

Decision No. 62260**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own  
 motion into the present and potential  
 adequacy of gas supply and service in  
 California, and into the propriety and  
 reasonableness of tariff provisions of  
 SOUTHERN CALIFORNIA GAS COMPANY, SOUTHERN  
 COUNTIES GAS COMPANY, PACIFIC LIGHTING  
 GAS SUPPLY COMPANY, and PACIFIC GAS AND  
 ELECTRIC COMPANY relating to priority of  
 service and curtailment procedures as  
 between industrial and steam generating  
 plant customers.

Case No. 5924

Appearances are listed in Appendix A

Witnesses are listed in Appendix B

OPINION AND ORDER

This proceeding was instituted on the Commission's own motion, on April 9, 1957, primarily for two purposes: (1) a determination of the existing and potential adequacy of gas supply and service in California and (2) to determine the propriety and reasonableness of gas tariff provisions relating to priority and curtailment procedures as between industrial and steam-electric plant customers. By amendment on June 11, 1957, the proceeding was broadened so as to obtain a knowledge of the acquisition and purchases of additional gas supplies by Southern California Edison Company.

Twenty-one days of public hearings have been devoted to this investigation. Written statements of position have been received from the parties and oral argument has been heard. The matter was submitted on November 14, 1960, and is now ready for

decision. On May 10, 1961, a petition was filed, on behalf of Standard Oil Company of California, seeking reopening of the proceeding for the receipt of additional evidence respecting gas supplies within California. The motion to reopen this matter is hereby denied.

The record in this proceeding contains 104 primary exhibits and the testimony of 28 expert witnesses. The bulk of the evidence concerns the supply, priority and tariff problems of Southern California gas customers and utilities. The investigation, however, was conducted on a statewide basis and the seeming emphasis placed on the problems of the southern part of this state should in no way be construed to indicate that this Commission's interest, on behalf of the public, lies in the limited territorial needs to which the preponderance of the testimony was directed.

The gas requirements of this state have increased to the point where approximately three-fourths of the total supply is presently imported from out-of-state sources. It has long been apparent that California is bound to a continuing and increasing dependence upon such importation. Until fairly recently, imported gas has come to the state through but one supplier.<sup>1/</sup> In August 1960, a new source of natural gas from the West Texas and Panhandle area<sup>2/</sup> began to flow into California. Prospective additional importations include gas from Canada<sup>3/</sup> and from the Rocky Mountain area<sup>4/</sup> (already authorized by this Commission), and from the

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- <sup>1/</sup> El Paso Natural Gas Company.
  - <sup>2/</sup> Via Transwestern Pipeline Company.
  - <sup>3/</sup> Via Pacific Gas Transmission Company.
  - <sup>4/</sup> Via the so-called Rock Springs project.

Texas-Northeastern Mexico area,<sup>5/</sup> or by increased volumes over existing facilities.

In view of the state's dynamic growth and its continuing and increasing dependence upon importation of natural gas, it is the firm conclusion of this Commission that in the future gas should be imported, not on the basis of limited territorial needs, but in response to the needs and in the interest of all gas consumers throughout the state. It becomes increasingly important, therefore, that this Commission be kept currently well-informed on the state-wide problems of usage and prospective supplies of natural gas.

Because there is not in California a physically integrated gas supply system under single operational control, it is necessary to gather data, correlate information and coordinate the efforts of numerous utilities and other agencies. On a statewide-industry basis this type of work has been done by committees composed of representatives of the various utilities. Their work has been of considerable help to this Commission and its full development is exemplified by the statistical summaries and tables presented in evidence in this proceeding as major exhibits.<sup>6/</sup> The Commission acknowledges and appreciates the splendid efforts of these committees and their individual members.<sup>7/</sup>

One of the fundamental functions of a public utility gas corporation is to deliver gas to its firm customers without restriction or interruption. In order that this duty may be

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<sup>5/</sup> Via Southern California Edison-California Gas Transmission Company.

<sup>6/</sup> Exhibits Nos. 12, 16 and 70 titled "Report on Availability and Requirements For Gas In California."

<sup>7/</sup> The committees and their memberships are set forth in Appendix C attached to this order.

fulfilled, the gas utility must be able to deliver gas to meet peak firm demands. The complete gas system and its total operations must be keyed to such requirement.

Considering only the requirements of firm customers and relying on the assumption that existing contract deliveries of out-of-state gas will continue, the evidence plainly indicates that the over-all requirements of California firm gas users may be met satisfactorily without calling upon new importations or new sources of gas for the next several years, and most probably until the year 1967.

