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ORIGINAL

Decision No. 58322

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) authorization to increase the facility charge to San Diego Gas and Electric Company under Section 454 of the Public Utilities Code.	Application No. 40124 (First Supplemental)

Milford Springer and Robert M. Olson, Jr., for applicant.
Chickering & Gregory by Sherman Chickering and C. Hayden Ames for San Diego Gas & Electric Company; J. F. DuPaul, City Attorney, by Frederick B. Holoboff, for City of San Diego; interested parties.
Louis W. Mendonsa for the Commission staff.

OPINION ON FIRST SUPPLEMENTAL APPLICATION

Applicant's Request

By the above-entitled application, filed March 13, 1959, 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 14.4 miles of 24-inch diameter pipeline paralleling its Moreno-Rainbow pipeline in Riverside County.

(2) Finding that the proposed increase in the facility charge, as adjusted by the method proposed herein, is 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 14.4 miles of 24-inch pipeline, of $93,575, subject to revision for actual costs after construction of the loop pipeline is completed.

(3) Postponing the requirement of a supplemental application pursuant to paragraph 3 of the order in Decision No. 57087 until six months from the completion of the project proposed herein.

Public Hearing

After due notice a public hearing was held upon this application on April 2, 1959 in Los Angeles before Commissioner Theodore H. Jenner and Examiner Manley W. Edwards. Applicant submitted five exhibits and testimony by two witnesses in support of its application. The San Diego Gas & Electric Company presented two exhibits and testimony by two witnesses to show need for the proposed construction and the reasonableness of the proposed charge. Counsel for the City of San Diego and the representative of the Commission staff cross-examined the witnesses for the purpose of developing a full record to aid the Commission in arriving at its decision. The matter was submitted for the Commission's consideration at the close of the day's hearing and is now 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 the gas load in San Diego is growing rapidly and refers to the fact that already,by Decision No. 57087 (dated August 5, 1958), this Commission authorized it to construct a 20-mile, 24-inch O.D. loop line paralleling the then existing Moreno pipeline in order to make a greater supply of gas available to San Diego. Applicant represents that the construction of this 20-mile loop was completed November 27, 1958, and that the present deliverability of the Moreno pipeline is 129,000 Mcf per day.

Applicant states that its Huntington Beach pipeline has an estimated peak-day delivery capacity of approximately 20,400 Mcf per day during the winter of 1958-59, which will be increased to an estimated peak-day delivery capacity of 33,700 Mcf per day during the winter of 1959-60. Applicant now proposes to increase the capacity of its Moreno pipeline from the existing 129,000 Mcf to 142,000 Mcf per day by means of the 14.4 loop line proposed in this first supplemental application and represents that both it and the increase in the Huntington Beach line capacity are necessary to meet San Diego's growing load.

San Diego's Position

San Diego Gas & Electric Company's estimate of its firm peak-day requirements for an extreme cold day in the winter of 1959-1960 is 179,600 Mcf. The evidence of record indicates that San Diego's gas load is growing at the rate of about 18 to 20 million cubic feet per peak day per year 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 3,900 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.

While the existing transmission lines, along with the propane-air gas plant, could handle the estimated peak-day requirements of 179,600 Mcf for one day, San Diego represents that it could not handle load requirements for several cold days in a row because its supply of propane would be exhausted, and because during the cold winter months it is difficult and nearly impossible to purchase sizeable 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-saving equipment and available for serving regular load. San Diego represents that it is imperative that this proposed Moreno line loop be constructed and placed in service before the winter season of 1959-60, preferably by November 1, 1959; that with the completion of this looping in Riverside County, additional capacity in future years can be gained by adding to its transmission lines in San Diego County; but for the present, more delivery capacity is obtained by this expenditure in Riverside County than for an equivalent expenditure in San Diego County.

Proposed Construction and Cost

Applicant estimates that the cost of the 14.4 miles of 24-inch diameter loop line will be $1,343,700, 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 Moreno, as shown by Exhibit B attached to this first supplemental application. Applicant plans to order the pipe for delivery in May and June and to have the contractor start laying it by July 1, 1958, so as to complete the project by the winter season of 1959-60.

Applicant states that it currently has adequate funds to finance the proposed pipeline. Ordinarily applicant finances plant expenditures with internal funds, such as cash generated through depreciation, 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 through the sale of common stock to the parent company under its pre-emptive rights.

