NB

ORIGINAL

Decision No. 54238

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC LIGHTING GAS SUPPLY COMPANY, a corporation, under Section 1001 of the Public Utilities Code, for a certificate of public convenience and necessity require the construction maintenance and operation of a 30-inch pipeline between Buena Vista Lake and Newhall.	Application No. 38407

O. C. Sattinger and J. R. Elliott, for applicant; City of Los Angeles by Alan G. Campbell and Manuel Kroman; California Farm Bureau Federation by Bert Buzzini; California Manufacturers Association by Edwin Fleischmann; Southern California Edison Company by Bruce Renwick, Harry W. Sturges, Jr., and Rollin E. Woodbury; Challenge Cream and Butter Association by Commercial Utility Service by W. D. MacKay, interested parties;
William W. Evers, for the Commission staff.

OPINION

Applicant's Request

Pacific Lighting Gas Supply Company, a California corporation, engaged in the business of purchasing, compressing, transporting, storing, exchanging and selling natural gas for resale service to Southern California Gas Company and Southern Counties Gas Company of California, affiliated corporations of the applicant, filed the above-entitled application on September 11, 1956 requesting an order of the Commission for the following purposes:

1. Granting and conferring all necessary permission and authority to construct, maintain and operate a 30-inch pipeline and related facilities between Buena Vista Lake and Newhall for the transmission of gas.

2. Declaring that public convenience and necessity now require the construction, maintenance and operation of the said 30-inch pipeline and the

use by applicant of all permits, easements, and franchises which may be used or useful in connection with the construction, maintenance, and operation of the said pipeline.

3. Issuing a certificate declaring that the present and future public convenience and necessity require that such construction, maintenance, and operation of the 30-inch pipeline be undertaken by applicant.

Public Hearing

After due notice, a public hearing on this application was held before Examiner M. W. Edwards, on October 23, 1956, in Los Angeles. At the hearing applicant presented nine exhibits and testimony by three witnesses in support of its request. Counsel for the California Farm Bureau Federation and representatives of the City of Los Angeles, the California Manufacturers Association, and the Challenge Cream and Butter Association took an active part in the proceeding and cross-examined the applicant's witnesses. The Commission staff, through a gas engineer, also took an active part in the proceeding by cross-examination of the applicant's witnesses for the purpose of fully developing the facts that will assist the Commission in arriving at an equitable decision on this matter. At the close of the hearing, upon inquiry by the examiner, no party offered any objection to the granting of applicant's request.

Proposed Construction

Applicant proposes to install a 30-inch pipeline, 80.6 miles in length, which would extend from the vicinity of the South Coles Levee Oil Field in the San Joaquin Valley in Kern County, southerly along the easterly side of Buena Vista Lake, and terminate in the vicinity of Newhall in Los Angeles County. The latest map of the proposed route is included in the record as Exhibit No. 1. Construction details of the proposed pipeline are set forth in Exhibit No. 9. Briefly, the line will be capable of operating at a pressure of 750 psi and the pipe wall thicknesses will be equal to or greater than the minimum requirement of the ASA Code for Pressure Piping. The proposed lengths and sizes of 30-inch outside diameter pipe are:

From	To	Length (Miles)	Wall Thickness (Inches)	Maximum Permissible Operating Pressure
Coles Levee	Paloma	10.8	0.460	800 psi
Paloma	Grapevine	20.5	0.438	750
Grapevine	Castaic	37.2	0.376	750
Castaic	Newhall	12.1	0.438	750

Need for Proposed Pipeline

Applicant states that recent studies of gas supply available and firm requirements of Southern Counties and Southern nia Gas Companies show that on an extreme peak day the peak-hour requirements will be 11,500,000 cubic feet per hour greater than the total supply available in the winter of 1960-61, and that this deficiency will increase to 42,700,000 cubic feet per hour under the same conditions in the winter of 1963-64. Applicant represents that at the present time it has approximately 45,000 Mcf of gas per day under contract in the San Joaquin Valley with California producers, for which there is insufficient pipeline capacity to deliver the gas to the Los Angeles area during peak periods. In addition, it states that it is currently negotiating for additional supplies of gas from California producers in the San Joaquin Vally and that it has under active negotiation at this time the development of underground storage in two fields in the San Joaquin Valley which, if completed, would have a combined storage withdrawal capacity of approximately 150 million cubic feet per day.

The estimated future San Joaquin Valley gas available for peak-day delivery is in excess of current pipeline capacity, as set forth in Exhibit No. 5, is:

	Volume MMcf per Day	
	Dec.1956	Dec.1957
Gas under contract in San Joaquin Valley in excess of current pipeline capacity	45.0	39.6
San Joaquin Valley gas supply covered by proposals submitted to producers	95.0	95.0
Additional San Joaquin Valley gas supply currently under negotiations	238.00	238.0
Underground storage withdrawal capacity currently under negotiation	150.0	150.0
Total	528.0	522.6

Proposed Line Operating Conditions

Applicant states that the proposed pipeline would be used to provide capacity for the delivery of gas from the San Joaquin Valley to the Los Angeles Metropolitan area principally to equate hourly, daily, and annual peak loads. With a pressure drop from an initial pressure of 750 to 465 psi the line would have a capacity of approximately 405,000,000 cubic feet per day. The line will deliver the gas into the new Topock line of the two customers at Newhall, where the 465-psi pressure is the operating limit on the section of pipeline between Newhall and the Los Angeles Metropolitan area. The pipeline also will be available to backflow high pressure gas for storage in the San Joaquin Valley off of the new "Texas line" during summer or other off-peak periods.

