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ORIGINAL

Decision No. 74642

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for an order authorizing it, among other things, to carry out the terms and conditions of five agreements with producers in the Coalinga Nose oil and gas field pertaining to the delivery and exchange of natural gas. (Gas)	Application No. 50314 (Filed June 13, 1968)

O P I N I O N

Applicant's Request

Pacific Gas and Electric Company (Applicant) requests an order of the Commission authorizing it, among other things, to carry out the terms and conditions of five substantively identical agreements dated June 3, 1968, with Union Oil Company of California, Standard Oil Company of California, The Superior Oil Company, Getty Oil Company and Texaco, Inc. (Producers). Said agreements relate to the acquisition by and the exchange with Producers of natural gas. A copy of each said agreement is attached to the application as Exhibits A, B, C, D and E, respectively.

Producers' Interest

Producers, who are owners of undivided interests in certain oil and gas properties in the Coalinga Nose oil and gas field in Fresno County, California, desire to acquire certain quantities of natural gas from Applicant, in proportion to each Producer's unit participating interest, to enable them to inject additional natural gas into the Gatchell zone of said field to increase and maintain the gas cap pressure, thereby increasing the ultimate recovery of oil, natural gas and associated hydrocarbons from said zone.

Agreement Provisions

The agreements provide that the natural gas to be delivered by Applicant to Producers shall be classified as "excess" and "exchange" gas.

Excess Gas

Excess gas, which is gas to be acquired by Producers, is natural gas in excess of that which Applicant would otherwise take from El Paso Natural Gas Company at its Topock Station in the conduct of its public utility operation and which cost to Applicant at Topock shall be no more than the commodity charge then in effect under El Paso's rate Schedule "G". A copy of said Schedule "G" is attached to the application as Exhibit F. The cumulative maximum amount of excess gas that may be delivered as of the end of each contract year is set forth in Schedule A of the agreements. Producers agree to take a total of 130 billion cubic feet of excess gas by the end of the eleventh contract year.

Payment for excess gas is 26¢ per Mcf and may be made in cash or by delivery to Applicant of gas of an equivalent dollar value. In addition, Producers shall pay Applicant 4¢ per Mcf for compressing and transporting the excess gas from the Kettleman Hills compressor station to the Coalinga Nose field.

Exchange Gas

Exchange gas is any volume of gas designated by Applicant from time to time as exchange gas which is delivered to Producers for gas to be delivered to Applicant at a later time. Producers shall, on any day at the request of Applicant, deliver to Applicant an amount of exchange gas up to 150,000 Mcf per day continuously until the annual maximum is reached, or up to 200,000 Mcf per day with the limitation that Producers need not maintain such latter rate for more than five consecutive days nor for more than a total of fifteen days in any month. Applicant shall not be entitled to request on any day a delivery of exchange gas unless it has such gas standing in its account at the time of requesting such delivery.

The amount of exchange gas to be returned to Applicant is 87½% of the volume delivered to Producers. The remaining 12½% accrues to Producers as a handling charge. However, for the second through the tenth contract years the minimum volume of exchange gas left in the reservoir during the contract year earns a free withdrawal right to a volume equal to 50% of such minimum volume. This right of free withdrawal is cumulative and may be exercised on withdrawals by Applicant made at any time after the end of such contract year. Applicant may, from time to time, subject to the maximum limitation of excess gas to be acquired by Producers, reclassify exchange gas to excess gas.

Term of Agreement

The primary term of the agreements is twenty years or, upon the giving of proper notice, until such time as Producers determine that further pressure maintenance in the field is not economically feasible and withdrawal from the gas cap is initiated by Producers. The agreements continue beyond the primary terms for a sufficient period of time to permit Applicant to withdraw its exchange gas. If at the end of the second through fourth contract year the cumulative delivered gas volume is less than the minimum volume as set forth in Schedule A, Producers may elect to terminate the agreements. Also, if for any reason, Applicant fails to meet the minimum cumulative volume as set forth in Schedule A, Producers may elect to terminate the agreements.