Annual Cost

Applicant estimates the annual cost or carrying charge on the 14.4 mile loop line at $245,472 computed as follows:

ESTIMATED ANNUAL COST

Direct Operation and Maintenance Expenses	$ 1,850
Administration and General Expenses Assigned	451
Depreciation Expense	57,864
Taxes:	
Ad Valorem	26,369
State Franchise	5,311
Federal Income	66,286
Interest or Return (6.5% of $1,343,700)	87,341
Total	$245,472

Applicant points out that this is an estimated amount for annual operating expenses, which should be used until the final construction costs are known. With regard to the 20-mile loop, the actual construction cost was approximately $40,000 below the estimate, and now applicant proposes a reduction in the facility charge by $625 per month to reflect such lower capital cost. Upon the completion of the proposed 14.4 mile loop, it proposes to add $20,450 to the facility monthly charge to compensate for the indicated $245,472 annual estimated operating cost.

Proposed Rate Revision

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

1.	Monthly Facility Charge	$73,750
2.	Monthly Demand Charge: Per Mcf of Contract Daily Maximum Demand	$1.25
3.	Commodity Charge: Per Mcf of Monthly Delivery	27.83¢

The changes which applicant proposes in this rate are to raise the monthly facility charge on completion of the 14.4 mile loop to $93,575, and to presently reduce the facility charge to $73,125 pending such date. The commodity charge of 27.83¢ per Mcf reflects the recent increase authorized in commodity rates to offset the increased cost of in-state gas purchased from the Pacific Lighting Gas Supply Company.

San Diego Gas & Electric Company is willing to pay 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.

Future Rate Revisions

Applicant is proposing the $93,575 monthly facility charge as an interim rate between the time the 14.4 mile loop is completed and the complete actual costs of the loop line are available and tabulated. Furthermore, applicant requests postponing the requirement of a filing of a supplemental application, pursuant to paragraph 3 of the order in Decision No. 57087, until six months from the completion of the 14.4 mile loop line. Such paragraph 3 is concerned with this problem of reflecting actual capital costs into 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. At that time (six months after completion) applicant represents that all actual costs will be known; that a new cost of service study will be available; and that permanent rate revisions can be made.

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 service.

Findings and Conclusions

While it appears that the results of this proposal will be to increase San Diego Gas & Electric Company's cost of purchased gas, there would be greater costs if San Diego were to undertake to finance and construct equivalent facilities. At the current level of firm sales, the estimated increase cost to San Diego, if assessed to the firm service, is about 1.2 cents per Mcf. Applicant probably could continue through the winter of 1959-60 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 annual demand for gas service in the San Diego area of roughly 18 to 20 million cubic feet per day for peak cold days, from year to year, 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 San Diego Gas & Electric Company, the Commission is of the opinion that this is a reasonable means to help avoid firm peak-load deficiencies.

In our opinion the applicant has the financial means to construct the project and to place it in 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 14.4 miles of 24-inch line as shown on Exhibit B attached to the first supplemental 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 the consideration for the issuance of such certificate of public convenience and necessity or right.

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

ORDER ON FIRST SUPPLEMENTAL APPLICATION

Southern Counties Gas Company of California having applied to this Commission for an order authorizing certain construction work, granting a certificate of public convenience and necessity, and authorizing an increase in a facility charge, 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. Southern Counties Gas Company of California be and it is hereby granted a certificate that present and future public convenience and necessity require the construction and operation of 14.4 miles of 24-inch pipeline generally as described in this first supplemental application, the procurement and use of the necessary lands or land rights, permission or such franchise 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. 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 $73,125 and on not less than five days' notice to this Commission and to the public to make said revised facility charge effective for service rendered on and after November 27, 1958, and to refund the overcharges since November 27, 1958.

3. 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 $93,575 and on not less than five days' notice to this Commission and to the public to make said revised tariff effective for service after the completion of the project authorized in ordering paragraph 1 above.

4. The requirement of ordering paragraph 3 of Decision No. 57087 hereby is rescinded in so far as the 20-mile loop is concerned, but is adopted in this decision with respect to the total 34.4 mile loop in Riverside County.

The authorization herein granted will expire if not exercised within 18 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 28th day of April, 1959.

E. Lyn Fox
President

Peter E. Mitchell

Matthew J. Dooley

Theodore H. Jenner

Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.