

ORIGINAL

Decision No. 52436

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PACIFIC GAS AND ELECTRIC COMPANY, a)
corporation, for an order of the)
Commission issuing to applicant a)
certificate of public convenience)
and necessity under Chapter 5,)
Article I, of the Public Utilities)
Code of the State of California,)
for the construction, operation and)
maintenance of the natural gas)
pipeline project herein described.)

Application No. 29548
(Amended Third Supplemental)

R. H. Petersen, F. T. Searls and John C. Morrissey,
for applicant.
Dion R. Holm and Paul L. Beck, for City and County
of San Francisco; Brobeck, Phleger & Harrison
by George D. Rives, for California Manufacturers
Association, interested parties.
William W. Evers, for the Commission staff.

OPINION ON AMENDED THIRD SUPPLEMENTAL APPLICATION

Applicant's Request

Pacific Gas and Electric Company, operating public utility electric and gas systems and relatively minor water and steam heat systems in northern and central California, on October 28, 1955, filed this amended third supplemental application for authority to construct, install, operate and maintain facilities for enlargement of the capacity of its Topock-Milpitas gas transmission pipeline so as to increase the daily capacity of the project from approximately 700* to 875* million cubic feet daily. Applicant also seeks authority to exercise the rights and privileges granted by Ordinance No. 760 of the Board of Supervisors of the County of San Bernardino, a general county gas franchise granted to applicant.

* Wherever volumes of gas are marked with an asterisk, it indicates a pressure base of 14.9 pounds per square inch absolute for measurement purposes. Where not so marked, the pressure base is 14.73 pounds per square inch absolute.

Public Hearing

After due notice a day of public hearing was held on this amended third supplemental application before Examiner M. W. Edwards on November 22, 1955 at San Francisco. Six witnesses testified on behalf of the applicant and presented 10 exhibits. In addition, Exhibit No. SB-11 was reserved for a copy of the Federal Power Commission decision, as a late-filed exhibit, which authorizes the El Paso Natural Gas Company to sell an additional 175* million cubic feet of gas daily to applicant at the state boundary at Topock. Cross-examination of the witnesses was conducted by the staff representative, counsel for the California Manufacturers Association and the representative for the City and County of San Francisco. No one offered any objection during the course of the hearing to the granting of applicant's request.

Need for Project

The demand for natural gas in California continues to grow faster than the discovery of new gas resources in the state. The result is that applicant must look to out-of-state sources to meet the indicated future deficiencies. Applicant's estimate of average daily northern California load and supply, with existing deliveries of approximately 708 million cubic feet per day from out of state, is set forth in Exhibit No. SB-6 and may be summarized as follows:

Average Daily Load - Millions of Cubic Feet

Year	P.G. and E. Co. Firm	Inter-rutable	Other Companies	Storage Injection	Total Load	Supply	Deficiency
1955	511	512	57	0	1,080	1,067	13
1956	531	531	56	5	1,123	1,104	19
1957	553	527	56	5	1,141	1,118	23
1958	573	556	56	5	1,190	1,151	39
1959	593	569	56	6	1,224	1,165	59
1960	611	588	56	4	1,259	1,169	90
1961	633	605	56	2	1,296	1,178	118

On abnormally cold days, because of space heating demands, the daily load of the firm customers increases to about three times their average daily load. To handle this large increase most of the interruptible load can be curtailed, the rate of dry-gas production can be increased, emergency oil-well gas is available to the extent of 114 million cubic feet per day, gas can be produced by standby plants to the extent of 127.4 million cubic feet per day, and an additional 80 million cubic feet per day is assumed as being available from underground storage starting in 1957. Even with all of these measures, deficiencies are indicated starting in the winter season of 1958-59 if abnormally cold weather is encountered, with the present rate of 700* million cubic feet per day from out of state. The next tabulation shows the abnormal peak-day estimated load, supply and deficiency:

ABNORMAL PEAK DAY - MILLIONS OF CUBIC FEET

<u>Winter Season</u>	<u>Load</u>	<u>Supply</u>	<u>Deficiency</u>
1955-56	1,617	1,751	-
1956-57	1,679	1,724	-
1957-58	1,746	1,767	-
1958-59	1,807	1,732	75
1959-60	1,868	1,697	171
1960-61	1,923	1,663	260
1961-62	1,990	1,629	361

While the above estimates do not show need for over one half of the proposed increase in out-of-state gas prior to 1959, applicant's witnesses forecast that all of the available additional gas could be marketed. Furthermore, the applicant has not contracted for the entire block of gas at the start, but plans to increase its out-of-state gas supply by 50* million cubic feet per day on November 1, 1956, 75* million cubic feet per day on November 1, 1957, 25* million cubic feet per day on January 1, 1958 and the remaining 25* million cubic feet per day on January 1, 1959.

