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Decision No. 62117

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of SOUTHERN CALIFORNIA GAS COMPANY and SOUTHERN COUNTIES GAS COMPANY of CALIFORNIA for a certificate of public convenience and necessity under Section 1001 of the Public Utilities Code.	Application No. 40588 (Amended)

SUPPLEMENTAL OPINION

Decision No. 61261, dated December 28, 1960, under the above-entitled application, granted applicants a certificate of public convenience and necessity to construct the Rock Springs Project subject to applicants' obtaining a new supply contract or contracts from El Paso Natural Gas Company acceptable to applicants and to the Commission and meeting certain other conditions. On January 23, 1961, applicants filed a "Statement of Compliance with Conditions and Request for Issuance of Supplemental Order Authorizing Construction." In order that the Commission might be fully informed as to the new contract and its effect, additional days of public hearing were scheduled.

In addition to the 25 days of hearing prior to issuance of Decision No. 61261, four days of hearing (February 15, 16, 17 and 23, 1961) were held before Commissioner Peter E. Mitchell and Examiner Manley W. Edwards in Los Angeles on this matter. Fifteen additional exhibits (Nos. 90-104) were presented and testimony was received from witnesses of the applicants and the staff. Full opportunity for cross-examination was accorded all parties. The matter was submitted for Commission decision on briefs filed on or before March 20, 1961.

Conditions in Order

The conditions set forth in Decision No. 61261 may be briefly summarized as follows:

1. Obtain a new supply contract that will:

   (a) Eliminate need for rate increase in early years of project.

   (b) Reduce the period before project is economically feasible.

   (c) Maintain reasonable balance in two-fuel economy under changed conditions since July 30, 1958.

2. File revised economic feasibility study based on current outlook.

3. File four copies of new supply contract.

4. Not start construction until authorized by supplemental order.

5. Applicants in making new supply contracts to require pipeline suppliers to furnish copies of tariffs and annual reports filed with F.P.C.

6. Contract to include appropriate provision which will recognize reduced revenues to applicants for deliveries at lower heating values.

Compliance Statement

Applicants testified that a new letter agreement to achieve the purposes set forth in Decision No. 61261 was executed by the El Paso Natural Gas Company and applicants on January 16, 1961, a copy of which is attached to its compliance statement and marked Exhibit "A". The principal provisions of the new agreement are:

1. No Rock Springs gas will be delivered until January 1, 1962, whereas the former contract provided for its start on January 1, 1960.

2. During 1962 and 1963 gas shall be delivered through existing connections between El Paso's systems and applicants' systems. The maximum contract volumes for years 1962 and 1963 shall be 25,700,000,000 cubic feet and 67,225,000,000 cubic feet, respectively, at 14.9 psia, said volumes to be taken or paid for by applicants, to the extent that facilities are available to deliver the same during the year.

3. The price for the project gas during 1962 and 1963 shall be 33.38 cents per Mcf, which price will remain unchanged during these two years. This price is nearly 7 cents per Mcf below the previous price in these years and is made possible by the use of existing facilities.

4. Commencing January 1, 1964, gas shall be delivered at the new interconnection southwest of Las Vegas, Nevada, at a pressure of up to 800 psi. The contract volume during 1964 shall be 95,630,000,000 cubic feet, and the price shall be 40 cents per Mcf all at 14.9 psia. This delivery pressure is some 300 psi higher than previously and will enable applicants to reduce compression costs in California.

5. Commencing January 1, 1965, the contract volume shall be 400,000,000 cubic feet per day which shall continue in effect for 20 years, with a subsequent five-year best efforts period. During this period all other terms of the original letter agreement of July 30, 1958, shall be applicable.

6. A provision is included to adjust the rate for changes in the heating value of the gas.

7. The initial delivery date for the proposed additional 150,000,000 cubic feet per day of gas (previously January 1, 1964) is postponed to such future date as may be agreed upon between the parties.

In addition to the foregoing contract changes, El Paso and Colorado Interstate gas companies agree to furnish to this Commission copies of their tariffs and annual reports filed with the F.P.C.

Changed Conditions

Another requirement of Decision No. 61261 was that applicants take into account changed conditions since July 30, 1958. The principal changed conditions which applicants reflect in Exhibit No. 93 compared to Exhibit No. 65 (on economic feasibility) follow:

1. The main supply change is an increase of approximately 70 million cubic feet per day in the estimate of California gas.