A witness for the applicant stated that it appeared feasible to construct an interconnection between this proposed pipeline and the Pacific Gas and Electric Company's Topock-Milpitas pipeline for use in the event of an emergency, and indicated that his company would be willing to make detailed studies of the costs and the feasibility of such an interconnection. The Commission is of the opinion that, where possible, such interconnections should be provided to help to insure a supply of gas to all parts of the state in event of a disaster that would otherwise cause firm curtailment either in the southern or northern part of the state.

Economics of Proposed Line

Applicant estimates that the cost of the pipeline, together with its necessary appurtenances, will be $10,300,000. In Exhibit No. 7 the following estimated annual operating cost is shown:

Operating Expense	$ 18,000
Depreciation (40-year life)	258,000
Ad Valorem Taxes	248,000
Return at 6.9% of $10,300,000	711,000
State Income Tax	61,000
Federal Income Tax	770,000
Total Annual Cost	2,066,000

We note that applicant has computed the return at 6.9 per cent on an undepreciated rate base in Exhibit No. 7. In this proceeding we are not determining the rate of return or the propriety of using an undepreciated rate base. The determination of the proper return for applicant is presently before us in another proceeding (Application No. 37553), and thus the annual costs shown herein may be modified when a decision is rendered in that proceeding. In Exhibit No. 7 applicant also presented information regarding the cost of obtaining gas to meet its peak requirements on other bases. These are: a pipeline from the California border to import out-of-state gas; a propane air-natural gas plant; and a high Btu oil gas plant. The cost per Mcf of daily deliverability is not completely comparable between that proposed by applicant and the alternatives since the development of the costs in the alternatives have been based upon a 6 per cent return, a depreciated rate base, and other differences. A comparison of the costs does show, after making allowances for these differences, that the method proposed by applicant is a reasonable one to provide additional gas for peak periods.

Another method by which the economics of this proposed line may be judged is to divide this amount by the total annual sales to the two customers. If the annual sales are assumed at 66,000,000 Mcf,[1] the installation of this pipeline would increase the costs approximately 3 cents per Mcf of gas sold.

The representative for the California Manufacturers Association brought out through cross-examination that the majority of the costs associated with this project are of a fixed nature and will not vary materially with the volume of gas transported through the pipeline.

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. The operating expense estimate of $18,000 per year particularly appears low; however, applicant states that this line will be located near an existing line and the incremental operating and maintenance expense under such a condition will be considerably less than if this were an isolated line.

Applicant states that funds for this project will be obtained from its parent company, Pacific Lighting Corporation, in the form of temporary borrowings. In due course applicant expects, subject to Commission approval, that such temporary financing will be replaced by permanent financing in the form of capital stock.

Permits, Franchises, Competition

While applicant owns county-wide franchises in Los Angeles and Kern Counties, it does not contemplate that the route of the proposed pipeline will lie on county highways to any great degree

1 Exhibit B in A-37553, Pacific Lighting Gas Supply Company applying for a general increase in rates.

Applicant states that it will be necessary to obtain easements from landowners over portions of the proposed route and from United States Government agencies over portions of the route that are owned by the United States Government.

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 the territory in which the pipeline is to be installed.

Applicant, by petition filed December 3, 1956 alleges that since the submission of this matter, additional out-of-state gas would be available for use for peak purposes in the winter of 1957 and for this reason requests that the minimum period within which it be allowed to complete the installation of the pipeline be extended to the end of the year 1958.

A customer's representative expressed concern over the policy that the applicant will follow in handling exchange gas for producers and the revenue to be derived per Mcf for exchange service. The position of the applicant generally has been that these exchange contracts and services are incidental to the purchase of natural gas and the exchange revenue is a matter of negotiation. Counsel for applicant stated it is not its policy at this time to exchange gas for producers and to permit those producers to sell the gas to third parties. Such exchange gas is only to be used by the producers for their own use, generally in refineries. If the applicant desires any change in this policy in the future it should seek Commission approval.

Findings and Conclusions

While currently it appears that the result of this proposal would be to add an amount roughly equivalent to 3 cents per Mcf to its costs, the installation of this line may make sufficient additional gas available so that the unit equivalent cost on the basis of a larger supply may be less than the 3 cents per Mcf as computed.

The mere fact that the price of all of the gas being furnished to the two customers may have to be increased by an equivalent 3 cents per Mcf does not mean that the price of gas to the public served by the Southern Counties and Southern California Gas Companies will have to be similarly increased. Their total sales are so much greater than 66,000,000 Mcf that it will be less than 1 cent per Mcf when spread over their entire sales.

The Commission is aware of the growing demand for gas service in the state and is particularly anxious that the firm services should not be curtailed in the winter months. 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 this is a reasonable means to help avoid firm peak load deficiencies.

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, 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 and maintenance of a 30-inch pipeline and related facilities between Buena Vista Lake area in Kern County and Newhall in Los Angeles County, as shown on Exhibit No. 1 in this proceeding.

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 charges) 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 findings and conclusions,

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 30-inch pipeline generally as described in this application and in the exhibits and testimony introduced at the public hearing, 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 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: (1) Pacific Lighting Gas Supply Company shall file with this Commission a detailed statement of the capital costs of the 30-inch pipeline and related appurtenances herein authorized within six months following the date of completion, and (2) applicant shall also prepare a detailed study of the engineering and economic feasibility of making interconnections with the existing transmission system of the Pacific Gas and Electric Company at such points as would provide maximum benefit to both the systems of applicant and its affiliates and of the Pacific Gas and Electric Company in the event of a failure in any of these companies' transmission systems. This study shall be filed with the Commission within six months after the effective date hereof.

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

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

Dated at San Francisco, California, this 11th day of DECEMBER, 1956.

President

Commissioners