

**ORIGINAL**

Decision No. 53424

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
Southern Pacific Pipe Lines, Inc.,  
for authority to issue notes.

Application  
No. 38020  
(and Amendment)

George L. Buland and Charles W. Burkett, Jr.,  
for applicant; Paul T. Wolf and A. S. Glikberg,  
for Pacific Intermountain Express Company, Acme  
Transportation Company, Pacific Truck Service and  
Miles and Sons Trucking Service, protestants.

O P I N I O N

In this proceeding Southern Pacific Pipe Lines, Inc., seeks authorization to issue notes in the aggregate principal amount of \$16,000,000.

A public hearing was held before Commissioner Dooley and Examiner Coleman in San Francisco on June 25, 1956, at which time the matter was taken under submission.

Applicant is the owner of a petroleum products pipeline system in California, Arizona, New Mexico and Texas, and is engaged in interstate commerce and also in intrastate commerce within the State of California. It now desires to enlarge its operations and is undertaking to construct a pipeline extending from the San Francisco Bay area, via the Donner Summit and Reno, to the Fallon Naval Air Station in Nevada, a distance of 338 miles, a substantial portion of the line to be located on the Southern Pacific Railroad's right of way. There will be pumping stations at Richmond, Concord, Roseville and Colfax, and take-off points at Auburn, Reno and Fallon. The line will have a capacity of 15,000 barrels daily.

The estimated costs of the pipeline and related facilities and the expenses incident to the construction amount to \$16,000,000. The estimated results of operation, on the basis of 75 per cent utilization, are set forth in Exhibit 8, as follows:

	<u>1957</u> (8 mos.)	<u>1958</u> (12 mos.)	<u>1959</u> (12 mos.)
Gross revenue	<u>\$2,153,400</u>	<u>\$3,477,500</u>	<u>\$3,577,700</u>
Operating costs other than depreciation but including all taxes	1,060,400	1,733,500	1,802,700
Depreciation	373,300	560,000	560,000
Interest	<u>434,700</u>	<u>636,800</u>	<u>614,000</u>
Subtotal	<u>1,868,400</u>	<u>2,930,300</u>	<u>2,976,700</u>
Net income after taxes and interest	<u>\$ 285,000</u>	<u>\$ 547,200</u>	<u>\$ 601,000</u>

It is reported, and the record so shows, that the construction of the pipeline has been urged by the Department of the Navy of the United States. A representative of that department testified that the construction is in the interest of national defense.

According to the application, the company has made, or is making, arrangements to borrow the entire \$16,000,000 required for the construction costs, the borrowing to be represented by two notes in the principal amount of \$8,000,000 each, one note to be issued to Guaranty Trust Co. of New York, and the other to Mellon National Bank and Trust Company, Pittsburgh, Pennsylvania. Forty per cent of the amount is to be payable in 32 equal quarterly installments commencing April 1, 1958, and ending January 1, 1966, with interest at the rate of 4% per annum. Sixty per cent of the amount of each note is to be payable April 1, 1966, and is to be subject to an interest rate of 4-1/8% per annum. The notes will not be secured.

The position is taken by applicant that the Commission does not have jurisdiction over the issuance of the notes because the company is a Delaware corporation and the issue of the notes will be consummated outside of the State of California with the proceeds being used on an interstate project. However, it has filed the present application, and has made its showing, and it has requested the Commission in the event it takes jurisdiction to exempt the note issues from the provisions of the competitive bidding rule with respect to the issue of certain types of securities. It has presented testimony in support of its request.

The application was protested by a group of highway carriers engaged in the transportation of petroleum products. Counsel for the protestants questioned the right of applicant to occupy the railroad right of way for pipeline purposes and he asserted that Southern Pacific Company, being the sole owner of the outstanding shares of applicant, would be creating a monopoly in the transportation of petroleum products. A spokesman for one of the protestants, Pacific Internountain Express Company, gave testimony as to the volume of petroleum products transported by his company and stated that the pipeline operations proposed by applicant would eliminate some of the highway carrier haul and would reduce revenues of the existing companies.

Applicant is not required to obtain a certificate of public convenience and necessity from this Commission and it may install and extend its lines and facilities without such operating authority. Having concluded to go ahead with the pipeline to Fallon as now

proposed, applicant has decided to finance the costs with borrowed funds and has presented to the Commission an adequate showing that funds in the amount requested will be required and that the earnings from the operation of the pipeline should be ample to service the notes. Should the Commission accede to the protestants' request, all that it would be doing would be withholding from applicant the financing medium it has selected to meet its capital costs, forcing it to resort to other methods of raising funds. The record does not warrant such an action on our part.

It appears to us that the terms of the proposed borrowings are reasonable and that no reason exists for rejecting this application. Moreover, in our opinion we are not empowered to pass upon what legal problems, if any, might arise from the occupancy of the railroad right of way by applicant. Upon a review of the information presented in this proceeding we have concluded, and so find, that we have authorization over the issue of the notes, that such issue should be exempt from the provisions of our competitive bidding rule, that the money, property or labor to be procured or paid for through the issue of such notes is reasonably required by applicant for the purposes specified herein and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings, we will enter our order approving the application.

O R D E R

A public hearing having been held in the above-entitled matter and the Commission having considered the evidence and being of the opinion that the application should be granted,

IT IS HEREBY ORDERED as follows:

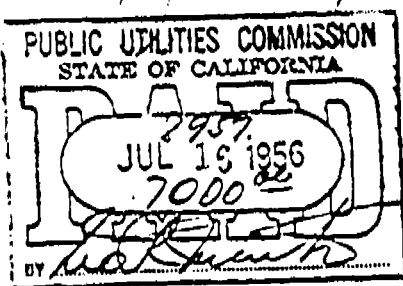
1. Southern Pacific Pipe Lines, Inc., may issue its promissory notes in the aggregate principal amount of \$16,000,000 and use the proceeds to finance costs of constructing its pipeline to Fallon Naval Air Base, as outlined in the proceeding, such notes to be in, or substantially in, the same forms as the notes filed in Exhibit 3 and in Exhibit 5.

2. The issue of said \$16,000,000 of notes hereby is exempted from the requirements of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended.

3. Within 30 days after the issue of the notes herein authorized, Southern Pacific Pipe Lines, Inc., shall file a copy of each note as actually executed.

4. The authority herein granted will become effective when Southern Pacific Pipe Lines, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$7,000.

Dated at San Francisco, California, this 16<sup>th</sup> day of July, 1956.



Edward Mitchell  
President

Justus J. Galloway  
Rayle Winterman

Wm. H. Hoar  
R. Hardy  
Commissioners