is no direct connection between El Paso and

southern Nevada. As a result, both Arizona and Nevada are forced to purchase large quantities of fuel from the very tight California market.

The "El Paso bottleneck" to Arizona can be eliminated by the construction of new refined-products pipeline. Nevada's current inability to access to Gulf Coast refineries could be remedied by a second pipeline connecting Las Vegas to suppliers on the Gulf Coast. These new lines over new corridors would greatly strengthen the security and reliability of the supply network for these areas, and the possibility of constructing these pipelines would be greatly facilitated by designation of appropriate new energy corridors on federal lands.

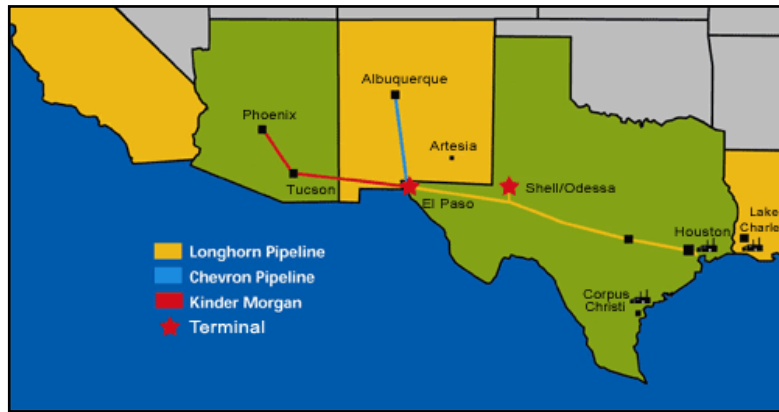
Federal designation of new corridors to support new pipelines from El Paso to Phoenix and southern Nevada would advance the public interest, and the construction of such pipelines would accomplish several important goals, including the following:

- Relieve the bottleneck of insufficient pipeline capacity between El Paso and Phoenix and Las Vegas, and provide an enhanced and more secure supply of refined products to Arizona and southern Nevada;
- Increase access to a greater and more competitive supply of refined products from the Gulf Coast to supply the rapidly growing market for these products in the Phoenix and Las Vegas areas and throughout Arizona and Nevada;
- Allow California's capacity-limited refineries to supply California without also having to supply the demand from Arizona and southern Nevada; and
- Increase the overall availability of fuels in Arizona, Nevada and California and throughout the southwest.

Longhorn also suggests that its pipeline, which connects the Gulf Coast refineries to El Paso, and related storage facilities there, would offer a significant platform and source of deliverable Gulf-Coast product for any new pipelines to Arizona and Nevada. These facilities are a well-positioned and cost-effective foundation for the new-pipeline solution to the refined-product supply and cost problems in both Arizona and southern Nevada.

**I. A Brief description of Longhorn Partners Pipeline, L.P.**

Longhorn Partners Pipeline, L.P. (“Longhorn”) is a Houston-based pipeline company that transports refined motor-fuel products between Houston and El Paso, Texas. Longhorn has developed a 700-mile, 18-inch diameter pipeline ( the “Longhorn Pipeline”) that for the first time transports refined products (gasoline and diesel) by pipeline from Gulf Coast refineries to communities in West Texas, El Paso and the southwest market.



