

ORIGINALDecision No. 52219

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 PACIFIC LIGHTING GAS SUPPLY COMPANY)
 under Section 1001 of the Public)
 Utilities Code for a certificate)
 that public convenience and necessity)
 require underground gas storage in)
 the Eighth Zone of the West Montebello)
 Oil Field and the construction of a)
 compressor plant and related facili-)
 ties in the City of Montebello for)
 underground storage use.)

Application No. 37325

Oscar C. Sattinger and J. R. Elliott, for applicant.
San Diego Gas & Electric Company by C. P. DeJonge;
City of Montebello by Mike Mayo; City of Los
Angeles, Department of Public Utilities and
Transportation by T. M. Chubb and M. Kroman;
California Farm Bureau Federation by J. J. Deuel;
California Manufacturers Association by Edwin
Fleischmann; interested parties.
Robert O. Randall, for the Commission staff.

O P I N I O NApplicant's Request

Pacific Lighting Gas Supply Company, engaged principally in the business of selling natural gas at wholesale to Southern California Gas Company and Southern Counties Gas Company of California, on September 23, 1955, filed this application requesting a certificate of public convenience and necessity to acquire, construct, operate, maintain and use an underground gas storage project, including a compressor plant and facilities, in the Eighth Zone of the West Montebello Oil Field. In addition, applicant seeks authority to inject some 26 billion cubic feet of natural gas to be used as cushion gas to bring the reservoir pressure up to a minimum of 2,300 psi. The reservoir is located in the City of Montebello, as shown by Exhibit C attached to the application,

and the proposed site for the compressor plant is near the northerly boundary line of the city in an abandoned gravel pit, as shown by a map attached to Exhibit B in the application.

Public Hearing

After due notice, two days of public hearing were held on the application on September 30, 1955, and October 17, 1955. The first day of hearing was held in Los Angeles before Examiner M. W. Edwards. The second day of hearing was held in San Francisco before Commissioner Ray E. Untereiner and Examiner Edwards. Four witnesses testified on behalf of the applicant at the hearing. Prior to the hearing, the Commission staff had investigated the applicant's proposal and at the hearing, through cross-examination of applicant's witness, placed pertinent information into the record for the Commission to consider in deciding this matter.

No one offered any direct objection to the granting of applicant's request. The representative for the California Manufacturers Association stated that his association was not opposed to the Montebello or any other storage project, provided it could be shown to be the most economical way of meeting future peak-day requirements. The Association desires that an adequate supply of gas be available at all times to its members, which are classified as firm and/or interruptible industrial customers. The Association's position was that the resolution of the issues here involved cannot be based on the economic effects on the applicant alone, but requires also consideration of the effects on the distributing companies which purchase gas from applicant. It desired a determination of the relative economies of the storage project as compared with the bringing in of new supplies of out-of-state gas.

The representative for the California Farm Bureau Federation urged the Commission to give favorable and early consideration to this application. His position was that many agricultural customers that use gas cannot very well use substitute fuels and that this storage project will be needed to reduce curtailments at peak-load periods. The Federation desires to support any move within reasonable cost that will not only help increase the supply of gas but will make a more reliable supply of gas available during the peak periods.

The San Diego Gas & Electric Company, which obtains all of its gas through one of the distributing companies, also favored the proposed application because it has no large volume storage of its own and is interested in any and all facilities which will increase the over-all potential to take care of both daily and hourly peaks.

Need for Project

The main purpose of the project is to provide additional supplies of gas to meet the peak demand during the winter season. Applicant plans to inject excess gas into the reservoir during the summer months and withdraw it during the peak-load winter months. It estimates that the proposed facilities will have an injection capacity of 60 million cubic feet per day and a withdrawal capacity of 200 million cubic feet per day. Applicant contemplates a storage cycle of 12.5 billion cubic feet on top of the cushion gas. It states that the depth to the Eighth Zone in the field is between 7,000 and 7,800 feet, and that during a storage cycle the estimated pressure will fluctuate from a minimum of 2,300 psi to a maximum of 3,300 psi; such maximum pressure being no higher than the original virgin pressure of the field.

The location of the proposed storage reservoir is so close to the load center in southern California that it also can

act like a large aboveground holder and help equate the peak hourly and daily load fluctuations. In case of a break in the Texas Line or a break in some other large supply line, it would provide a standby source of gas to the load center at all times of the year.

