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Decision No. 60564

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, for a certificate of public convenience and necessity authorizing it to construct a 36-inch natural gas pipeline and related facilities from the California-Oregon boundary to Antioch, California.	Application No. 40738

(Appearances and Witnesses are listed in Appendix A)

O P I N I O N

Applicant's Request

Pacific Gas and Electric Company filed this application on January 9, 1959, requesting the Commission to issue to it a certificate of public convenience and necessity for the construction, operation and maintenance of a 36-inch natural gas pipeline from the California-Oregon border to Antioch. This pipeline will form the California portion of a project having an initial capacity to deliver 414 million cubic feet of natural gas per day from the fields of western Alberta in Canada to the San Francisco Bay area. The pipeline will pass through the counties of Modoc, Siskiyou, Shasta, Tehama, Glenn, Colusa, Yolo, Solano, Sacramento and Contra Costa.

Public Hearings

Fourteen days of public hearings in this matter were held in San Francisco before Commissioner Theodore H. Jenner and Examiner James F. Haley on the following dates: October 1, November 9, 10 and 13, December 1 and 2, 1959; March 1 through 4, 7 through 9, and April 18, 1960. The matter was submitted on

March 9, 1960, subject to the filing of concurrent briefs not later than April 12, 1960, and subject to oral argument for rebuttal purposes, which was held on April 18, 1960.

Applicant's Operations

Pacific Gas and Electric Company is engaged principally in the business of furnishing electric and gas service in Northern and Central California. Applicant also distributes and sells water in a number of communities and provides steam-heat service in parts of San Francisco and Oakland.

Applicant or its predecessors have been supplying gas to domestic, commercial and industrial customers since 1852. With minor exceptions, applicant supplied only manufactured gas until 1929, when it began the substitution of California natural gas for the manufactured fuel. In 1943, when it became apparent that within a few years the requirements of its customers would exceed the prospective supplies of California natural gas, applicant commenced the study of out-of-state sources. As a result, an agreement to purchase out-of-state gas was concluded in 1948 with El Paso Natural Gas Company (El Paso). The actual delivery of such gas under an initial authorization of 400 million cubic feet (M^2cf) per day[1] was commenced in 1950. Because of the heavy growth in the population of California, as well as a rapid rise in per capita energy requirements, purchases of out-of-state gas from El Paso have increased to the present certificated quantity of over one billion cubic feet per day. Over 70 per cent of applicant's gas is now obtained from this single supplier, the remainder being obtained from California sources.

Proposed Alberta-California Project

Based on the premises that its gas requirements will continue to rise rapidly and that the public interest will be better

1 At 14.9 pounds per square inch pressure (psi). Except where footnoted, volumes used herein are at a pressure base of 14.73 psi.

served by having more than one source of out-of-state gas, applicant proposes to build and operate, in participation with several other companies, a 36-inch pipeline 1,400 miles long, to transport gas from the Province of Alberta in Canada to California. The Alberta-California project will have an initial average delivery capacity of 414 M^2cf per day and an optimum delivery capacity of 800 M^2cf per day at Antioch, the California terminal of the proposed pipeline. Applicant estimates that the cost of the 296-mile portion of the project in California, for which certification is sought herein, will be $63,930,000, and that the cost of the total project will be in the order of $340,000,000.

Under applicant's proposal, a number of companies will participate in bringing Alberta gas to California. Alberta and Southern Gas Co. Ltd., will purchase gas for the project from Alberta producers at the well sites. The Alberta Gas Trunk Line Company Limited will gather the gas from the fields and transport it to a point near the Alberta-British Columbia border. From this point it will be transported across southeastern British Columbia by Alberta Natural Gas Company to the United States-Canadian border, where Pacific Gas Transmission Company will purchase the gas from Alberta and Southern Gas Co. Ltd., and transport it through Idaho, Washington and Oregon to the California-Oregon border. Applicant will purchase the gas at the California border and, by means of the pipeline for which certificate is sought herein, will transport the gas to Antioch where it will enter applicant's integrated gas distribution system.