During the off-peak periods of firm demands, and generally throughout the summertime, because of the high load-factor deliveries from out of state, large quantities of gas are available for non-firm usage. A gas utility may effect economies, and thus provide firm service at lower rates, by selling gas during such off-peak periods for industrial consumption on an interruptible basis. The interruptible class of customers is thus an important class, both from the standpoint of the utility and from the standpoint of the firm customer. However, it is fundamental that interruptible industrial gas is not sold on such terms as would endanger the required firm supplies or as would place an economic or price burden on firm customers. This fundamental principle is also applicable to sales of transmission pipelineable quantities of gas. The gas utilities are under obligation to secure sufficient gas to meet firm requirements.

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As a general proposition when gas is available for use by interruptible customers, the choice of burning gas or an alternate fuel lies with such customers and is practically wholly dictated by value and price considerations, including air pollution regulations and the economics of investment in standby or storage facilities as well as the direct influence of the relative costs of the respective fuels. It follows, therefore, that interruptible industrial gas prices generally cannot exceed the costs of using alternate fuels. In California the alternate fuel is almost without exception fuel oil. Fuel oil costs, including transportation and on-site storage, then are necessarily matters for consideration in fixing rates for interruptible industrial gas.

The interruptible class of gas customers may generally be divided into three subclasses; the first comprising a large number of customers whose individual requirements may not be great but which in the aggregate are substantial; the second comprising a few customers whose individual requirements as well as aggregate requirements are great; and the third subclass comprising electric utilities and serving agencies which use large quantities of gas for steam-electric generation. The latter two groups received considerable attention during the course of this investigation and

particularly with respect to the problems of supply, priorities and rate forms applicable to their service in Southern California. The two groups are essentially composed of steel, cement, other mineral and certain drying processing plants, and steam-electric generating plants.

Large interruptible customers in Southern California are presently served under tariff schedule No. G-54. Such schedule became effective on July 1, 1957. It has been revised no less than ten times since that date and in this proceeding nineteen further revisions were proposed by the Southern California gas utilities. All of the G-54 schedule customers entered into five-year contracts in 1957. Few, if any, of the larger G-54 customers have given any indication that they would extend the original contract period. To the contrary, the record in this proceeding contains numerous objections to the rates, conditions and service rendered under such schedule and a number of the larger customers have given notice of terminating the contracts by July 1, 1962 or July 1, 1963. It should be readily apparent that the schedule is unsuitable for the purpose intended. From the testimony in this respect the Commission concludes that the rate forms, rate levels, conditions, priorities and contracts thereunder are so interdependent that no one should be fixed without the other. Further, the Commission is of the opinion that such matters are beyond the scope of the instant investigation and most appropriately should be determined during full-scale rate proceedings wherein full disclosure of earnings positions and costs may appropriately be presented. From the evidence in this record, the need seems ✓ to be clear that the southern gas utilities should provide service

under separate schedules for cement plant type customers and for the steam-electric plant customers and, further, should offer service in pipelineable quantities under a schedule specifically applicable to such a service. The southern gas utilities, in the public interest, as well as their own, should exert every effort towards this end. The differing characteristics of usage and requirements between steam-electric plant customers and other large interruptible customers clearly warrants separate tariff treatment. Not more complicated, but less complicated schedules are desirable.

The position of Southern California Edison Company respecting its acquisition of gas supplies has been or is before the Commission in other proceedings as well as in this proceeding. Any Commission action with respect thereto will be taken in such other proceedings.

The instant investigation has extended over a protracted period of time and has developed a voluminous record. While the general purposes of this investigation are of continuing interest, it is the opinion of the Commission that the present investigation should now be terminated and that, in the interests of obtaining and preserving a clear record, further inquiry into the adequacy of and requirements for gas supplies in California should be made in a subsequent proceeding. Accordingly,

IT IS ORDERED that the investigation herein be and it is hereby terminated.

IT IS FURTHER ORDERED that the Secretary shall cause copies of this decision to be served upon the appearances of record herein and shall cause copies of said decision to be mailed to each of the members of the utility committees set forth in Appendix C attached to this order.

IT IS HEREBY REQUESTED that the several gas utilities in this state take cooperative action to continue existing committees and their respective activities for the purpose of preparing and submitting annually to this Commission, on or before June 1 of each year, a report of current and future gas supply-requirement relationships similar to those set forth in Exhibits Nos. 16 and 70 ✓ in this proceeding.

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

Dated at San Francisco, California, this 11th day of July, 1961.

Carroll A. Ragsdale  
President  
W. H. Ragsdale  
E. J. Fox

Commissioners



APPENDIX A  
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Appearances

Respondents

T. J. Reynolds, Harry P. Letton, Jr., for Southern California Gas Company.  
Milford Springer, J. R. Rensch, for Southern Counties Gas Company of California.  
O. C. Sattinger, J. R. Elliott, for Pacific Lighting Gas Supply Company.  
F. T. Searls, John C. Morrissey, John S. Cooper, for Pacific Gas and Electric Company.  
Bruce Renwick, Harry W. Sturges, Jr., Rollin E. Woodbury, for Southern California Edison Company.  
Reginald L. Vaughan, special counsel for Southern California Gas Company, Southern Counties Gas Company of California and Pacific Lighting Gas Supply Company.