**The Longhorn Pipeline from Houston to El Paso, and additional pipeline services in the southwestern U.S.**

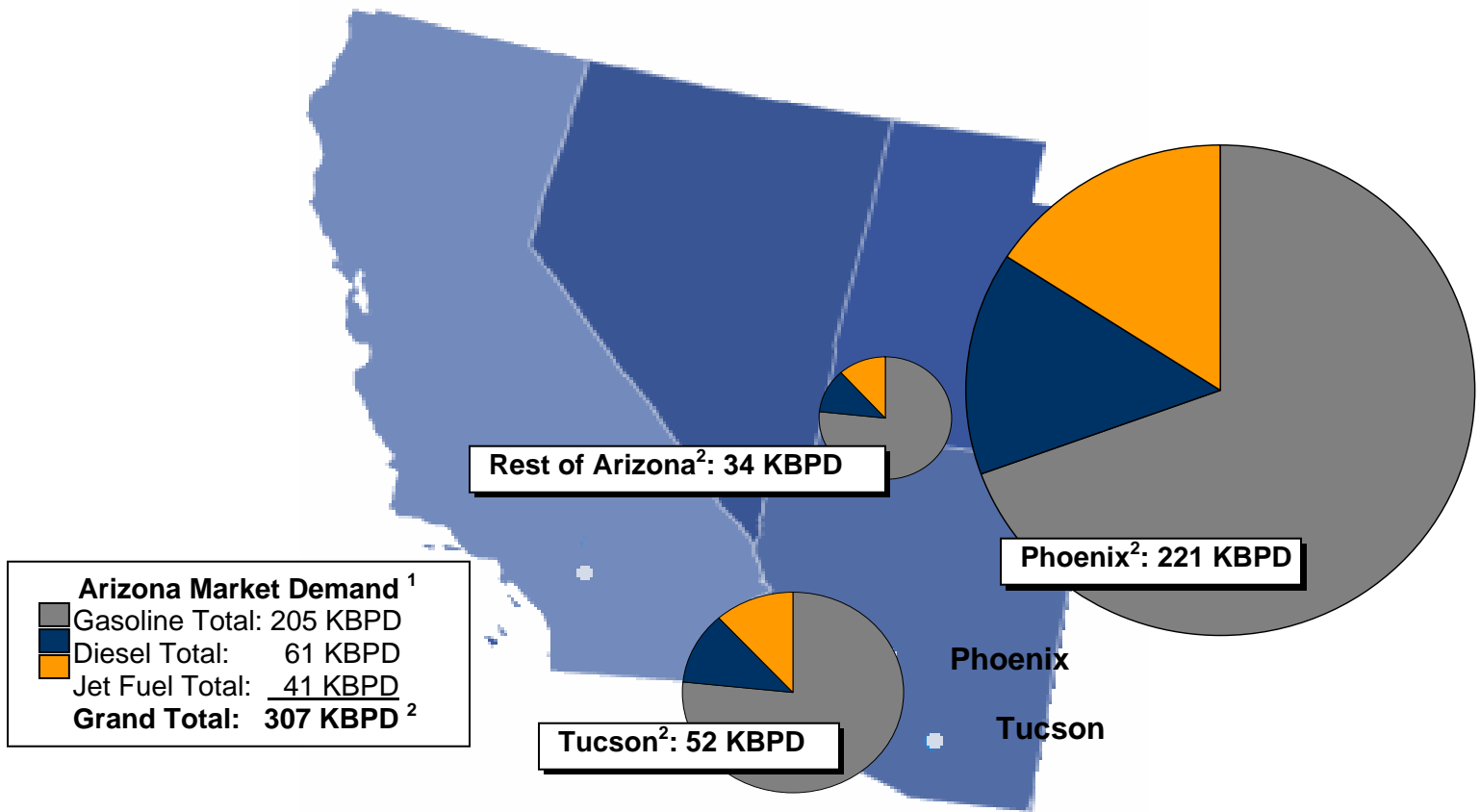
The refined products that the Longhorn Pipeline delivers from the Gulf Coast to terminals in El Paso and Odessa are distributed for use by consumers across West Texas. In addition, in El Paso, shippers interconnect with other pipelines, benefiting consumers throughout the Southwestern United States and Mexico. Longhorn Pipeline provides significant economic benefits to people and businesses in Texas and throughout the Southwest by increasing the security of fuel supply, opening new markets for the products of Gulf Coast refineries, and stimulating local and regional economic activity.

Gulf Coast refiners produce, and the Longhorn Pipeline can deliver, the cleaner-burning fuels needed to improve air quality in El Paso, Odessa, along the Texas/Mexico border and in other cities of the southwestern U.S. Longhorn is also committed to maintaining the highest standards of safety, having taken unprecedented steps, even beyond the requirements of law,

regulation and accepted industry standards, to ensure the pipeline’s integrity and protect the people, communities and environment along its route.

**II. Statement of the Problem – Arizona and Southern Nevada are Forced to Rely on West-Coast-Refined Product**

Arizona and Nevada have no oil refineries, and therefore no local supply source for refined petroleum products. Phoenix is one of the fastest growing product markets in the Southwestern U.S., with an average annual growth rate of 3.5% over the past 11 years, and current market demand for refined products of 221,000 barrels per day ("B/D"). The entire market in Arizona totals approximately 307,000 B/D.



<sup>1</sup> Demand figures taken from Lipow Oil, Lundberg Survey, Inc, EAI, and EIA

<sup>2</sup> Nontaxable gasoline sales prorated volumetrically to Phoenix, Tucson, and rural Arizona markets. 50% of nontaxable diesel sales prorated volumetrically to Phoenix and Tucson markets. 100% of nontaxable jet fuel sales allocated to Phoenix.