Participating Companies

Brief descriptions of the companies which will participate with the applicant in the Alberta-California Project are set forth below:

1. Alberta and Southern Gas Co. Ltd. (Alberta and Southern) was organized under the laws of the Province of Alberta and is a wholly owned subsidiary of the applicant. It is a company established for the principal purpose of purchasing gas from Canadian producers and arranging for its transportation to the International Boundary, near Kingsgate, British Columbia, where Alberta and Southern will sell it to Pacific Gas Transmission Company. Alberta and Southern will neither physically transport gas nor own or operate any transmission line. Alberta and Southern will also purchase a relatively small amount of gas for Canadian Montana Pipe Line Company (Canadian-Montana) a wholly owned subsidiary of The Montana Power Company.

2. The Alberta Gas Trunk Line Company Limited (Alberta Trunk Line) will construct, own and operate the necessary pipeline within the Province of Alberta for the gathering and transporting of gas for the project. Alberta Trunk Line was incorporated by special act of the Legislature of Alberta for the purpose of gathering and transporting gas within the Province for all gas export projects. Under the provisions of the Alberta Gas Trunk Line Act, two of Alberta Trunk Line's maximum of seven directors are appointed by the government of Alberta, and the remaining directors are elected by the shareholders. Alberta Trunk Line has no affiliation with the applicant.

3. Alberta Natural Gas Company (Alberta Natural) was incorporated by special act of the Parliament of Canada and is authorized to transport gas in interprovincial and foreign commerce. Alberta Natural will transport gas through British Columbia on a cost-of-service basis for the Alberta-California project and for Westcoast Transmission Company (West Coast). One third of the common stock of

Alberta Natural will be held by West Coast, one third will be held by Pacific Gas Transmission Company, and one third will be offered to the public.

4. Pacific Gas Transmission Company (P.G.T.) is a California corporation in which 50 per cent of the common stock will be owned by applicant, and 25 per cent will be owned by a group of four companies associated with the development of the project.[2] The remaining 25 per cent of the stock will be offered to the public. In addition to transporting gas for the project from the Canadian border to California, it will transport gas purchased from West Coast by El Paso as a contract carrier on a cost plus return basis. P.G.T. will construct, own and operate the necessary pipeline facilities for these purposes.

Need for Additional Gas Supplies

The record shows that applicant's service area has large and growing requirements for natural gas. A steady increase in both number of customers and usage per customer has been occurring. In 1942, applicant and its predecessors supplied gas to about 700,000 firm customers who during that year used an average of 84 thousand cubic feet (Mcf). By 1958, the number of such customers had exceeded 1,500,000 and their average annual gas consumption had risen to 133 Mcf. The estimates introduced in this proceeding by both applicant and the Commission staff show that between 1960 and 1965 the average-day total gas requirements of applicant's service area will increase at a rate of 93 M^2cf per day per year, and that the abnormal peak-day requirement for firm service will increase at a rate of 106 M^2cf per day per year. The project will thus have the initial capability of taking care of about four years' growth in load.

2 Canadian Bechtel Limited, 9%; Blyth & Company, Inc., 7%; International Utilities Corporation, 7%; and The Montana Power Company, 2%.

The following tabulation is a comparison of the estimates of applicant and staff for firm requirements and existing gas supplies carried forward from the winter of 1962-63, the first full heating season during which deliveries of gas from the Alberta-California Project can be expected:

