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Decision No. 42475

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA for authorization (1) to carry out the terms of a contract for the sale of additional quantities of gas to the San Diego Gas and Electric Company, (2) to construct and operate a new San Diego supply pipeline under Section 50(a) of the Public Utilities Act, and (3) to exercise the rights under a Riverside County Franchise to be acquired pursuant to Section 50(c) of the Act.	Application No. 29753
In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY, a California corporation, for the approval of a gas contract between Applicant and Southern Counties Gas Company of California, a California corporation.	Application No. 29754

Chickering & Gregory, by W. C. Fox, Jr. for San Diego Gas & Electric Company; Leroy M. Edwards and Milford Springer, by Milford Springer for Southern Counties Gas Company; Ray L. Chesebro, City Attorney, City of Los Angeles, by Roger Arnebergh, Assistant City Attorney, for City of Los Angeles; K. Charles Bean, General Manager, and T. M. Chubb, Assistant Chief Engineer, for Board of Public Utilities and Transportation, City of Los Angeles.

OPINION

In the above applications, which were consolidated for hearing, Southern Counties Gas Company of California, hereinafter referred to as Southern Counties, requests authorization to execute a contract for the sale of additional quantities of natural gas to the San Diego Gas and Electric Company; to construct and operate a new high-pressure 16-inch pipe line to the San Diego County line which is to connect with a proposed line to be built by San Diego Gas and Electric Company; and to exercise the rights under a Riverside County franchise which is to be acquired.

San Diego Gas and Electric Company, hereinafter referred to as San Diego, requests approval by this Commission of a contract between it and Southern Counties for an additional natural gas supply.

A public hearing in this proceeding was held in Los Angeles before Commissioner Huls and Examiner Crenshaw.

At the present time Southern Counties is supplying the entire natural gas requirements of San Diego through a 12-inch high-pressure transmission line from Huntington Beach to Rose Canyon Station near La Jolla, California. San Diego, in turn, distributes the gas to its customers in San Diego County. Due to the large increase in the number of customers in San Diego the demand for natural gas during cold weather has exceeded the present capacity of the existing transmission supply line from Huntington Beach. It is therefore necessary that San Diego give consideration to other sources of supply.

After investigating the possibility of increasing the capacity of the Huntington Beach line and also the installation of standby facilities, it was decided it would be more economical as to cost and flexibility of operation to obtain an additional supply of natural gas from Southern Counties. It is proposed to obtain natural gas from the 30-inch so-called Texas line at a point referred to as Moreno, near Riverside, by constructing a new line 85 miles in length to San Diego. Under this arrangement Southern Counties would build the line from Moreno to the San Diego County line at a point known as Rainbow, a distance of about 35 miles. From Rainbow San Diego would build the remaining 50-mile section of the line which would pass through the city of Escondido, to the city of San Diego. At the present time San Diego is serving the city of Escondido through a 2½-inch line which connects with the Huntington Beach line near Encinitas. The cost of the pipe line project extending from Moreno to San Diego is estimated to be approximately $5 million, of which slightly over $2 million represents cost to Southern Counties and the balance to San Diego.

The capacity of the new line from Moreno to San Diego will be approximately 40 million cubic feet per day which in addition to the 33 million capacity of the existing Huntington Beach line should enable San Diego to meet its demands for natural gas in the forseeable future.

According to the record the estimated peak-day firm requirements in 1951 for San Diego under extreme temperature conditions would approximate 60 million cubic feet, which is 27 million greater than the peak deliverability of the Huntington Beach line. This potential deficiency is more than half the estimated capacity of the new line.

The new line will not only provide additional capacity which is so urgently needed, but will also increase the dependability by having a separate supply over an entirely different route. With its additional capacity this new line can be utilized by San Diego as a means of carrying the peaks which otherwise would have to be supplied from other sources. Therefore, it was a question of whether or not it was more economical for San Diego to incur the expense of installing additional generating or vaporizing equipment in order to take care of the peak-day sendouts, or to obtain its peak gas requirements from Southern Counties.

Due to the additional investment in the portion of the new line to be constructed by Southern Counties, a new contract was entered into by the utilities whereby the supplying of natural gas to San Diego through the Huntington Beach line and the new Moreno-San Diego line would be combined under one contract, and the existing

Huntington Beach contract would be cancelled and superseded when the new line was placed in operation the latter part of 1949.

Under the proposed new contract the charges to be made for gas delivered to San Diego comprise two fixed charge elements plus a commodity charge. One of the fixed charge components is predicated on 13% of the investment by Southern Counties of its portion of the San Diego pipe line to cover its total annual cost which is to be determined when the line is completed and the costs become available. The second fixed charge element is to be based upon the estimated annual cost of certain facilities owned by Southern Counties and its affiliate, the Southern California Gas Company, used primarily for the purpose of augmenting peak-day deliverability, and is to be allocated on what is termed a firm parity basis. The firm parity is a ratio designed to approximate San Diego's peak firm demands to the total firm demands in the so-called Los Angeles basin area of Southern Counties and the Southern California Gas Company, including firm wholesale to San Diego. The commodity charge for all gas sold is 21.6¢, which is the commodity rate currently effective for gas delivered through the existing Huntington Beach line. The commodity charge is also subject to the provisions contained in a fuel oil escalation clause with prescribed maximum and minimum rate levels.

