

Decision No. 57087**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SOUTHERN COUNTIES GAS COMPANY OF )  
 CALIFORNIA for (1) a certificate of )  
 public convenience and necessity )  
 under Section 1001 of the Public )  
 Utilities Code, and (2) authoriza- )  
 tion to increase the facility charge )  
 to San Diego Gas & Electric Company )  
 under Section 454 of the Public )  
 Utilities Code. )

Application No. 40124

Milford Springer and Robert M. Olson for applicant.  
 Chickering & Gregory by Angus G. MacDonell for  
 San Diego Gas & Electric Company; William W. Eyers  
 for California Manufacturers Association; and  
Thomas V. Tarbet for City of Los Angeles; inter-  
 ested parties.  
Louis W. Mendonsa for the Commission staff.

O P I N I O NApplicant's Request

By the above-entitled application filed May 27, 1958, the Southern Counties Gas Company of California requests that the Commission issue its order:

- (1) Granting applicant a certificate of public convenience and necessity authorizing the construction and operation of the proposed 20 miles of 24-inch diameter pipeline paralleling its Moreno-Rainbow pipeline in Riverside County.
- (2) Finding the proposed increase in the facility charge justified, and authorizing a revision of Rate Schedule G-60 to provide for a monthly facility charge, concurrently with the commencement of operation of the 20 miles of 24-inch pipeline, of \$74,500, subject to revision for actual costs after construction of the loop pipeline has been completed. (The present facility charge under Schedule G-60 is \$46,000.)

Public Hearing

After due notice a public hearing was held upon this application on July 8, 1958 in Los Angeles before Examiner Manley W. Edwards. Applicant submitted four exhibits and testimony by two

witnesses in support of its application. The San Diego Gas & Electric Company presented one exhibit and testimony by three witnesses to show need for the proposed construction and the reasonableness of the proposed charge. The Commission staff and the representative of the California Manufacturers Association cross-examined the witnesses for the purpose of developing a full record to aid the Commission in deciding this application. The matter was submitted for the Commission's consideration at the close of the day's hearing and now is ready for decision.

#### Applicant's Position

Applicant supplies the total natural gas requirements of San Diego Gas & Electric Company through the Huntington Beach and Moreno pipelines. Most of San Diego's requirements are supplied by out-of-state gas from the applicant's Blythe-Santa Fe Springs pipeline by means of a tap near Moreno in Riverside County. Applicant states that under the existing service agreement with San Diego it will become obligated to deliver a maximum daily contract volume of 135,000 Mcf per day beginning with the initial delivery of the second 75,000,000 cubic feet per day by El Paso Natural Gas Company under the letter of intent dated January 30, 1956, but not before July 1, 1958, and that it also has undertaken to deliver certain available excess gas to San Diego up to 20,000 Mcf per day to help meet firm peak requirements.

The Huntington Beach pipeline has an estimated delivery capacity of 20,400 Mcf per day to San Diego after serving customers along the coast between San Clemente and Huntington Beach and applicant represents that its capacity cannot be increased economically at this time. The proposed 20-mile section of 24-inch pipe will increase the deliverability of the Moreno pipeline from the existing 116,000 Mcf daily capacity to 129,000 Mcf.

San Diego's Position

San Diego Gas and Electric Company's estimate of its firm peak-day requirements for an extreme cold day in the winter of 1958-1959 is 157,000 Mcf. San Diego's gas load is growing rapidly and the utility represents that additional facilities are needed if a safe margin is to be provided for the coming winter. With the proposed construction the transmission line deliverability will be some 7,600 Mcf per day less than the anticipated extreme peak-day load. San Diego plans to supply this deficiency from its propane-air gas standby plant which can produce up to 1,500 Mcf per hour or 36,000 Mcf per day and by calling on its high pressure pipe underground storage to the extent of 2,500 Mcf per hour.

While the existing transmission lines, along with the propane-air gas plant, could handle the estimated peak day of 157,000 Mcf for one day, San Diego represents that it could not handle several cold days in a row because its supply of propane would be exhausted and during the cold winter months it is difficult and nearly impossible to purchase sizable quantities of propane. Likewise, the storage would help for one day, but if there were a series of cold days there would be no chance to recharge such storage. San Diego prefers to classify the propane-air gas plant as a standby plant to meet emergencies, such as a break in a transmission line, rather than to consider it as peak-shaving equipment and available for serving regular load.

Proposed Construction and Cost

Applicant estimates that the cost of the 20 miles of 24-inch diameter loop line will be \$1,829,000 based upon the current costs of labor and materials with construction by an independent contractor. The line will be placed in the area between Romoland and Rainbow Station as shown by Exhibit C attached to the application.

Applicant plans to order the pipe for delivery in July and August and have the contractor start laying it by September 1, 1958 so as to complete the project by November 1, 1958.

Applicant states that it currently has adequate funds to finance the proposed pipeline. Ordinarily applicant finances plant expenditures with internal funds, such as depreciation monies and retained earnings, and with external funds derived from the sale of bonds and common stock. Additional external funds are obtained temporarily from short-term borrowing from the parent company, Pacific Lighting Corporation. Permanent financing is undertaken when needed through the sale of bonds by applicant to the public and common stock to the parent company under its pre-emptive rights.