COMPARISON OF APPLICANT'S AND STAFF'S ESTIMATES OF FIRM REQUIREMENTS AND EXISTING GAS SUPPLIES

Annual Period	Abnormal Peak Day: M2cf/Day Applicant	Staff	Average Day Colder Than Average Year M2cf/Day Applicant	Staff	Average Day of Average Year M2cf/Day Applicant	Staff
	Existing Gas Supplies					
	Exh.45	Exh. 35	Exh. 45/365	Exh. 35	Exh. 45/365	Exh. 35
62-63	2,322	2,685	-	1,401	-	1,359
1963	-	-	1,283	-	1,283	-
63-64	2,262	2,685	-	1,401	-	1,359
1964	-	-	1,288	-	1,288	-
64-65	2,203	2,685	-	1,401	-	1,359
1965	-	-	1,326	-	1,326	-
65-66	2,147	2,685	-	1,401	-	1,359
	Firm Requirements					
	Exh. 45	Exh. 35	Note a	Exh. 35	Exh.3 Co.5	Exh. 35
62-63	2,270	2,373	-	901	-	813
1963	-	-	866	-	779	-
63-64	2,380	2,469	-	939	-	845
1964	-	-	906	-	816	-
64-65	2,493	2,584	-	982	-	884
1965	-	-	950	-	855	-
65-66	2,612	2,711	-	1,030	-	927
	Excess or Deficiency over Firm Requirements					
	Exh. 45	Exh. 35	From Above	Exh. 35	From Above	Exh. 35
62-63	52	312	-	500	-	546
1963	-	-	417	-	504	-
63-64	(118)	216	-	462	-	514
1964	-	-	382	-	472	-
64-65	(290)	101	-	419	-	475
1965	-	-	376	-	471	-
65-66	(465)	(26)	-	371	-	432

(Deficiency)

a. Average day estimates of the applicant have been increased by ratio of staff's colder-than-average day.

The independent estimates of the applicant and of the staff as shown above demonstrate conclusively that within the next few years firm requirements on an abnormal peak-day basis will exceed the maximum availability of gas from existing sources, including present underground storage.

Looked at on the basis of the average day of a colder than average year, or on the basis of an average day of an average year, existing supplies appear adequate to meet firm requirements for the reasonably predictable future. On the basis of total system requirements, however, the evidence shows that without additional gas supplies applicant will be unable to meet by 1964-65 either the total steam-electric requirements or the total interruptible industrial requirements of its system on an average day of an average temperature year.

The evidence shows that during the period 1960-70 the population in applicant's service area will increase by about 40 per cent. Correlation of historical trends in the gas requirements of applicant's service area with past population growth leads to the inescapable conclusion that total firm requirements and total interruptible requirements will continue to increase just as certainly as the population. The record contains clear and convincing evidence that applicant's primary gas supplies must be substantially augmented to meet the needs of an expanding population and to maintain the vigor of California's two-fuel economy.

The record contains comprehensive testimony regarding possible sources of additional gas which could be made available to meet gas requirements. As alternatives to construction of a large diameter pipeline project at this time, testimony and exhibits were introduced relating to other means of meeting such requirements. These include underground storage of natural gas, high-pressure tank storage of propane, refrigerated tank storage of propane and manufacture of high Btu oil gas.

Underground storage is not a primary source of supply. It conforms the rate of supply to the rate of requirements, but it does not add to the over-all supply of gas. The use of propane or manufactured oil gas for meeting abnormal firm peak requirements would offer certain economies in serving the firm customer. From the standpoint of total system requirements, however, these fuels are shown to be considerably more costly than natural gas from a pipeline project. Furthermore, certain practical considerations, such as lack of experienced plant personnel, zoning restrictions, air contamination and by-product disposal present difficult operating problems in the case of high Btu oil gas plants.

Because of its complexity and magnitude, a large diameter pipeline project of the length proposed cannot be precisely timed to make first deliveries during the exact heating season that additional gas may be needed. Nevertheless, the evidence clearly shows that such a project is the most practicable means by which applicant can add to its primary gas supplies to ensure that it will be able to meet the continuing growth in the demands of its service area.

Alberta Gas Supply

The logic of matching applicant's growing requirements for gas with the virgin gas resources of western Alberta is abundantly clear upon this record. The total proven and probable Alberta gas reserves presently under contract or letter agreement for the Alberta-California Project aggregate over five trillion cubic feet, making a pipeline of the length contemplated economically feasible. The evidence indicates that these reserves have excellent prospects of being considerably enlarged through further discoveries. The Alberta

Oil and Gas Conservation Board in its report of September 1958, presented estimates that the ultimate reserves of recoverable gas in the Province ranged from 60 to 102 trillion cubic feet. According to a recent report of Canada's Royal Commission on Energy, it would not be unreasonable to expect an ultimate recovery of 300 trillion cubic feet of gas from western Canada.[3] With these prospects in view, applicant has included in the design of the proposed pipeline the means of economically enlarging its capacity from an initial delivery rate at Antioch of 414 M^2cf per day to an ultimate of some 800 M^2cf. As the delivery rate is increased toward the line's ultimate capacity, the unit cost of transporting the gas should decline substantially.