Interested Parties

Brobeck, Phleger & Harrison by George D. Rives and Gordon E. Davis; William W. Evers, California Manufacturers Association.  
Chickering & Gregory by John P. MacMeeken, Sherman Chickering, Hayden Ames, Frank Porath, San Diego Gas & Electric Company.  
Enright & Elliott by Norman Elliott; Waldo A. Gillette, Monolith Portland Cement Company.  
G. C. Delvaille, Willis T. Johnson, Richard Edsall, for California Electric Power Company.  
O'Melveny & Myers by Lauren M. Wright for Riverside Cement Company.  
Wallace K. Downey, for California Portland Cement Company.  
J. J. Deuel, Bert Buzzini, William L. Knecht, California Farm Bureau Federation.  
Roger Arnebergh, Alan G. Campbell, T. M. Chubb, P. A. Erickson, Robert W. Russell, Manuel Kroman, Alfred H. Driscoll, City of Los Angeles.  
Harold Gold, James L. McNally, Clyde F. Carroll, Reuben Lozner, for United States Government agencies.  
Kenneth Parker, for City of Glendale.  
T. M. Blakeslee, Ivan L. Bateman, Los Angeles Department of Water and Power.  
Dion R. Holm, by Orville I. Wright and Robert Laughead, for City and County of San Francisco.  
Kenneth M. Robinson, Permanente Cement Company.  
Overton, Lyman & Prince by Donald H. Ford, for Southwestern Portland Cement Company.  
Gibson, Dunn & Crutcher by Richard L. Wells, for American Potash & Chemical Company.  
John L. Holleran, Southwest Gas Corporation.  
Gerald H. Trautman, Standard Oil Company of California.  
Joseph Edelman, Buttes Gas and Oil Company.  
Clifton Hildebrand, in propria persona.  
J. B. Clark, Great Basins Petroleum Company.  
Frederick Holoboff, City of San Diego.

APPENDIX A  
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Appearances

Commission Staff

Harold J. McCarthy, Marshall J. Kimball, Karl K. Roos,  
Elinore Charles.

APPENDIX B

Witnesses

Southern Counties Gas Company of California

Carl Trexel, Jr., W. J. Herrman, Raymond W. Todd,  
Grove Lawrence, John F. Berquist, Frank N. Seitz.

Southern California Gas Company

Keith Kelsey, Charles W. Mors.

San Diego Gas & Electric Company

Harold Z. Frank, H. G. Dillin.

Southern California Edison Company

Robert P. O'Brien.

Pacific Gas and Electric Company

James S. Moulton, S. A. Haavik, Richard K. Miller,  
Morris A. Richford, John F. Roberts, Harold Z. Frank.

City of Los Angeles

John E. Girard, Theodore M. Blakeslee.

California Electric Power Company

Francis A. McCrackin.

California Portland Cement Company

Richard A. Grant.

Southwestern Portland Cement Company

Felix S. McGinnis.

Riverside Cement Company

David C. Honey.

Commission Staff

Louis W. Mendonsa, Bruno A. Davis, Harold N.  
Heidrick, Kenneth J. Kindblad, Clarence Unnevehr.

APPENDIX C

Committees

Two statewide committees were formed by the respondents and cooperating organizations.

The following are the members of the committees.

General Committee:

Lloyd E. Cooper - California-Pacific Utilities Company  
H. G. Dillin - San Diego Gas & Electric Company  
C. L. Dunn - Southern Counties Gas Company  
W. J. Herrman  
(Vice Chairman) - Southern California Gas Company  
W. M. Laub - Southwest Gas Corporation  
Grove Lawrence - Pacific Lighting Gas Supply Company  
J. A. Millen - Southern Counties Gas Company  
J. S. Moulton  
(Chairman) - Pacific Gas and Electric Company  
R. P. O'Brien - Southern California Edison Company  
R. W. Todd - Pacific Lighting Gas Supply Company

Working Committee:

Lloyd E. Cooper - California-Pacific Utilities Company  
F. V. Doucette - Southern Counties Gas Company  
H. Z. Frank - Pacific Gas and Electric Company  
S. A. Haavik - Pacific Gas and Electric Company  
J. L. Holleran - Southwest Gas Corporation  
Keith Kelsey  
(Chairman) - Southern California Gas Company  
L. R. Knerr - San Diego Gas & Electric Company  
M. M. McMahon - Pacific Lighting Gas Supply Company  
T. S. Miller - Southern California Gas Company  
J. L. Oberseider - Pacific Lighting Gas Supply Company  
F. R. Porath - San Diego Gas & Electric Company  
H. R. Ross - Southern Counties Gas Company  
W. H. Seaman - Southern California Edison Company  
W. F. Stanley - Southern California Gas Company