

Decision No. 37454

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of
SOUTHERN CALIFORNIA GAS COMPANY
for an order approving contract
with Defense Plant Corporation
dated October 1, 1942, for the
injection, storage and withdrawal
of natural gas in the so-called
Playa del Rey Oil and Gas Field.

Application No. 26345.

ORIGINAL

BY THE COMMISSION:

OPINION AND ORDER

In this application Southern California Gas Company sets forth as Exhibit I a contract that it proposes to enter into with the Defense Plant Corporation (a corporation created by Reconstruction Finance Corporation of the National Government) and seeks an order from this Commission approving said contract, to be dated October 1, 1942, for the injection, storage and withdrawal of natural gas in the so-called Playa del Rey Oil and Gas Field.

There is a considerable background leading up to the filing of this application that need not be reviewed in detail. It may be recounted, however, that the proposed agreement now before the Commission represents the culmination of what may be looked upon as the cooperative effort of several parties, including not only Applicant Corporation but likewise Defense Plant Corporation, War Production Board, Office of Petroleum Administration for War, Union Oil Company of California, Department of Natural Resources of California and this Commission. Early in 1942 it became apparent that, with the tremendous increased requirements of natural gas for war and other essential loads, the deliverability of gas into the Los Angeles metropolitan area must be sharply increased, especially during periods of peak day demands. Steel was not available for new pipe lines. The desirability of a large underground storage near load center, that could be filled in the off-peak summer period and used in the winter season was apparent. A geological and economic survey by this Commission showed Playa del Rey, an oil and gas field nearing depletion within the Los Angeles area and having an estimated usable storage capacity of approximately two billion cubic feet, as

probably feasible as an underground storage reservoir. This Commission, in August 1942, recommended to the appropriate federal agencies the acquisition, under government war powers, of this storage reservoir of approximately 240 acres. In September 1942 Defense Plant Corporation acquired possession, under condemnation, of this field and Applicant Corporation, after constructing the necessary transmission and compression facilities, injected about 1-3/4 billion cubic feet of gas in the late summer and fall of 1943. During the past heating season of 1943-44 about 3/4 billion cubic feet were withdrawn to help meet the critical demands of this period, with hourly demand withdrawals approaching 2 million cubic feet and 25 million cubic feet per day. (1)

Generally it may be said that the proposed contract provides that Applicant, Southern California Gas Company, shall pay Defense Plant Corporation for the use of the reservoir, sufficient moneys over the 8 1/2-year period covered by the agreement to make Defense Plant Corporation whole in the acquisition costs, carrying charges, and costs of operation and maintenance of the storage project. Referring to the contract, it appears that such charges and payments provide for a 3 1/2-cent charge per thousand cubic feet of gas withdrawn from the reservoir gas wells, plus any deficiency in earnings, after crediting to the project receipts from the sale of oil, etc., that may fall short of meeting all expenses, plus a 5-per cent interest carrying charge on the average unrecovered investment in the project. In addition to the aforesaid payments, \$200,000 is to be paid annually to return to Defense Plant Corporation its investment in the project, subject, however, to return of such payments and other payments, exclusive of the 3 1/2-cent charge, to Southern California Gas Company, depending upon the over-all recovery Defense Plant Corporation receives from the production and sale of oil from the field and other earnings and as provided for in detail in the aforesaid contract agreement.

(1) The first year's cycle of injection, storage and withdrawal has indicated some gas migration. A new pressure survey migration study is under way and the results appear favorable at this time. A satisfactory accounting for increased gas production from adjoining wells outside of the condemned Defense Plant area is about to be consummated. Injected gas during this summer and fall of 1944 brings the total in storage to about 2 1/2 billion cubic feet and the 3 billion cubic feet storage limit, of which 2 is estimated to be readily usable, may be realized this year.

In addition to the authorization sought as to the approval of the contract agreement itself, Applicant specifically asks and makes request that this Commission permit it to:

- "(1) include in its rate base any and all investment made by it in facilities constructed for the injection, storage and withdrawal of natural gas in said Playa del Rey site,
- (2) include in its rates to its consumers any and all expenses incurred by the Company in the operation of such facilities and any and all moneys paid by it to Defense Plant Corporation under and in accordance with the terms and provisions of said contract with Defense Plant Corporation set forth in Exhibit I, and
- (3) recoup from its consumers any and all loss suffered by the Company in connection with, and/or as the result of, the construction, operation and/or removal of said facilities and any and all loss suffered by the Company under, and/or as the result of said contract with Defense Plant Corporation as set forth in Exhibit I."

We are of the opinion that a project of this character, holding out such favorable possibilities to the utility and its customers, should have the Commission's support. This underground reservoir provides an increase in gas availability to essential customers during the critical periods of maximum demand and the costs involved in the developing and operating the storage project are properly to be looked upon as chargeable to gas operations and accordingly should be reflected in customer rates for gas service. In this respect, however, it is also true that such costs, whether they represent capital expenditures or operating expenses, must be tested by the usual standards of reasonableness. The accounting shall be in accordance with the Commission's classification of accounts and in such form and detail that complete analysis of charges and credits to this project can readily be made. Specific requirements as to payments under the contract agreement shall be deemed reasonable costs.⁽²⁾

The Commission having considered the request of Applicant and being of the opinion that a public hearing is not required, and finding that Applicant Utility is warranted in undertaking natural gas injection, storage

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- (2) Even if the project should ultimately prove to be a partial failure, the costs actually and necessarily incurred shall be deemed as properly chargeable to utility service.

and withdrawal in the Playa del Rey Oil and Gas Field and that the costs incurred, as heretofore reviewed, are properly chargeable to utility operations, and good cause appearing, therefore

IT IS ORDERED that the Southern California Gas Company may enter into that certain contract agreement with Defense Plant Corporation, dated October 1, 1942, and attached to the application as Exhibit I, and carry out the conditions and requirements of said agreement, including the making of payments as therein provided. Applicant shall file three copies of the agreement within thirty (30) days after its execution.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 1st day of November, 1944.

Richard L. Baker
Justus F. Brewer
Francis K. Havenner
James D. ...
James D. ...
Commissioners.