Applicant refers to the fact that the Commission, by Decision No. 51554, Application No. 36809, dated June 7, 1955, has already authorized it to enter into a contract with the Union Oil Company of California to operate and maintain the reservoir and to acquire all of the interests from fee owners, oil lessees and oil lessors to permit operation of the Eighth Zone of the oil field as a storage reservoir. Applicant will own all of the gas stored in the reservoir and all of the facilities up to but not including the control valves on the well heads.

The following summary of peak-day gas supply and demand for the State of California^{1/} indicates the need for the proposed storage reservoir to assist in reducing peak-day curtailments in the future.

State of California
Summary of Peak-Day Gas Supply and Demands
in Thousand Mcf

	Actual	Estimated Abnormal (Extreme)			
	1954-55	1955-56	1956-57	1957-58	1958-59
<u>Gas Supply</u>					
Calif. Sources (Net)	1,332.6	1,582.4	1,542.2	1,415.0	1,331.5
Out-of-State	1,423.8	1,421.2	1,522.3	1,724.7	1,825.8
Underground Storage Withdrawal	455.6	655.0	814.8	913.3	931.3
Net Gas Supply	3,212.0	3,658.6	3,879.3	4,053.0	4,088.6
<u>Demand</u>					
Firm Service (Total)	2,534.0	3,636.2	3,817.0	4,015.2	4,197.4
Interruptible (Total)	1,518.0	1,111.1	1,193.5	1,197.3	1,230.5
Total Demand	4,052.0	4,747.3	5,010.5	5,212.5	5,427.9
<u>Curtailment</u>					
Firm	-	-	4.3	44.9	162.4
<u>Interruptible</u>					
Industrial	174.0	603.1	622.5	598.6	636.4
Oil Company Exch. Companies' Own Plants	363.3	306.3	323.6	325.5	345.1
Sales to Others for Steam Elec. Gen.	302.7	105.2	108.9	124.3	132.5
Total Curtailment	840.0	1,088.7	1,131.2	1,159.5	1,339.3

^{1/} From report on Availability of, and Demands for Gas in California, dated June 1, 1955, as modified by data included in Exhibit 1.

While the above summary includes the estimated supply available from the proposed project, it is concluded that without the project the curtailment of firm customers would be serious, particularly in the 1958-59 period if extremely cold weather is encountered.

Estimated Project Cost

Applicant estimates that its total capital outlay for this project will be \$10,399,000, composed of the following items:

Storage Contract Consideration	\$ 700,000
Station Site	35,000
Compressor Station, Dehydration Station and Pipeline Facilities	3,559,000
Injection Tests	51,000
Cushion Gas (26 Billion Cubic Feet)	5,063,000
Injection of Cushion Gas	991,000
Total Estimated Capital	<u>\$10,399,000</u>

In addition to these costs the Union Oil Company will expend up to \$250,000 to condition an adequate number of wells for the injection and withdrawal of the gas in the volumes heretofore stated.

Applicant proposes to obtain funds for this project from its parent company, Pacific Lighting Corporation, in the form of temporary borrowing. Also, it states that it expects that the temporary financing will be replaced by permanent financing in the form of capital stock to be issued in due course upon the approval of the Commission.

Annual Operating Expense

Applicant's estimate of annual operating expense of the storage reservoir is set forth in Exhibit No. 2 as \$2,131,000 and may be summarized as follows:

<u>Item</u>	<u>Amount</u>
Payroll (Including Tax)	\$ 73,000
Station Supplies, Maintenance, Lub. Oil	26,000
Engine Fuel	80,000
Union Oil Operation Charges	125,000
Ad Valorem Taxes	364,000
Subtotal	<u>\$ 668,000</u>
Depreciation	109,000
Return (6% on \$10,399,000)	624,000
Taxes and Franchise Payments	730,000
Total	<u>\$2,131,000</u>

On the basis of a 12.5 billion cubic-foot storage cycle the estimated unit cost for the Montebello operation is 17.048 cents per Mcf. However, applicant points out that more than one complete 12.5 billion cubic-foot cycle may be handled in and out of the reservoir in a year, in which event the annual unit cost would be less. Applicant's total annual sales are in excess of six times the indicated storage cycle capacity of the proposed Montebello storage project. When the estimated unit cost of 17.048 cents per Mcf is related to applicant's total sales, the incremental increased cost is approximately 3 cents per Mcf.

Since the above costs are estimated, the Commission is not attempting to pass on their reasonableness at this time; such costs cannot be determined until after the project has been in operation for a period of time.