2. The principal increase in the requirements estimate is an increase of about 16 million cubic feet per day in firm use.

3. The principal decrease in the requirements estimate is a reduction of 53 million cubic feet per day in adjusted interruptible requirements, reflecting adjustments in the markets for Schedule No. G-54 gas. The main factor here was a reduction in requirements of the Southern California Edison Company, following the California Supreme Court decision in the Richfield Case which had the effect of eliminating any market for gas at Edison's Mandalay plant.

The net effect of these three items is to reduce by over 100 million cubic feet per day the need for additional out-of-state gas supply.

These changes taken in conjunction with the additional 50 million cubic feet per day of Transwestern gas expected to be available as of November 1, 1963, and the compressor plant savings due to the 800 psig initial pressure, are reflected in the revised economic feasibility study.

In order to bring in the gas over existing facilities in 1962 and 1963 applicants propose the addition of a 2,000 hp gas engine driven reciprocating compressor unit at the existing Needles compressor station.

Economic Feasibility

Applicants' original study of economic feasibility of the project (Exhibit No. 65) showed a revenue deficiency of $32,100,000 during the first five years, 1962 - 1966 inclusive. Applicants' revised contract and revised study of economic feasibility (Exhibit No. 93) shows that revenue excesses may be expected during these early years of the project to the extent of $10,200,000. In preparing Exhibit No. 93 the applicants assumed they would continue to supply the bulk of Southern California Edison Company's needs for steam-electric plant gas fuel. In order to show the impact upon the applicants of the possible loss of Edison load, applicants prepared and submitted Exhibit No. 104. The result under such a condition would be a revenue deficiency of $63,400,000 during these first five years. These various figures are set forth by years below:

Years	Original Contract Exh. No. 65 Revenue Deficiency	New Contract Exh. No. 93 Revenue Excesses	Without Edison Load Exh. No. 104 Revenue Deficiency
1962	$13,900,000	$ 1,300,000	$ 4,600,000
1963	8,200,000	4,000,000	15,800,000
1964	5,200,000	400,000	18,800,000
1965	2,700,000	1,500,000	16,900,000
1966	2,100,000	3,000,000	7,300,000
Total	$32,100,000	$10,200,000	$63,400,000

In the event of loss of the entire Edison load the deficiency would be as indicated above. However, not all of this risk can be assigned to the Rock Springs project because the evidence shows the deficiency under existing conditions (without Rock Springs) if Edison were lost would be about $7,000,000 per year. Hence, in this eventuality, if the approximate $7,000,000 deficiency is multiplied by five, only some $28,000,000 of this $63,400,000 deficiency in the first five years would be attributable to the Rock Springs project. After the first four years the growth in firm load should be such as largely to offset the effect of complete loss of Edison load.

Applicants urge that the Commission use the basis shown in Exhibit No. 93 for determining economic feasibility because as public utilities they have the duty to stand ready to supply all of their customers' gas requirements, and the loss of one or many customers is a risk of the business they must assume. They contend the threatened loss of certain customers should not stand in the way of a reasonable approach to the problem of meeting the demand of a rapidly expanding economy and population.

Position of the City of Los Angeles

The City of Los Angeles, including its Department of Water and Power, urges that the Commission grant the application as modified herein. It asserts that the conditions formulated by the Commission's Decision No. 61261 have been met. Also, it contends, from the showing made, and upon the facts now established, gas deliveries in the magnitude of the Rock Springs proposals, and similarly timed, will be essential to the Southern California Area.

Position of California Manufacturers Association

The California Manufacturers Association points out that in its original statement on September 12, 1960, it recognized that the project as originally proposed may have been somewhat premature as measured by historical gas procurement procedure, but cautioned against the risks of losing for the State an important new source of natural gas. It states that the revisions in the project would seem to eliminate the possibility that the project may be premature; that the only substantial question as to the economic feasibility of the revised project arises out of the possibility that Edison may acquire its basic supply of natural gas independent of the applicants; and that any delay in approval as suggested by several parties is not in the public interest as the project may collapse completely and thereby place the applicants in a position where they could not adequately serve Edison. Even without Edison the Association states that the Rock Springs supply can be absorbed at 90 percent load factor by the remaining market in 1966 and fully marketed at 100 percent load factor in 1968.

