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ORIGINAL

Decision No. 57419

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 that Public Convenience and Necessity require the construction, maintenance, and operation of a 34" Pipeline from the California-Arizona Border near Topock, Arizona, to Newberry, California, and related facilities.	Application No. 40022 (Amended)

(Appearances and Witnesses are listed in Appendix A)

O P I N I O N

Applicant's Request

Pacific Lighting Gas Supply Company, a public utility engaged in purchasing, compressing, transporting, storing, exchanging and selling natural gas under special contracts to Southern California Gas Company and Southern Counties Gas Company of California, California corporations and affiliates of applicant, for resale by them, filed the above entitled application on April 18, 1958 and filed an amendment thereto on August 12, 1958, requesting that the Commission duly give and make its decision and order:

1. Granting and conferring all necessary permission and authority to construct, maintain and operate a 34-inch pipeline and revised related facilities between the California-Arizona border near Topock, Arizona and Newberry, California, for the transmission of gas therein.

2. Declaring that public convenience and necessity now require the construction, maintenance, and operation of the 34-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 34-inch pipeline.

3. Issuing a certificate declaring that the present and future public convenience and necessity require and will require that such construction, maintenance and operation of the 34-inch pipeline be undertaken by applicant.

Maps showing the general location of the line together with other data are attached to the original application and marked Exhibit A. Similar but revised maps and data also are set forth in Exhibit No. 13 in this proceeding.

Public Hearing

After due notice, public hearing was held upon the original application on June 25 and 27, 1958 before Commissioner Matthew J. Dooley and upon the amended application on September 3 and 4, 1958 before Commissioner Dooley and Examiner Manley W. Edwards. All days of hearing were held in Los Angeles.

The applicant introduced eighteen exhibits and testimony by ten witnesses in support of its request. The Commission's staff, represented by its gas and electric engineer, introduced one exhibit and testimony by one witness, and cross-examined applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding this request.

A number of interested parties expressed support of applicant's request. The Independent Refiners Association of California, Inc., appeared as a protestant and introduced testimony in opposition to applicant's request on the representation that this pipeline constitutes an additional and unneeded source of energy into this area that is in direct competition with thousands of California oil producers and all of the refiners in the State and if the application is granted, represented it will result in bankruptcy and elimination of a great number of personnel connected with the fuel oil phase of the oil industry.

The matter was submitted for Commission determination on summary closing statements at the close of the fourth day of hearing and now is ready for decision.

Proposed Construction

Applicant proposes to construct a 34-inch pipeline approximately 128 miles in length, which would extend from the Colorado River at the California-Arizona border near Topock, Arizona, to Newberry, California, 20 miles easterly of Barstow. Construction details of the proposed pipeline are set forth in Exhibit No. 13, Section C. Briefly, the transmission pipeline, which will be 34 inches in outside diameter, is to be constructed of 0.438-inch wall steel pipe, designated API 5LX 56 pipe. External corrosion will be controlled by an external coating of coal tar. Cathodic protection also will be utilized. The maximum allowable pressure of 1,038 pounds per square inch (psi) will be sufficient in the future for a 640 million cubic feet per day (cfd) through-put. However, in order to obtain such through-put compressor stations will have to be installed along the line.

Initially applicant expects to handle the contract demand quantity of 300 million cfd through the line and a compressor station will not be needed on the assumption that gas will be available at the state border at a pressure of 800 psi. The proposed line initially will have a capacity of 345.0 million cfd, and the installation of a 4,000 hp compressor station at Needles in 1963 will raise the line capacity to 402.5 million cfd.

The proposed pipeline will be southerly of U.S. Highway 66 between Needles and a point near Danby; north of Highway 66 from Danby to Pisgah; and south from Pisgah to Newberry, where it will tie into the existing 30-inch line of Southern California and Southern Counties Gas Companies extending from the California border to Quigley. The proposed pipeline also will tie in at Newberry with the proposed pipeline extending from Ivanpah Valley to Placentia, which line will be referred to as the Rock Springs line (formerly called Twin Falls line) and which will be installed by Southern California and Southern Counties Gas Companies.

Compressor facilities will be required at Newberry and at one intermediate station downstream of Newberry to move 640 million cfd from Needles to Quigley. Compression, other than at Newberry is not required to move 640 million cfd from Needles to Placentia. It should be pointed out that the instant application, as amended, does not request a certificate for the Newberry compressor plant at this time nor for a line from Newberry to Placentia.