**The Relative Size of the Markets for Refined Products in Arizona**

In order to obtain the refined products on which their economies depend, particularly gasoline, diesel and jet fuel, Arizona and Nevada must import these products from out-of-state, via pipeline, rail or truck. For this reason, Arizona and Nevada have historically has paid higher prices for these fuels, and their supply of refined products is continually jeopardized by the possibility of supply interruptions from various causes.

**A. West and East - Two Very Different Sources of Supply**

The growing market for refined products in Arizona is positioned at the end of two long supply chains, one from the west coming from California, and the other from the east traveling from Texas and the Gulf Coast. Las Vegas is served by a single pipeline from southern California.

For Arizona, the relationship between the two sources east and west is unbalanced because the natural ratio of volumes of supply that might be expected from these two sources based on the respective availability of product is skewed by constrictions in the pipeline infrastructure serving Arizona from the east.

The US West Coast market for refined products is chronically short of gasoline supply. For nearly a decade, refining capacity has not kept pace with growing demand and as a result, retailers on the West Coast must pay extraordinarily high prices for refined product. To fill the supply gap, some additional incremental supply is provided by US Gulf Coast refiners via "Jones Act" tankers through the Panama Canal, with the obvious additional shipping costs added to the price. But significant additional supplies are also provided by foreign refiners, from Asia and even as far away as Europe, shipped via marine tankers.

This situation means that high demand in California competes with the growing demand in Arizona and Nevada for the insufficient output of West Coast refineries and supplemental imports. Therefore, every barrel of product shipped from California to Arizona or Nevada decreases the supply available to California, increases California's and the nation's reliance on imports and pushes up the overall cost of fuel for suppliers and customers in all three states.

In stark contrast to the situation in California, abundant supplies of refined products are available east of Arizona from the Gulf Coast. The large, sophisticated refinery complex on the Texas Gulf Coast has the capacity to supply 41% of the nation's gasoline demand, and can

produce Arizona and Nevada-grade gasolines in large quantities. The Gulf Coast maintains the largest refined-product supply hub (including both refinery-supplied and waterborne) in the country, and the nation's most liquid commodity-market hub. Moreover, Texas Gulf Coast refiners are in the early stages of additions that will increase refining capacity by 500,000 to 1 million B/D.

It would seem that given the choice between tight supply of more expensive fuels from California, and the abundant supply of competitively priced fuels from the Gulf Coast, an unconstrained market in Arizona or Nevada would naturally favor the supply from the east. In this case, however, normal balancing processes are thwarted because a bottleneck in the pipeline infrastructure limits the volume of supplies that can be shipped to Arizona from the east, and Nevada has no direct pipeline connection with the Gulf Coast.

#### **B. The El Paso Bottleneck**

Two pipelines serve Phoenix, one from the east and one from the west. Both are operated by Kinder Morgan, Inc., the largest independent owner/operator of oil products pipelines in the U.S.

The pipeline serving Arizona from the west is the larger of the two, the 20-inch "West Line" from Colton, California to Phoenix with a capacity of 225,000 B/D. The "East Line" runs from El Paso through Tucson using 8 and 12-inch pipes with a throughput capacity of 94,000 B/D, and on to Phoenix over 8 and 12-inch lines with a capacity of 55,000 B/D.

The majority of Arizona's pipeline-supplied refined products comes over the West Line from California. Only a minority of Arizona's demand is supplied over the East Line because that supply is constrained by what is referred to as the El Paso bottleneck. High demand in Arizona means that Kinder Morgan's East Line is constantly full, at 95,000 B/D to Tucson and a maximum of 55,000 B/D moving on to Phoenix. An incremental supply of products to Southern Arizona is provided by some supplemental trucking, but this source is limited in capacity.

Pipeline capacity in the West Line is currently adequate, with transshipments to Arizona running at approximately 140,000 B/D, although even the ability of this line to supply sufficient product could become constrained in the future as demand in Arizona and Las Vegas continues to grow and eventually exceed the pipeline capacity from Los Angeles going east. The greater



constraint on the entire region stems from the fact that California refineries are operating at their functional capacity, and they have only limited ability to expand that capacity.

Simply, Arizona and southern Nevada are competing with southern California for the strained output of California refineries. Additional supply is required to fill the ever growing demand and California suppliers have increasingly been forced to rely on water-borne imports to supply the needs of Arizona, southern Nevada and California. In the case of gasoline, these water-borne imports of product are currently coming in at 100,000 B/D and growing.