Position of San Diego Gas & Electric Company

San Diego purchases approximately one fourth of all gas sold by Southern Counties Gas Company of California. San Diego in turn distributes part of this gas to more than 270,000 retail gas customers and delivers the remaining portion to its own steam-electric generating stations. Mindful of its obligations, both to its gas customers and electric customers, San Diego supports the efforts of the applicants to acquire additional gas at reasonable prices. San Diego points out that the Rock Springs project will make available a new large stable quantity of gas for <u>all the gas customers</u> in the southern part of this State,and, furthermore, this Commission will have continuing jurisdiction over this gas and may monitor the distribution of this gas in such a way as to meet the needs of all customers in a fair and nondiscriminatory manner.

<u>Position of the Commission Staff</u>

The position of the staff is that the portion of the revised contract which deals with and provides for deliveries over the existing facilities should be approved and that the applicants be authorized to further negotiate with its gas suppliers as to the remaining portion of its proposal. The staff filed a motion for a comparative hearing on the construction phase with the proposed Southern California Edison Pemex - California Gas Transmission Company project, Applications Nos.42931 and 42932.

The staff also pointed out that information concerning El Paso is necessary to our participation on behalf of the gas consumers of California before the Federal Power Commission. By statement of counsel and by letter received as Exhibit 95, El Paso states its policy is one of cooperation. This project extends California's interest into two more interstate pipeline systems. This Commission has a public duty to be assured at all times that prices paid by California utilities to these interstate pipeline systems are reasonable. By the order which follows we will require applicants to obtain assurance that the out-of-state pipeline suppliers will continue to permit this Commission or its staff to have reasonable opportunity for field inspection of facilities and examination of books and records together with the furnishing of data otherwise prepared in the course of its business.

Position of Other Parties

The California Gas Transmission Company first entered an appearance as a protestant on February 15, 1961. It endorsed the staff motion and it states that different facilities are now contemplated, different market requirements are now estimated, different sources of gas are now proposed and different volumes of gas are now contemplated. It filed a motion to reopen the proceedings in Application No. 40588 and to consolidate Applications Nos. 40588, 42931 and 42932 for comparative and simultaneous hearing and decision.

Certain protestant oil companies[1/] advanced several reasons for not authorizing the project at this time and joined in the motion to consolidate the Pemex and the Rock Springs matters.

The Richfield Oil Company submitted a Memorandum in Opposition to "Revised" Rock Springs Project, wherein it states that there is no real change in the project as the cost of gas and amount of gas are the same, that essentially the same investment in pipelines and facilities is required, and that the only essential revision is in the time of construction of the Rock Springs pipeline and commencement of Rock Springs deliveries.

The Southern California Edison Company states that it is seeking independent sources of gas supply. It points out that the market showing filed with the applicants' compliance statement has treated the Edison load as a requirement to be filled by the gas companies and that such requirement should not be used to justify both the Rock Springs project and the Pemex project.

1/ Standard Oil Company of California, Golden Bear Oil Co., Lloyd Corporation, Ltd., National Oil Company, Thornbury & Geis, Mt. Diablo Co., Bonmae Oil Company, Marco Oil Company, Atlas Royalties, Inc., McGreghar Land Company, Petroleum Supply Company and Frank Goldman.

Position of El Paso Natural Gas Company

The El Paso Natural Gas Company states that the applicants have fully complied with the conditions laid down by Decision No. 61261 and should be unconditionally authorized to activate this project. El Paso objects to the granting of the motions for reopening and for comparative hearing.

Position of Applicants

Applicants maintain that they have complied with the conditions imposed by the Commission in Decision No. 61261 by obtaining a new contract more favorable to the California ratepayer; that the revised agreement will eliminate the need for a rate increase as the result of this project during the early years, making the project economically feasible from the beginning; that the revised agreement will provide a load building period and schedule of gas importation that will maintain a reasonable balance in the two-fuel economy of Southern California; that changed conditions since July 30, 1958, have been taken into account. Further, that they have fulfilled the remaining conditions by filing copies of the new supply contract, by awaiting authorization to start construction, and El Paso and Colorado Interstate have agreed to furnish copies of tariffs and annual reports, and a heating value clause has been included in the new supply agreements.

Applicants represent that the new supply contract is unique in that it provides for a new major supply which produces a revenue excess from the time it is initiated and, furthermore, El Paso is willing to tailor deliveries of gas under the Rock Springs project to fit Southern California's needs. Applicants oppose the motions to hold a comparative hearing.