A most significant advantage of Alberta gas is that its purchase and transport by means of this project will provide greater dependability of delivery through applicant's system because it will bring gas from new fields through a pipeline from the north instead of the south side of applicant's service area. In so doing, it will make natural gas available in sections of Northern California not now served with this fuel. In addition, it will assure Northern California of an independent source of out-of-state gas, freeing it from absolute dependence upon El Paso for large additions to its supply. Aside from the obvious advantages of diversification of supply, the prospects of the timely procurement of additional large blocks of gas from El Paso are not encouraging. Two applications, Dockets Nos. G-15696 and G-18616, are pending before the Federal Power Commission, each requesting authority for El Paso to increase deliveries to Pacific Gas and Electric Company by 101 M^2cf per day. The outlook for their approval is lessened by El Paso's none too

3 Royal Commission on Energy, First Report, October 1958.

favorable reserve position, which at present delivery rates, has been variously estimated from six years by the Federal Power Commission staff up to 15 years by El Paso.

Required Governmental Authorizations

Before project construction can be undertaken, certain authorizations, in addition to the certificate sought herein, are required from the other jurisdictions concerned. These authorizations have been secured.

Effective January 13, 1960, the Oil and Gas Conservation Board of the Province of Alberta granted to Alberta and Southern authority to export from that province 4.2 trillion cubic feet of gas.[4] This authorization is to be operative for a period ending 25 years from the date of first removal of gas from the province or until October 31, 1986, whichever is sooner.

On April 19, 1960, the National Energy Board of Canada issued a certificate of public convenience and necessity for Alberta Natural to construct a 36-inch pipeline from point of connection with Alberta Trunk Line through British Columbia to the United States-Canadian boundary. The certificate contains the condition that Alberta Natural must have completed the necessary financing for the construction of the pipeline before September 1, 1960, and that construction must be commenced no later than November 1, 1960. The National Energy Board has also issued a license permitting Alberta

4 At a pressure base of 14.4 psi.

and Southern to export 3.826 trillion cubic feet[5] of gas during the same period as specified in the Alberta Oil and Gas Conservation Board authorization.

Three applications of Pacific Gas Transmission Company, Docket Nos. G-17350, G-17351 and G-17352, requesting the necessary authorizations for the project were approved by the Federal Power Commission in its order issued August 5, 1960. Under Docket No. G-17350, the Federal Power Commission granted P.G.T. a certificate of public convenience and necessity to construct and operate that portion of the pipeline for the transportation of gas from the International Boundary to the California-Oregon border and authority to transport and sell such gas. Under Docket No. G-17351, P.G.T. was authorized to import natural gas for the project from Canada, and under Docket No. G-17352, P.G.T. was issued a permit authorizing the construction, operation, maintenance and connection of the project facilities required at the International Boundary.

<u>Cost of Alberta Gas</u>

The tabulation below shows applicant's estimates of the cost per Mcf[6] of Alberta gas for the first five years of operation, beginning in 1962, assuming 100 per cent annual load factor at the initial delivery capacity of the project:

5 This amount is less than the 4.2 trillion cubic feet authorized by the Alberta Oil and Gas Conservation Board because it is at a pressure base of 14.73 psi and because in the proceeding before that Board, Alberta and Southern was the applicant for the export of gas to Montana, as well as to California. In the proceeding before the National Energy Board, it was not the applicant on behalf of Montana. Canadian-Montana appeared in its own behalf; therefore, the quantity of gas destined for Montana is not included in Alberta and Southern's permit issued by the National Energy Board.