Proposed Construction and Cost

Applicant plans to parallel an additional 129.10 miles of its existing 34-inch pipeline with a second 34-inch line to increase the capacity of the transmission system by 100* million cubic feet per day. Then, by paralleling another 20.5 miles and adding a total of 9,260 bhp of compressors at the three existing compressor stations along the line, the capacity should be increased by another 75* million cubic feet per day.

The estimate of cost of the proposed added construction is set forth in Exhibit No. SB-2 and is summarized below:

Item	:100* Million : Increase	:75* Million : Increase	:175* Million : Increase
Compressor Stations	\$ 720,000	\$2,953,000	\$ 3,673,000
Land and Land Rights	254,000	30,000	284,000
34-Inch Steel Pipe	8,476,000	1,407,000	9,883,000
Installation	4,631,000	699,000	5,330,000
Measuring and Regulating Stations	160,000	30,000	190,000
Portion of Colorado River Crossing	155,000	-	155,000
Total Direct Cost	<u>14,396,000</u>	<u>5,119,000</u>	<u>19,515,000</u>
Overhead at 6%	864,000	307,000	1,171,000
Total Cost	<u>\$15,260,000</u>	<u>\$5,426,000</u>	<u>\$20,686,000</u>

Applicant proposes to finance the cost of the projects involved from treasury funds presently on hand, the cash available from internal sources such as the provisions made for depreciation and amortization and unappropriated earnings, from short-term bank loans when, as and if required, and from the sale of additional securities as the Commission shall hereafter, upon proper application, authorize for that purpose.

Annual and Unit Costs

The annual and unit operation costs of the present pipeline and the proposed additions are set forth in Exhibit No. SB-7 and may be summarized as follows:

ANNUAL OPERATING AND UNIT COST ESTIMATES

(Thousand Dollars)

Item	:Present : 700* :Million :Capacity	:	:Added Increments : 100* : 75* :Million : Million	:	:Estimated : \$75* Million : Capacity
<u>Capital Investment</u>					
Cost of Plant Plus Working Capital	\$99,815	\$15,311	\$ 5,460		\$120,586
<u>Annual Expense</u>					
Operation and Maintenance	2,471	19	237		2,727
Depreciation (4% S.F.)	2,610	611	231		3,452
Taxes	5,936	939	321		7,196
Return on Capital at 6%	5,989	919	328		7,236
Total Annual Cost	\$17,006	\$ 2,488	\$ 1,117		\$ 20,611
Annual Delivery in 1,000 Mcf	231,334	33,598	24,616		289,548
Unit Transportation Cost per Mcf	7.351¢	7.406¢	4.538¢		7.118¢
Average Cost per Mcf Delivered	32.289¢	32.344¢	29.476¢		32.056¢

The above unit delivered costs are at Milpitas after assuming gas at a unit cost price of 24.938 cents per Mcf delivered to the pipeline at Topock.

One of applicant's witnesses testified that for the year 1954 the average cost of gas obtained from California sources was 24.045 cents per Mcf and that the recent increase in price of fuel oil of 15 cents, through the operation of escalator clauses, causes an increase to 24.437 cents per Mcf for the estimated year 1955. These are prices in the field and are not directly comparable with the delivered cost of out-of-state gas at Milpitas. While the cost of out-of-state gas might be higher than California gas, the witness was of the opinion that the cost of converting to substitute fuels

and the cost of those fuels for house heating purposes is so great that applicant would have no difficulty in marketing the higher priced out-of-state gas at compensatory rates.

Permits, Franchises and Rights

Applicant states that it will start construction of the proposed facilities as soon as all governmental authority, permits and rights are obtained. Also, applicant seeks authority to expand the scope of its gas operations in San Bernardino County and, as a first step, has obtained San Bernardino County authority by Ordinance No. 760.

A copy of Ordinance No. 760 is included in this record as Exhibit No. SB-10. It grants to applicant the right to install, maintain and use pipes and appurtenances in so many and in such parts of the public roads as the applicant may from time to time elect to use for the purpose of conveying and distributing gas to the public for any and all purposes. The franchise is of indeterminate duration and provides a fee payable annually of 2 per cent of the gross receipts arising from the use, operation or possession of the franchise. Applicant's total cost of acquiring this franchise is stated to be \$513.63.

Applicant heretofore has sought and obtained, by Decision No. 51666, a certificate of public convenience and necessity to exercise the rights and privileges granted by this franchise in a portion of the northwestern part of San Bernardino County along its Kramer-Trona line, as more particularly described in said decision. It now, in effect, requests authority to remove the limitations imposed by Decision No. 51666 and expand its certificate to cover the entire county. It proposes to exercise the rights and privileges granted by Ordinance No. 760 to the extent necessary to construct, operate and maintain the Topock-Milpitas gas main, and

extensions thereof made in the ordinary course of business in the unincorporated territory of San Bernardino County.