Need for Proposed Pipeline

Applicant states that there has been no new major discovery of gas in recent years in California and expects that California natural gas supplies available to it and its affiliates will show a gradual decline of roughly 6 million Mcf per year after

1959, and that unless additional increments of out-of-state gas are obtained, a deficiency in supply of 56,000,000 cubic feet will occur on an extreme peak day during the winter of 1961-62. The next winter, 1962-63, the peak-day firm deficiency is forecast at 187,000,000 cubic feet. These deficiencies increase to 1,140,000,000 cubic feet on the peak day in the winter of 1967-68. The above forecasts of firm deficiency are predicated on an extension for the next ten years of the load growth pattern experienced during the past few years on the systems of applicant and its customers. Applicant represents that the procuring of added increments of out-of-state gas is the most economic way of meeting growth in load.

Applicant also gives the Los Angeles smog problem as a reason for obtaining this added supply of gas, stating natural gas commands a material advantage over heavier fuels having less desirable combustion properties.

New Out-of-State Gas Supply Increment

Applicant and the Transwestern Pipeline Company[1/] entered into Letters of Intent under dates of February 7, 1958 and an amendment thereto of July 2, 1958, wherein Transwestern proposes to transport and sell out-of-state gas to the applicant at the California-Arizona border on an average daily volume of 350 million cfd of gas for a minimum period of 20 years, except for a four year load-building period up to November 1, 1963, when 300 million cfd is the contract demand. As Transwestern acquires additional volumes

1/ Transwestern Pipeline Company is a corporation with its principal place of business in Houston, Texas, and qualified to do business in the States of Arizona, Colorado, Utah, Oklahoma, New Mexico and Texas. This company was formed on March 11, 1957 for the express purpose of constructing a new natural gas pipeline from the gas producing fields in the western and Panhandle areas of Texas for delivery to the consuming public in California.

of gas for the pipeline, applicant has the right to purchase such additional gas, up to the ultimate calculated capacity of 640 million cfd. Transwestern contemplates that it will have the necessary certificate for its interstate pipeline from the Federal Power Commission under Docket No. G-14871 so that its facilities can be completed and delivery of gas can start by November 1, 1959.

Transwestern's construction program provides for a pipeline system with laterals from the Puckett Field and the Hugoton Field in Texas to Roswell, New Mexico, and a 30-inch line from Roswell to the California-Arizona border. There will be approximately 670 miles of 30-inch main between these last two points. Transwestern also proposes to build initially five compressor stations, with a total capacity of 38,500 hp, and other necessary facilities along the line. The total cost of Transwestern's project is estimated at $188,000,000. An additional $36,000,000 will be required to increase the main line capacity to 640 million cfd.

Transwestern represents that it has gas reserves of approximately 2.891 trillion cubic feet to fulfill its supply obligation based on a report by De Golyer and McNaughton, petroleum consultants of Dallas, Texas. The Southern California Edison Company questioned the adequacy of the showing as to the reserves and suggested that this Commission not issue a certificate to construct the pipeline until after the Federal Power Commission had checked the reserves and issued its certificate. Applicant did not desire to delay the California certificate until after the F.P.C. certificate but was willing that its California certificate not become effective until after the F.P.C. authorization to construct the out-of-state line is granted. We will provide adequate safeguards in the order to protect the California ratepayers with regard to this matter.

Economics of Proposed Line

Applicant estimates that the initial cost of the proposed 34-inch line, together with its necessary appurtenances, will be $18,690,000. The Needles compressor plant is estimated to cost $1,800,000 but will not be needed until 350 million cfd is available, probably late in 1963.

Transwestern proposes to file a two-part rate schedule with the F.P.C. providing for a demand and a commodity rate, which will be based initially on an average daily quantity of 300 million cfd to be priced at not to exceed 45 cents per Mcf at the California border. The exact amount of such rates is subject to the approval of the F.P.C.

Applicant's estimated cost of the Transwestern gas delivered to market area is summarized for the years 1960, 1963 and 1965 in the tabulation following:

	YEARS		
	1960	1963	1965
Annual Gas Volume - Mcf	96,010,000	106,402,000	146,912,000
Cost of Gas - $	43,514,000	49,493,000	63,432,000
Annual Cost of Transport to Market Area - $	4,520,000*	4,070,000	4,510,000
Annual Cost of Gas Delivered to Market Area - $	48,034,000	53,563,000	67,942,000
Unit Cost of Gas Delivered to Market Area - ¢/Mcf	50.0	50.3	46.2

* Amount from Exhibit No. 13. Exhibit No. 17 shows a lower amount.