The overall result is that the available supply of refined products to Arizona and southern Nevada is consistently tight and prices in these states are historically higher than the national average. As noted by Arizona Attorney General Terry Goddard in a June 2004 letter to then-Secretary of Energy Spencer Abraham:

Arizona consumers continue to pay well above the national average gasoline prices. Gasoline prices in Phoenix have risen 40 cents since February 2004, from \$1.77 to 2.17 per gallon. Further, Phoenix prices remain substantially above the national average. At times over the last year, Phoenix gasoline prices have exceeded the national average by 30 cents.<sup>1</sup>

In addition, Arizona's reliance on two rather small pipelines for the vast majority of its refined product risks major problems if service through either pipeline is disrupted, as it was most disastrously in 2003 when the Kinder Morgan East Line ruptured between Tucson and Phoenix. The Arizona Attorney General's report on the disaster sheds light on the serious risks presented when a major market relies on a single pipeline from a refinery hub:

On July 30, 2003, the Kinder Morgan gasoline pipeline running from Tucson to Phoenix ruptured, cutting off approximately one third of Phoenix's fuel supply.<sup>5</sup> Consumer "panic buying" exacerbated supply shortages, causing gasoline stations to run out of fuel and fuel prices to skyrocket.

Our 2003 antitrust investigation following the pipeline break led me to conclude that there is a serious supply problem in Arizona and many Western states, especially during a supply disruption or emergency. . . .

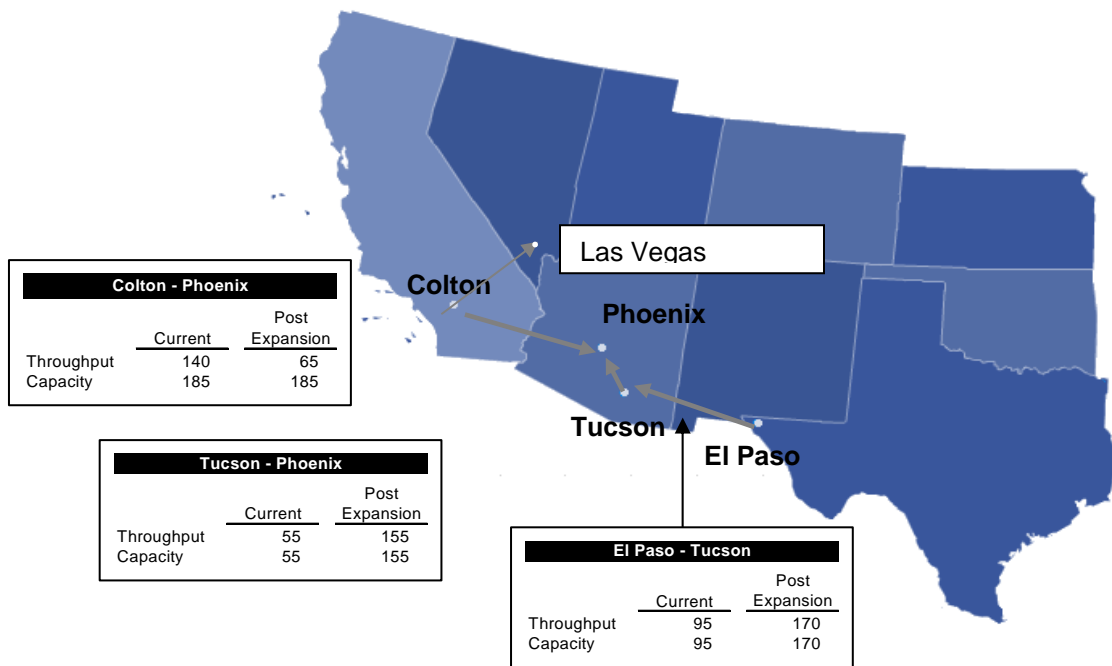
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<sup>1</sup> Letter from Terry Goddard, Attorney General of Arizona, to the Honorable Spencer Abraham, Secretary of the United States Department of Energy, dated June 3, 2004.

Among the surprises coming out of the post 2003 pipeline break investigation in Arizona was the discovery that the oil industry has so little flexibility. Arizona had almost no ability to obtain petroleum products by alternatives to the pipeline.<sup>2</sup>

The fuel markets and broader economy of both Arizona and southern Nevada desperately need access to an alternative market hub, and an alternate and redundant supply line, for increased flexibility, enhanced capacity, and higher security.