6 Costs used herein are adjusted to reflect a heating value of 1100 Btu per cubic foot of natural gas.

Year of Operation	Cost of Gas per Mcf Calif.-Oregon Border	Antioch
First	38.7¢	45.4¢
Second	39.5	46.1
Third	41.7	48.2
Fourth	41.9	48.2
Fifth	41.9	48.1

Although a large diameter pipeline project, in its initial stage, is less economical than when fully developed, the cost of gas in the first years of the Canadian-Alberta Project compares favorably with gas from other sources. The cost of gas to be furnished at the Arizona-California border by Transwestern Pipeline to Pacific Lighting Gas Supply Company is estimated to be approximately 44.4 cents per Mcf.[7] The cost at the Nevada-California border of gas proposed to be furnished by the Rock Springs project of El Paso to the Southern California Gas Company and Southern Counties Gas Company of California is estimated to be about 42.4 cents per Mcf.[8] Allowing for transportation from the Arizona-California and Nevada-California borders, the costs of these supplies brought to applicant's load center would be greater than the cost of Alberta gas.

El Paso gas now being delivered to applicant costs approximately 37 cents per Mcf at Milpitas, a point roughly comparable to Antioch in relationship to applicant's load center. On February 23, 1960, El Paso filed with the Federal Power Commission for an increase in the rate it charges applicant. With this increase

7 This cost assumes 100% annual load factor and is based on a border price of 42 cents per Mcf and a heating value of 1040 Btu per cubic foot. It reflects the present contract volume of 300 M^2cf per day, but does not reflect any reductions which may result from the additional contract volume of 50 M^2cf per day effective January 1, 1963.

8 This cost assumes 100% annual load factor and is based on a border price of 40 cents per Mcf at 14.9 psi and a heating value of 1030 Btu. No adjustment has been made to compensate for the fact that Rock Springs project is designed for deliveries into Southern California, rather than Northern California.

in effect the existing supply of El Paso gas will cost applicant about 39.5 cents per Mcf at Milpitas.[9] Assuming applicant is receiving its present supply of gas from El Paso at the rate filed on February 23, 1960, the introduction of Alberta gas in 1962 would result in an increase in applicant's system average cost of gas on the order of 2½ cents per Mcf. Considering the past trend in El Paso prices and the economies which will result as Alberta deliveries approach the ultimate capacity of the project, it is possible that Alberta gas may prove to be cheaper than El Paso gas.

Positions of the Interested Parties

None of the appearances protested the granting of this application. The following interested parties recommended its approval: The City of San Francisco, City of Los Angeles, California Farm Bureau Federation, California Manufacturers Association, Southern California Gas Company, Southern Counties Gas Company of California, American Potash & Chemical Corporation, Southwestern Portland Cement Company, California Portland Cement Company and Riverside Cement Company, Division of American Cement Corporation.

Standard Oil Company of California (Standard), while not opposing the application, requested that the decision of the Commission clearly reject any endorsement or authorization of exclusive use contracts, sales of gas below fairly allocated costs, or methods of unfair competition with fuel oil sales. It is certainly not the Commission's intent to authorize or endorse herein, either explicitly or implicitly, sales of gas below fairly allocated cost or any unfair methods of competition with fuel oil sales. However, the question of the propriety of exclusive use contracts is a rate matter which is extraneous to this certificate application.

9 El Paso prices are subject to possible refunds on adjudication of recent increases.

Position of the Staff

The staff strongly recommended approval of the project, providing that the certificate as granted contains conditions as follows:

1. That contracts with Alberta gas producers be renegotiated to eliminate "favored nations," "minimum average cost," "tax absorption" and "renegotiation or arbitration" clauses permitting future price increases, and that failing removal of such clauses, that applicant agree that no part of any increase resulting from such clauses be borne by the California rate payer until the increase is approved by the Commission.

2. That any increase in the rate of return on Alberta Trunk Line's operations be prevented from being reflected in applicant's gas rates.

3. That applicant furnish to this Commission for review the final form of P.G.T.'s cost-of-service tariff before it is filed with the Federal Power Commission in Docket No. 17350, et al.

4. That customers served from any future taps made in P.G.T.'s pipeline in Idaho, Washington and Oregon share in the cost of the pipeline in proportion to their maximum demands.

5. That applicant agree to exchange or substitute excess gas with other California gas utilities should this prove to be economically desirable in the future.

6. That the rates for gas used by industrial interruptible customers and applicant's steam-electric plants shall not be less than the system-wide average cost of gas delivered in the market area.