#### Annual Cost

Applicant estimates the annual cost or carrying charge on the 20-mile loop line at \$342,971 computed as follows:

#### Estimated Annual Cost

Direct Operation and Maintenance Expenses \$	830
Admin. and General Expenses Assigned ....	203
Depreciation Expense .....	79,000
Taxes:	
Ad Valorem .....	36,000
State Franchise .....	7,649
Federal Income .....	95,463
Interest or Return (6.75% of \$1,834,452).	<u>123,826</u>
TOTAL .....	<u>\$342,971</u>

In computing return, applicant used a 6.75 percent rate applied to a rate base that was \$5,000 higher than the estimated cost of the loop line to cover materials and supplies. The staff, through cross-examination, brought out the fact that the last rate of return, granted to applicant by the Commission in Decision No. 55579, Application No. 38211, September 17, 1957, was 6.5 percent. The use of such rate of return would reduce the annual total by some \$9,000 after giving effect to the income and franchise tax effects. Applicant asked that the 6.75 percent rate be used so that this

construction would not dilute its regular rate of return and because this is the rate of return which San Diego is seeking in its rate increase case under Application No. 39681.

Proposed Rate Revision

Applicant presently serves San Diego under Schedule No. G-60 which contains the following charges:

(1) Monthly Facility Charge	\$46,000.00
(2) Monthly Demand Charge:	
Per Mcf of Contract Daily Maximum Demand	\$ 1.25
(3) Commodity Charge:	
Per Mcf of Monthly Delivery	\$ .2725

The only change which applicant proposes in this rate at the time the line is completed is to raise the monthly facility charge by \$28,500 to \$74,500 as shown by Exhibit No. 4. Such rate is proposed as an interim rate between the time the loop line is completed and the complete actual costs of the loop line are available and tabulated. Then, applicant states, it will file a supplemental application containing the final rate based on such actual costs for approval by this Commission.

San Diego Gas & Electric Company is agreeable to paying the increased facility charge because it is lower than the monthly and annual cost for it to install sufficient loop line in San Diego County to accomplish the same increase in line deliverability.

Franchises and Competition

Applicant states that it has a franchise in Riverside County, Ordinance No. 355, which it represents will cover construction of the proposed pipeline project; that it will not be competing with any other natural gas company in the proposed additional deliveries of gas to the San Diego Gas & Electric Company; and that the proposed pipeline will traverse a portion of the distribution area of Southern California Gas Company in Riverside County.

Applicant does not have a certificate from this Commission to distribute gas in the area and does not propose to serve any customers in this area, so no conflict will result between the companies respecting jurisdiction.

#### Findings and Conclusions

While it appears that the results of this proposal will be to increase San Diego Gas & Electric Company's costs of purchased gas, there would be corresponding increased costs if San Diego were to build the line itself. At the current level of firm sales, the estimated increase cost to San Diego, if assessed to the firm services, is about 1.8 cents per Mcf. Applicant probably could continue through the winter of 1958-1959 with its present facilities without curtailment of firm service if the winter is warm and no sustained period of extremely cold days is encountered. However, the advantages of a safe margin, and greater operating convenience and flexibility, in the Commission's opinion, outweigh the added cost burden.

The Commission is aware of the sharp rate of growth of demand for gas service in the San Diego area and is particularly desirous that the firm services be not curtailed during the winter months. While the authorization of this project will result in an increase in the cost of operation to the San Diego Gas & Electric Company, the Commission is of the opinion that this is a reasonable means to help avoid firm peak-load deficiencies.

It is our conclusion 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 and operation of 20 miles of 24-inch pipeline as shown on Exhibit C attached to the application.

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 consideration for the issuance of such certificate of public convenience and necessity or right.

With regard to the level of the proposed interim facility charge, it is the Commission's opinion that a 6.5 percent rate of return should be used in the computations.

The Commission finds that the rates and charges authorized herein are justified; that the existing rates, insofar as they differ therefrom for the future after the project has been completed, are unjust and unreasonable; and that an order should be issued authorizing an interim increase in the facility charges.

O R D E R

Southern Counties Gas Company of California having applied to this Commission for an order authorizing certain construction work, a certificate of public convenience and necessity and authorization to increase a facility charge, a public hearing having been held, the matter having been submitted, the Commission having been fully informed thereon, the matter now being ready for decision and based upon the evidence and the conclusions and findings contained in the foregoing opinion, therefore

IT IS HEREBY ORDERED as follows:

1. That Southern Counties Gas Company of California be and it is hereby granted a certificate that public convenience and necessity require the construction and operation of twenty miles of 24-inch pipeline generally as described in this application, 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 the San Diego Gas & Electric Company in accordance with its certificates of public convenience and necessity and with its rates, rules and regulations duly filed with the Commission.

2. That applicant is authorized to file in quadruplicate with this Commission, on and after the effective date of this order and in conformity with General Order No. 96, a revised Schedule No. G-60 with a monthly facility charge of \$73,750 and, on not less than five days' notice to this Commission and to the public, to make said revised tariff effective for service furnished after the completion of the project authorized in ordering paragraph 1 above.

3. That applicant, by supplemental application, shall file with this Commission, within six months following the date of completion of the project, a detailed statement of the capital costs of the 24-inch pipeline project herein authorized and shall compute therein the proposed permanent level of the facility charge, taking into account the levels of the monthly demand and commodity charges as well as the depreciated capital in the Huntington Beach line and the present Moreno line.

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

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

Dated at Los Angeles, California, this 5<sup>th</sup> day of August, 1958.

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

Commissioner Rator E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.