Applicant has estimated that it will sell in 1959 approximately 66,000,000 Mcf of gas to its two customers combined at a unit rate of approximately 39 cents per Mcf. The addition of this Transwestern gas, if F.P.C. authorizes the price estimated by applicant, will increase ~~the unit~~ sales price to approximately 46 cents per Mcf, or approximately an 18 percent increase on the basis of applicant's estimates.

Financing of Line

Applicant represents that funds for this project in the form of temporary borrowings will be obtained initially from Pacific Lighting Corporation, its parent company; and that the temporary financing will be replaced by permanent financing in the form of capital stock of the applicant, to be issued by the parent company and/or by sale of bonds to the public if such bond sale can be arranged under terms acceptable to applicant.

Permits, Franchises and Rights

Applicant proposes to use a portion of the existing rights of way on the Southern California-Southern Counties existing Needles-Newhall line where space is available. Also, it proposes to obtain easement or other right of way documents from landowners over the remaining portions of the proposed line route. Applicant represents that at this time it does not appear necessary to obtain a franchise in San Bernardino County, but if it later becomes necessary applicant will obtain same; and that the gas initially will not be used in any new city or new county by its affiliates.

Applicant also represents that the proposed pipeline and related facilities will not compete with any other public utility corporation, person, or other entity, public or private, and that service will not be rendered directly to any customer other than its affiliates.

Positions of Interested Parties

The City of Los Angeles heartily approves of the addition of 350 million cfd of gas to meet the future gas demands of its rapidly growing population and takes the position that any reasonable facility for expanded gas supplies in Los Angeles is advantageous.

The City of Long Beach supported the applicant's plan of bringing additional gas supply into the Southern California area; however, it took the position that it was not sufficiently informed to reach a considered judgment as to the reasonableness of the proposed pricing of the gas and neither supported nor protested the pricing phase of the application.

The California Farm Bureau Federation took the position that natural gas is of increasing importance to agriculture for fertilizer as well as thermal fuel reasons and that the granting of this application would be in the public interest.

The California Manufacturers Association, subject to reservations as to the reasonableness of and as to how the cost of this gas might be spread in any future rate proceeding, supports the application in this proceeding and asks the Commission to give favorable consideration to it.

The Riverside Cement Company favored an increase in the supply of fuel in the area but did not accept or endorse an increase in rates. Likewise, the Monolith Portland Cement Company strongly urges the Commission not only to grant the certificate, but to expedite it, and, if necessary to issue a certificate contingent upon F.P.C. approval and not wait upon the F.P.C. and upon its decision; and that its position is not an advance endorsement of any particular rates.

Findings and Conclusions

The need for a pipeline as large as 34 inches was questioned inasmuch as the proposed Transwestern line is a 30-inch pipeline. Applicant's position regarding this point is that a 30-inch line would be more costly on an annual basis owing to the need for additional compressor plants, and the advantages of line-pack would be reduced. It is our finding and conclusion that applicant's request to install a 34-inch pipeline rather than a 30-inch pipeline is reasonable.

While there may be some question as to the sufficiency of showing as to gas reserves in this record, we will not permit any deficiency in supply below 300 million cfd to burden the California rate-payers. Applicant has sufficient confidence in the reserves that it is willing to risk its stockholders' money to build the 34-inch line in California. Any deficiency below 300 million cfd will be proportioned and charged against stockholders insofar as annual fixed charges and operating expenses are concerned when this matter is considered in any future rate case. By reason of such safeguard it is the Commission's finding and conclusion that applicant's presentation with regard to reserves has been sufficient to warrant conditional certification of the applicant's proposed Topock to Newberry line.

Also, the Commission is aware that this is not a complete project and in order to move the initial Transwestern gas to market, a new compression plant at Newberry is needed; and to move the ultimate 640 million cfd, also a new pipeline from Newberry to Placentia is needed. Applicant represents that such additional pipeline and compressor plant will be installed by its affiliates in connection with the proposed Rock Springs line from Colorado. The cost of these new out-of-state gas supply increments approximates 50 cents per Mcf delivered to market area. However, nothing said herein is to be understood as placing our stamp of approval upon the price which applicant proposes to pay for the gas which it will purchase from Transwestern. This Commission exercises no jurisdiction over the price which applicant will pay for this gas. Such jurisdiction resides exclusively in the Federal Power Commission. We have a right to assume that the Federal Power Commission will carefully scrutinize the price which applicant proposes to pay to Transwestern for said gas before said Commission would grant to Transwestern a certificate, to the end that the public interest will be fully protected.