The annual fixed charge of 13% of the investment, as set forth in the contract, is estimated by Southern Counties to be $265,000. This amount was determined from the ratio of the estimated annual costs of $296,900, which include state and federal income taxes, depreciation and return on the investment, to the estimated construction cost of $2,036,500, including working capital, for the 34.75 miles of 16-inch line to be installed by Southern Counties in Riverside County, resulting in a ratio of 14.6%. However, due to allowance for anticipated revenues from this line other than those from San Diego, only 13% was used for billing purposes. The annual fixed charge, based on the so-called firm parity ratio, is estimated to be $125,000, which includes $55,000 as provided in the Huntington Beach line contract.

The total annual fixed charges for both the Huntington Beach line and the Moreno-San Diego line are estimated to be $390,000, of which San Diego is now paying $90,000 in fixed charges on the Huntington Beach line.

A comparison of the Huntington Beach line contract, which was authorized by this Commission by Decision No. 38626, Application No. 27174, with the new contract for the combined Moreno-San Diego line and Huntington Beach line indicates that the commodity charge, which is the same in both contracts, includes some fixed charges. Therefore, in the future as the total gas requirements of San Diego increase, thereby improving the load factor of the new line, the 13% fixed investment charge should be reduced to reflect the portion of fixed charges in the commodity charge when future adjustments are made as provided for in the new contract; further, these periodic revisions as agreed to between the two companies, should be submitted to the Commission.

The term of the contract is for a period of ten years from the initial date of the first delivery through the Moreno-San Diego pipe line and provides for a periodic review of the terms, conditions and prices upon request by either of the parties at intervals of not less than one year. In addition, the contract may be extended beyond the ten-year period until terminated by either party upon twelve months' advance written notice given at any time after nine years from the first date of delivery of gas.

The proposed agreement provides that it shall not become effective until appropriate authorizations have first been obtained from the Public Utilities Commission of the State of California and from the Federal Power Commission, and further, this agreement at all times shall be subject to such changes or modifications by those Commissions as they may from time to time direct in the exercise of their respective jurisdictions.

While some of the matters comprehended by this contract are subject to state regulation and other matters subject to federal regulation, our approval of said contract shall not be taken as establishing the reasonableness of the rates therein specified and the resulting revenues and associated expenses, so far as they affect Southern Counties and San Diego, will of necessity be given due consideration in any future rate proceedings before this Commission.

Southern Counties and San Diego have requested authorization to enter into and to carry out the terms of the special contract dated October 4, 1948, and, in addition, Southern Counties has asked for a certificate of public convenience and necessity to construct and operate its portion of the proposed Moreno to San Diego pipe line within Riverside County under Section 50(a) of the Public Utilities Act and to exercise the rights under a Riverside County franchise which Southern Counties contemplates securing in the near future in accordance with the provisions of Section 50(c) of the Act.

According to the record it is evident that the present natural gas requirements in the city of San Diego are critical and that an additional supply is necessary. Therefore, we are of the opinion that the granting of the authority to enter into said contract will not be contrary to the public interest and we hereby find that public convenience and necessity require the construction and operation by Southern Counties of the pipe line described in this application.

O R D E R

Public hearing having been held, evidence received, and the matter submitted for decision, and the Commission being fully informed with respect to the applications; therefore,

IT IS HEREBY ORDERED:

1. That Southern Counties Gas Company of California be and it is granted a certificate that public convenience and necessity require or will require the construction and operation of a 16-inch gas transmission line from a point near the community of Moreno, to be connected to the so-called Texas pipe line and extending southerly a distance of approximately 35 miles to the community of Rainbow and the San Diego County line.
2. That Southern Counties Gas Company of California be and it is authorized, so far as this Commission has jurisdiction in the premises, to carry out the terms and conditions of that certain agreement dated October 4, 1948, between Southern Counties Gas Company of California and San Diego Gas and Electric Company, attached to and made a part of the application as Exhibit "B", which was introduced as Exhibit 1 at the hearing, and to render the service therein contemplated and to charge and collect the rates therein contained.
3. That Southern Counties Gas Company of California shall secure further authority of this Commission to exercise such franchises as may be obtained for the construction and operation of the pipe line in accordance with the provisions of Section 50 of the Public Utilities Act.
4. That San Diego Gas and Electric Company be and it is authorized, so far as this Commission has jurisdiction in the premises, to carry out the terms and conditions of that certain agreement dated October 4, 1948, between San Diego Gas and Electric Company and Southern Counties Gas Company of California, attached to and made a part of the application as Exhibit "B", which was introduced as Exhibit 1 at the hearing.

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5. That Southern Counties Gas Company of California and San Diego Gas and Electric Company file with this Commission copies of subsequent changes in or amendments to the terms, conditions and prices of the said agreement dated October 4, 1948, as shall be periodically agreed to after negotiations as provided for in the agreement.

The effective date of this order shall be twenty (20) days from the date hereof.

Dated at San Francisco, California, this 1st day of February, 1949.

R. E. [illegible]
Justus F. Craemer
Ira H. Rowell
Harold P. Huls
Kenneth Potter
Commissioners