Applicant presently is operating this transmission system in San Bernardino County under a franchise set forth in Ordinance No. 714. A certificate of public convenience and necessity to exercise the rights and privileges under this franchise was granted in Decision No. 49101. This franchise is limited to an area lying within a strip of land of the uniform width of 20 miles lying equally on each side of the applicant's Topock-Milpitas pipeline in San Bernardino County. Applicant does not propose to abandon Ordinance No. 714, but proposes that Ordinance No. 760 supplement and complement it.

While applicant's witness indicated that it desired to serve domestic, commercial and industrial customers as may develop in the ordinary course of business, it made practically no showing as to the need to exercise this franchise for purposes other than installation of pipeline and related facilities for transmission of out-of-state gas and serving existing business along the line. Applicant furnished no estimates or forecasts as to the number of such customers that may be involved, their load, their location, the probable cost to render the service and the appropriate rate levels for such service.

Conclusions and Findings

After considering the record herein, it is concluded that the gas load is growing at such a rate that public convenience and necessity will require the future purchase of an additional 175* million cubic feet per day of natural gas by applicant from El Paso Natural Gas Company. Applicant's proposed method of providing additional facilities in steps, to transport this additional quantity of gas as added increments become available, appears

reasonable. Furthermore, the indicated cost to deliver this additional gas at Milpitas is not quite as great as the present cost of delivery of out-of-state gas. Applicant already has expended nearly \$100,000,000 on this pipeline system to provide the means to supply a large portion of the natural gas requirements in northern and central California.^{1/}

It is concluded that applicant's proposal to invest an additional \$20,686,000 in the expansion of the existing Topock-Milpitas pipeline system is economically sound. Also, it is concluded that applicant has the financial means to construct the proposed additions and place them in successful operation. The applicant should, however, continue to study and possibly adopt the new developments in the field of gas transmission as soon as they become practical and economically justifiable. It should be prepared to show the relative advantages and disadvantages of the new developments as applied to its system to demonstrate that it is not only fulfilling the requirements of its customers for additional gas but is doing it in a safe and a reasonably economical manner.

With regard to the expanded operations sought for San Bernardino County under Ordinance No. 760, we do not find that applicant made sufficient showing to justify relaxing at this time the restrictions now imposed by Ordinance No. 714 and Decision No. 49101, nor do we see need presently for such change.

^{1/} By Decision No. 42460, dated January 25, 1949, applicant was authorized to construct a single 34-inch pipeline approximately 506 miles in length from Topock to Milpitas. By Decision No. 49492, dated July 22, 1952, and by Decision No. 49101, dated September 15, 1953, applicant was authorized to parallel some 305 miles of the original 34-inch line with additional 34-inch steel pipe in order to increase the capacity of the line from an original capacity of 400* million cubic feet per day to 700* million cubic feet per day.

The Commission finds that public convenience and necessity require the construction, operation and maintenance of the added pipeline and related facilities as shown on the maps included in Exhibit No. SB-2 in this proceeding, and will require the exercise by applicant of the right, privilege and franchise granted by Ordinance No. 760 of the Board of Supervisors of San Bernardino County to the extent provided by the order herein.

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

That the Commission shall have no power to authorize the capitalization of the franchise involved herein or this certificate of public convenience and necessity or the right to own, operate or enjoy such franchise or certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the grant of such franchise, 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; therefore,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company be and it is granted a certificate that public convenience and necessity require the construction, operation and maintenance of the transmission pipeline and related facilities described in this amended third supplemental application and require the exercise by it of the right, privilege and franchise granted to it by Ordinance No. 760, adopted April 4, 1955 by the Board of Supervisors of

San Bernardino County to the same extent and subject to the same conditions and limitations as provided by Decision No. 49101 and in Ordinance No. 714, such certificate being additional to that authorized by Decision No. 51666.

IT IS HEREBY FURTHER ORDERED that applicant shall:

1. Undertake the procurement of requisite permission and franchises, lands or land rights necessary for the construction or operation of the project, the acquisition of natural gas supplies by means of the project, and the transmission, distribution, delivery and sale of such natural gas supplies to its present and prospective customers in accordance with its certificates of public convenience and necessity and with its rates, rules and regulations duly filed with this Commission;

2. File with this Commission a detailed statement of the capital costs of the added pipeline and related facilities herein authorized within six months following the date of completion.

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

Dated at San Francisco, California, this 4th day of January, 1956.

[Signature]
President
[Signature]
[Signature]
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Commissioners