Recognizing the economic pressures of this situation, Kinder Morgan is in Phase I of a multi-phase plan to expand its El Paso-to-Phoenix system. These changes will fall short of a complete solution, however. While Kinder's announced expansions will increase pipeline capacity from the east, these expansions will not replace the need for supply from the west, and that supply will continue to be subject to the risks of supply disruptions and higher demands from California.



**The Kinder Morgan Arizona Pipeline System – Showing Capacities Before and After the Announced Expansion**

<sup>2</sup> “The 2003 Pipeline Rupture: A Lifeline Broken” - From the Testimony Of Arizona Attorney General Terry Goddard at the Joint Hearing Of The Senate Committee On Commerce, Science And Transportation And The Senate Committee On Energy and Natural Resources entitled “Arizona Gas Customers: A Captive Audience,” November 9, 2005.

As shown above, this planned East Line expansion will not provide adequate capacity to completely satisfy Arizona market needs with Gulf Coast supply. Kinder Morgan says it intends to increase throughput on the East Line to Tucson from 95,000 B/D to 170,000 B/D and from Tucson to Phoenix to 155,000 B/D, but even with this expanded capacity, regional supply balance suggests that Kinder Morgan will continue to ship at least 65,000 B/D to Arizona on its West Line.

Therefore, with the current pipeline infrastructure, we can expect that for the foreseeable future:

1. Arizona and Nevada will continue to compete with the growing California markets for supply from sources on the West Coast over single lines of supply; and
2. Arizona's access to additional supplies of Gulf Coast product from the east will continue to be limited, and Nevada will continue to suffer from a lack of direct access to Gulf Coast supply will continue.

### **III. The Optimal Solution – New Pipeline Service from El Paso**

The optimal solution to the problem outlined above is to provide additional pipeline capacity to Arizona and Nevada from El Paso, which will in turn provide additional access to refined products from the Gulf Coast, and all the fuel that competitive free markets in Arizona and Nevada might demand. This solution would free Arizona and Nevada from forced dependence on West Coast supply. Indeed, if properly sized, the supply from the east could transform the market even further, enabling the supply of product from the Gulf Coast to southern Nevada and, perhaps, California.

New high-capacity pipelines from El Paso to Phoenix and Las Vegas would be the best solution to allow Arizona and Nevada the opportunity to gain access to Gulf Coast barrels, while substantially increasing supply certainty and security for these fast-growing areas. Open access to refined product from the east will achieve a naturally balanced competition for supply

volumes into Arizona and Nevada, and increased reliability and security of shipments from both Southwest and Gulf Coast refineries.

Consumers of refined products in Arizona and southern Nevada would enjoy significant benefits in supply certainty and competition-driven fuel prices through access to an alternative market. Such a development would benefit all categories of customers, including:

1. Retail Consumers – gasoline and diesel
2. Commercial airlines – jet fuel
3. Military bases – jet fuel, gasoline and diesel
4. Railroad and trucking companies – diesel
5. State and municipal government fleets – gasoline and diesel

In the exact converse of the projections based upon a continuation of the current situation, a new El Paso-to-Phoenix pipeline would provide significant economic benefits to Arizona. In 1998, an economic impact study performed by The Perryman Group projected approximately \$500 million per year in benefits to the Arizona economy from a high-capacity refined-products pipeline that would adequately connect the Gulf Coast refineries to the Arizona market through El Paso.

In addition, a new pipeline in a new corridor would be well protected against the risk of supply disruptions from pipeline or equipment breakdown, such as the rupture of the Kinder Morgan East Line in 2003.<sup>3</sup>

A pipeline with the capacity to deliver significant amounts of Gulf Coast supply to Arizona and southern Nevada would lessen the demand on California's supplies and the need for

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<sup>3</sup> At the time of the Kinder Morgan pipeline rupture and shutdown in August, 2003, Arizona Governor Janet Napolitano said: "When Kinder Morgan shut down its eastern pipeline to Phoenix last week, it interrupted Maricopa County's supply of gasoline this past weekend, causing havoc in the industry's ability to distribute gasoline from Phoenix reservoirs to Valley gas stations. . . . It is unacceptable for most of Arizona to be dependent on a single company, operating two pipelines with no contingency plans for shut-downs. I conveyed this sentiment to Kinder Morgan executives in no uncertain terms, on behalf of all Arizona residents who are affected by this shortage." (Governor Napolitano's official statement of Tuesday, August 19, 2003 - emphasis supplied).

marine-borne imports to that market. This could potentially lower the cost of gasoline in Southern California. Instead of being at the end of two expensive supply chains and competing with California for an inadequate supply of expensive fuels, Arizona would instead be in the middle of a flexible supply network, able to supply its needs from the lowest-cost available fuels, and to share any excess with the supply and price-strained markets in California and Nevada.

