

Decision No. 51554

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of PACIFIC LIGHTING GAS SUPPLY )  
COMPANY for an order approving a )  
Contract with the Union Oil )  
Company of California for under- )  
ground gas storage. )

Application No. 36809

OPINION AND ORDER

Pacific Lighting Gas Supply Company by the above-entitled application filed March 18, 1955, requests an order of the Commission authorizing it to carry out the terms and conditions of an agreement, dated February 28, 1955, with the Union Oil Company of California. Said agreement relates to the injection, storage and withdrawal of natural gas from the Eighth Zone of the West Montebello Oil Field,<sup>1/</sup> located in Los Angeles County, and establishes the charges to be made in connection with this project. A copy of said agreement is attached to the application, marked Exhibit I, and by reference is made a part hereof for all purposes.

Applicant is engaged in the business of purchasing, compressing, transporting, storing, exchanging and selling natural gas at wholesale to Southern California Gas Company and Southern Counties Gas Company of California. At present, applicant operates two underground storage fields. These are the La Coleta Gas Field in Santa Barbara County, and the East Whittier Storage Project in Los Angeles County.

The project in the contract now before us will provide additional supplies of gas to meet the peak demand during the winter season. It is estimated the storage reservoir will have an annual

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<sup>1/</sup> The zone and field are described in Exhibits A, B, and C attached to the agreement.

working capacity of 12.5 billion cubic feet with a maximum withdrawal rate of 200 million cubic feet per day. There will also be stored in the reservoir at all times 26 billion cubic feet of gas which will act as a cushion. It is contemplated that injection of gas will take place during the years 1955, 1956 and 1957 and that the reservoir will be fully functioning not later than the fall of 1957. However, it will be possible prior to this date to withdraw gas in limited quantities to meet peak-day demands.

Applicant will provide and install the necessary facilities for the injection and withdrawal of gas, including compressor plant and dehydration facilities; obtain the necessary land; install the necessary field and connecting pipelines; purchase the gas necessary for the cushion; and pay Union a consideration for the contract. Applicant estimates that the capital outlay for this project will be approximately \$10,000,000.

Applicant will own all the gas stored in the reservoir and all the facilities up to but not including the control valve on the well heads. Union will operate and maintain the field. Applicant will pay Union the expenses incurred in operating and maintaining the storage field and field piping. In addition, the applicant will pay Union a service charge based on the amount of gas withdrawn from the field.

The agreement provides for revision of the service charge at five-year intervals based on the weighted average price paid Southern California Gas Company and Southern Counties Gas Company of California by their firm general service customers (domestic and commercial), with the limitation that the increase or decrease shall not exceed 10 per cent of the previous price. The costs for which reimbursement is to be made to Union by the applicant are to be computed in accordance with an accounting procedure attached to the application as part of Exhibit I.

The contract is for a term of twenty years, with the applicant having the right to renew the contract for an additional twenty years. It may be terminated upon thirteen months' written notice to Union if it should develop that the injection, storage or withdrawal of gas is not economically feasible. Union may withdraw as operator of the field within any time after three years from the effective date of the contract in which case the applicant will take over the operation of this storage reservoir from Union. The agreement is to become effective as of the date on which the excavation for the foundation for the first permanent compressor for this project is commenced.

The Commission has indicated that development of additional underground storage will help to provide sufficient gas to prevent curtailment of firm customers. Storage of large volumes of natural gas will benefit all gas consumers and is one means of augmenting the gas supply and availability during the critical periods of maximum demand. The Commission has recommended that the gas utilities in this state "investigate and periodically inform the Commission as to the status and development of new underground or seasonal storage projects in the state". <sup>2/</sup>

The costs involved in this project, whether they represent capital expenditures or operating expenses, must be tested by the usual standards of reasonableness and the accounting must be in accordance with the Commission's Classification of Accounts and in such form and detail that a complete analysis of charges and credits to this project can readily be made.

It appears that this project is a feasible method of providing gas to meet peak demand requirements. The Commission is of the opinion that the contract will not be adverse to the public interest. Since this project is not in operation, the actual costs

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<sup>2/</sup> Decision No. 49127, Case No. 5272, Commission investigation re demand-availability of natural gas in California, page 15.

of operation and of plant expenditures are not presently known. Such costs cannot be determined until after the project has been in operation for a period of time. In view of this, we are not attempting to pass on the reasonableness of the construction costs, prices paid for gas to be injected in the reservoir, or operating expenses at this time.

The Commission, having considered the request of the applicant and being of the opinion that the application should be granted and that a public hearing is not necessary; therefore,

IT IS HEREBY ORDERED, that the applicant be and it is hereby authorized to carry out the terms and conditions of the written agreement, dated February 28, 1955, with Union Oil Company of California under the terms and conditions stated therein.

IT IS FURTHER ORDERED that the applicant shall:

1. File with the Commission within thirty days after the effective date of this order two certified copies of the contract as executed, together with a statement of the date on which the contract is deemed to become effective.
2. Notify this Commission of the date of termination of said contract within thirty days after said date of termination.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 7<sup>th</sup> day of June, 1955.

[Signature]  
President

Justin F. Cisneros

[Signature]

[Signature]

Commissioners