Discussion of Staff Recommendations

With respect to the first proposed condition, the Commission has given careful study and consideration to the gas procurement contracts and is of the opinion that, aside from the clauses in question, the contracts have a number of provisions which are plainly advantageous to California consumers. There is evidence that these contracts are the results of protracted arm's length bargaining in which the interests of the applicant were closely akin to the interests of the California ratepayer. Applicant has spent almost four years in placing over five trillion cubic feet of gas reserves under contract and in obtaining options for large additional volumes as discovered. Applicant testified that it has put forth its best efforts to contract for this gas at the best over-all terms and at the lowest cost levels consistent therewith. Applicant represents that the clauses to which the staff objects are part of the consideration which had to be given to obtain gas for the project and that the producers would not give up these clauses without additional compensation in the form of higher scheduled gas prices. Applicant points out that at the time these contracts were negotiated Trans-Canada was also buying gas in Alberta and that Alberta and Southern did succeed in eliminating a number of price adjustment provisions offered producers by Trans-Canada.

In regard to the staff's second recommendation concerning rate of return on Alberta Trunk Line's operations, the order herein will require applicant to advise the Commission without delay of its knowledge of the pendency or occurrence of any event, including any change in such rate of return, which might materially affect the cost of gas delivered in California from the transmission-line project.

Concerning the third proposed condition, the order herein will require applicant to furnish to this Commission for review the final form of Pacific Gas Transmission Company's cost-of-service tariff before it is filed with the Federal Power Commission.

With respect to the fourth proposed condition, the record shows that P.G.T. has agreed with El Paso that the rate for transport of El Paso gas will be determined by an allocation of cost based upon demand and distance of transport. The staff agreed that this form of contract provides the necessary assurances in so far as presently proposed taps are concerned. The contract provides that the same formula will apply to future taps. However, the method of allocation provided for therein has subsequently been modified by the Federal Power Commission in its order issued August 5, 1960, and the modification is to be included in the tariff to be filed by P.G.T. In view of the provision of the order herein regarding this tariff, such a condition is not required.

In view of the power of continuing regulation vested in this Commission, we regard the fifth proposed condition as unnecessary. Should the public interest require exchange or substitution of gas with other utilities, the Commission, through an appropriate proceeding, could order such exchange or substitution, with or without the agreement of the applicant.

The staff's sixth recommendation is directed toward protecting applicant's firm customers from any inequitable rate burden which might result from this project. It is clear that part of the justification of this project is the provision of gas for applicant's steam-electric plants and interruptible customers. In recognition of this fact, the Commission places applicant on notice that it will fix the rates applicant shall charge for gas used by industrial interruptible customers and applicant's steam-electric plants at such levels as will assure that the firm customers of applicant will not be called upon to bear an inequitable burden in connection with the project herein certificated.

Findings and Conclusions

The evidence is conclusive that applicant must substantially augment its present sources of natural gas supply to avoid the prospects of a gas shortage in the near future. The record leaves no doubt that a large diameter pipeline project for the delivery of Alberta gas is, at this time, the most practicable means by which applicant can obtain the necessary additions to its gas supply in order to meet the demands of its present and potential customers. The record indicates that there are, to be sure, risks and uncertainties involved in a project of this magnitude. Such risks include the fact that the volume and timing of gas requirements cannot be predicted with preciseness and certainty; that the quantity of gas reserves available to supply the project is a matter of judgment and estimate; and that such a project is subject to the regulatory authorities of other jurisdictions which have control over the resources and substantial portions of the facilities.