The record indicates that blocks of gas of sufficient quantity to warrant economic long distance transmission must be procured when available and a reasonable price must be offered to prevent diversion of the gas to other markets. Applicant justifies this gas more from the standpoint of need of additional gas supply than low cost, and estimates that the cost of gas to the public after this increment still will be cheaper generally than competitive fuel oil and coal.

The Commission is aware of the growing demand for gas service in the State and is particularly anxious that firm services should not have to be curtailed in the winter months. It is our opinion that the applicant has the financial means to construct the project and place it into successful operation.

With regard to the protest presented by the Independent Refiners Association of California, it is our opinion that the public interest is better served by having, rather than not having, this added increment of out-of-state gas. The Commission is fully cognizant of the ramifications of the impact of natural gas upon the fuel oil industry; however, the Commission is charged with the duty of seeing to it that public utilities provide adequate service at the lowest reasonable cost. The discharge of that duty precludes a finding in accordance with the protest of the Independent Refiners Association of California.

After considering the evidence of record the Commission finds and concludes that applicant has presented a reasonable means to augment its dwindling California gas supply; that the proposed construction is in the public interest; and that an order should be issued granting conditional authorization of the project requested by applicant.

The Commission finds that public convenience and necessity require the construction, maintenance and operation of the proposed 34-inch pipeline between Topock and Newberry 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 34-inch pipeline.

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, as amended, having been considered, a public hearing having been held, the matter having been submitted, and basing its order on the foregoing findings and conclusions; therefore, 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 and maintenance of a 34-inch pipeline and revised related facilities between the California-Arizona border near Topock, Arizona and Newberry, California, described in this application, as amended, the procurement and use of the necessary permits, easements and franchises as may be necessary for the construction or operation of the project, the transportation and 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, subject to the following conditions:

(a) Applicant shall not proceed with any field construction prior to giving written notice to this Commission of the Federal Power Commission's authorization for the Transwestern pipeline project and sale of interstate gas and arrangement of financing by Transwestern.

(b) That any deficiency of supply below 300,000,000 cubic feet per day on the average will not burden California ratepayers in any future rate case other than to the proportioned ratio of average daily deliverability to 300,000,000 cubic feet.

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 34-inch pipeline and revised related appurtenances herein authorized within six months following the date of completion.

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

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

Dated at San Francisco, California, this 30th day of September, 1958.

President

Commissioners

APPENDIX A

LIST OF APPEARANCES

FOR APPLICANT: O. C. Sattinger and J. R. Elliott

PROTESTANT: James H. De Mares and Donald R. Franson, of Miles, Sears & Franson, for Independent Refiners Association of California, Inc.

INTERESTED PARTIES: T. J. Reynolds and Harry P. Letton, Jr., for Southern California Gas Company; Milford Springer and Robert M. Olson, Jr., for Southern Counties Gas Company; Rollin Woodbury, for Southern California Edison Company; Roger Arnebergh, Alan G. Campbell, T. M. Chubb, Robert W. Russell, and T. V. Tarbet, for the City of Los Angeles; Brobeck, Phleger & Harrison, by George D. Rives, Robert N. Lowry, and William W. Eyers, for California Manufacturers Association; Henry E. Jordan, and Walhfred Jacobson, for the City of Long Beach; Chickering & Gregory, by Angus G. MacDonell, and Frank R. Porath, for San Diego Gas and Electric Company; Gene M. Woodfin, of Vinson, Elkins, Weems & Searls, for Transwestern Pipeline Company; Joseph T. Enright and Norman Elliott, of Enright & Elliott and Waldo A. Gillette, for Monolith Portland Cement Company; Lauren M. Wright of O'Melveny & Myers, for Riverside Cement Company, Division of American Cement Corporation; Bert Buzzini, for the California Farm Bureau Federation; and W. D. MacKay, for Challenge Creamery and Butter Association.

COMMISSION STAFF: Clarence Unnevehr.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: W. M. Jacobs, Raymond W. Todd, Miles Cox, M. E. Fuller, C. E. Pearman, J. L. Oberseider, Keith Kelsey, Cecil L. Dunn, Walter J. Herrman and J. A. Millen.

Evidence was presented on behalf of protestant by James H. De Mares.

Evidence was presented on behalf of the Commission staff by George C. Young.