The City of Los Angeles, including its Department of Water and Power, San Diego Gas and Electric Company and the California

Manufacturers Association, all urge that the Commission deny the motion for reopening and for consolidated comparative hearing.

<u>Findings and Conclusions</u>

The Commission has carefully considered the positions of the various parties and finds and concludes that the applicants have complied with the conditions of the Order in Decision No. 61261.

We find that the applicants have obtained from the El Paso Natural Gas Company a new supply contract, acceptable to the applicants and to the Commission, that will eliminate the need for a rate increase as a result of this project, particularly during its early years, that will reduce the period before the project is economically feasible, and which will provide a load-building period and schedule of gas importation that will maintain a reasonable balance in the two-fuel economy of Southern California after taking into account changed conditions since July 30, 1958.

We find and conclude that the applicants have prepared and filed a revised economic feasibility study (similar to Exhibit No.65) which shows the economic supply and requirements situation based on outlook approximately as of the date of the new supply contract.

We find that the applicants, on January 23, 1961, filed four copies of the new supply contract with the Commission showing the date the applicants accepted the new contract.

We find that the applicants have not started construction of the project pending the authorization hereby granted.

Further, we find that the applicants have obtained the agreement of all pipeline suppliers to maintain with the California Commission up-to-date copies of their approved tariffs on file with the Federal Power Commission and that the said pipeline suppliers have agreed to furnish the California Commission copies of annual reports filed with the Federal Power Commission.

We find that the new supply contract between El Paso Natural Gas Company and the applicants contains an appropriate heating value provision which recognizes reduced revenue to the applicants for deliveries at lower heating values.

The motion of the staff to reopen Application No. 40588 and to consolidate the said application with Applications Nos. 42931 and 42932 for the purpose of a comparative hearing is denied. The motion of the California Gas Transmission Company to reopen Application No. 40588 and for a comparative and simultaneous hearing of Application No. 40588, Application No. 42931 and Application No. 42932 is denied.

All motions not consistent with our findings and conclusions and with a grant of authorization to build the Rock Springs project are denied.

In granting the authority, herein, we hereby place applicants on notice that the Commission is not convinced that they have given reasonable consideration to the offer of Transwestern Pipeline Company to sell to applicants' affiliate Pacific Lighting Gas Supply Company an additional supply of gas in the amount of 150 million cubic feet daily. Applicants are reminded that they are engaged in the discharge of a public trust and should give such fact paramount consideration in exercising their managerial functions.

SUPPLEMENTAL ORDER

The Commission having on December 28, 1960, by Decision No. 61261, granted the Southern California Gas Company and the Southern Counties Gas Company of California a conditional certificate of public convenience and necessity to construct the Rock Springs project, applicants having fulfilled the conditions and the Commission having found that the new contract and revisions in the project should be authorized, additional public hearing having been held and the Commission being fully advised; therefore,

IT IS ORDERED that in accordance with the findings and conclusions in the opinion part of this decision, the certificate of public convenience and necessity granted by Decision No. 61261 is made applicable to the new supply contract and project as revised by "Statement of Compliance with Conditions and Request for Issuance of Supplemental Order Authorizing Construction", filed January 23, 1961, the construction herein authorized being:

92.9 miles of 34-inch pipeline - Ivanpah to Newberry Estimated Cost .... Expected Completion Date - January 1, 1964	$11,476,000
2,000 hp Compressor Unit - Needles Station Estimated Cost .... Expected Completion Date - January 1, 1962	893,000
8,000 hp Compressor Station - Newberry Estimated Cost .... Expected Completion Date - January 1, 1965	3,642,000
Total Investment in New Facilities	$16,011,000

IT IS FURTHER ORDERED as follows:

1. Applicants shall require in their service agreements that each interstate pipeline system participating in deliveries agree at all times to permit this Commission or its staff reasonable opportunity for field inspection of facilities and examination of books and records, plus assurance that reasonable requests for operating information otherwise prepared in the course of business will be supplied in connection with any proceeding before the Federal Power Commission, and shall further require in their service agreements with El Paso Natural Gas Company that said company furnish to this Commission monthly statements of revenues, expenses and rate base components in sufficient detail to permit the development of cost of service separately for the Northwest and Southern Divisions.

2. The original order herein provided for expiration of this authorization if not exercised by December 28, 1963, and in view

of the now proposed in-service date of January 1, 1964, the previous expiration date is extended by ten days to January 7, 1964.

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

Dated at San Francisco, California, this 6th day of June, 1961.

President

Commissioners