Conceding that there are aspects of this project which cause us concern, particularly the pricing provisions contained in these gas contracts and the fact that neither this Commission nor the Federal Power Commission has regulatory jurisdiction over said contracts, nevertheless, it must be borne in mind that this Commission does exercise exclusive jurisdiction over the rates which the gas consumers of California will pay for this Canadian gas. This Commission will be vigilant to exercise such jurisdiction to the full extent required by the public interest, and applicant will be required to show in any proceeding seeking a rate increase that it has exercised every reasonable effort to hold down the cost of said Canadian gas as a condition precedent to passing on any increase to the gas consumers of California. Said applicant and all of its affiliates will be required to avail themselves of every lawful right and procedure which they may have to contest in Canadian forums the reasonableness of Canadian gas purchased by applicant or any of its affiliates and to prosecute any such right or procedure with vigor and to a final determination. Also, applicant will be expected to exercise such control over its affiliate, Pacific Gas Transmission Company, as to assure that no unreasonable rate increase will be passed on to applicant by said Pacific Gas Transmission Company. Applicant will be required to exercise every bargaining opportunity and economic instrumentality of which it is possessed to the end that this Canadian gas will be purchased by it and its affiliates at a reasonable price. Should this Commission find that the applicant or any of its affiliates have not complied with the foregoing requirements, this Commission will not permit the applicant to pass on to the gas consumers of California any increase of rates which results from the failure on the part of applicant or its affiliates to comply with said requirements.

After considering all of the evidence and giving due weight to the risks and uncertainties involved, the Commission finds and concludes that the Canadian-Alberta project has the prospect of being the best additional source of supply available to applicant for assuring the continuation of adequate and efficient gas service at reasonable rates.

The Commission finds that the public convenience and necessity require and will require applicant to construct, operate and maintain the gas pipeline project described in the application. The Commission further finds that the public convenience and necessity require that applicant should be granted authority to exercise the rights and privileges of the several county franchises heretofore granted to it, as more specifically set forth in the order that follows.

The certificate hereinafter granted shall be subject to the following provision of law:

> That the Commission shall have no power to authorize the capitalization of the franchise involved herein or this certificate of public convenience and necessity or the right to own, operate or enjoy such franchise or certificate of public convenience and

necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the grant of such franchise, certificate of public convenience and necessity or right.

All motions made during the course of this proceeding and not heretofore ruled upon are denied.

O R D E R

Public hearings having been held, evidence having been received, and the matter having been submitted for decision,

IT IS HEREBY ORDERED:

1. That Pacific Gas and Electric Company be and it is hereby granted a certificate of public convenience and necessity to construct, operate and maintain the gas transmission-line project described in the application, subject to the following conditions:

   a. Applicant shall stipulate and agree to cause its wholly owned subsidiary, Alberta and Southern Gas Co. Ltd., to exert its best efforts to test before the appropriate regulatory authorities of the Province of Alberta and the Dominion of Canada the reasonableness of every increase in the cost of gas to Alberta and Southern, whether such increase results from the provisions of existing gas purchase contracts, or modifications thereof, or from the provisions of future gas purchase contracts and likewise to test the reasonableness of any increase in gathering and transportation costs.

   b. That applicant shall file with this Commission copies of the following:

      (1) Copies of all gas purchase contracts between Alberta and Southern Gas Co. Ltd., and Canadian gas producers and copies of any agreements amendatory thereto which are now in existence but not included in Exhibit No. 7 in this proceeding.

      (2) Copies of any and all such producer contracts and agreements and changes thereto as they are made in the future.

(3) Copies of any future agreements amendatory to or replacing the following:

(a) Pacific Gas Transmission Company gas sale contract with Pacific Gas and Electric Company.

(b) Alberta and Southern Gas Co. Ltd., contract with Pacific Gas Transmission Company.

(c) Alberta and Southern Gas Co. Ltd., and Westcoast Transmission Company Limited contract with Alberta Natural Gas Company.

(d) Alberta and Southern Gas Co., Ltd., contract with the Alberta Gas Trunk Line Company Limited.

(e) Pacific Gas Transmission Company transportation agreement with Pacific Northwest Pipeline Corporation.

(f) Alberta and Southern Gas Co. Ltd., contract with Canadian-Montana Pipeline Company.

c. That applicant shall fully advise the Commission in writing, without delay, of its knowledge of the initiation, pendency and/or occurrence of any fact or event which might materially affect the cost of gas delivered in California from the transmission-line project.

d. That applicant shall furnish to this Commission for review the final form of Pacific Gas Transmission Company's cost-of-service tariff before it is filed with the Federal Power Commission.

e. That applicant shall locate and construct its transmission line in such manner as to make reasonably convenient service from the transmission line to the communities in California through or near which said line runs, where public convenience and necessity may require such service.