The agreements are to become effective when authorized by this Commission.

Facilities to be Installed

In order to deliver natural gas to Producers under the agreements, Applicant must install certain facilities, including pipe, added compressor capacity, and metering and regulating equipment. The cost of these facilities including right-of-way is estimated, by the Applicant, to be $2,479,885.

Support for Agreements

In support of the agreements, Applicant alleges that:

1. The agreements provide substantial benefits to all contracting parties. Producers will have natural gas available to assist in increasing the recovery of oil, natural gas and hydrocarbons from the Coalinga Nose field. Applicant will be better able to equate its available gas supplies with the demands of its public utility operations by its use of exchange gas and by the delivery of substantial quantities of excess gas over an extended period of time.

2. Natural gas is estimated to be available from El Paso Natural Gas Company in sufficient quantities to meet the requirements imposed by the agreements. The swings in Applicant's other loads are such that gas is available on many days during the year, including many weekends, summer days and other off-peak periods.

3. The delivery of excess and exchange gas will enable Applicant to maintain a higher load factor on its facilities from Topock to Kettleman than would be possible without the agreements with Producers.

4. The revenue received over and above the costs of moving the excess gas to the delivery point will reduce Applicant's total costs that would otherwise have to be paid by its other customers. Exhibit G of this application estimates that the delivery of excess gas will produce $440,700 annually above the aggregate annual costs.

5. The exchange gas provisions will result in additional benefits to Applicant as the cost of gas from El Paso Natural Gas Company, plus transportation to the Coalinga Nose field and the handling charge of 12½% is less than the cost of alternative sources of gas available to Applicant at peak periods.

Findings

The agreements do not contain a clause to provide that they shall at all times be subject to such changes or modifications as this Commission may, from time to time, direct in the exercise of its jurisdiction. Such clause will be provided for in the order.

The Commission finds that the proposed agreements are not adverse to the public interest and concludes that the application should be granted. Applicant is placed on notice that if it should appear in a future proceeding that any losses are being incurred because of deliveries under these agreements, such losses are not to be imposed on applicant's other gas customers. A public hearing is not necessary.

ORDER

IT IS ORDERED that:

1. Applicant is authorized to carry out the terms and conditions of the agreements dated June 3, 1968, with Union Oil Company of California, Standard Oil Company of California, The Superior Oil Company, Getty Oil Company and Texaco, Inc., to render the service described therein under the terms, charges and conditions stated therein, and to install the necessary facilities to carry out the agreements.

2. The agreements shall at all times be subject to such changes or modifications as this Commission may, from time to time, direct in the exercise of its jurisdiction.

3. Applicant shall file with this Commission, within thirty days after the effective date of this order and in conformity with General Order No. 96-A, four certified copies of each of the agreements as executed, together with a statement of the date on which the agreements are deemed to have become effective.

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4. Applicant shall notify this Commission of the date of termination of agreements within thirty days after date of termination.

5. Applicant shall file with this Commission, in conformity with General Order No. 96-A, the summary required by the general order, listing all contracts and deviations, including the agreements herein authorized. Such list shall become effective upon statutory notice (30 days) to the Commission and to the public after filing as hereinabove provided.

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

Dated at San Francisco, California, this 4th day of SEPTEMBER, 1968.

William Symons Jr
President

Peter E. Mitchell

Gatov

Fred P. Morrissey
Commissioners

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WILLIAM M. BENNETT, COMMISSIONER, DISSENTING

I would set this matter down for public hearing. The Commission is approving 20 year contract arrangements between the Pacific Gas and Electric Company and 5 large oil companies. This is a vehicle in which the Commission should make inquiry into the whole question of well head prices within the State of California. The length of the contracts alone should prompt public inquiry.

William M. Bennett

William M. Bennett
Commissioner

DATED: San Francisco, California
September 4, 1968