It should be pointed out that in addition to the above costs there is a storage fee, or service charge, based on the total number of Mcf of gas withdrawn from storage during any one contract year. Such fee covers the payments to the lessees and mineral rights owners of the storage field.

Permits, Franchises and Rights

Applicant was required to obtain a special use permit from the City of Montebello for the construction of the proposed compressor plant. Such special use permit was granted on August 1, 1955, by Resolution No. 5484 of the City of Montebello, a copy of which is attached to the application and marked Exhibit D. The Union Oil Company of California also is affected by the special use permit and it is applicant's duty under said use permit to use its best efforts to ascertain and enforce the compliance of Union to the terms and conditions of the permit.

Applicant represents that no person, firm, or public or private corporation, other than it and its two customers, is now engaged in the public utility business of furnishing or supplying gas service to the public in or adjacent to the territory in which the proposed underground storage project is located.

Applicant states that it has an exclusive option to purchase the property (approximately 7.09 acres) for the compressor site from the Monterey Park Land Corporation. Such option is exercisable on or before May 1, 1956.

All necessary rights to inject, store and extract gas will be obtained by Union Oil Company of California from fee owners, oil lessees and oil lessors to permit operation of the Eighth Zone in accordance with the terms of an agreement dated February 28, 1955. As previously mentioned herein, this agreement has received Commission approval.

Conclusions

The Commission is aware of the growing demand for gas service in the state and is particularly concerned that the estimates show a possible need for curtailment of firm service in the years 1957, 1958 and thereafter. The Commission investigated the natural gas situation in California under Case No. 5272 and on September 22, 1953, issued Decision No. 49127 wherein the need for additional seasonal storage was pointed out.

While not directly opposing this project, the position of the California Manufacturers Association appears to favor the importation of more out-of-state natural gas. The estimates include an increase of 177 million cubic feet per day in out-of-state gas by 1958. The problem of securing more out-of-state gas and the economics of the same are beyond the scope of this application. ←

Even if more out-of-state gas could be obtained, we see need for this underground storage to assist in meeting the sharp rate of growth in the firm seasonal peak load and to afford a standby or emergency source of gas near the load center.

The Association has questioned the economics involved in this project as compared with the economics of meeting expected firm peak deficiencies by the importation of additional blocks of out-of-state gas. While the authorization of this project will result in an increase in the cost of operation to applicant, the Commission is of the opinion that substantial advantages will be realized from the construction of the project in meeting firm peak deficiencies. Applicant and its affiliates should, we believe, take all reasonable, feasible means to avoid firm peak deficiencies. According to Exhibit No. 5, applicant's estimates indicate that injection of cushion gas in Montebello will have no significant effect on curtailment of interruptible industrial service, as such curtailment will fall mainly on the large steam electric plants. One of the Association's main interests is in the interruptible industrial service and we conclude that the authorization of the project will not unreasonably decrease the amount of gas available to the interruptible industrial class.

It is our opinion that the applicant has the financial means to construct the project and place it into successful operation. After considering the record in this proceeding and the statements by representatives of the public and other parties, it is our conclusion that the proposed construction is in the public interest and that an order should be issued in general granting the authority requested by applicant.

The Commission finds that public convenience and necessity require the construction, operation, maintenance and use of an underground gas storage project in the Eighth Zone of the West Montebello Oil Field and appurtenant gas compressor plant and facilities in the area shown on Exhibit C attached to the application, and the injection of the necessary cushion gas.

The certificate of public convenience and necessity issued herein is subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

O R D E R

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision, and basing its order on the foregoing conclusions and findings,

IT IS HEREBY ORDERED that Pacific Lighting Gas Supply Company be and it is hereby granted a certificate that public convenience and necessity require the construction, operation, maintenance and use of the underground gas storage project and compressor plant described in this application, the injection of the necessary cushion gas, the procurement and use of the necessary lands or land rights, permission or such franchises as may be necessary for the construction or operation of the project, the injection, storing and withdrawal and the sale of gas from the

project to its customers in accordance with its certificates of public convenience and necessity and with its rates, rules and regulations duly filed with the Commission.

IT IS HEREBY FURTHER ORDERED that Pacific Lighting Gas Supply Company shall file with this Commission a detailed statement of the capital costs of the underground storage project and related appurtenances herein authorized within six months following the date of completion.

The authorization herein granted will expire if not exercised within four years from the date hereof.

Dated at Los Angeles, California, this 14th day of November, 1955.

[Signature]
President
[Signature]
[Signature]
[Signature]
[Signature]
Commissioners