2. That Pacific Gas and Electric Company be and it is hereby granted a certificate of public convenience and necessity to exercise the rights and privileges of the franchises granted to the company by the following county ordinances, to the extent necessary

to enable it to construct, operate and maintain said transmission-line project:

County	Ordinance Number	Date
Colusa	183	February 2, 1948
Contra Costa	423	February 9, 1948
Glenn	243	January 17, 1944
Modoc	166	May 4, 1959
Sacramento	341	November 15, 1948
Shasta	416	January 18, 1960
Siskiyou	330	March 24, 1959
Solano	345	December 3, 1951
Tehama	145	May 11, 1953
Yolo	212	June 7, 1948

3. That within six months of the date that said transmission line is placed in operation, Pacific Gas and Electric Company shall submit to the Commission a detailed statement of the capital cost of the transmission-line project as constituted at the time of the first operation.

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

Dated at San Francisco, California, this 16th day of August, 1960.

Everett C. McKeage
President

Matthew J. Dooley

C. Lyn Fox

Theodore H. Jenner

Commissioners

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

APPENDIX A

LIST OF APPEARANCES

For Applicant: R. H. Peterson, F. T. Searls, John C. Morrissey and John S. Cooper.

Interested Parties: T. M. Chubb, General Manager, and R. W. Russell, Assistant General Manager, for Department of Public Utilities and Transportation, City of Los Angeles; Dion R. Holm, City Attorney, Thomas M. O'Conner, Public Utilities Counsel, Orville I. Wright, Deputy City Attorney, and Robert R. Laughead, Chief Valuation and Rate Engineer, for City and County of San Francisco; William L. Knecht, for California Farm Bureau Federation; Harvey O. Banks, Director of Department of Water Resources, State of California, by R. E. Frey; William W. Eyers, and Brobeck, Phleger & Harrison, by George D. Rives and Gordon E. Davis, for California Manufacturers Association; Pillsbury, Madison & Sutro, by Francis N. Marshall and James B. Atkin, for Standard Oil Company of California; W. D. MacKay (Commercial Utility Service), for Challenge Cream and Butter Association; Joseph R. Rensch, Robert M. Olson and Milford Springer, for Southern California Gas Company, Southern Counties Gas Company of California and Pacific Lighting Gas Supply Company; R. E. Woodbury, by J. F. Nail, for Southern California Edison Company; Overton, Lyman & Prince, by Donald H. Ford, for Southwestern Portland Cement Company; O'Melveny & Myers, by Lauren M. Wright, for Riverside Cement Company, a division of American Cement Corporation; Gibson, Dunn & Crutcher, by Richard L. Wells, for American Potash and Chemical Corporation; Wallace K. Downey, for California Portland Cement Company.

Commission Staff: William M. Bennett, Harold J. McCarthy, Hector Anninos and Clarence Unnevehr.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: J. S. Moulton (description of project, economic feasibility and tariff and contracts related to the project); R. Smith (flow diagram and capital costs); S. A. Haavik (gas supply); H. H. Blasdale (gas requirements and cost of gas); K. C. Christensen (financial plan); C. P. Smith (Alberta gas supply and gas purchase contracts); and M. A. Richford (oil gas and propane air plant operations).

Evidence was presented on behalf of the interested parties by: R. A. Grant, California Portland Cement Company (selection of fuel); F. S. McGinnis, Southwestern Portland Cement Company (selection of fuel); D. C. Honey, Riverside Cement Company, a division of American Cement Corporation (selection of fuel); W. M. Jacobs, Pacific Lighting Gas Supply Company, Southern California Gas Company and Southern Counties Gas Company of California (gas supply).

Evidence was presented on behalf of the Commission Staff by: B. A. Davis (natural gas pipelines and sources serving California); H. H. Heidrick (gas supply and requirements); K. J. Kindblad (alternate methods of meeting firm requirements); L. W. Mendonsa (cost of alternate fuels and tariff forms); C. Unnevehr (staff recommendations).