#### **IV. The Longhorn Pipeline and Service from El Paso to Phoenix and Las Vegas**

The need is clear for a new pipeline from El Paso to provide an additional secure and ample source of Gulf Coast supply to Arizona and Nevada. The market, and the land managers along the route, will decide which party develops the new line. Regardless of which party does develop the new pipeline, however, the Longhorn Pipeline will be well positioned to provide substantial support. The Longhorn Pipeline and our substantial storage facilities in El Paso, will provide all of the additional capacity needed by a new pipeline to serve the growing markets in Arizona and Nevada for gasoline, diesel and jet fuel.

Longhorn Pipeline 's design capacity is 225,000 barrels per day. Combined with volume of the expanded Kinder Morgan East Line of 170,000 B/D, some of which is currently supplied by Longhorn Pipeline, the new network could supply well in excess of the current total Arizona demand of over 307,000 B/D. The Longhorn Pipeline is fully operational, and first deliveries out of the system took place in January 2005. In addition, Longhorn has a 1 million barrel transshipment facility (terminal) at El Paso, which could ship an additional 120,000 B/D to Arizona, with room for expansion.

#### **V. Preferred Alternatives for the PEIS and Environmental Impacts**

In light of the facts presented here, Longhorn is confident that the economic interests of the states and people of the southwest, and the energy-policy and homeland-security interests of the United States, would best be served by new product pipelines, over new corridors, connecting El Paso, Phoenix and Las Vegas. For that reason, it is equally clear that the New Corridor Alternative is the best suited of the alternatives proposed for the Programmatic

Environmental Impact Statement (“PEIS”) to facilitate the achievement of this objective.<sup>4</sup> In light of the compelling evidence of the need to rebalance projected supply and demand in the markets in Arizona, Nevada and California, and the issues of network efficiencies and costs identified here, Longhorn urges the Lead Agencies to adopt the New Corridor Alternative for this region.

Longhorn is not prepared at this time to recommend a particular route for the proposed new corridors, and therefore Longhorn cannot describe with any particularity the local environmental impacts that might be expected from its designation. Longhorn has, however, just recently assisted in the completion of a comprehensive, enhanced Environmental Assessment and Mitigation Plan for the entire Longhorn Pipeline conducted over the past five years. From this experience, Longhorn can say with confidence that a new corridor between El Paso, Phoenix and Las Vegas can be assessed and designated, and a new pipeline can be constructed, while allowing for maximum protection of the public health and safety, and minimal environmental impacts.

### **Conclusion**

In this comment, Longhorn has described the current problems of limited petroleum refining capacity and unnecessarily constricted supply networks that are currently plaguing the markets for fuels in Arizona, Nevada and California. Longhorn also describes how these problems could be solved, with many ancillary benefits, by the construction of new pipelines connecting El Paso with Phoenix and Las Vegas. This solution would be greatly facilitated by the designation on appropriate federal lands for new energy corridors between these points.

Accordingly, Longhorn strongly urges the Lead Agencies to adopt the New Corridor Alternative described in the Notice, and to designate the most appropriate and efficient new

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<sup>4</sup> Although the New Corridor Alternative appears to be the best and most efficient proposal for supporting a new pipeline over a newly designated corridor from El Paso to Phoenix, it appears that the Optimization Criteria Alternative might also support this plan, while allowing a combination of existing and new corridors where necessary elsewhere. Longhorn can certainly support such an approach.

energy corridors on federal lands that would best facilitate the construction of new high-capacity refined products pipelines between El Paso, Phoenix and Las Vegas.

Respectfully submitted,

By: John F. Clark

Richard Rabinow, President  
Longhorn Partners Pipeline, L.P.  
3411 Richmond, Suite 500  
Houston, TX 77019-1600

Counsel:

Thomas C. Jensen  
John F. Clark  
Sonnenschein Nath & Rosenthal LLP  
1301 K Street, NW Suite 600  
Washington, D.C., 20005-  
202.408.7884

Webmaster at (630)252-6182.